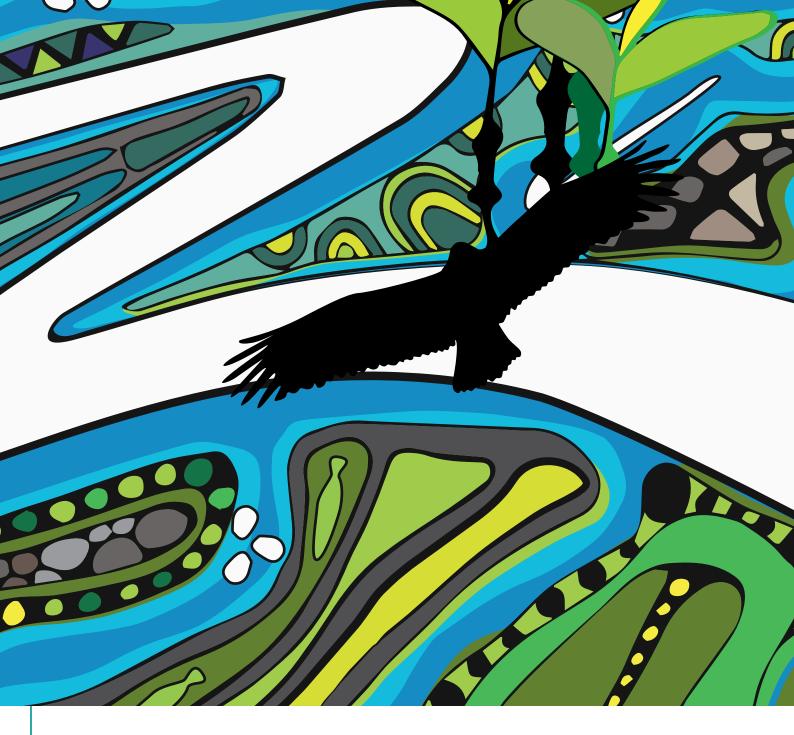


# CITY WEST WATER ANNUAL REPORT 2018

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## **ABORIGINAL ACKNOWLEDGEMENT**

City West Water respectfully acknowledges the Traditional Owners of the lands and waters upon which we work and operate, the people of the Kulin Nation. We pay our deepest respects to the traditional custodians past, present and future. We acknowledge the continued cultural, social and spiritual connections that Aboriginal people have with the lands and waters, and recognise and value that the Traditional Owner groups have cared for and protected them for thousands of generations. We will further develop our partnership with the Traditional Owner groups to ensure their contributions to the future of the water management landscape and to maintain their cultural and spiritual connection.

**ARTWORK DESCRIPTION:** "Water is the heartbeat of Melbourne and provides the inspiration behind this Reconciliation Action Plan artwork. Elements from the City West Water logo are depicted in the artwork by the surrounding western suburbs landscape of rolling hills and smaller rivers/estuaries from the City West Water catchment area leading into the main river system of the Maribyrnong River, which eventually meanders to meet the Yarra River in the CBD. Various food sources found along the river banks, and the boats mooring are depicted. Bunjil, in Aboriginal mythology, is the Kulin nation creator and spiritual leader and is depicted as an eagle who protects the land and people below." – Jodie Brennan, Mazart Design Studio.

Artwork and design by Mazart Design Studio | www.mazartdesignstudio.com | Supply Nation certified.

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# OURYEAR<br/>INREVIEWMessage from the<br/>Chair and ManagingDirector





David Middleton

David Ryan Managing Director

City West Water is privileged to service Melbourne's CBD and western suburbs; an area that includes some of the fastest population growth corridors in Australia and also, the largest industrial customer base in Victoria.

With such growth comes responsibility. In this Annual Report you will get to understand how we are tracking in servicing our city.

In 2018 we achieved some significant milestones for our customers, our community and our business, including our Price Submission to the Essential Services Commission (ESC), commencement of the Spencer Street Sewer Upgrade, and becoming a signatory to the United Nations Global Compact.

## **OUR CUSTOMERS**

This year we continued our journey towards achieving our vision of being an exceptional service provider that puts our customers first and benefits the community. Building upon our business strategy, we have started developing our Customers First Strategy, which will define how customer engagement and value will remain at the heart of all we do and drive our business decisions and direction.

Of paramount importance this year was our five year Price Submission to the ESC. In preparing the report, we undertook our largest ever customer engagement program so that our customers' views and values were fundamental to what was proposed. Building on efficiencies achieved by our business, our Price Submission will see customers receive lower prices and better services. Specifically:

- City West Water will retain the lowest average household
   water bills for any metropolitan city in Australia
- we'll be delivering the largest price decrease for nonresidential customers (large and small businesses, schools, councils and hospitals) in the state
- as well as lower prices, we're also going to be offering a range of additional services for our customers, both digital and in person, and vulnerable customer initiatives that will help us progress our journey towards putting customers first and benefiting communities.

We remain mindful of the community we operate in and the myriad of benefits that flow from urban greening for the community that we serve. This year we are proud that we along with our partners - continued participation in Greening the West projects.

## **OUR COMMUNITY**

Local events play a role in building inclusion and social connections, and our Community Investment Program aims to support the diverse community we serve. Through this program our Choose Tap mobile water fountains were provided to 95 events in our community – from Relay for Life to the African Music and Cultural Festival - providing free drinking water to around 1 million people.

We also supported 36 events across all of our Local Government areas via financial and in-kind support.

The highlight of our Community Investment Program is Day at the Zoo, which this year celebrated its 10<sup>th</sup> anniversary. Founded by City West Water, Day at the Zoo provides a platform for newly arrived communities to meet with key government organisations and learn about the support that is available to them in a fun, engaging and safe environment. More than 1,300 community members from across Melbourne and 17 government organisations participated in this year's event.

In the spirit of thinking globally and acting locally, this year we signed up to the United Nations Global Compact.

This means that we will support and embed the UN's Sustainable Development Goals (SDGs) into our business operations and strategy. These goals are a call to action for all governments, businesses and individuals to act in a manner which will put the world on a more sustainable path while making positive changes for both planet and people. We are committed to playing our role in supporting the achievement of these Goals.

## **OUR GROWING CITY**

As outlined in *Water for Victoria*, the State's long-term direction for managing our precious water resources, there are a number of focus areas that will help us support the communities, environment, economy and infrastructure of our growing city.

Our capital program for new water and sewer mains is vital for future proofing our city. It includes projects in and around Melbourne's CBD; the major ones being the Spencer Street Sewer Upgrade, Collins Street water main renewal, and the Arden Street water main renewal in North Melbourne.

Some of these assets are over 100 years old, and we are committed to ensuring they will provide safe and reliable services to our community for the next 100 years.

Melbourne's growth has helped us reach a record 829 development applications – an increase of 150 from the previous year. These applications allow developers to connect water and sewerage services to new housing developments, supplying vital infrastructure to Melbourne's growing population.

## **OUR PEOPLE**

Our people are the enablers of our excellent customer service and our ongoing investment in them continues. The main events in this area this year were:

- the launch of *Choose Exceptional*; a culture and leadership program for all our staff which assists everyone to learn and grow professionally and personally, as well as enhance team effectiveness and deliver better outcomes for our customers
- the delivery of our Diversity and Inclusion Strategy which focuses on education in Aboriginal and Torres Strait Islander values, celebrating cultural and linguistic diversity, increasing gender diversity and improving flexible working arrangements. By embracing and celebrating our differences, a productive work environment is created where everybody feels valued and we reflect the diversity of the community we serve
- the launch of a new Health and Safety Strategy which enables a focus on values, empowerment and a proactive approach to safety, all of which helps us deliver a better workplace for our people and contractors, and a better customer experience.

## **OUR FINANCIAL PERFORMANCE**

We delivered a profit before tax of \$112.8 million against a budget of \$92.1 million. The result was mainly driven by the continued growth in our region that has led to higher developer related revenues for the year. Our focus on efficiency, which has resulted in lower costs compared to budget during the year, also contributed to the favourable position. The strong financial performance provides us with a significant source of funding that helps finance our capital program. Furthermore, the improved performance also results in favourable returns to our shareholder, the State Government of Victoria, through tax and dividend payments.

During 2018, we made total dividend payments of \$62.6 million and paid income tax equivalent of \$43.5 million to the State Government of Victoria.

## LOOKING TO THE YEAR AHEAD

We're excited to build on our achievements in 2018 and are focusing on our priorities for the year ahead. These include:

- building on our Customers First Strategy by providing our customers with the services they expect from us including: decreasing email response times; reintroducing face to face customer service; improved digital services allowing customers to transact with us in ways that suit them; bill relief for customers with a verified leak on their property and the introduction of simpler residential water usage billing
- stepping up investment in upgrading water and sewerage networks (\$535 million over the next five years) including completing the Spencer Street Sewer Upgrade, and starting key projects in Lonsdale, Elizabeth and Collins Streets in Melbourne's CBD; all of which will help to future proof our growing city
- continuing to explore ways of working with our partners to collaborate on projects, and share assets and resources to increase efficiencies and opportunities to reduce community disruption
- building on our *Choose Exceptional* and culture programs to develop our people and help them reach their full potential
- further working on the UN SDGs and integrating them into our business at all levels.

In accordance with the *Financial Management Act 1994*, we are pleased to attest that our Annual Report for the year ending 30 June 2018 is compliant with all statutory reporting requirements.

We extend a sincere thank you to all our people and the Board for their support, efforts and achievements throughout the year, and we are grateful for having such a fantastic team at City West Water.

We look forward to another successful year in 2019 as we continue to enhance the services we provide to our customers and community as our great city grows.

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David Middleton Chair Melbourne 28 August 2018

David Ryan Managing Director

# **ABOUT US**

City West Water is a statutory water authority incorporated under the *Water Act 1989*. It is one of three retail water corporations in metropolitan Melbourne owned by the State of Victoria. The Minister for Water for the period from 1 July 2017 to 30 June 2018 was the Hon. Lisa Neville MP.

Our core business is the supply of water, sewerage, trade waste and where available, recycled water services to customers in accordance with our Customer Charter. We service 418,000 residential properties, 41,000 non-residential customers (which includes schools, councils, industrial, commercial and small businesses) and over one million customers. We manage \$1.8 billion of infrastructure across a service area of more than 700km<sup>2</sup>.

Each year, we supply around 100 billion litres of drinking water to residential and non-residential customers and transfer approximately 94% of sewage and trade waste collected to Melbourne Water's Western Treatment Plant at Werribee. The remaining 6% is treated at our Altona Treatment Plant.

We operate under Statements of Obligations issued by the Minister for Water under section 4l of the *Water Industry Act 1994*. The statements impose obligations on us regarding the performance of our functions and exercise of powers. We are required to monitor compliance with the obligations set out in the statements, report on non-compliance and take remedial action as required.

The ESC is our economic regulator. It approves the prices we charge our customers, as well as the standards of service we deliver. We are required to submit a five year Pricing Submission to the ESC which details outcomes that we intend to achieve, as well as proposed prices. The ESC undertakes a public review of our Pricing Submission in consultation with all stakeholders. The new Pricing Determination took effect from 1 July 2018 and will be effective for five years.

Our drinking water quality is regulated by the Department of Health and Human Services under the *Safe Drinking Water Act 2003*. Our recycled water quality is regulated by the Environment Protection Authority (EPA) under the *Environment Protection Act 1970*. The operation of our sewage treatment plant is also regulated by the EPA.



## APPROXIMATELY 460,000 HOMES AND BUSINESSES SERVED EACH YEAR



# \$1.8 billion

OF INFRASTRUCTURE ACROSS A SERVICE AREA OF MORE THAN 700km<sup>2</sup>

## WE DELIVER AN ESTIMATED

100 billion

LITRES OF DRINKING WATER TO OUR CUSTOMERS PER ANNUM

# 94%

OF SEWAGE AND TRADE WASTE COLLECTED FROM CUSTOMERS IS TRANSPORTED TO MELBOURNE WATER'S WESTERN TREATMENT PLANT AT WERRIBEE AND THE REMAINING 6% IS SENT TO THE ALTONA TREATMENT PLANT

## **Our Vision**

## To be an exceptional service provider that puts customers first and benefits the community

## **OUR AMBITION**

## CUSTOMER VALUE IS AT THE HEART OF ALL WE DO.

We are driven to:

- deliver exceptional services that are affordable, safe and reliable
- be accessible and easy to deal with
- make all decisions in our customers' best interests and with future generations in mind.

## WE ARE PASSIONATE ABOUT COMMUNITY LIVEABILITY AND WELLBEING.

We strive to:

- care for, and where possible, to enhance the environment with an eye to the future and the challenges imposed by a changing climate
- be vibrant partners in the life of our community
- anticipate community needs and take the lead within our areas of influence
- provide a fair return to our shareholder, the State Government of Victoria, to support it to meet its objectives to improve the lives of all Victorians.

## SUCCESSFUL ACHIEVEMENT OF OUR AMBITION IS BUILT ON SIX STRONG FOUNDATIONS:



## **OUR PEOPLE**

#### OUR AMBITION IS ENABLED BY OUR PEOPLE.

Our people are:

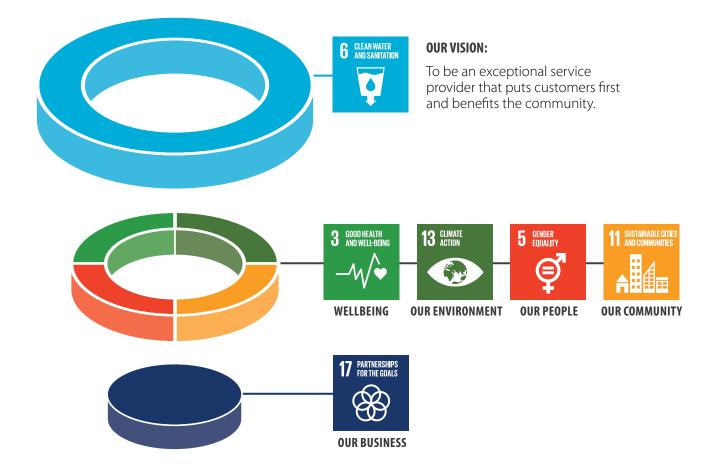
- agile responsive to customer needs and a changing world
- diverse reflect the community we serve
- trusted make evidence-driven judgements, exercised with integrity.

## Sustainable Development Goals

In 2018, we signed up to the United Nations Global Compact – the world's largest corporate sustainability initiative. As a signatory to the Global Compact, we are dedicated to supporting each of the associated 17 SDGs, as well as bringing life to the Water Services Association of Australia's water industry commitment to the Goals, of which we are a partner. As outlined in *Water for Victoria*, water is fundamental to our communities, the environment, a prosperous economy and thriving communities; and at City West Water, the SDGs provide us with a lens through which to view our operations to ensure that we continue to make a positive impact across each of these areas both now and into the future.

Our core business is reflected in Goal 6: Clean Water and Sanitation, and this supports our vision to become an exceptional service provider that puts customers first and benefits the community. We also understand the intrinsic link between water and achieving the remaining Goals.

For instance, Goal 3: Good Health and Wellbeing reflects our urban greening efforts delivered through our Greening the West initiative. Goal 5: Gender Equality aligns closely with our *Diversity and Inclusion Strategy* where we are driven to achieving a gender balanced workforce by 2020. Goal 11: Sustainable Cities and Communities is supported by the actions in our *Urban Water Strategy*, particularly our commitment to increasing stormwater irrigation to green spaces, while our carbon emissions pledge can be linked with Goal 13: Climate Action. Goal 17: Partnerships for the Goals is founded upon our ability to achieve each of these goals, encouraging continued dedication to knowledge sharing and collaboration both within and outside of the water industry. More information can be found in Appendix 2.



## Key initiatives and projects

## 2017 JULY

- launched Innovate Reconciliation Action Plan 2017-19
- commencement of West Werribee Aquifer Storage and Recovery scheme trial.

## **SEPTEMBER**

- the State Government recognised our achievement of reaching 45% female representation across our workforce
- Pricing Submission lodged with the ESC.

## 2018 January

launched Health and
 Safety Strategy.

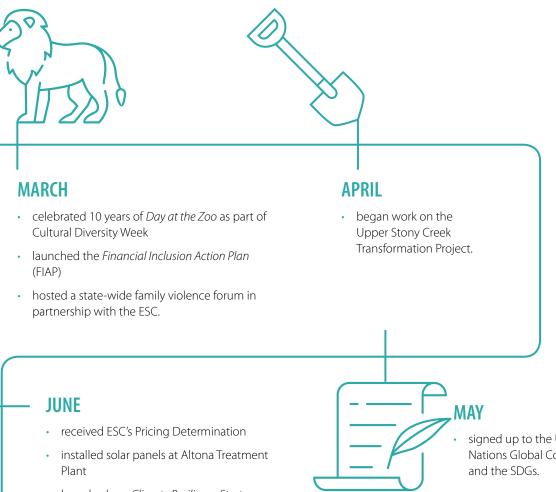
## NOVEMBER

- launched Family Violence Policy
- major works began on the Spencer Street Sewer Upgrade.

## DECEMBER

• launched our *Choose Exceptional* culture and leadership program.





- launched our Climate Resilience Strategy .
- launched Strategy and Policy Map showing • our key strategies and plans for the business
- reached a record 829 development . applications
- appointed our Senior Project Manager, • First Nations Values of Water, in collaboration with the other metropolitan water corporations.

signed up to the United Nations Global Compact

# **OUR PEOPLE** People enable our ambition

At City West Water, we cannot achieve our vision without a great team. We work to equip our people to deliver exceptional service and value for money.

Our employees are selected on the basis of ability, knowledge and skills in fair and open competition that ensures equal opportunity.

# Who we are

FEMALE REPRESENTATION



MALE REPRESENTATION



## AVERAGE AGE OF EMPLOYEES

TOTAL NUMBER OF EMPLOYEES

Our People are:

## AGILE

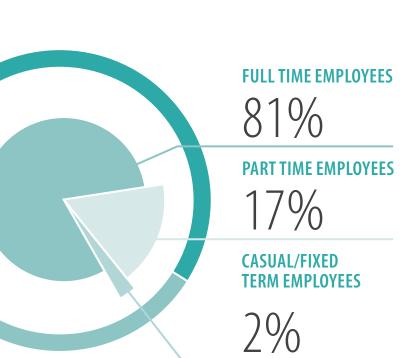
Our people are responsive to customer needs and expectations within a changing landscape. They are flexible and adaptive, meaning they are open to change and new ways of working.

## DIVERSE

Our workforce is a mirror to the wonderfully diverse community we serve. Our differences provide us with opportunities to learn, grow and make our workplace vibrant and respectful.

## TRUSTED

Our people are supported through our business processes to make considered decisions that are driven by the best outcomes for our customers. Honesty and integrity are hallmarks of how we relate to one another and it shows.



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## **CHOOSE EXCEPTIONAL PROGRAM**

In December 2017 we launched a new personal leadership development program for all employees titled *Choose Exceptional*. It is the first time we have embarked on such an endeavour and it is a major highlight for our staff development and wellbeing.

Through this program employees gain a greater understanding of our values and learn how they can help drive a culture where achievement is championed. The process is integral to our mission to become an exceptional service provider that puts customers first and benefits the community.

The program explores the notion that everyone is a leader and that leadership is a behaviour rather than a position. It also provides practical skills for employees in areas such as personal development, career management and critical conversations as well as giving and receiving feedback. These skills will allow our people to deliver better outcomes for our customers and encourage our employees to find new ways to put our customers first.

"By equipping employees with the skills to support their personal leadership journey, we seek to enhance team effectiveness and continue to strengthen an environment of trust."

Louise Meadows, General Manager, People and Capability

The skills and tools from the program bring to life our three cultural expectations: *We Learn and Grow, We Value People and We Drive Performance.* 

## **OUR ACHIEVEMENTS**

City West Water is committed to deeply embedding diversity and inclusion into our business. The following outcomes have been achieved this financial year.

## 2020 TARGET

#### **2018 ACTUAL**

WOMEN

OUR WORKFORCE WILL BE

50%

OF CWW LEADERS WILL BE FEMALE

gender

balanced

42%

2.5% OF OUR EMPLOYEES WILL IDENTIFY AS ABORIGINAL OR TORRES STRAIT ISLANDER PEOPLES

**OF OUR EMPLOYEES** 

LANGUAGE OTHER

THAN ENGLISH

**CAN SPEAK A** 

420/

**Ŋ0/** 

**IZ%** 

35%

25%

OF OUR WORKFORCE WILL IDENTIFY AS HAVING CARING RESPONSIBILITIES OUTSIDE OF CWW

10%

OF OUR EMPLOYEES WILL IDENTIFY AS HAVING A DISABILITY

7%

OF OUR WORKFORCE WILL IDENTIFY AS BELONGING TO THE LGBTQI COMMUNITY

## **EMPHASIS ON DIVERSITY**

Our approach to diversity and inclusion affirms that harnessing differences will create a productive work environment and will ultimately lead to one where everybody feels valued. It also provides an environment where people's talents are being fully utilised and organisational goals are met through employee engagement and innovation.

During the year, we continued to build on strong governance and advocacy for our *Diversity and Inclusion Strategy* with the formation of a Diversity and Inclusion Steering Committee consisting of senior leaders across the organisation. The Steering Committee supports the delivery of the following:

- gender diversity
- Aboriginal and Torres Strait Islander values
- cultural and linguistic diversity
- · flexible working arrangements.

Educating staff about diversity and inclusion is ongoing. During the year, senior leaders participated in inclusive leadership training and staff attended a series of Aboriginal and Torres Strait Islander cultural awareness programs. We have also established a 'Senior Project Manager – First Nations Values of Water' role, in collaboration with the other metropolitan Melbourne water corporations to:

- build a two-way conversation and engagement with Traditional Owners
- work with Traditional Owners to understand their knowledge and values regarding water
- understand the best way to ensure early, meaningful input into water industry strategies.

We are proud to host this role on behalf of our wider industry.

## **OUR ACHIEVEMENTS**

We apply the employment principles of the *Public Administration Act 2004*. Employees are selected and promoted on the basis of ability, knowledge and skills in fair and open competition that ensures equal opportunity. 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.

We have in place a *Disability Policy* and a *Disability Action Plan*. We work to meet our 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* with the aim of eliminating barriers for people with a disability from accessing goods, services, facilities and employment. We also have policies for the prevention of harassment and bullying and for equal employment. Our people have a right to work in an environment free from harassment, bullying and discrimination. Any behaviour to the contrary will result in disciplinary action up to, and including, dismissal.

As part of this, all employees are trained in equal opportunity and bullying prevention. Employee Support Officers are available to provide information to employees about rights and obligations in this area.

### **COMPARATIVE WORKFORCE DATA**

The table below outlines City West Water's workforce, and provides a snapshot of the diversity of employees in our organisation. Employees have been correctly classified in workforce data collections based on working arrangement and employee level.

|                          | 2018  | 2017  |
|--------------------------|-------|-------|
| Full time                | 357   | 361   |
| Part time                | 75    | 75    |
| Casual/fixed term        | 11    | 12    |
| Total employees          | 443   | 448   |
|                          |       |       |
| Key management personnel | 9     | 9     |
| Executives               | 5     | 9     |
| Administration staff     | 429   | 430   |
| Total employees          | 443   | 448   |
| Full time equivalent     | 422.7 | 417.3 |

## **HEALTH AND SAFETY**

We foster an environment where people make good safety choices - we 'live and breathe' safety and wellbeing for our people.

We are committed to providing healthy and safe workplaces for employees, contractors, customers and the community who access and/or interact with our places of work.

## We value providing an enjoyable and safe work environment that enables us to deliver great customer experiences.

We know a positive safety culture with shared attitudes, values and beliefs is vital and we strive to lead this through our health and safety policy commitments of:

- leading an inclusive and positive health and safety culture
- enabling capable and accountable health and safety leadership by all employees
- continuously improving our health and safety performance, systems and practices
- engaging, coaching and upskilling our employees and contractors
- complying with the law and exceeding it through role modelling health and safety industry leadership
- maintaining AS 4801 (Occupational Health and Safety Management Systems) certification
- providing effective management processes for the identification, analysis, assessment, treatment and ongoing monitoring of health and safety risks.

Demonstrating our strong commitment to safety this year we:

- successfully implemented all 34 best practice safety review actions
- introduced quarterly contractor health and safety engagement forums and critical risk improvement working groups, which included related external organisations and authorities
- established a working group to respond to incidents involving interference with, or damage to gas assets
- developed and implemented our five year health and safety strategy to shift our compliance, reactive and control driven approach, to be more focused on values, empowering people and being proactive.

# "Safety isn't just about protecting us *from* something, but protecting us *for* something. For the people, places and things we love and care about deeply that bring us joy."

Cherie Logan, Health and Safety Manager, City West Water

### **CITY WEST WATER EMPLOYEES' HEALTH AND SAFETY PERFORMANCE**

|   | 2018    | 2017     | 2016     |
|---|---------|----------|----------|
| Hazards reported per 100 full time equivalent employees           | 7.9     | 7.9      | 3.6      |
| Incidents per 100 full time equivalent employees                  | 9.0     | 8.8      | 7.7      |
| Lost time standard claims per 100 full time equivalent employees  | 0.0     | 0.0      | 0.72     |
| Average cost per claim (includes non-lost time claims or medical) | \$7,250 | \$10,065 | \$22,314 |
| Serious injury frequency rate per million hours worked            | 3.6     | 5.9      | 7.9      |

## **INJURY FREQUENCY REDUCED BY**

39%



14

# OUR CUSTOMERS

**USE OUR SERVICES** 

## 418,000 RESIDENTIAL PROPERTIES SERVED

1,050,000 residential customers

(and rising with some of the fastest growing areas in Australia in our service area)

-000

NON-RÉSIDENTIAL PROPERTIES SERVED

4

WE DELIVER APPROXIMATELY **100 billion** LITRES OF DRINKING WATER TO OUR CUSTOMERS PER ANNUM

96 billion LITRES OF WASTEWATER COLLECTED

# **1.8 million**



**7,600 TRADE WASTE CUSTOMERS** (producing 50% of metropolitan Melbourne's trade waste)

## **CUSTOMER SERVICE RESULTS**

We strive to be an exceptional service provider that adopts a 'customers first' approach in everything we do. We consider it a privilege to be a provider of essential services to our customers especially as they do not get to choose their water retailer.

Our Footscray based customer operations centre responded to over 344,000 calls in 2018, assisting customers with a range of enquiries including moving house, payment plans, eBilling and usage and service charges. These calls were responded to within 26 seconds on average.

Recognising that our customers are central to our operations, this year we conducted our biggest ever customer engagement program to help inform our Price Submission to the ESC and ensure we are delivering services that our customers value. As a result of that work, a number of new initiatives have been implemented. The highlights being:

- a new process to better support customers
   experiencing a leak We've implemented a new process
   for managing enquiries related to a leak by reducing
   the financial burden of higher than normal water
   consumption and significantly reducing the turnaround
   times on leak adjustment applications. This results in less
   stress, less customer effort and reduced financial impact
- direct debit phone access We can now set up a direct debit for our customers over the phone, removing the significant customer effort previously required involving paperwork and multiple steps. We're now easier to deal with
- payment extensions available via SMS We now offer the ability to request a payment extension over the phone, via our website or by sending us an SMS. Requesting payment support has never been easier
- better supporting customers through major disruptive works - We have used the International Association for Public Participation (IAP2) engagement spectrum to improve communication with our customers and community, during projects
- making it easier to report a fault Over 3,200 submissions via the *Snap Send Solve* app, allowing customers to quickly and conveniently report faults in under 30 seconds on their phone or tablet
- continued roll out of eBills eBills are increasingly popular with customers with over 20% of customers signing up.

"We have some significant initiatives and technology investment planned for what will be an exciting future.

Our Customer Operations Team is committed to bringing the voice of our customers to the forefront in key decision making to further embed our 'customers first' approach to everything we do."

Sandra Maganas, Customer Operations Manager, City West Water

## APPROXIMATELY 1,000 CUSTOMERS PER MONTH ARE SIGNING UP TO DIRECT DEBIT OVER THE PHONE COMPLETION OF LEAK ALLOWANCE ADJUSTMENT REQUESTS REDUCED FROM 4 days to 1day RECEIVED 1,500 PAYMENT EXTENSION REQUESTS VIA SMS INCREASE FROM 6% OF CUSTOMERS RECEIVING EBILLS IN 2017 TO

21% 🛚 2018

## 2019-2023 PRICING DETERMINATION

We lodged our Price Submission with the Essential Services Commission in September 2017, which was a significant achievement for our business. The ESC provided their determination on our submission in June 2018.

The ESC is the independent economic regulator of the water sector in Victoria, and this review of pricing is done every five years. The outcome of the ESC's pricing determination provides the framework for our service standards, prices and tariffs for our customers from 1 July 2018 to 30 June 2023.

Our submission was assessed against the ESC's new performance model that rewards:

- lower prices to customers as a consequence of better managing risks
- demonstrable evidence of meaningful engagement with customers and delivering on customers' expressed preferences for levels of service
- significant improvements in operational efficiency and in the value of services delivered to customers.

Our proposals for prices and standards of service were rated as 'advanced' against each of the above criteria.

### We are particularly proud to retain the lowest average household bills for any metropolitan city across Australia.

### **CUSTOMER ENGAGEMENT**

Customers' values and preferences were fundamental in shaping our submission. We undertook extensive customer engagement with our residential and business customers to understand what they valued most about the services we deliver and what we could do next, to better meet their expectations.

Every effort was made to incorporate customer feedback, preferences and values in our submission. We will deliver the following outcomes over the next five years:

- Outcome 1: Services to homes and businesses are safe, reliable and efficiently delivered
- Outcome 2: Customer service is accessible and enquiries are promptly resolved
- Outcome 3: Billing and payment options are efficient and convenient
- Outcome 4: Customers in hardship are supported
- Outcome 5: The whole of the water cycle is managed in an environmentally sustainable way
- Outcome 6: City West Water is a valued partner in servicing a growing Melbourne.

### **REAL PRICE REDUCTIONS**

Delivering high quality services efficiently and keeping bills affordable are our priorities.

Our submission built upon the efficiencies we have achieved over the past five years and as a result of these efficiencies, from financial year 2019 there will be, on average, a fall in prices for all of our major customer groups.

Price reductions outlined in the determination from the ESC are estimated to be as follows:

- average residential price reduction of 11% after inflation
- overall non-residential price reduction (including trade waste) of 4.3% after inflation
- overall non-residential price reduction (water and sewer only) of 4.1% after inflation
- overall trade waste price reduction of 5.3% after inflation.

## ENGAGEMENT ON PRICE SUBMISSION



RESIDENTIAL AND NON-RESIDENTIAL CUSTOMERS ENGAGED

CO-CREATION WORKSHOP WITH 8 CUSTOMERS

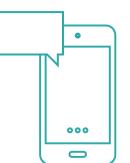
2,200-

**10** RESIDENTIAL FOCUS GROUPS, INCLUDING **2** WITH CULTURALLY AND LINGUISTICALLY DIVERSE COMMUNITIES



YOUR SAY WEBSITE VISITS 42 QUICK POLL RESPONSES 38 IDEAS SHARED





く()()

1,009

ONLINE CUSTOMER VALUE AND 695 PRICE STRUCTURE SURVEYS

CONVERSATIONS AT SHOPPING CENTRE AND COMMUNITY FESTIVAL POP-UPS



PRICE STRUCTURE FORUM WITH

# 42 customers

- **2** BUSINESS WORKSHOPS WITH
- **30** CUSTOMERS IN TOTAL
- **4** MEETINGS WITH THE CUSTOMER COMMITTEE

## INTERVIEWS

- **16** BUSINESSES
- **6** COUNCILS
- **6** COMMUNITY GROUPS

**6** VULNERABLE CUSTOMER ADVOCACY GROUPS

8 INDUSTRY ADVOCACY ORGANISATIONS

## Community service obligations

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

### SUPPORTING VULNERABLE CUSTOMERS

|   | 2018<br>(\$'000) | 2017<br>(\$′000) |
|---|------------------|------------------|
| Provision of concessions to customers   | 23,129           | 24,136           |
| Rebates paid to not-for-profit organisations under the water and sewerage rebate scheme | 553              | 529              |
| Utility Relief Grants scheme  | 334              | 335              |
| Water concessions to those on life support machines (haemodialysis)                     | 18               | 21               |

We continue to engage with our customers to find ways to best support the most vulnerable in our community. We especially value the community we operate in and we are proactively committed to doing this through various programs and events:

## PROVISION OF CONCESSIONS TO PENSIONERS AND CARDHOLDERS

Customers who hold a pension concession card, a Department of Veterans Affairs gold card or a health care card are entitled to a 50% concession on water and sewerage charges, up to an annual maximum. The 2018 maximum was \$331.10. If a customer is receiving one service only, they are entitled to a concession of up to half the annual maximum. We invoice the Department of Health and Human Services (DHHS) for the value of those concessions.

## 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 or recreation activities or war veterans' organisations. These organisations are entitled to pay a concession amount on the service charge portion of their bills. We invoice SRO for the value of those 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 which, as the result of a short term (within the last 12 months) financial crisis, are unable to pay for a current account and are at risk of restriction of supply. A grant is 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 financial hardship has left them unable to meet their water bill obligations. We invoice DHHS for the value of those concessions.

## WATER CONCESSIONS TO THOSE ON LIFE SUPPORT MACHINES (HAEMODIALYSIS)

Residential customers requiring in-home haemodialysis are entitled to a rebate on water usage and sewage disposal charges. DHHS determines the rebate amount based on the average annual water usage of an in-home haemodialysis machine of 168,000 litres a year. The rebate is in addition to any other pension or concession to which a customer may be entitled. Customers who hold a pension concession card, a Department of Veterans Affairs gold card or a health care card are entitled to the rebate. We invoice DHHS for the value of those concessions.



## **FINANCIAL INCLUSION ACTION PLAN**

We have joined a growing number of Australia's leading companies and not-for-profits to better support the 2.4 million people across the country who are experiencing severe financial vulnerability.

In 2018, we were recognised as one of 30 trailblazers in establishing a *Financial Inclusion Action Plan* (FIAP) to help support customers and staff who are experiencing financial hardship.

Our FIAP outlines the measures we are taking to strengthen financial inclusion and resilience for our customers and employees experiencing exclusion and hardship. It also supports our current partnerships with financial councillors, community legal centres, family violence support workers, settlement services and contractors within our service area and beyond.

Our FIAP reinforces our commitment to supporting our people who may be impacted or need help to support those who are.

"The Financial Inclusion Action Plan aligns closely with our customercentric aims and also reflects our work with culturally diverse and vulnerable customers.

We are proud to work with the FIAP Partnership Group to develop and implement our own Financial Inclusion Action Plan to better support our customers, employees and the broader community to establish financial security and realise their financial goals."

David Ryan, Managing Director, City West Water

## **FAMILY VIOLENCE POLICY LAUNCH**

In November 2017, we launched our *Family Violence Policy*. The policy includes a set of guiding principles which seek to support:

- the psychological and/or physical wellbeing of people affected by family violence
- people who are affected by family violence, either directly or indirectly, by providing them with support that is sensitive, respectful and without judgement
- the provision of services which are accessible for our customers and people and are flexible enough to respond to individual needs
- the private and sensitive management of any personal information.

To further embed our commitment to addressing family violence, in March 2018 we co-hosted a forum (*Family Violence – From Awareness to Action*) with the ESC. This forum was an extension of the work the ESC has been doing across the state, which originated from the Victorian Royal Commission into Family Violence.

The forum, which was attended by people from the water, banking, energy and not-for-profit sectors, turned the lens inward to examine how corporate Australia, government entities and the community sector can and should be involved in changing how we all address family violence.

In addition to the forum, we rolled out a range of key initiatives that deliver on the principles outlined in the policy including:

providing employees with referral details to access family violence support

- delivering family violence awareness training to key business units and upskilled training for staff with direct customer contact
- developing a family violence customer support process
- upgrading systems to further limit access to customer accounts.

## **CELEBRATING 10 YEARS OF DAY AT THE ZOO**

Ten years ago staff from City West Water, the Metropolitan Fire Brigade and Victoria Police approached the Chair of the Victorian Multicultural Commission to partner in an event aimed at raising awareness and understanding of essential services. The primary target group was newly arrived refugees and humanitarian entrants who may be vulnerable due to culture, language or literacy. Held annually since 2009, and led by us during Cultural Diversity Week, the event celebrates Melbourne's multicultural community and promotes social inclusion and resilience.

Each year the popularity of the event has grown and attracted more participants and more government partners. In 2018, the original partners were joined by 13 other like-minded sponsors and partners.

Supporting our communities and customers is central to what we do, and we are honoured to have shared this day with so many other organisations that have the same values.



In addition to this event providing access to a wide range of government agencies, Day at the Zoo has had ...

PARTICIPANTS FROM 44 COUNTRIES



who speak over 77 languages Representing melbourne's Rich diversity





Over 8,000 community members have attended this event since it began 22

## WATER AWARENESS CAMPAIGNS AND COMMUNITY INVOLVEMENT

We are committed to raising awareness with customers about the water cycle and water efficiency. We achieve this through educational and cultural programs, as well as actively promoting the State Government's *Target 155* campaign that encourages customers to limit their water consumption to 155 litres per person per day.

We are proud of our water awareness and community involvement campaigns. This year the following were launched or continued:

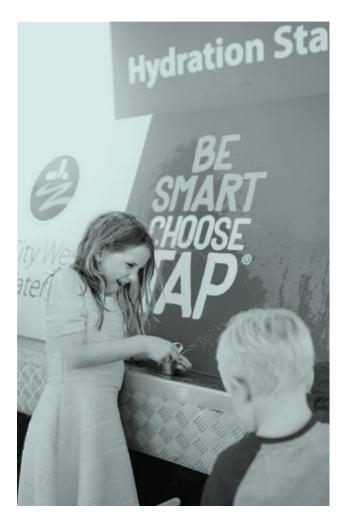
- *'Meet the Water Wallies'* online campaign sharing advice on how individuals and families can save water
- water wise classroom presentations for primary and secondary school students and education materials targeted at students with English as an Additional Language
- teacher resources provided to local schools including a lending library of activities and online curriculum resources about saving water
- fundraising and participation in WaterAid's Water Innovators Challenge 2017. Our Team Potability won 'Best Fund – Asia Pacific Region' and 'Runner Up for Best Learn – Asia Pacific Region'
- we launched our Innovate Reconciliation Action Plan (RAP) in NAIDOC (National Aborigines and Islanders Day Observance Committee) week in July 2017. Our RAP seeks the inclusion of Aboriginal values and traditional ecological knowledge in water planning
- we supported two young people on work placements via Whitelion's Aboriginal and Torres Strait Islander program and engaged Traditional Owner groups in the creation of the *Melbourne Sewerage Strategy* development process
- a number of employees also participated in Cultural Heritage awareness training as well as internal and external celebrations during NAIDOC week and National Reconciliation week.

"City West Water understands the importance of building and maintaining meaningful, respectful relationships with Aboriginal and Torres Strait Islander peoples and organisations in order to achieve mutually beneficial outcomes."

## IN 2018 WE PROVIDED FREE DRINKING WATER THROUGH OUR *CHOOSE TAP* HYDRATION STATIONS TO OVER

1 million CUSTOMERS ACROSS







# OUR COMMUNITIES

## Sustainable water use

## **URBAN WATER STRATEGY**

Our *Urban Water Strategy* plays a significant role in preparing our service area for a challenging water future, as we seek to successfully navigate the impacts of climate change and population growth.

Our strategy sets a benchmark for our service provision now and into the future and will aid us in understanding, adapting and providing for growing demand for water. It outlines the likely increase in our service area in 50 years, to an estimated population of 2.3 million and 940,000 dwellings.

In meeting this growth it outlines a number of key actions, such as our ambitious plan to deliver 9.7 billion litres per year of alternative water by 2065. In addition, we aim to explore opportunities in established areas which have a potential to substitute six to eight billion litres per year of drinking water with alternative water. It also includes our *Drought Preparedness Plan* for the next five years which ensures long term sustainable water use.

## WATER RESOURCE MANAGEMENT

We are a member of the metropolitan Water Resource Management (WRM) group. The purpose of the group is to provide timely advice and recommendations on matters relating to short and long term water security for Melbourne. The WRM group is in place to:

- prepare, monitor, deliver and review long term strategic responses as outlined in Urban Water Strategies, the Melbourne Water System Strategy and Water for a Futurethriving Melbourne
- coordinate timely and efficient actions to achieve water security objectives in a manner that sustains the health, liveability and prosperity of Melburnians
- ensure preparedness to proactively manage any periods of water shortage through development of the annual *Water Outlook* and drought preparedness planning.

## **INTEGRATED WATER MANAGEMENT FORUMS**

Integrated Water Management (IWM) involves the consideration of the entire water cycle and the multiple services it provides when planning, delivering and operating infrastructure.

The Department of Environment, Land, Water and Planning (DELWP) has established IWM forums to identify, coordinate and prioritise opportunities and areas that would most benefit from collaborative water cycle planning and management.

The forums have been designed to help local governments, water corporations, catchment management authorities, the Victorian Planning Authority and Traditional Owners work together to ensure the water cycle efficiently contributes to the liveability of a region. They are based on waterway catchment boundaries and there are five forums across Melbourne.

We have been a key contributor and participant in three IWM forums (Werribee, Maribyrnong and Yarra catchments) and we have contributed to the development of each Strategic Direction Statement, which sets out the vision and outcomes we are seeking to achieve and projects required to deliver on these. We are working collaboratively with Melbourne Water, councils and others on a number of projects. One example is the Arden Macaulay redevelopment precinct where we are working with City of Melbourne and Melbourne Water to look at integrated servicing solutions to provide the best community outcomes.

## **STORMWATER HARVESTING PROJECTS**

One of the findings of our customer engagement for our new Price Submission was that customers want us to invest in stormwater harvesting projects to enhance water supplies and generate more liveable communities. We continue to partner with councils within our service area to deliver stormwater harvesting projects to irrigate public open space. To date we have six storm water harvesting projects in operation supplying up to 285 million litres of stormwater per year for irrigation of sports grounds.



In addition, in our Price Submission, we have committed to a stormwater harvesting fund. This will allow us to co-fund stormwater harvesting projects for open spaces, parks and sports fields in our region.

Councils, developers and private organisations can apply to the fund. We're seeking impactful projects that will bring real liveability and environmental benefits to Melbourne's west and our greater service area.

During 2018, in partnership with Brimbank City Council and Hobsons Bay City Council, we have undertaken improvement works on the Keilor Public Golf Course and Laverton Creek Recreation Reserve to improve the stormwater harvesting performance of these projects.

The cost of the upgrade works are co-funded by the beneficiaries of these schemes or by government contributions.

## **AQUIFER STORAGE AND RECOVERY**

Operational trials on the West Werribee Aquifer Storage and Recovery scheme commenced in July 2017 using Class A recycled water from the Werribee recycled water plant. Recycled water has been injected, stored and recovered in several short cycles and extensive monitoring of the aquifer and the water quality has taken place. The trials have confirmed that filtration of the recycled water is required prior to injection. Installation of temporary filtration has been completed. The next phase of the trial will involve injecting a larger volume of recycled water and storing this for several months prior to extraction. This will enable the chemistry of the stored water to be examined in detail. It is hoped that in the long-term, this will allow us to store recycled water generated in colder months for use in the warmer months when demand for water is higher.

## WEST WYNDHAM CLASS A RECYCLED WATER PROJECT

Following the successful commencement of supply in November 2016, we have continued to supply over 7,200 properties in Werribee, Wyndham Vale and Manor Lakes with fit for purpose Class A recycled water. Class A recycled water is supplied to customers through a separate purple meter and purple pipes.

Class A recycled water is an environmentally sustainable water source customers can use to flush their toilet, water their garden and wash their clothes. It's also suitable for open space irrigation and a range of commercial purposes.

The project will ultimately supply Class A recycled water to around 82,000 homes in the growing West Werribee area, for commercial customers and open spaces. Recycled water will help to meet the challenges of a changing climate and growing population by relieving demand on our drinking water supply.

At capacity the West Wyndham Recycled Water project will save around 3.5 billion litres per year of drinking water currently used to flush toilets, irrigate open spaces and for commercial purposes.

## WATER CONSUMPTION

City West Water provides a range of different types of water to customers in our service area. The table below details how much water was used in our service area by residential and non-residential customers in 2018.

### 2018 TOTAL WATER CONSUMPTION DATA

|  |                           | Number  | Volume (ML) <sup>6</sup> |
|--|---------------------------|---------|--------------------------|
| Residential customers  |                           |         |                          |
| Drinking water   |                           | 418,189 | 59,246                   |
| Recycled wastewater  |                           | 8,220   | 57                       |
| Recycled stormwater  |                           | -       | -                        |
| Non-residential customers  |                           |         |                          |
| Drinking water   |                           | 40,855  | 42,785                   |
| Recycled wastewater  |                           | 64      | 2,554                    |
| Recycled stormwater  |                           | 7       | 120                      |
| Total customers <sup>1</sup>   |                           | 459,044 |                          |
| Total drinking water volume  |                           |         | 102,031                  |
| Total recycled water volume  |                           |         | 2,731                    |
| Total consumption  |                           |         | 104,762                  |
| Average annual consumption <sup>2</sup>  |                           |         | 99,338                   |
| Weekly residential drinking water consumption  |                           |         | 1,139                    |
| Non-revenue water  | Leakage <sup>3</sup>      |         | 10,190                   |
|  | Firefighting <sup>4</sup> |         | 575                      |
|  | Other <sup>5</sup>        |         | 2,155                    |
| Total non-revenue water  |                           |         | 12,920                   |
| Total water all sources  |                           |         | 117,682                  |
| Average per capita daily residential drinking<br>water consumption (litres per person per day) |                           |         | 156                      |

1. Customers that receive recycled wastewater or stormwater, also receive drinking water.

- 2. Average annual consumption calculated between the 2014 and 2018 reporting periods.
- 3. Balance of non-revenue water, known as real losses, which includes bursts, leaks and background losses.
- 4. Firefighting is part of a category called Authorised Unbilled Usage which includes firefighting, fire service usage, water haulers' usage, water main flushing, and sewer cleaning.
- 5. Other non-revenue water is known as apparent losses which includes unauthorised usage such as theft, misuse, illegal tampering, and incorrect meter reads.
- 6. ML = million litres

### **CORPORATE WATER CONSUMPTION**

This figure shows the water used at our Footscray head office. Water use has increased over the past financial year due to more people working out of our head office.

| 2018   | 2017   |
|--|--|
| Water consumed 1,585kL                           | Water consumed 1,369kL                           |
| 3.74kL per full time equivalent employee         | 3.26kL per full time equivalent employee         |
| 257.04 litres per m <sup>2</sup> of office space | 222.01 litres per m <sup>2</sup> of office space |

## Drought response reporting

Metropolitan water retailers are required to prepare a *Drought Preparedness Plan* to manage the event of water shortage. Permanent water use rules are in place for metropolitan Melbourne as at 30 June 2018.

In accordance with this plan, each year we collaborate with South East Water, Yarra Valley Water and Melbourne Water to publish the *Water Outlook*. 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
- regularly provide information regarding the balance of supply and demand, and any actions being undertaken by the water utilities.

The performance of Melbourne's water supply is evaluated according to storage levels on 30 November each year relative to three zones:

- high zone optimising supplies to secure our water supply
- medium zone take action to reduce demand and improve supply
- low zone emergency actions required to maintain our water supply.

Released on December 1, 2017, the most recent *Water Outlook* assessed that Melbourne's water availability is secure for the near future. A number of short and medium term actions to improve future drought response were outlined. A summary of the agreed actions are:

- continuing to inform both residential and non-residential customers about rules that ensure the wise use of water at all times. For residential customers, this is continuing to deliver the State Government's *Target 155* voluntary water efficiency program. In addition, it includes ongoing development of the *Victorian Water Efficiency Strategy* which identifies opportunities to work together to deliver water efficiency measures
- tracking demand against the forecast of 150 litres per person per day by 2020 for residential drinking water use across Melbourne as detailed in *Water for a Future-Thriving Melbourne*

- progressively working with all local councils to develop an aligned approach to drought preparedness for priority open spaces
- annually reviewing the level of water availability and providing advice to the Minister for Water on the need for a desalinated water order
- focusing on recycled water initiatives, for example, construction has been completed and testing is underway at West Werribee for an aquifer that could store Class A recycled water
- proactively auditing programs which target various vulnerable customer segments across Melbourne (funding for this is provided by DELWP)
- seeking health initiatives to link sustainable water supplies to enable healthy communities through increased greening
- undertaking active leak detection, reticulation mains renewals, pressure management, intelligent network technologies and rapid response to bursts and leaks
- continuing to deliver education materials to our local schools and community organisations
- actively participating in IWM forums and leading the development of place-based IWM plans.

## **DROUGHT PREPAREDNESS PLAN AND BY-LAW**

Developed in accordance with the *Guidelines for Assessing the Impact of Climate Change on Water Supplies in Victoria,* the *Drought Preparedness 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 Preparedness 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. Sustainable and resilient water services systems

## SUPPORTING FUTURE GROWTH: SPENCER STREET SEWER UPGRADE

"The new sewer is being built to support the rapid population growth of Melbourne's CBD, which will see 32,000 new residents by 2050. It's vital our sewers have the capacity to cater for that growth."

#### Kate Houlden, Project Delivery Manager, City West Water

In November 2017 we began the Spencer Street Sewer Upgrade in Melbourne's CBD.

The upgrade reflects our commitment to developing sustainable and resilient water service systems by preparing for future growth.

By the time the project is finished - expected in early 2019 over 700 metres of new sewer main will have been installed via tunnel boring and pipe jacking beneath Spencer Street. This method ensures that the impact is minimised on residents, businesses and commuters.

The seamless delivery of the project to date, despite its high profile location, is a major success for all staff involved.



The Tunnel Boring Machine worked its way along Spencer Street, starting at Lonsdale Street at approximately **10 metres underground**. On average it was running for **20 hours a day**, **seven days a week** and laying **18 metres of new sewer** each day.

## **GREENING THE WEST**

This year, we have continued to enhance community liveability and human health through a number of ongoing Greening the West projects. These have included the One Million Trees initiative, Greening the Pipeline and the Upper Stony Creek Transformation Project.

Facilitated by us, Greening the West is a regional initiative driven by a steering committee of partners including local councils, Melbourne Water, Parks Victoria, DELWP, DHHS, VicRoads and community and industry representatives.

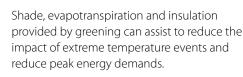
## Green urban spaces with trees do more than make places look pretty. Studies show they are integral in combating climate change, while playing a major role for the environment and boosting human health.



Urban greening can provide functional habitat for conservation and connectivity.



Attractive, accessible green space encourages greater levels of physical activity.





Contact with nature can improve mood, and lower levels of stress, anxiety and depression.



Vegetation can reduce greenhouse gas emissions through sequestering carbon dioxide.



Leafy vegetation can improve air quality.



## CASE STUDY: UPPER STONY CREEK NATURALISATION

"The Upper Stony Creek Transformation Project will help deliver Greening the West's vision to enable sustainable, liveable, healthy communities through urban greening. It will also drive more sustainable water use, as well as enhancing health and liveability outcomes for our customers in Brimbank and set an example of what's possible across the west."

Cameron FitzGerald, General Manager Strategy and Planning, City West Water

Work began in April 2018 to transform the Upper Stony Creek in Sunshine North from a concrete drain into a natural revegetated creek with vibrant community spaces and walking paths.

The project will rehabilitate a 1.2km stretch of the creek, between Furlong Road and Gilmour Road and will include a stormwater harvesting system. Works are expected to be completed by 2019.

The project is jointly funded by the Australian Government, DELWP, Melbourne Water, City West Water, GreenFleet, Development Victoria and Brimbank City Council.

## **GREENING THE WEST**

### - 2011

- steering committee formed
- 50 trees planted in Brooklyn
- rainwater tank for Braybrook community hub

#### - 2013

strategic plan released

#### 2014

- winner of 2014 Victorian Health Promotion award
- 300 trees planted at Whitten Oval
- green walls installed in 2 schools in partnership with Victoria University
- \$25,000 state funding secured for 2 million trees

#### - 2015

- featured in Plan Melbourne and the State
   Government Water Plan
- \$5 million Federal Government grant for
   1 Million Trees project in Melbourne's West
- replanting of trees at the Altona Treatment
   Plant
- Greening the Pipeline project begins

#### - 2016

- Upper Stony Creek Transformation Project funded
- Upper Stony Creek Transformation Project joint winner in the Stormwater Victoria awards
- winner of Government Leadership in Urban Development award by the Urban Development Institute of Australia
- winner of the Program Innovation award by the Australian Water Association

#### 2017

Greening the Pipeline Stage 1 completed

#### 2018

- Upper Stony Creek transformation project commences
- 23 partner organisations reached
- 1 Million Trees initiative set to be finalised by
  October

#### 2019

 Next generation of Greening the West strategy.

# OUR ENVIRONMENT

"This year, we have focused our efforts on developing our Climate Resilience Strategy and certifying our Environmental Management System to the new ISO14001 Standard. We are proud of the environmental commitments we have made and look forward to delivering improved environmental outcomes for the community we serve."

Sean Hanrahan, Senior Strategist, City West Water

Our vision is built upon streamlined delivery, great partnerships and purposeful leadership. We are driven to care for and where possible, enhance the environment with an eye to the future and the challenges imposed by a changing climate. In 2018 we have focused on:

- reducing our total carbon emissions by 80% compared to our baseline by 1 July 2025 and looking to adopt a leading pathway to achieve net zero emissions by 2030
- developing partnerships with other water corporations for renewable energy generation
- becoming a leader in climate adaptation
- increasing canopy cover through projects such as Greening the West and the Upper Stony Creek transformation project.

## **CLIMATE RESILIENCE STRATEGY**

Our Corporate Strategy outlines our vision to become a leader in climate adaptation. We are committed to responding to the impacts of climate change on our services, customers and the broader community. These commitments align with our support of the United Nation's SDGs, in particular Goal 13: Climate Action.

Our Climate Resilience Strategy outlines the actions we will take over the next three years to position ourselves as a leader in climate adaptation and build a shared understanding with the community we serve of the impacts of climate change.

## Environmental management

This Strategy is based on the latest climate science and commits us to:

- invest in water efficiency and assist our customers to become the most water efficient in the state
- leverage renewable energy and battery storage to provide energy security and reduce emissions
- play a leading role in increasing canopy cover in Melbourne's west
- invest in infrastructure that delivers functional and liveability benefits to our community.

The Climate Resilience Strategy is supported by a comprehensive framework of annual targets and initiatives that will improve how we plan for and operate in a changing climate. Some examples of these initiatives are listed on page 32 and 33.

In 2018 we installed 180kW of solar panels at our Altona Treatment Plant and partnered with other Victorian water corporations to investigate the creation of a Large Scale Renewable Energy Project to provide 30% of electricity from renewable sources.

## **ENVIRONMENTAL POLICY**

City West Water's environmental policy provides guidance on meeting our environmental obligations and strategic objectives to protect the environment and drive continual improvement.

The policy outlines the following environmental measures:

 maintaining an ISO14001 certified Environmental Management System (EMS) to manage environmental aspects and impacts

- aligning environmental strategic objectives with targets and actions through our Environmental Sustainability Plan (ESP) to address these significant risks and continually improve our environmental performance
- taking actions necessary to respond to the challenges of climate change
- reviewing targets and actions set out in the ESP at regular intervals
- reporting progress against targets and actions set out in the ESP to our Board
- publicly reporting on environmental performance via our Annual Report and our website.

#### **ENVIRONMENTAL MANAGEMENT SYSTEM**

Our EMS provides the framework to ensure we manage environmental risks and impacts on the environment in a coordinated and effective manner. The EMS follows the 'plan, check, do and act' cycle outlined in the ISO14001 Environmental Management System standard. EMS certification was retained for the system in 2018. 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. In addition, the EMS also provides a framework for City West Water to contribute to broader environmental outcomes through the delivery of our ESP.

10% improvement we will increase energy efficiency by 10% over the next three years

# 10% renewable

10% OF OUR ELECTRICITY NEEDS WERE SOURCED FROM RENEWABLE SOURCES IN 2018 We have a commitment to ensuring environmental management is a priority during day-to-day operations. The information below demonstrates how we are tracking on some of our environmental measures and there is more information provided in the table on page 32.

32%

WE HAVE EXCEEDED OUR TARGET OF TIME REDUCTIONS IN OUR CREWS ATTENDING SEWER SPILLS AND BLOCKAGES BY 32.2%

8%

WE HAVE EXCEEDED OUR TARGET IN SEWER BLOCKAGE REDUCTIONS PER 100KM OF SEWER MAIN BY 8.4%

75%

WE HAVE EXCEEDED OUR TARGET OF SEWER SPILL REDUCTIONS PER 1,000 PROPERTIES BY 75.4%

### **ENVIRONMENTAL TARGETS**

Protecting and caring for the environment is an important part of what we do, and we aim to reduce impacts to the environment as much as possible, particularly from our sewerage services. The following table outlines City West Water's environmental performance against targets.

| ESC regulated standards  | 2018 Actual | 2018 Target | Variance (%) | 2017 Actual |
|--|-------------|-------------|--------------|-------------|
| Sewer blockages per 100km of sewer main (no.)  | 22.9        | 25.0        | 8.4          | 20.4        |
| Interruptions to sewerage services restored within five hours (%)                        | 97.5        | 97.2        | 0.3          | 96.9        |
| Unaccounted for water (%)  | 11.2        | 9.4         | (19.1)       | 9.3         |
| Average time to attend sewer spills and blockages (minutes)                              | 30.5        | 45.0        | 32.2         | 31.3        |
| Sewer spills per 1,000 properties (no.)  | 0.3         | 1.2         | 75.4         | 0.9         |
| Other targets  |             |             |              |             |
| Response to sewer spills within 1 hour (%)   | 100.0       | 100.0       | -            | 95.8        |
| Spills due to pump station equipment failure (no.)                                       | 0           | 0           | 0.0          | 0           |
| Non-food waste customers non-compliant with trade waste agreements (%)                   | 0.8         | ≤2.0        | 60.0         | 0.9         |
| 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    |
| ISO 22000: 2005 (Sewage quality)   | Retained    | Retain      | -            | Retained    |
| HACCP (Water Quality)  | Retained    | Retain      | -            | Retained    |



### **GREENHOUSE GAS AND ENERGY REPORTING**

The table below measures our corporate energy performance for 2018

| Deufermannen la diester                      | Tonnes CO <sub>2</sub> -e |             |             | Commentation  |
|--|---------------------------|-------------|-------------|---|
| Performance Indicator                        | Baseline                  | 2018 Target | 2018 Result | Commentary  |
| Water treatment and supply <sup>1</sup>      | 300                       | -           | 490         | Small increase driven by population growth.   |
| Sewage treatment and management <sup>2</sup> | 8,757                     | -           | 11,361      | Altona Recycled Water Plant<br>not operational for some of the<br>baseline period.  |
| Transport                                    | 1,118                     | -           | 1,217       | Small variation, no material change.  |
| Other  | 2,226                     | -           | 1,133       | We moved to a smaller and<br>energy efficient Head Office<br>during baseline period.  |
| Offsets purchased                            | -                         | -           | (1,188)     | Offsets comprise of renewable<br>energy generated (eg: Solar PV)<br>and 10% green energy purchased<br>for all our owned and operated<br>assets. |
| Total  | 12,401                    | 13,400      | 13,013      |   |

1. Water treatment and supply includes energy expended from stormwater harvesting schemes.

2. 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.

## ENERGY RECOVERY ENVIRONMENTAL PROJECTS AT THE ALTONA TREATMENT PLANT

We have a commitment to reduce our total carbon emissions by 80% compared to our baseline by 1 July 2025 and to adopt a leading pathway to achieve net zero emissions by 2030. This commitment was developed using guidance provided by DELWP and tested with our customers through our 2018 Pricing Submission consultation.

Two programs which are examples of our commitment are as follows:

## SOLAR INSTALLATION AT THE ALTONA SALT REDUCTION PLANT

An essential element of achieving our proposed emissions reduction is to roll out an installation program of behind the meter renewable energy generation. The adoption of solar photovoltaic (PV) array systems (or solar panels that we see on homes and businesses) has grown significantly in Australia, and is now an increasingly affordable option given the rising price of fossil fuel based electricity.

The Altona Salt Reduction Plant was identified as a suitable location for behind the meter solar panels due to its energy intensive treatment processes and significant areas of unutilised roof space and site grounds.

Following an analysis to determine the most suitable rooftop solar system, a design and technical specifications for the nominated option were completed.

The proposed system is expected to:

- generate 206 MWh of sustainable electricity each year. This is the approximate amount of electricity used by around 28 typical Australian households per year<sup>1</sup>
- maximise self-consumption of that energy, with 99% consumed on site
- directly offset 5% of the facility's grid demand and
- reduce our CO<sub>2</sub> emissions by 227 tonnes each year. This is the equivalent to taking almost 49 passenger vehicles off the road for one year <sup>2</sup>.

## 1 EPA Calculator



## **ENERGY RECOVERY**

Following the installation and commissioning of three energy recovery devices on high pressure pumps at the Altona Salt Reduction Plant, energy consumption has been reduced by 12%.

The devices have delivered significant cost savings and are unique in the way they capture and transfer energy.

"The devices capture hydraulic energy from the high pressure reject stream of seawater reverse-osmosis processes. This energy is then transferred to low pressure feed water with over 98% efficiency.

Because the devices themselves do not consume power, the overall energy consumption of the reverse-osmosis process is drastically reduced."

Shanli Zhang, Plant Process Engineer, City West Water





# Trade Waste

# **GREASE TRAP INSTALLATION INITIATIVES**

We've improved the way we approach the greasy waste program by offering an incentive to new food businesses to install a grease trap when setting up their shop. Customers who don't install grease traps present an elevated blockage risk compared to those who have installed grease traps. These customers are ranked according to the risk they pose to our system and receive higher trade waste charges than those who have a grease trap in place. This increases fairness across the customer base and offsets additional asset management costs.

"City West Water has developed trade waste risk rank frameworks to drive continuous improvement and customer fairness in commercial food waste management."

Josephine D'Aloia, Commercial Customer Services Team Leader, City West Water

# **PUMP-OUT COMPLIANCE UPDATE**

The grease trap pump-out compliance target was close to being met in 2018, with a result of 50% being achieved, falling short of our 55% target. This represents an increase of 5% on last year's result. This year's improvements have been achieved largely though the introduction of a new customer messaging program that sends overdue reminder notices to customers via email and SMS. To support the messaging program we also introduced a system that improves the management of correspondence to customers and tracks the reminders that have been sent to them to prompt pump-out. This will enable us to better target customers with appropriate reminders.

# **GROWTH IN WASTE TO ENERGY**

We continued connecting customers with organic waste treaters, who have put their waste to use producing biogas instead of it going to landfill.

This year the volumes of waste being utilised for energy production have grown more than 230% as Melbourne Water increased their intake allowance, under licence by the EPA, at the front of the Western Treatment Plant. The increased intake acceptance allows Melbourne Water to offer this waste treatment service to more of our customers with high strength organic waste who would normally struggle to find a costeffective outlet for their sludge within our service area.

This initiative has resulted in reduced trade waste charges for some of our largest customers and is likely to extend the life of our assets and reduce the risk of blockages as customers have a greater incentive to remove sludge from their trade waste streams.



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# Further statutory obligations

# **VICTORIAN BIODIVERSITY STRATEGY**

We remain committed to meeting statutory biodiversity requirements and working with stakeholders to value and improve biodiversity.

As part of our commitment, we're in the process of developing our *Biodiversity Action Plan* which will be launched in late 2018.

Implementing this plan will allow us to deliver our statutory obligations management more effectively and most importantly deliver improved environmental outcomes for Melbourne's west.

Once developed, our plan will aim to:

- value biodiversity
- protect ecosystems to make sure they are healthy, connected and resilient to threats
- engage stakeholders and provide synergy with other land management stakeholders, as well as achieve landscape level benefits.

We have created a native vegetation offset site on our land at Ballan Road, Wyndham Vale. The site is actively managed to offset native vegetation removed to construct water supply and sewerage assets.

In addition, this site is home to rare and endangered flora and fauna.

We are actively restoring and improving the site over a 10 year time-frame prior to maintaining it in perpetuity. We are currently in the sixth year of that 10 year period.

Projects undertaken regularly at the site to improve habitat value include:

- managing weeds and pests
- maintaining fencing and security
- assessing the habitat
- conducting ecological burning.

# VICTORIAN WATERWAY MANAGEMENT STRATEGY

The Victorian Waterway Management Strategy emphasises the proactive minimisation of impacts on waterways by water corporations and catchment management authorities.

We have been actively involved in the development of Melbourne Water's *Healthy Waterways Strategy*. This strategy sets out a vision for healthy and valued waterways that are integrated with the broader landscape to enhance life and liveability. It sets out targets and performance objectives for each of the waterway catchments across our region.

We continue to work with Melbourne Water 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.



# STATE ENVIRONMENT PROTECTION POLICY (WATERS OF VICTORIA)

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

We operate a sewage treatment plant at Altona which has a wastewater discharge licence from the EPA. The organisation has complied with its wastewater discharge licence conditions, minimising impacts to the protected beneficial uses of Port Phillip Bay. A summary of the performance of the Altona Treatment Plant is reported to the EPA on an annual basis. Additionally, water quality and flow data is reported to the ESC and the National Pollutant Inventory.

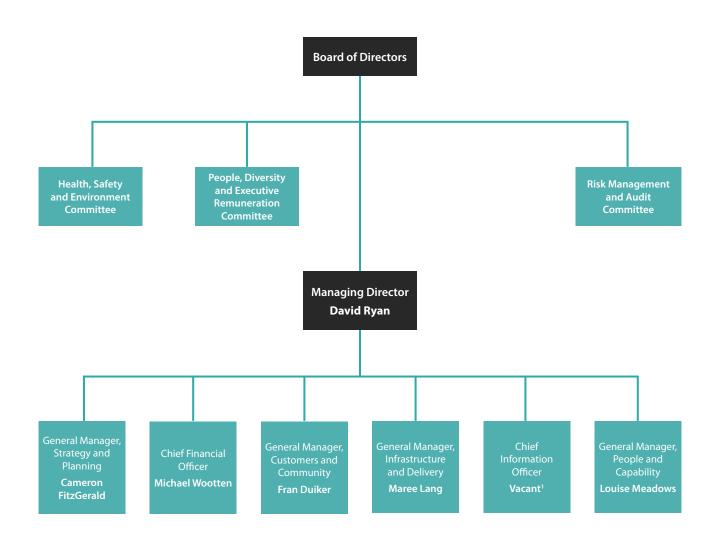
We meet the requirements of the policy through a range of activities, including:

- renewing assets and undertaking preventative maintenance to minimise spills and seepage of wastewater through sewer overflows, leakages and collapses
- complying with EPA guidelines on environmental management for managing wastewater recycling
- ensuring that protected beneficial uses are not impacted outside the licensed mixing zone, as verified by monitoring in accordance with an EPA approved monitoring program
- entering into trade waste agreements to divert contaminated stormwater to sewer.

We run a sewer hydraulic compliance program to progressively bring the sewerage system into compliance with the one-in-five containment standard in the policy. Noncompliant 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 the Taylors Lakes catchment is known as a non-compliant catchment and we are working with Melbourne Water to identify possible solutions. 38

# OUR BUSINESS

# Organisational structure



# GOVERNANCE

The Hon. Lisa Neville MP was appointed as the Minister for Environment, Climate Change and Water in December 2014, then as Minister for Water on 23 May 2016. As Minister for Water the Hon. Lisa Neville 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 Water appoints the directors of City West Water and the State 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 for ensuring that risk is appropriately managed.

The Board met eight times in 2018. It is committed to performing its role in accordance with the highest standards of corporate governance. There were three committees of the Board for 2018. The Risk Management and Audit Committee met five times in 2018. The Health, Safety and Environment Committee and the People, Diversity and Executive Remuneration Committee both met four times in 2018.

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

The Board comprises eight non-executive directors and the Managing Director. Each director brings specialist skills to City West Water. All non-executive directors (including the Chair) are appointed by the Minister for Water. The Managing Director is appointed by the Board. Effective from 1 October 2017, there were changes to our Board, with board members Kim McAliney and Philip Clark departing and two new appointments, Tania Fryer and Christopher Lovell.

The Board seeks independent review of its performance on a regular basis and reports to the Minister for Water and the Treasurer of Victoria on the outcomes of these reviews.



# Members of the Board

# **DAVID MIDDLETON**

# CHAIR

# B. Eng, M. Eng, MBA, GAICD

Mr Middleton was appointed to the Board on 1 October 2015.

Mr Middleton was a Director at Yarra Valley Water from October 2011 to September 2015. Mr Middleton has held various roles at CH2M Hill and is currently Managing Director for Australia and New Zealand. He is currently Chair at CH2M Beca Limited, and serves on both CH2M Hill Australia Pty Ltd and Halcrow Pacific Pty Ltd boards. Mr Middleton has extensive international experience in the water industry and brings a network which includes leadership in major water utilities in Australia, Asia and the UK. He has previously held operational roles with Melbourne Water, Western Water and Goulburn Valley Water.

### Committee Membership:

People, Diversity and Executive Remuneration Committee Health, Safety and Environment Committee Ex-officio member of all other Board committees

# **DAVID RYAN**

# MANAGING DIRECTOR

# B.Env.Sc, MBA, MCorp Env & Sus Mgt, GAICD

Mr Ryan was appointed as Managing Director on 14 June 2016.

Mr Ryan has over 15 years of experience in the water sector. Mr Ryan is a graduate of the Australian Institute of Company Directors, a Director of VicWater and is a past President and current Director of the Institute of Water Administration.

### **Committee Membership:**

Health, Safety and Environment Committee

# **ELIZABETH PARKIN**

# DIRECTOR, DEPUTY CHAIR

### B. Bus, F. Fin, ANZCA, FINSIA

Ms Parkin was appointed to the Board on 1 October 2015.

Ms Parkin has held a number of executive management roles and is currently Group Manager - Business & Organisational Performance at Dairy Australia. She is Deputy Chair of First Samuel, a director of The Longevity Group and a Trustee of the Northcote Trust Fund. She was previously a Director at Yarra Valley Water and North East Region Water Authority.

# Committee Membership:

Risk Management and Audit Committee (Chair) People, Diversity and Executive Remuneration Committee

# **MARY BETH BAUER**

#### DIRECTOR

# BA, FAICD, ACA, CPA(US)

Ms Bauer was appointed to the Board on 1 October 2015.

Ms Bauer has over 20 years' experience as a senior executive, advising CEOs and boards across Australia in a diverse range of industries. Ms Bauer has a very strong focus on governance, and her professional experience includes finance, audit and risk, business strategy development, financial markets, mergers and acquisitions, and all aspects of investor and stakeholder relations and strategic communications. She also serves on the Fisher Leadership Board and is one of Australia's leading experts on stakeholder engagement.

#### **Committee Membership:**

People, Diversity and Executive Remuneration Committee (Chair) Risk Management and Audit Committee

# **BRUCE COHEN**

DIRECTOR

#### B.Comm, LLB, M.Comm, Ph.D (Pub. Pol.)

Dr Cohen was appointed to the Board on 1 October 2015.

Dr Cohen is the principal at BKE Consulting. During his career he has been a Director at Melbourne Water, Snowy Hydro Ltd and Victorian Energy Networks Corporation, as well as the Chair of VicTrack and the Victorian Commission for Gambling and Liquor Regulation.

#### **Committee Membership:**

Risk Management and Audit Committee

# **CONSTANTINA DERTIMANIS**

# DIRECTOR

#### Grad Dip. International Studies, BA

Ms Dertimanis was appointed to the Board on 28 April 2016.

Ms Dertimanis is a public policy professional who has extensive experience as a senior advisor to State and Federal Ministers. She has worked on high profile United Nations projects advocating in partnership with global NGOs. Ms Dertimanis is a Director of the Queen Victoria Women's Centre Trust where she provides advice to the government on the impact of issues that affect women in the community.

### Committee Membership:

Health, Safety and Environment Committee

People, Diversity and Executive Remuneration Committee

# **TANIA FRYER**

# DIRECTOR

# LLB(Hons), BA, LLM(Comm), GAICD

Ms Fryer was appointed to the Board on 1 October 2017.

Ms Fryer has over 20 years' experience in technology, telecommunications and law. Ms Fryer was previously an executive at Telstra and prior to this was a lawyer at Allens Linklaters, specialising in technology and intellectual property. Ms Fryer also serves on the board of Grey Innovation Group and State Committee JDRF (Juvenile Diabetes Research Foundation).

### **Committee Membership:**

Risk Management and Audit Committee Health, Safety and Environment Committee

# **BILL JABOOR**

## DIRECTOR

### MBA, BA, Grad.Dip Local Government Management, Assoc.Dip. Business Studies

Mr Jaboor was appointed to the Board on 1 October 2015.

Mr Jaboor has over 45 years experience working in different roles within local government across Victoria and Queensland. Over the past 20 years he has been CEO at the cities of Brimbank, Hobsons Bay, Greater Shepparton and Benalla. He is currently Chair of Victoria Legal Aid, a Member of the Department of Justice and Regulation Independent Review Panel and Board Member of Community Chef.

#### Committee Membership:

Health, Safety and Environment Committee (Chair) People, Diversity and Executive Remuneration Committee

# CHRISTOPHER LOVELL

DIRECTOR

# BA, LLM, FAICD

Mr Lovell was appointed to the Board on 1 October 2017.

Mr Lovell was previously a Director of the Barwon Region Water Corporation and Deputy Chair. Mr Lovell is the Chair of Holding Redlich, Lawyers. He is a Director of Clemenger Group Limited and VicForests, a member and currently the Chairman of the Executive Committee of Law Exchange International, and the current Independent Chair of Parkville Precinct Reference Group and the CBD Community Reference Group for the Melbourne Metro Tunnel.

#### **Committee Membership:**

Health, Safety and Environment Committee

People, Diversity and Executive Remuneration Committee

# **PHILIP CLARK**

# B.Eng, MBA, MAICD, MAusIMM

Mr Clark was appointed a Director to City West Water on 1 October 2013.

Mr Clark is a private business advisor with Phil Clark and Associates and a Director of ATEC International, a social enterprise providing bio-digesters to rural Cambodia and African Energy Resources Limited, and chairs their Audit and Risk and Remuneration Committees. He was previously Vice President, Resource Development and Vice President, Health, Safety and Environment for BHP Billiton Coal and has had an extensive career with BHP spanning over 30 years. He was also the Chair of Engineers Without Borders for six years and the Chair of Australasian Institute of Mining and Metallurgy, Melbourne Branch.

Ceased as a Director 30 September 2017.

# **KIM MCALINEY**

# FCP, GAICD, Adv Dip. Public Safety (E.Mgt), JP, BJ

Ms McAliney was appointed to the Board on 1 October 2015.

Ms McAliney sits on several boards including the Greater Metropolitan Cemeteries Trust and the Victorian Veterans Council. Ms McAliney is currently a councillor at the Wyndham City Council and served as Mayor of the City of Wyndham in 2008 and 2012. Ms McAliney's career has spanned over 25 years. It includes experience in accountancy firms, aged care, and a multi-national company to, most recently working for a national crisis counselling service. Her professional memberships include CPA Australia, the Australian Institute of Company Directors, and the Royal Victorian Association of Honorary Justices.

Ceased as a Director 30 September 2017.

# **BOARD COMMITTEES**

# **RISK MANAGEMENT AND AUDIT COMMITTEE**

The Risk Management and Audit Committee assists the Board of Directors in fulfilling its governance responsibilities by reviewing financial reports and other financial information produced by City West Water. In addition it provides oversight of, 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.

# HEALTH, SAFETY AND ENVIRONMENT COMMITTEE

The Health, Safety and Environment Committee assists the Board in fulfilling its governance responsibilities in relation to workplace health and safety and environment issues. It does this by providing oversight of, and direction to City West Water's occupational health and safety and environment 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 health and safety and the environment.

# PEOPLE, DIVERSITY AND EXECUTIVE REMUNERATION COMMITTEE

The People, Diversity and Executive Remuneration Committee is responsible for setting City West Water's policy on executive remuneration and individual remuneration packages for senior executives. The committee is also responsible for oversight of City West Water's Diversity Action Plan, reviewing the effectiveness of the corporation's organisational structure and monitoring the effectiveness of the corporation's people management activities.

|                                 | BOARD N  | <b>1EETINGS</b> | RISK MANAGEMENT<br>AND AUDIT<br>COMMITTEE<br>MEETINGS |          | HEALTH, SAFETY<br>AND ENVIRONMENT<br>COMMITTEE<br>MEETINGS |          | PEOPLE, DIVERSITY<br>AND EXECUTIVE<br>REMUNERATION<br>COMMITTEE MEETINGS |          |
|---------------------------------|----------|-----------------|---|----------|--|----------|--|----------|
|                                 | Eligible | Attended        | Eligible  | Attended | Eligible   | Attended | Eligible   | Attended |
| David Middleton                 | 8        | 8               | n/a   | n/a      | 4  | 3        | 4  | 4        |
| David Ryan                      | 8        | 8               | n/a   | n/a      | 4  | 4        | n/a  | n/a      |
| Elizabeth Parkin                | 8        | 8               | 5   | 5        | n/a  | n/a      | 4  | 4        |
| Mary Beth Bauer                 | 8        | 7               | 5   | 4        | n/a  | n/a      | 4  | 3        |
| Bruce Cohen                     | 8        | 7               | 5   | 5        | n/a  | n/a      | n/a  | n/a      |
| Constantina Dertimanis          | 8        | 7               | n/a   | n/a      | 4  | 3        | 4  | 2        |
| Tania Fryer <sup>1</sup>        | 5        | 5               | 3   | 3        | 3  | 3        | n/a  | n/a      |
| Bill Jaboor                     | 8        | 8               | n/a   | n/a      | 4  | 4        | 4  | 4        |
| Christopher Lovell <sup>1</sup> | 5        | 4               | n/a   | n/a      | 3  | 3        | 3  | 2        |
| Philip Clark <sup>2</sup>       | 3        | 3               | n/a   | n/a      | 1  | 1        | n/a  | n/a      |
| Kim McAliney <sup>2</sup>       | 3        | 2               | 2   | 2        | 1  | 1        | n/a  | n/a      |

# ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

1. Term commenced 1 October 2017

2. Term concluded 30 September 2017

# **Financial overview**

# **2018 HIGHLIGHTS**

Profit before tax for the year was \$112.8m compared to budget as specified in our Corporate Plan of \$92.1m. The favourable result was achieved mainly due to higher than budgeted developer revenues and miscellaneous fees and charges as well as cost efficiencies resulting from lower than budgeted depreciation and finance charges.

Revenue increased by \$13.8m in 2018. This was despite a \$24m revenue adjustment during the year as the result of a change in estimate of our non-revenue water. Nonrevenue water is water lost to bursts and leaks and used for firefighting.

During 2018 City West Water made total dividend payments of \$62.6m and a capital repatriation of \$10.9m. City West

Water also paid income tax equivalent of \$43.5m to the Victorian Government.

Total borrowings increased by \$77.7m during the year. The increase in borrowings was primarily for the purpose of funding the required capital expenditure to support growth in our service area as well as continued investment in our infrastructure network and Information and Communications Technology (ICT) assets. Capital expenditure for the year was \$109.8m.

Return on equity was 9.4% (2017 9.3%) while cash interest cover was 3.1 times (2017 2.6 times).

Gearing, as measured by total debt/total assets, increased to 49.8% (2017 48.3%).

\$109.8 million





# \$43.5 million INCOME TAX EQUIVALENT PAID TO THE STATE GOVERNMENT





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# SUMMARY OF FINANCIAL RESULTS

Below is a summary of our financial performance over the last five years.

|                               | 2018     | 2017     | 2016     | 2015     | 2014     |
|-------------------------------|----------|----------|----------|----------|----------|
|                               | (\$'000) | (\$'000) | (\$'000) | (\$'000) | (\$'000) |
| Sales revenue                 | 587,898  | 589,349  | 581,755  | 533,128  | 561,707  |
| Developer contributions       | 82,260   | 67,981   | 61,536   | 39,637   | 29,164   |
| Other revenue                 | 28,159   | 27,186   | 26,802   | 26,269   | 19,466   |
| Total revenue                 | 698,317  | 684,516  | 670,093  | 599,034  | 610,337  |
|                               |          |          |          |          |          |
| Bulk charges                  | 341,601  | 337,035  | 355,062  | 323,595  | 353,408  |
| Environmental contribution    | 18,563   | 18,563   | 18,563   | 18,563   | 18,563   |
| Employee benefits             | 45,069   | 42,464   | 40,442   | 37,829   | 37,439   |
| Depreciation and amortisation | 50,875   | 47,856   | 47,336   | 41,982   | 39,852   |
| Finance expenses              | 64,939   | 63,457   | 63,344   | 62,892   | 60,266   |
| Other operating expenses      | 64,493   | 64,848   | 79,609   | 66,883   | 64,664   |
| Total expenses                | 585,540  | 574,223  | 604,356  | 551,744  | 574,192  |
| Profit before tax             | 112,777  | 110,293  | 65,737   | 47,290   | 36,145   |

# SUMMARY OF FINANCIAL POSITION

|  | 2018<br>(\$′000) | 2017<br>(\$'000) | 2016<br>(\$'000) | 2015<br>(\$'000) | 2014<br>(\$'000) |
|--|------------------|------------------|------------------|------------------|------------------|
| Current assets   | 114,887          | 119,881          | 113,479          | 108,082          | 93,638           |
| Non-current assets   | 2,255,183        | 2,163,344        | 2,050,298        | 2,051,552        | 1,988,309        |
| Total assets   | 2,370,070        | 2,283,225        | 2,163,777        | 2,159,634        | 2,081,947        |
|  |                  |                  |                  |                  |                  |
| Current liabilities  | 145,585          | 101,325          | 105,702          | 152,296          | 186,511          |
| Non-current liabilities                                    | 1,388,152        | 1,342,102        | 1,315,358        | 1,267,436        | 1,164,073        |
| Total liabilities  | 1,533,737        | 1,443,427        | 1,421,060        | 1,419,732        | 1,350,584        |
|  |                  |                  |                  |                  |                  |
| Net assets   | 836,333          | 839,798          | 742,717          | 739,902          | 731,363          |
|  |                  |                  |                  |                  |                  |
| Net cash flows from operating activities                   | 92,029           | 73,877           | 64,416           | 63,505           | 19,224           |
| Payments for infrastructure, property, plant and equipment | 101,808          | 83,383           | 82,859           | 81,713           | 150,873          |

# SUMMARY OF CAPITAL EXPENDITURE

|                           | 2018     | 2017     | 2016     | 2015     | 2014     |
|---------------------------|----------|----------|----------|----------|----------|
|                           | (\$'000) | (\$'000) | (\$'000) | (\$'000) | (\$'000) |
| Total capital expenditure | 109,776  | 90,593   | 88,271   | 77,209   | 120,590  |

City West Water manages a number of capital projects. For information on recent capital projects undertaken by City West Water and the broader Victorian public sector, refer to the most recent Budget Paper 4 State Capital Program (BP 4) available via the Department of Treasury and Finance's website. This publication also contains information on the asset investment program of the Department of Treasury and Finance and its related portfolio agencies. No projects with a total estimated investment of \$10m or greater were completed during the year.

# SUMMARY OF FINANCIAL PERFORMANCE

|  | Measure | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|---------|------|------|------|------|------|
| Cash interest cover  | times   | 3.1  | 2.6  | 2.3  | 2.2  | 1.7  |
| Gearing ratio (total debt (including finance leases) / total assets) | %       | 49.8 | 48.3 | 50.4 | 48.9 | 49.2 |
| Internal financing ratio   | %       | 18.2 | 73.0 | 57.9 | 58.6 | 9.6  |
| Current ratio  | times   | 0.8  | 1.3  | 1.2  | 0.8  | 0.5  |
| Return on assets   | %       | 7.6  | 7.8  | 6.0  | 5.2  | 4.8  |
| Return on equity (net profit after tax / average total equity)       | %       | 9.4  | 9.3  | 5.9  | 5.0  | 3.6  |
| EBITDA margin (EBITDA/total revenue)                                 | %       | 32.7 | 32.4 | 26.4 | 25.6 | 22.3 |

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

# INFORMATION AND COMMUNICATION TECHNOLOGY EXPENDITURE

During the 2018 reporting period, City West Water had a total Information and Communication Technology (ICT) expenditure of \$24.0m, as per details shown below.

| ALL OPERATIONAL ICT     | ICT EXPENDITURE RELATED TO PROJECTS TO CREATE OR ENHANCE ICT |                    |                     |  |  |  |
|-------------------------|--|--------------------|---------------------|--|--|--|
| EXPENDITURE             | CAPABILITIES.  |                    |                     |  |  |  |
| BUSINESS AS USUAL (BAU) | NON BAU ICT  | OPERATING          | CAPITAL EXPENDITURE |  |  |  |
| ICT EXPENDITURE         | EXPENDITURE  | EXPENDITURE (OPEX) | (CAPEX)             |  |  |  |
| (\$'000)                | (\$'000)   | (\$'000)           | (\$'000)            |  |  |  |
| 14,172                  | 9,836  | 28                 | 9,808               |  |  |  |

ICT expenditure refers to the corporation's costs in providing business enabling ICT services. It comprises Business as Usual (BAU) ICT expenditure and Non Business as Usual (Non BAU) ICT expenditure. Non BAU ICT expenditure relates to extending or enhancing City West Water's current ICT capabilities. BAU ICT expenditure is all remaining ICT expenditure which relates primarily to ongoing activities to operate and maintain current ICT capability.

# MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

No further matter or circumstance has arisen since 30 June 2018 which has significantly affected, or may significantly affect:

- the corporation's operations
- the results of those operations
- the corporation's state of affairs in the financial year subsequent to 30 June 2018.

# **CONSULTANCIES**

During 2018 City West Water engaged five consultants on various engagements where the total fees payable to each consultant was less than \$10,000 (GST exclusive). Total expenditure incurred during the 2018 reporting period in relation to these consultancies was \$20,857 (GST exclusive).

During 2018 City West Water engaged 11 consultants on various consultancies where the total fees payable to each consultant was \$10,000 or greater (GST exclusive). Total expenditure during 2018 in relation to these consultancies was \$578,777 (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 or perform a specific one-off task that involves skills or perspective which would not normally be expected to reside within City West Water.

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

# **OTHER INFORMATION**

# **FREEDOM OF INFORMATION**

The *Freedom of Information Act 1982* (the Act) allows the public a right of access to documents held by City West Water. The purpose of the Act is to extend as far as possible the right of the community to access information held by government departments, local councils, ministers and other bodies subject to the Act.

City West Water is subject to the *Freedom of Information Act* 1982.

An applicant has a right to apply for access to documents held by City West Water. This comprises documents both created by City West Water or supplied to City West Water by an external organisation or individual, and may also include maps, films, microfiche, photographs, computer printouts, computer discs, tape recordings and videotapes. Information about the type of material produced by City West Water is available at citywestwater.com.au

The Act allows City West Water to refuse access, either fully or partially, to certain documents or information. Examples of documents that may not be accessed include: some internal working documents, law enforcement documents, documents covered by legal professional privilege, such as legal advice, personal information about other people, and information provided to City West Water in confidence.

From 1 September 2017, the Act has been amended to reduce the Freedom of Information (FOI) processing time for requests received from 45 to 30 days. In some cases, this time may be extended.

If an applicant is not satisfied by a decision made by City West Water, under section 49A of the Act, they have the right to seek a review by the Office of the Victorian Information Commissioner (OVIC) within 28 days of receiving a decision letter.

During 2018 City West Water received 26 requests for access to documents under the Act.

| REQUEST           | NO. |
|-------------------|-----|
| Access in full    | 7   |
| Access in part    | 10  |
| Access denied     | 0   |
| Other - withdrawn | 0   |
| Not finalised     | 9   |
| Total             | 26  |

Of these 26 requests:

- 12 were from law firms
- six were from insurance companies
- the remainder were from the general public.

City West Water made 21 FOI decisions during the 12 months ended 30 June 2018.

nine decisions were made within the statutory 30 day time period

- five decisions were made within an extended statutory 30-45 day time period
- seven decisions were made within 46 to 90 days.

The average time taken to finalise requests in 2018 was 25 days.

During 2018, no requests were subject to a complaint or internal review by OVIC.

#### Making a request

FOI requests can be lodged online at foi.vic.gov.au. An application fee of \$28.40 (2019 \$28.90) applies. Access charges may also be payable if the document pool is large, and the search for material is time consuming.

Access to documents can also be sought through a written request to City West Water's Freedom of Information team, as detailed in s17 of the Act.

When making an FOI request, applicants should ensure requests are in writing, and clearly identify what types of materials and/or documents are being sought.

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

### **Further information**

Further information regarding the operation and scope of FOI can be obtained from the Act, regulations made under the Act, and foi.vic.gov.au.

# **BUILDING ACT 1993**

City West Water owns or controls:

- 4 buildings at 293 Queen St, Altona Meadows
- 2 buildings at William Thwaites Drive, West Werribee
- 1 building at 218 Kensington Road, West Melbourne
- 1 building at 73 Old Geelong Road, Brooklyn.

Consequently City West Water is required to include a statement on its compliance with the building and maintenance provisions of the *Building Act 1993* in relation to these buildings. To achieve this in 2018:

- our buildings have been inspected by a competent inspector
- occupancy permits have been issued
- assets are maintained under the required standards and codes
- the Oracle Asset Management System is used to maintain the assets.

City West Water requires that appropriately qualified consultants and contractors are engaged for all proposed works on land controlled by City West Water and that their work and services comply with current building standards. All such consultants and contractors are expected to have appropriate mechanisms in place to ensure compliance with the building and maintenance provisions of the *Building Act 1993, Building Regulations 2018* and the National Construction Code.

In relation to our existing buildings in Altona Meadows and West Werribee, City West Water's Asset Maintenance Unit is responsible for mandatory testing of emergency and exit lighting and lift equipment in accordance with relevant standards, monthly, quarterly and bi-annual inspection and preventive maintenance, routine mechanical services and monthly and annual fire service audits. Programmed Facility Management is responsible for the same works at the buildings at West Melbourne and Brooklyn. These inspections then inform the works program which is delivered annually through existing maintenance contracts.

# In 2018:

| Number of major works projects<br>undertaken by City West Water<br>(greater than \$50,000)  | 0 major projects  |
|---|---|
| Number of building permits,<br>occupancy permits or certificate of<br>final inspection issued in relation<br>to buildings owned by City West<br>Water | 0 building permits<br>8 occupancy permits<br>8 certificates of<br>occupancy |
| Number of emergency orders and<br>building orders issued in relation to<br>buildings  | 0 emergency orders<br>0 building orders                                     |
| Number of buildings that have<br>been brought into conformity<br>with building standards during the<br>reporting period                               | 0 buildings brought<br>into conformity                                      |

# **PROTECTED DISCLOSURE ACT 2012**

The *Protected Disclosure Act 2012* (the Act) encourages and assists people in making disclosures of improper conduct by public officers and public bodies. The Act provides protection to people who make disclosures in accordance with the Act and establishes a system for the matters disclosed to be investigated and rectifying action to be taken.

City West Water does not tolerate improper conduct by employees or the taking of reprisals against those who come forward to disclose such conduct. City West Water is committed to ensuring transparency and accountability in its administrative and management practices, and the corporation supports the making of disclosures that reveal corrupt conduct, conduct involving a substantial mismanagement of public resources or conduct involving a substantial risk to public health and safety or the environment.

City West Water will take all reasonable steps to protect people who make such disclosures from any detrimental action in reprisal for making the disclosure. City West Water will also afford natural justice to the person who is the subject of the disclosure to the extent that it is legally possible.

#### **Reporting procedures**

City West Water is not able to receive protected disclosures.

Disclosure of improper conduct or detrimental action by City West Water or any of its employees and/or officers may be made directly to the Independent Broad-based Anticorruption Commission.

Independent Broad-based Anti-corruption Commission (IBAC) Victoria Level 1, North Tower, 459 Collins Street Melbourne VIC 3000 Phone: 1300 735 135 Internet: ibac.vic.gov.au Email: see the website above for the secure email disclosure process, which also provides for anonymous disclosures.

# **COMPETITIVE NEUTRALITY POLICY VICTORIA**

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 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. Competitive neutrality policy supports fair competition between public and private businesses and 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 in the provision of service.

City West Water has an independent Board of Directors with independent and objective performance monitoring. The corporation 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 ESC determines cost-based pricing. City West Water lodged a Price Submission to the ESC to enable it to make a Pricing Determination for 2019 to 2023. The ESC made a final determination on prices in June 2018. These prices took effect from 1 July 2018.

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 statement.

# LOCAL JOBS FIRST – VICTORIAN INDUSTRY PARTICIPATION POLICY

The Victorian Industry Participation Policy Act 2003 requires departments and public sector bodies to report on the implementation of the Local Jobs First - Victorian Industry Participation Policy (Local Jobs - First VIPP). Departments and public sector bodies are required to apply the Local Jobs First-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.

During 2018, one contract totalling \$6.1m commenced for which a Local Jobs First - VIPP plan was required. This job occurred in metropolitan Melbourne and had an estimated 88.4% of local content. The total Local Jobs First - VIPP plan or Local Industry Development Plan (LIDP) commitments achieved as a result of contracts commenced include:

- local content of 88.4% of the total value of the contracts
- nine new jobs and 10 retained jobs (Annualised Employee Equivalent)
- two new apprenticeships/traineeships and two retained apprenticeships/traineeships.

The total Local Jobs First - VIPP plan or LIDP commitments achieved as a result of contracts completed include:

- local content of 40% of the total value of the contracts
- seven new jobs and six retained jobs (Annualised Employee Equivalent)
- three new apprenticeships/traineeships and one retained apprenticeship/traineeship.

### **GOVERNMENT ADVERTISING EXPENDITURE**

City West Water did not incur any expenditure on government advertising campaigns during either the current or previous reporting periods.

### **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 on request by the Minister for Finance, Members of Parliament, and the general public.

# **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 corporation 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 corporation 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 corporation 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.

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

#### **DISCLOSURE OF MAJOR CONTRACTS**

City West Water did not enter into any major contracts during 2018. A 'major contract' is a contract entered into during the reporting period valued at \$10 million or more.

# Annual reporting of major non-residential water users

# NAMES OF MAJOR CUSTOMERS AND THEIR PARTICIPATION IN WATER CONSERVATION PLANS<sup>1</sup>

These customers participate in water efficiency programs.

| Name of customer                               |   |
|--|---|
| AMP Capital Investors                          | Melbourne Water – Hoppers Crossing Pumping Station <sup>2</sup> |
| Asahi Premium Beverages Pty Ltd                | Melbourne Water – Brooklyn Pumping Station                      |
| Campari Australia Pty Ltd                      | Merpalm Pty Ltd   |
| Carlton & United Breweries Ltd                 | Mobil Refining Australia Pty Ltd                                |
| Choldame Nominees                              | Mr P C Song   |
| CSF Proteins Proprietary Limited               | Nufarm Australia Limited  |
| CSR Building Product Limited                   | Orica Australia   |
| Department Of Health And Human Services - VCCC | Pacific Werribee  |
| Department Of Justice – Port Phillip Prison    | Peerless Holdings Pty Ltd                                       |
| Diamond Valley Pork Pty Ltd                    | Qenos <sup>2</sup>  |
| Essendon Fields                                | Schweppes Australia Pty Ltd                                     |
| Flicker's Australia                            | Seqirus   |
| G H Operations Pty Ltd                         | St Vincents Hospital Melbourne                                  |
| GPT Funds Management Limited                   | Swancomb Pty Ltd  |
| Integro Foods Australia Pty Ltd                | The Australian Steel Company (Operations) Pty Ltd               |
| IXOM Operations                                | The Royal Children's Hospital                                   |
| JBS Australia                                  | Toyota Motor Corporation Australia                              |
| Jeskan Nominees                                | University Of Melbourne   |
| Melbourne Airport                              | Victrack  |
| Melbourne and Olympic Parks Trust              | Western Health  |
| Melbourne Central                              | Wilmar Sugar Pty Ltd  |
| Melbourne Health                               | Zoos Victoria – Melbourne Zoo                                   |
|  |   |

1. Two customers have elected not to be named in this table

2. Includes recycled water use

# **CUSTOMERS BY VOLUME RANGE**

| VOLUMETRIC RANGE – ML <sup>1</sup> PER YEAR          | NUMBER OF CUSTOMERS |
|--|---------------------|
| Equal to or greater than 100ML and less than 200ML   | 27                  |
| Equal to or greater than 200ML and less than 300ML   | 8                   |
| Equal to or greater than 300ML and less than 400ML   | 3                   |
| Equal to or greater than 400ML and less than 500ML   | 1                   |
| Equal to or greater than 500ML and less than 750ML   | 1                   |
| Equal to or greater than 750ML and less than 1,000ML | 3                   |
| Greater than 1,000ML                                 | 3                   |
| Total number of customers                            | 46                  |

1. ML= million litres

# Total residential bill

Over the past five years we have worked hard to reduce prices for our customers, and in 2018 City West Water customers had the lowest average residential water bills of any capital city in Australia. We understand that affordability is a key priority for our customers, and will continue to look for ways to provide great services at the lowest possible prices.

### 2018 Total residential water bill for a City West Water customer based on average consumption during the year.

|                         | 150kL<br>average usage | 200kL<br>average usage |
|-------------------------|------------------------|------------------------|
| Water service charge    | \$231.20               | \$231.20               |
| Water usage charges     | \$368.01               | \$505.84               |
| Sewerage service charge | \$256.56               | \$256.56               |
| Sewage disposal charge  | \$207.36               | \$276.49               |
| Rebate                  | -\$100.00              | -\$100.00              |
| TOTAL                   | \$963.13               | \$1,170.09             |

Notes:

- 1. City West Water price changes for future years will be limited to changes in financing costs, inflation and the cost of any desalination water orders
- 2. The actual reduction of a customer's bill will depend on their water usage and whether or not the Government Water Rebate has been received in the past.

# Financial Management Compliance Attestation

I, David Middleton, on behalf of City West Water Corporation, certify that City West Water Corporation has complied with the applicable Standing Directions of the Minister for Finance under the *Financial Management Act 1994* and Instructions.

David & fir selden

David Middleton Chair

Melbourne 28 August 2018

# **Performance Report**

As part of their annual reporting obligations, metropolitan water corporations are required to include a consolidated performance report comprising both financial and non-financial performance indicators. The objective of the report is to provide a consistent view of the current and ongoing performance of the corporation.

| FINANCI       | AL PERFORMANCE INDICATORS   |                |                |                |                             |       |                         |       |
|---------------|---|----------------|----------------|----------------|-----------------------------|-------|-------------------------|-------|
| KPI<br>Number | Key performance indicator   | 2017<br>Result | 2018<br>Result | 2018<br>Target | % Variance<br>to prior year | Notes | % Variance<br>to target | Notes |
| F1            | <b>Cash interest cover</b><br>Net operating cash flows before<br>net interest and tax / net interest<br>payments                  | 2.6            | 3.1            | 2.5            | 19.2%                       | 1     | 24.0%                   | 1     |
| F2            | <b>Gearing ratio</b><br>Total debt (including finance<br>leases) / total assets *100  | 48.3%          | 49.8%          | 52.4%          | 3.1%                        |       | -5.0%                   |       |
| F3            | Internal financing ratio<br>Net operating cash flow less<br>dividends and capital repatriation<br>/ net capital expenditure * 100 | 73.0%          | 18.2%          | 3.0%           | -75.1%                      | 2     | 506.7%                  | 3     |
| F4            | Current ratio<br>Current assets / current liabilities<br>(excluding long term employee<br>provisions and revenue in<br>advance)   | 1.3            | 0.8            | 1.3            | -38.5%                      | 4     | -38.5%                  | 5     |
| F5            | <b>Return on assets</b><br>Earnings before net interest and<br>tax / average assets * 100   | 7.8%           | 7.6%           | 7.0%           | -2.6%                       |       | 8.6%                    |       |
| F6            | <b>Return on equity</b><br>Net profit after tax / average total<br>equity *100  | 9.3%           | 9.4%           | 8.0%           | 1.1%                        |       | 17.5%                   | 6     |
| F7            | <b>EBITDA Margin</b><br>Earnings before interest, tax,<br>depreciation and amortisation /<br>total revenue *100                   | 32.4%          | 32.7%          | 31.3%          | 0.9%                        |       | 4.5%                    |       |

- Cash interest cover was higher than 2017 and also higher than target mainly as a result of increased developer cash contributions received during the year. The timing of the receipt of developer contributions is dependent on developers.
- 2. The internal financing ratio was lower than 2017 mainly because of higher dividend payments in 2018 as well as the payment of a capital repatriation in 2018. Higher dividend payments in 2018 were due to increased profitability as well as the payment of an interim dividend in 2018 while no interim dividend was paid in 2017. The ratio is expected to smooth out in future years in line with current forecast.
- 3. The 2018 internal financing ratio was higher than target due mainly to higher than expected net operating cash flows which resulted from higher than expected developer cash contributions during the year.
- 4. The current ratio was lower than last year due to higher current liabilities at balance date. This was due to an increase in payables as a result of increased trade creditors and developer reimbursements owing as well as an increase in short term (11am) borrowings from 2017 to 2018. The current ratio is forecast to grow steadily over the coming years.
- 5. The 2018 current ratio was lower than target due to higher than expected current liabilities at balance date. This was due to higher than expected short term (11am) borrowings, trade creditors, and current tax liabilities. The current ratio is forecast to grow steadily over the coming years.
- 6. Return on equity was higher than target in 2018 as a result of higher than expected net profit after tax. Net profit after tax was higher mainly as a result of higher than expected developer contributions (cash and developer contributed assets) and lower than expected interest expense.

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| WATER AND SEWERAGE SERVICE PERFORMANCE INDICATORS |  |                |                |                |                             |       |                         |       |  |
|---|--|----------------|----------------|----------------|-----------------------------|-------|-------------------------|-------|--|
| KPI<br>Number                                     | Key performance indicator  | 2017<br>Result | 2018<br>Result | 2018<br>Target | % Variance<br>to prior year | Notes | % Variance<br>to target | Notes |  |
| WS1   | Unplanned water supply<br>interruptions<br>Number of customers receiving<br>more than five unplanned water<br>supply interruptions in the year /<br>total number of water (domestic<br>and non-domestic) customers<br>*100 | 0.0%           | 0.0%           | 0.1%           | 0.0%                        |       | -100.0%                 | 1     |  |
| WS2   | Interruption time<br>Average duration of unplanned<br>water supply interruptions<br>(minutes)  | 124.3          | 119.6          | 129.5          | -3.8%                       |       | -7.6%                   | 2     |  |
| WS3   | Restoration of unplanned<br>water supply interruptions<br>Unplanned water supply<br>interruptions restored within five<br>hours / total unplanned water<br>supply interruptions *100                                       | 95.2%          | 97.0%          | 95.5%          | 1.9%                        |       | 1.6%                    |       |  |
| SS1   | <b>Containment of sewer spills</b><br>Sewer spills from reticulation and<br>branch sewers contained within<br>five hours / total sewer spills from<br>reticulation and branch sewers<br>*100                               | 100.0%         | 100.0%         | 100.0%         | 0.0%                        |       | 0.0%                    |       |  |
| SS2   | Sewer spills interruptions<br>Number of residential sewerage<br>customers affected by sewerage<br>interruptions restored within 5<br>hours   | 96.6%          | 97.2%          | 97.2%          | 0.6%                        |       | 0.0%                    |       |  |

1. During 2018, 35 customers received more than five unplanned water supply interruptions. When divided by City West Water's customer base of 459,044 this rounds down to zero. The target of 0.1% is based on the long term average for this indicator. 2. 2018 was the second year of a new maintenance contract. An improvement in performance from year one to year two of the contract was achieved due to the maturation of processes and procedures in the second year of the contract. Significant effort was undertaken by the City West Water team to achieve this result.

| CUSTOM        | ER RESPONSIVENESS PERFORMA  | NCE INDIC      | ATORS          |                |                             |       |                         |       |
|---------------|---|----------------|----------------|----------------|-----------------------------|-------|-------------------------|-------|
| KPI<br>Number | Key performance indicator   | 2017<br>Result | 2018<br>Result | 2018<br>Target | % Variance<br>to prior year | Notes | % Variance<br>to target | Notes |
| CR1           | Water quality complaints<br>Number of complaints per 1,000<br>customers               | 0.98           | 0.72           | 1.10           | -26.5%                      | 1     | -34.5%                  | 2     |
| CR2           | Sewerage service quality<br>complaints<br>Number of complaints per 1,000<br>customers | 0.07           | 0.07           | 0.04           | 0.0%                        |       | 75.0%                   | 3     |
| CR3           | <b>Sewage odour complaints</b><br>Number of complaints per 1,000<br>customers         | 0.21           | 0.12           | 0.21           | -42.9%                      | 4     | -42.9%                  | 4     |
| CR4           | <b>Billing complaints</b><br>Number of complaints per 1,000<br>customers              | 1.00           | 1.27           | 0.93           | 27.0%                       | 5     | 36.6%                   | 5     |

- 1. Water quality complaints are highly variable from year to year. City West Water's performance in 2018 was in line with the long term (10 year) average of 0.75.
- 2. The target for water quality complaints gave consideration to last year's actual performance. The corporation outperformed this target in 2018.
- Because the absolute number of sewerage service quality complaints is so low, a small rise in the number of complaints has led to a significant increase against target. It is expected that performance will be in line with target in the coming year.

4. Planned sewer maintenance programs such as gas check

- cleaning and inspection, siphon cleaning and pipeline inspection and/or cleaning programs have resulted in a greater than expected reduction in the number of sewer odour complaints during 2018 as well as a significant year on year reduction.
- 5. Financial pressures on our customers continue to result in high billing and payment complaints. This has led to a year on year increase in complaints as well as an increase against target. Our strategy going forward reflects a stronger focus on transitioning our customers to payment installment plans as well as continuing to support customers in hardship. It is expected that this will lead to a reduction in billing complaints in the coming year.

| ENVIRON       | ENVIRONMENTAL PERFORMANCE INDICATORS   |                |                |                |                             |       |                         |       |  |
|---------------|--|----------------|----------------|----------------|-----------------------------|-------|-------------------------|-------|--|
| KPI<br>Number | Key performance indicator  | 2017<br>Result | 2018<br>Result | 2018<br>Target | % Variance<br>to prior year | Notes | % Variance<br>to target | Notes |  |
| E1            | <b>Effluent reuse volume (end use)</b><br>Effluent reuse volume (%)                | 38.6%          | 42.3%          | 45.0%          | 9.6%                        | 1     | -6.0%                   | 2     |  |
| E2            | <b>Total net CO<sub>2</sub> emissions</b><br>Net tonnes CO <sub>2</sub> equivalent | 11,490         | 13,013         | 13,400         | 13.3%                       | 3     | -2.9%                   |       |  |

- 1. During 2018, we experienced higher demand from our industrial customer due to high customer satisfaction with the product we are able to supply to them.
- 2. The target of 45% for 2018 was an ambitious target which proved to be unachievable. The target going forward has been reduced to 40%. This reflects current experience of customer demand, the volume of wastewater received by

the plant and losses during processing.

3. Net CO<sub>2</sub> emissions increased in 2018 due mainly to increased emissions from City West Water's vehicle fleet as a result of a larger fleet and more kilometres travelled. As a result of the larget fleet, emissions in 2019 are expected to be in line with 2018.

# **Certification of Performance Report**

We certify that the accompanying Performance Report of City West Water Corporation in respect of the 2018 financial year is presented fairly and in accordance with the *Financial Management Act 1994*.

The Performance Report outlines the relevant performance indicators for the financial year as determined by the Minister for Water and as set out in the corporation's 2018 Corporate Plan. The actual and comparative results achieved for the financial year are measured against predetermined performance targets. Performance against these targets and subsequent explanation of any significant variance between the current year and prior year has been fairly presented.

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.

at hirden

Jand h



Michael Wootten Chief Financial Officer

David Middleton Chair David Ryan Managing Director

Melbourne 28 August 2018



# **Independent Auditor's Report**

# To the Board of the City West Water Corporation

| Opinion   | I have audited the accompanying performance report of the City West Water<br>Corporation (the corporation) for the year ended 30 June 2018, which comprises the:  |
|---|---|
|   | <ul> <li>financial performance indicators</li> <li>water and sewage service performance indicators</li> <li>customer responsiveness performance indicators</li> <li>environmental performance indicators</li> <li>certification of performance report.</li> </ul>   |
|   | In my opinion, the performance report of the corporation for the year ended 30 June 2018 presents fairly, in all material respects, in accordance with the performance reporting requirements of Part 7 of the <i>Financial Management Act 1994</i> .   |
| Basis for<br>Opinion  | I have conducted my audit in accordance with the <i>Audit Act 1994</i> which incorporates<br>the Australian Standards on Assurance Engagements. I further describe my<br>responsibilities under that Act and those standards in the <i>Auditor's Responsibilities for</i><br><i>the Audit of the performance report</i> section of my report.   |
|   | My independence is established by the <i>Constitution Act 1975</i> . My staff and I are independent of the corporation in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 <i>Code of Ethics for Professional Accountants</i> (the Code) that are relevant to my audit of the performance report in Victoria and have also fulfilled our other ethical responsibilities in accordance with the Code.  |
|   | I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.  |
| Board's<br>responsibilities<br>for the<br>performance<br>report                   | The Board is responsible for the preparation and fair presentation of the performance report in accordance with the performance reporting requirements of the <i>Financial Management Act 1994</i> , and for such internal control as the Board determines is necessary to enable the preparation and fair presentation of the statement of performance that is free from material misstatement, whether due to fraud or error.   |
| Auditor's<br>responsibilities<br>for the audit of<br>the<br>performance<br>report | As required by the <i>Audit Act 1994</i> , my responsibility is to express an opinion on the performance report based on the audit. My objectives for the audit are to obtain reasonable assurance about whether the performance report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the Australian Standards on Assurance Engagements will always detect a material misstatement when it exists. |

Level 31 / 35 Collins Street, Melbourne Vic 3000 T 03 8601 7000 enquiries@audit.vic.gov.au www.audit.vic.gov.au Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of this performance report.

As part of an audit in accordance with the Australian Standards on Assurance Engagements, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of performance report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit 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 corporation's internal control.
- evaluate the overall presentation, structure and content of the performance report, including the disclosures, and whether performance report represents the underlying events and results in a manner that achieves fair presentation.

I communicate with the Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

MELBOURNE 3 September 2018

Paul Martin as delegate for the Auditor-General of Victoria

# FINANCIAL REPORT

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# Comprehensive Operating Statement

For the year ended 30 June 2018

| Ν   | lote         | 2018      | 2017              |
|---|--------------|-----------|-------------------|
|   |              | \$'000    | \$′000            |
| Income  |              |           |                   |
| Sale of goods and services revenue  | 2.2          | 587,898   | 589,349           |
| Developer contributions   | 2.3          | 82,260    | 67,981            |
| Other income  | 2.4          | 28,159    | 27,186            |
| Total income  | _            | 698,317   | 684,516           |
| Evenence  |              |           |                   |
| Expenses<br>Bulk charges  | 3.2          | (341,601) | (337,035)         |
|   | 3.2<br>4.5.1 | (18,563)  | (18,563)          |
|   | 3.3.1        | (18,969)  | (18,363) (42,464) |
|   | , 5.5        | (50,875)  | (47,856)          |
|   | 7.1.2        | (64,939)  | (63,457)          |
| Other operating expenses  | 3.5          | (64,493)  | (64,848)          |
| Total expenses  | -            | (585,540) | (574,223)         |
|   | _            |           |                   |
| Profit before income tax expense  |              | 112,777   | 110,293           |
| Income tax expense  | 4.1          | (33,735)  | (36,692)          |
| Profit after income tax expense   | _            | 79,042    | 73,601            |
| Other Comprehensive Income/(Expense)                                      |              |           |                   |
| Items that will not be reclassified to profit or loss                     |              |           |                   |
| Change in physical asset revaluation surplus due to revaluation of assets | 5.1          | (16,272)  | 38,372            |
| Actuarial gain/(loss) on defined benefit superannuation plan              | 3.3.3        | 3,087     | 3,532             |
| Deferred income tax relating to components of Other Comprehensive Income  | 4.1          | 4,158     | (5,424)           |
| Other Comprehensive Income after tax                                      | _            | (9,027)   | 36,480            |
| Total comprehensive income after tax                                      | _            | 70,015    | 110,081           |

The Comprehensive Operating Statement should be read in conjunction with the accompanying notes.

# **Balance Sheet**

As at 30 June 2018

|   | Note  | 30 June   | 30 June   |
|---|-------|-----------|-----------|
|   |       | 2018      | 2017      |
|   |       | \$'000    | \$'000    |
| ASSETS  |       |           |           |
| Current assets  |       |           |           |
| Cash and cash equivalents   | 7.2   | 746       | 6,850     |
| Receivables   | 6.1   | 107,872   | 110,304   |
| Inventory   | 6.4   | 1,698     | 1,142     |
| Other non-financial assets  | 6.5   | 4,571     | 1,585     |
| Total current assets  |       | 114,887   | 119,881   |
| Non-current assets  |       |           |           |
| Receivables   | 6.1   | -         | 20        |
| Infrastructure, property, plant and equipment                               | 5.1   | 2,086,215 | 1,992,324 |
| Intangible assets   | 5.5   | 164,442   | 168,750   |
| Defined benefit superannuation asset  | 3.3.3 | 4,526     | 2,250     |
| Total non-current assets  | -     | 2,255,183 | 2,163,344 |
| TOTAL ASSETS  | -     | 2,370,070 | 2,283,225 |
| LIABILITIES   |       |           |           |
| Current liabilities   |       |           |           |
| Bank overdraft  | 7.2   | -         | 946       |
| Payables  | 6.2   | 96,867    | 69,615    |
| Borrowings  | 7.1   | 22,700    | -         |
| Current tax liability   | 4.3   | 10,430    | 15,511    |
| Provision for employee benefits   | 3.3.2 | 12,571    | 13,028    |
| Unearned income   | 6.3   | 1,348     | 589       |
| Other provisions  | 6.6   | 1,669     | 1,636     |
| Total current liabilities   | -     | 145,585   | 101,325   |
| Non-current liabilities   |       |           |           |
| Borrowings  | 7.1   | 1,157,500 | 1,102,500 |
| Deferred tax liabilities  | 4.2.2 | 228,819   | 237,702   |
| Provision for employee benefits   | 3.3.2 | 1,833     | 1,900     |
| Total non-current liabilities   |       | 1,388,152 | 1,342,102 |
| TOTAL LIABILITIES   | -     | 1,533,737 | 1,443,427 |
| NET ASSETS  |       | 836,333   | 839,798   |
| EQUITY  |       |           |           |
| Contributed equity  | 9.3.1 | 200,128   | 211,008   |
| Physical asset revaluation surplus  | 9.3.2 | 180,718   | 191,906   |
| Retained profits  | 9.3.3 | 455,487   | 436,884   |
| TOTAL EQUITY  |       | 836,333   | 839,798   |
| Commitments for expenditure   | 3.6   |           |           |
| Contingent assets and contingent liabilities                                | 8.2   |           |           |
| The Balance Sheet should be read in conjunction with the accompanying notes |       |           |           |

The Balance Sheet should be read in conjunction with the accompanying notes.

# Statement of Changes in Equity

For the year ended 30 June 2018

|  | Note            | Contributed<br>equity | Physical<br>asset<br>revaluation<br>surplus | Retained<br>profits | Total<br>equity |
|--|-----------------|-----------------------|---|---------------------|-----------------|
|  |                 | \$'000                | \$′000                                      | \$′000              | \$′000          |
| Opening balance at 1 July 2016                             |                 | 211,008               | 157,898                                     | 373,811             | 742,717         |
| Comprehensive income for the year                          |                 |                       |   |                     |                 |
| Profit after income tax expense                            | 9.3.3           | -                     | -   | 73,601              | 73,601          |
| Other comprehensive income after tax                       | 9.3.2,<br>9.3.3 |                       | 34,008                                      | 2,472               | 36,480          |
| Total comprehensive income after tax                       | J.J.J _         | -                     | 34,008                                      | 76,073              | 110,081         |
| Transactions with the State in its capacity as owner       |                 |                       |   |                     |                 |
| Dividends paid   | 4.4             | -                     | -   | (13,000)            | (13,000)        |
| Total transactions with the State in its capacity as owner |                 | -                     | -   | (13,000)            | (13,000)        |
| Closing balance at 30 June 2017                            | -               | 211,008               | 191,906                                     | 436,884             | 839,798         |
| Opening balance at 1 July 2017                             |                 | 211,008               | 191,906                                     | 436,884             | 839,798         |
| Comprehensive income for the year                          |                 |                       |   |                     |                 |
| Profit after income tax expense                            | 9.3.3           | -                     | -   | 79,042              | 79,042          |
|  | 9.3.2,          |                       | (11.100)                                    | 2.4.64              |                 |
| Other comprehensive income after tax                       | 9.3.3           | -                     | (11,188)                                    | 2,161               | (9,027)         |
| Total comprehensive income after tax                       |                 | -                     | (11,188)                                    | 81,203              | 70,015          |
| Transactions with the State in its capacity as owner       |                 |                       |   |                     |                 |
| Dividends paid   | 4.4             | -                     | -   | (62,600)            | (62,600)        |
| Capital repatriation                                       | 9.3.1           | (10,880)              | -   | -                   | (10,880)        |
| Total transactions with the State in its capacity as owner |                 | (10,880)              | -   | (62,600)            | (73,480)        |
| Closing Balance at 30 June 2018                            | -               | 200,128               | 180,718                                     | 455,487             | 836,333         |

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

# Statement of Cash Flows

For the year ended 30 June 2018

|  | Note  | 2018<br>\$'000 | 2017<br>\$'000 |
|--|-------|----------------|----------------|
| Cash flows from operating activities   |       |                |                |
| Receipts   |       |                |                |
| Receipts from customers, developers and others                                   |       | 697,064        | 672,590        |
| Goods and Services Tax refunded by the Australian Taxation Office $^1$           |       | 11,931         | 12,525         |
| Interest received  |       | 83             | 43             |
| Payments   |       |                |                |
| Payments to suppliers and employees  |       | (450,094)      | (460,089)      |
| Interest and other finance costs paid  |       | (64,167)       | (63,865)       |
| Income tax paid  |       | (43,540)       | (29,599)       |
| Environmental Contribution paid  |       | (18,563)       | (18,563)       |
| Government Water Rebate paid <sup>2</sup>  |       | (40,685)       | (39,165)       |
| Net cash inflow/(outflow) from operating activities                              | 7.2.1 | 92,029         | 73,877         |
| Cash flows from investing activities   |       |                |                |
| Payments for infrastructure, property, plant, equipment and intangibles          |       | (101,808)      | (83,383)       |
| Proceeds from sale of infrastructure, property, plant, equipment and intangibles |       | 401            | 16,556         |
| Net cash inflow/(outflow) from investing activities                              |       | (101,407)      | (66,827)       |
|  | _     |                |                |
| Cash flows from financing activities   |       |                |                |
| Proceeds from borrowings (new and refinanced)                                    |       | 202,700        | 131,800        |
| Repayment of borrowings (paid down and refinanced)                               |       | (125,000)      | (120,000)      |
| Dividends paid   |       | (62,600)       | (13,000)       |
| Capital repatriation paid  |       | (10,880)       | -              |
| Net cash inflow/(outflow) from financing activities                              |       | 4,220          | (1,200)        |
| Net increase/(decrease) in cash and cash equivalents                             |       | (5,158)        | 5,850          |
| Cash and cash equivalents at the beginning of the financial year                 |       | 5,904          | 54             |
| Cash and cash equivalents at the end of the financial year                       | 7.2   | <b>746</b>     | <b>5,904</b>   |
| cush and cush equivalents at the end of the infancial year                       | / ·<  | 770            | 5,504          |

1. Goods and services tax refunded from the Australian Taxation Office is presented on a net basis.

2. City West Water returned a total of \$40.7m (2017 \$39.2m) to its residential customers with a water usage charge through a \$100 rebate during the financial year.

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

# Notes to and forming part of the Financial Statements

For the year ended 30 June 2018

# 1. About this report

City West Water is a statutory water authority incorporated under the *Water Act 1989*.

The principal address of the corporation is:

City West Water Corporation 1 McNab Avenue Footscray 3011

# 1.1 Basis of preparation

These financial statements are presented in Australian dollars. The historical cost convention is used unless a different measurement basis is specifically disclosed for the relevant item. All amounts in the financial statements have been rounded to the nearest thousand dollars unless otherwise stated.

The accrual basis of accounting has been applied in preparing these financial statements. Assets, liabilities, equity, income and expenses are recognised in the reporting period to which they relate, regardless of when cash is received or paid.

Judgements, estimates and assumptions are required to be made about financial information being presented. The significant judgements made in the preparation of these financial statements are disclosed in Section 8 of this report. 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 that can materially impact the financial statements include:

fair valuation of infrastructure, property, plant and equipment

- actuarial assumptions used to determine the assets and liabilities of City West Water's defined benefit superannuation fund
- estimated useful lives of assets
- impairment of assets
- provisions
- income tax
- unearned income
- accrued revenue (unbilled charges)
- deferred tax recognition.

Revisions to accounting estimates are recognised in the period in which the estimate is revised and also in future periods that are affected by the revision.

These financial statements cover City West Water as an individual reporting entity.

# 1.2 Compliance information

These general purpose financial statements have been prepared in accordance with the *Financial Management Act 1994* and applicable Australian Accounting Standards, which include Interpretations issued by the Australian Accounting Standards Board.

Accounting policies selected and applied in these financial statements ensure that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

These annual financial statements were authorised for issue by the Board of Directors of City West Water on 28 August 2018.

# 2. Funding delivery of services

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 corporation's Customer Charter. City West Water collects revenue from residential and non-residential customers, developers and others in order to fulfil its vision to be an exceptional service provider that puts customers first and benefits the community.

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 the future economic benefits will flow to the corporation and specific criteria have been met for each of the corporation's activities.

#### Structure

- 2.1 Summary of income that funds the delivery of services
- 2.2 Sale of goods and services revenue
- 2.3 Developer contributions
- 2.4 Other income

#### 2.1 Summary of income that funds the delivery of services

|                                    |      | 2018    | 2017    |
|------------------------------------|------|---------|---------|
|                                    | Note | \$′000  | \$'000  |
| Sale of goods and services revenue | 2.2  | 587,898 | 589,349 |
| Developer contributions            | 2.3  | 82,260  | 67,981  |
| Other income                       | 2.4  | 28,159  | 27,186  |
| Total income                       |      | 698,317 | 684,516 |

#### 2.2 Sale of goods and services revenue

|   | 2018     | 2017     |
|---|----------|----------|
|   | \$'000   | \$′000   |
| Service charges - water                       | 104,490  | 98,926   |
| Usage charges - water                         | 253,844  | 266,572  |
| Service charges - sewerage                    | 118,045  | 111,848  |
| Disposal charges - sewage                     | 113,605  | 114,499  |
| Trade waste charges                           | 29,614   | 29,744   |
| Recycled water charges                        | 7,168    | 6,416    |
| Water trading revenue                         | 1,817    | 509      |
| Government Water Rebate provided to customers | (40,685) | (39,165) |
| Total sale of goods and services revenue      | 587,898  | 589,349  |

Water and sewerage service charges are billed quarterly in advance and recognised evenly throughout the financial year to reflect the pattern of revenue earned. Service charges represent charges for access to water and sewerage services. Any portion of charges that are billed in advance are recognised as unearned income (refer Note 6.3).

Water usage charges, sewage disposal charges, trade waste charges, recycled water charges and water trading revenue are all recognised as income when the service has been provided. Any charges that remain unbilled at balance date are accrued (refer Note 6.1).

As a result of an efficiency review of Victoria's urban water corporations, City West Water returned a total of \$40.7m (2017 \$39.2m) to its residential customers with a water usage charge through a \$100 rebate during the financial year. The Government Water Rebate is recognised as a rebate against revenue when the associated revenue is billed. 66

# 2 **Funding delivery of services** (continued)

#### 2.3 Developer contributions

|                               | 2018   | 2017   |
|-------------------------------|--------|--------|
|                               | \$'000 | \$′000 |
| Developer contributed assets  | 48,137 | 35,574 |
| Developer cash contributions  | 34,123 | 32,407 |
| Total developer contributions | 82,260 | 67,981 |

Developer contributed assets arise when 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 corporation.

Developer cash 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 118 - *Revenue*, recognition of income occurs upon receipt.

### 2.4 Other income

|   | 2018   | 2017   |
|---|--------|--------|
|   | \$′000 | \$′000 |
| Fees and charges                                | 20,391 | 16,300 |
| Works and services provided to third parties    | 6,372  | 7,123  |
| Lease income                                    | 191    | 171    |
| Net gain on sale of non-current physical assets | 121    | 260    |
| Other   | 1,084  | 3,332  |
| Total other income                              | 28,159 | 27,186 |

Fees and charges are recognised as income when the service has been provided. They represent a variety of services provided by City West Water such as processing of application fees and making new connections or alterations to the corporation's network. City West Water uses pricing principles to calculate the price of individual services rather than direct regulation by the Essential Services Commission.

Income from works and services provided to third parties is recognised when the service has been provided. Income represents charges for services to third parties such as the collection of drainage and parks rates on behalf of Melbourne Water and the Department of Environment, Land, Water and Planning respectively. Lease income is billed in advance and recognised when the income has been earned.

A gain on sale of non-current physical assets is recognised on disposal of an asset. It is measured as income from the sale of an asset less the asset's book value and costs of disposal.

Other income items are recognised on an accrual basis. Other income consists mainly of administration fees and one-off charges for services provided.

# 3. Cost of delivering services

This section provides an account of the expenses incurred by City West Water in delivering services and the accounting policies that are relevant for an understanding of the items recognised in the financial statements.

# Structure

3.1 Summary of cost of delivering services

3.2 Bulk charges

3.3 Employee benefits

3.4 Remuneration of auditor

3.5 Other operating expenses

3.6 Commitments for operating lease expenditure

## 3.1 Summary of cost of delivering services

|  |       | 2018    | 2017    |
|--|-------|---------|---------|
|  | Note  | \$′000  | \$′000  |
|  |       |         |         |
| Bulk charges   | 3.2   | 341,601 | 337,035 |
| Employee benefits in the Comprehensive Operating Statement | 3.3.1 | 45,069  | 42,464  |
| Other operating expenses                                   | 3.5   | 64,493  | 64,848  |
| Total cost of delivering services                          |       | 451,163 | 444,347 |

# 3.2 Bulk charges

|                               | 2018    | 2017    |
|-------------------------------|---------|---------|
|                               | \$'000  | \$'000  |
|                               |         |         |
| Bulk water and sewage charges | 341,601 | 337,035 |
| Total bulk charges            | 341,601 | 337,035 |

Bulk water and sewage 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.

# **3 Cost of delivering services** (continued)

#### 3.3 Employee benefits

# 3.3.1 Employee benefits in the Comprehensive Operating Statement

|  | 2018<br>\$'000 | 2017<br>\$'000 |
|--|----------------|----------------|
| Salaries and wages, annual leave and long service leave          | 40,157         | 37,218         |
| Defined contribution superannuation expense                      | 3,528          | 3,443          |
| Defined benefit superannuation expense                           | 811            | 924            |
| Termination benefits   | 573            | 879            |
| Total employee benefits in the comprehensive operating statement | 45,069         | 42,464         |

Employee benefits 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 are made for ordinary time, overtime, allowances, on-costs, Fringe Benefits Tax, redundancy costs and Workcover. Any employee benefits outstanding at year end are accrued. A portion of employee benefits directly attributable to capital projects is capitalised and depreciated so as to apportion the cost of a capital project over the life of the project.

The amount recognised in the Comprehensive Operating Statement in relation to superannuation is employer contributions for members of both defined benefit and defined contribution superannuation plans that are paid or payable during the reporting period. Contributions to defined contribution superannuation funds are made in accordance with the *Superannuation Guarantee (Administration) Act 1992*.

Termination benefits are payable when employment is terminated before normal retirement date, or when an employee accepts an offer of benefits in exchange for the termination of employment. Termination benefits are recognised when City West Water is demonstrably committed to 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.

# **3 Cost of delivering services** (continued)

### 3.3.2 Employee benefits in the Balance Sheet

|   | 2018   | 2017   |
|---|--------|--------|
|   | \$′000 | \$′000 |
| Provision for employee benefits   |        |        |
| Current   |        |        |
| Annual leave unconditional and expected to be paid within 12 months       | 2,176  | 2,111  |
| Annual leave unconditional and expected to be paid after 12 months        | 410    | 370    |
| Long service leave unconditional and expected to be paid within 12 months | 717    | 583    |
| Long service leave unconditional and expected to be paid after 12 months  | 5,651  | 5,939  |
| On costs unconditional and expected to be paid within 12 months           | 434    | 399    |
| On costs unconditional and expected to be paid after 12 months            | 930    | 958    |
| Other employee benefits   | 2,253  | 2,668  |
| Provision for employee benefits - current                                 | 12,571 | 13,028 |
|   |        |        |
| Non-current   |        |        |
| Long service leave conditional  | 1,589  | 1,649  |
| On costs conditional  | 244    | 251    |
| Provision for employee benefits - non-current                             | 1,833  | 1,900  |
|   |        |        |
| Total provision for employee benefits                                     | 14,404 | 14,928 |

### Reconciliation of movement in provision for employee benefits

|  | 2018    |
|--|---------|
|  | \$′000  |
| Opening balance  | 14,928  |
| Additional provisions recognised                                       | 6,532   |
| Additions due to transfers in  | 99      |
| Reductions arising from payments/other sacrifices of economic benefits | (7,155) |
| Closing balance  | 14,404  |

Provision is made for benefits accruing to employees in respect of annual leave, long service leave (LSL), on-costs, termination benefits and bonuses for services rendered to reporting date.

Liabilities for wages and salaries, including non-monetary benefits, and annual leave are all recognised in the provision for employee benefits as current liabilities as the corporation does not have an unconditional right to defer settlement of these liabilities.

# **3 Cost of delivering services** (continued)

Depending on the expectation of the timing of settlement, liabilities for wages, salaries, and annual leave are measured at:

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

Unconditional LSL is disclosed as a current liability even where the corporation does not expect to wholly 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 LSL liability are measured at:

- nominal value component that the corporation expects to settle wholly within 12 months, and
- present value component that the corporation 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.

Performance bonuses are an element of other employee benefits. Performance bonuses for the corporation's executive officers are based on a percentage of the annual salary package provided under their contract 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.

# 3.3.3 Superannuation

All City West Water employees are members of either the Equipsuper defined benefit fund or an approved accumulation fund of their choice.

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.

# Defined benefit fund

Defined benefit fund members receive a lump sum benefit on retirement, death, disablement or withdrawal from the fund. Benefits are calculated on a multiple of an employee's final salary. The multiple is dependent on an employee's length of service and their contribution rate.

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 plan's trustee is responsible for the governance of the plan.

The trustee has a legal obligation to act solely in the best interests of plan beneficiaries. The trustee has the following roles:

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

There are a number of risks to which the plan exposes the corporation. The more significant risks relating to the defined benefits are investment risk, salary growth risk, legislative risk and pension risk.

City West Water's plan assets are invested by the trustee in a pool of assets with assets from other employers' plans. The assets have a benchmark weighting to equities of 50% and therefore the plan has a significant concentration of equity market risk. However, within the equity investments the allocation both globally and across sectors is diversified.

The Equipsuper Contribution and Funding Policy provides for a review of the financial position of the plan every 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 target funding ratio of 105%.

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

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# **3 Cost of delivering services** (continued)

| \$'000         \$'000         \$'000           Opening balance at 1 July 2016         29,878         30,236         358           Current service cost         -         919         919           Interest ncome         627         -         (627)           Interest expense         -         632         632           Actuarial return on plan assets less interest income         2,829         -         (2,829)           Contributions by plan participants         268         268         -           Actuarial (gains)/losses arising from changes in demographic assumptions         -         (547)         (547)           Actuarial (gains)/losses arising from liability experience         -         (151)         (151)           Benefits paid         (2,402)         (2,402)         -           Taxes, premiums and expenses paid         (179)         -         -           Opening balance at 3 June 2017         31,021         28,771         (2,250)           Current service cost         -         859         859           Interest expense         -         657         657           Actuarial return on plan assets less interest income         1,813         -         (1,813)           Contributions by plan participants         2   |  | Fair value of<br>plan assets | Defined<br>benefit<br>Obligation | Net defined<br>benefit<br>liability/<br>(asset) |
|---|--|------------------------------|----------------------------------|---|
| Current service cost         -         919         919           Interest income         627         -         (627)           Interest expense         -         632         632           Actuarial return on plan assets less interest income         2,829         -         (2,829)           Contributions by plan participants         268         268         -           Actuarial (gains)/losses arising from changes in financial assumptions         -         (547)         (547)           Actuarial (gains)/losses arising from changes in financial assumptions         -         (151)         (517)           Actuarial (gains)/losses arising from changes in financial assumptions         -         (547)         (547)           Actuarial (gains)/losses arising from changes in financial assumptions         -         (151)         (151)           Benefits paid         (2,402)         -         -         -         -           Costing balance at 3 June 2017         31,021         28,771         (2,250)         -         -           Current service cost         -         859         859         -         -         -         -         -         -         -         -         -         -         -         -         -         -         -   |  | \$'000                       | \$'000                           | \$'000  |
| Current service cost         -         919         919           Interest income         627         -         (627)           Interest expense         -         632         632           Actuarial return on plan assets less interest income         2,829         -         (2,829)           Contributions by plan participants         268         268         -           Actuarial (gains)/losses arising from changes in financial assumptions         -         (547)         (547)           Actuarial (gains)/losses arising from changes in financial assumptions         -         (547)         (547)           Actuarial (gains)/losses arising from changes in financial assumptions         -         (547)         (547)           Actuarial (gains)/losses arising from changes in financial assumptions         -         (547)         (547)           Actuarial (gains)/losses arising from changes in financial assumptions         -         (547)         (2,250)           Closing balance at 3 June 2017         31,021         28,771         (2,250)           Current service cost         -         859         859           Interest income         705         -         (705)           Interest expense         -         657         657           Actuarial return on plan assets less in   | Opening balance at 1 July 2016                             | 20.878                       | 30.236                           | 358   |
| Interest income         627         -         (627)           Interest expense         -         632         632           Actuarial return on plan assets less interest income         2,829         -         (2,829)           Contributions by plan participants         268         268         -           Actuarial (gains)/losses arising from changes in financial assumptions         -         (5)         (5)           Actuarial (gains)/losses arising from liability experience         -         (4/7)         (547)         (547)           Actuarial (gains)/losses arising from liability experience         -         (5)         (5)         (5)           Benefits paid         (2,402)         (2,402)         (2,402)            Taxes, premiums and expenses paid         (179)         (179)            Closing balance at 30 June 2017         31,021         28,771         (2,250)           Curent service cost         -         859         859           Interest expense         -         657         657           Interest expense         -         657         657           Actuarial return on plan assets less interest income         1,813         -         (1,813)           Contributions by plan participants         237   |  | 20,070                       |                                  |   |
| Interest expense         -         632         632           Actuarial return on plan assets less interest income         2,829         -         (2,829)           Contributions by plan participants         268         268         -           Actuarial (gains)/losses arising from changes in demographic assumptions         -         (51)         (51)           Actuarial (gains)/losses arising from changes in financial assumptions         -         (547)         (547)           Actuarial (gains)/losses arising from liability experience         -         (151)         (151)           Benefits paid         (2,402)         (2,402)         (2,202)         -           Taxes, premiums and expenses paid         (179)         (179)         -         -           Closing balance at 30 June 2017         31,021         28,771         (2,250)           Current service cost         -         859         859           Interest income         1,813         -         (17)           Actuarial (gains)/losses arising from changes in financial assumptions         -         (17)         (17)           Actuarial return on plan assets less interest income         1,813         -         (18)           Contributions by plan participants         237         237         -   |  | 627                          | -                                |   |
| Actuarial return on plan assets less interest income       2,829       -       (2,829)         Contributions by plan participants       268       268       -         Actuarial (gains)/losses arising from changes in demographic assumptions       -       (51)       (51)         Actuarial (gains)/losses arising from changes in financial assumptions       -       (547)       (547)         Actuarial (gains)/losses arising from liability experience       -       (151)       (151)         Benefits paid       (2,402)       (2,402)       -         Taxes, premiums and expenses paid       (179)       (179)       -         Closing balance at 3 June 2017       31,021       28,771       (2,250)         Opening balance at 1 July 2017       31,021       28,771       (2,250)         Current service cost       -       859       859         Interest income       705       -       (705)         Interest income       1,813       -       (1,813)         Contributions by plan participants       237       237       -         Actuarial (gains)/losses arising from changes in financial assumptions       -       (1,77)       (717)         Actuarial (gains)/losses arising from liability experience       -       (557)       (557)   |  | -                            | 632                              |   |
| Contributions by plan participants         268         268         -           Actuarial (gains)/losses arising from changes in demographic assumptions         -         (57)         (547)           Actuarial (gains)/losses arising from changes in financial assumptions         -         (547)         (547)           Actuarial (gains)/losses arising from liability experience         -         (151)         (151)           Benefits paid         (2,402)         (2,402)         (2,402)         -           Taxes, premiums and expenses paid         (179)         (179)         -         -           Closing balance at 30 June 2017         31,021         28,771         (2,250)         (2,250)           Opening balance at 1 July 2017         31,021         28,771         (2,250)         (2,250)           Curret service cost         -         859         859         859           Interest income         705         -         (705)           Interest expense         -         657         657           Actuarial return on plan assets less interest income         1,813         -         (1,813)           Contributions by plan participants         237         237         -           Actuarial (gains)/losses arising from changes in financial assumptions         -   |  | 2,829                        |                                  |   |
| Actuarial (gains)/losses arising from changes in financial assumptions       -       (5)       (5)         Actuarial (gains)/losses arising from changes in financial assumptions       -       (547)       (547)         Actuarial (gains)/losses arising from liability experience       -       (151)       (151)         Benefits paid       (2,402)       (2,402)       -         Taxes, premiums and expenses paid       (179)       (179)       -         Closing balance at 30 June 2017       31,021       28,771       (2,250)         Opening balance at 1 July 2017       31,021       28,771       (2,250)         Current service cost       -       859       859         Interest income       705       -       (705)         Interest expense       -       657       657         Actuarial return on plan assets less interest income       1,813       -       -         Contributions by plan participants       237       237       -         Actuarial (gains)/losses arising from changes in financial assumptions       -       (557)       (557)         Benefits paid       (2,577)       (2,577)       -       -         Actuarial (gains)/losses arising from changes in financial assumptions       -       (136)       -   |  |                              | 268                              | -   |
| Actuarial (gains)/losses arising from liability experience       -       (151)       (151)         Benefits paid       (2,402)       (2,402)       -         Taxes, premiums and expenses paid       (179)       (179)       -         Closing balance at 30 June 2017       31,021       28,771       (2,250)         Opening balance at 1 July 2017       31,021       28,771       (2,250)         Current service cost       -       859       859         Interest income       705       -       (705)         Interest expense       -       657       657         Actuarial return on plan assets less interest income       1,813       -       (1,813)         Contributions by plan participants       237       237       -         Actuarial (gains)/losses arising from changes in financial assumptions       -       (717)       (717)         Actuarial (gains)/losses arising from liability experience       -       (557)       (557)         Benefits paid       (136)       (136)       -       -         Taxes, premiums and expenses paid       (136)       (136)       -       -         Closing balance at 30 June 2018       31,063       26,537       (4,526)         Fair value of plan assets       31,063<   |  | -                            | (5)                              | (5)   |
| Benefits paid         (2,402)         (2,402)         (2,402)         -           Taxes, premiums and expenses paid         (179)         (179)         -           Closing balance at 30 June 2017         31,021         28,771         (2,250)           Opening balance at 1 July 2017         31,021         28,771         (2,250)           Current service cost         -         859         859           Interest income         705         -         (705)           Interest expense         -         657         657           Actuarial return on plan assets less interest income         1,813         -         (1,813)           Contributions by plan participants         237         237         -           Actuarial (gains)/losses arising from changes in financial assumptions         -         (557)         (557)           Benefits paid         (2,577)         (2,577)         -         -           Taxes, premiums and expenses paid         (136)         (136)         -         -           Closing balance at 30 June 2018         Total         Level 21         -         -           Fair value of plan assets         31,063         31,063         31,063         -         -           Investment funds         31,  |  | -                            | (547)                            | (547)   |
| Taxes, premiums and expenses paid         (179)         (179)         (179)         -           Closing balance at 30 June 2017         31,021         28,771         (2,250)           Opening balance at 1 July 2017         31,021         28,771         (2,250)           Current service cost         -         859         859           Interest income         705         -         (705)           Interest expense         -         657         657           Actuarial return on plan assets less interest income         1,813         -         (1,813)           Contributions by plan participants         237         237         -           Actuarial (gains)/losses arising from changes in financial assumptions         -         (557)         (557)           Benefits paid         (2,577)         (2,577)         -         -           Taxes, premiums and expenses paid         1136)         131,063         -         -           Closing balance at 30 June 2018         31,063         26,537         (4,526)           Fair value of plan assets         -         -         -         -           As at 30 June 2018         Total         Level 21         -           Investment funds         31,063         31,063 <td< td=""><td>Actuarial (gains)/losses arising from liability experience</td><td>-</td><td>(151)</td><td>(151)</td></td<> | Actuarial (gains)/losses arising from liability experience | -                            | (151)                            | (151)   |
| Closing balance at 30 June 2017         31,021         28,771         (2,250)           Opening balance at 1 July 2017         31,021         28,771         (2,250)           Current service cost         -         859         859           Interest income         705         -         (705)           Interest expense         -         657         657           Actuarial return on plan assets less interest income         1,813         -         (1,813)           Contributions by plan participants         237         237         -           Actuarial (gains)/losses arising from changes in financial assumptions         -         (717)         (717)           Actuarial (gains)/losses arising from liability experience         -         (557)         (557)           Benefits paid         (2,577)         (2,577)         -           Taxes, premiums and expenses paid         (136)         -         -           Closing balance at 30 June 2018         31,063         26,537         (4,526)           Fair value of plan assets         -         -         -           As at 30 June 2018         1063         31,063         31,063  | Benefits paid  | (2,402)                      | (2,402)                          | -   |
| Opening balance at 1 July 2017         31,021         28,771         (2,250)           Current service cost         -         859         859           Interest income         705         -         (705)           Interest expense         -         657         657           Actuarial return on plan assets less interest income         1,813         -         (1,813)           Contributions by plan participants         237         237         -           Actuarial (gains)/losses arising from changes in financial assumptions         -         (717)         (717)           Actuarial (gains)/losses arising from liability experience         -         (557)         (557)           Benefits paid         (2,577)         (2,577)         -           Taxes, premiums and expenses paid         (136)         (136)         -           Closing balance at 30 June 2018         31,063         26,537         (4,526)           Fair value of plan assets         -         -         -           As at 30 June 2018         Total         Level 2.1           \$'000         \$'000         \$'000         -           Investment funds         31,063         31,063         31,063  | Taxes, premiums and expenses paid                          | (179)                        | (179)                            | -   |
| Current service cost       -       859       859         Interest income       705       -       (705)         Interest expense       -       657       657         Actuarial return on plan assets less interest income       1,813       -       (1,813)         Contributions by plan participants       237       237       -         Actuarial (gains)/losses arising from changes in financial assumptions       -       (717)       (717)         Actuarial (gains)/losses arising from liability experience       -       (557)       (557)         Benefits paid       (2,577)       (2,577)       -         Taxes, premiums and expenses paid       (136)       (136)       -         Closing balance at 30 June 2018       31,063       26,537       (4,526)         Fair value of plan assets       South assets       South assets       -         As at 30 June 2018       Total       Level 2 <sup>1</sup> -         S'000       S'000       S'000       -       -         Investment funds       31,063       31,063       -  | Closing balance at 30 June 2017                            | 31,021                       | 28,771                           | (2,250)   |
| Current service cost       -       859       859         Interest income       705       -       (705)         Interest expense       -       657       657         Actuarial return on plan assets less interest income       1,813       -       (1,813)         Contributions by plan participants       237       237       -         Actuarial (gains)/losses arising from changes in financial assumptions       -       (717)       (717)         Actuarial (gains)/losses arising from liability experience       -       (557)       (557)         Benefits paid       (2,577)       (2,577)       -         Taxes, premiums and expenses paid       (136)       (136)       -         Closing balance at 30 June 2018       31,063       26,537       (4,526)         Fair value of plan assets       South assets       South assets       -         As at 30 June 2018       Total       Level 2 <sup>1</sup> -         S'000       S'000       S'000       -       -         Investment funds       31,063       31,063       -  |  | 24.024                       | 20 774                           | (2.250)   |
| Interest income       705       -       (705)         Interest expense       -       657       657         Actuarial return on plan assets less interest income       1,813       -       (1,813)         Contributions by plan participants       237       237       -         Actuarial (gains)/losses arising from changes in financial assumptions       -       (717)       (717)         Actuarial (gains)/losses arising from liability experience       -       (557)       (557)         Benefits paid       (2,577)       (2,577)       -         Taxes, premiums and expenses paid       (136)       (136)       -         Closing balance at 30 June 2018       31,063       26,537       (4,526)         Fair value of plan assets       S'000       S'000       S'000         Investment funds       31,063       31,063       31,063  |  | 31,021                       |                                  |   |
| Interest expense         -         657         657           Actuarial return on plan assets less interest income         1,813         -         (1,813)           Contributions by plan participants         237         237         -           Actuarial (gains)/losses arising from changes in financial assumptions         -         (717)         (717)           Actuarial (gains)/losses arising from liability experience         -         (557)         (557)           Benefits paid         (2,577)         (2,577)         -           Taxes, premiums and expenses paid         (136)         (136)         -           Closing balance at 30 June 2018         31,063         26,537         (4,526)           Fair value of plan assets         Total         Level 2 <sup>1</sup> -           s'000         \$'000         \$'000         -           Investment funds         31,063         31,063         31,063   |  | -                            | 859                              |   |
| Actuarial return on plan assets less interest income1,813-(1,813)Contributions by plan participants237237-Actuarial (gains)/losses arising from changes in financial assumptions-(717)(717)Actuarial (gains)/losses arising from liability experience-(557)(557)Benefits paid(2,577)(2,577)Taxes, premiums and expenses paid(136)(136)Closing balance at 30 June 201831,06326,537(4,526)Fair value of plan assets<br>As at 30 June 2018TotalLevel 2'\$'000Investment funds31,06331,06331,063-   |  | /05                          | -                                |   |
| Contributions by plan participants237237-Actuarial (gains)/losses arising from changes in financial assumptions-(717)(717)Actuarial (gains)/losses arising from liability experience-(557)(557)Benefits paid(2,577)(2,577)Taxes, premiums and expenses paid(136)(136)-Closing balance at 30 June 201831,06326,537(4,526)Fair value of plan assetsTotalLevel 21\$'000\$'000\$'000Investment funds31,06331,063  |  | -                            |                                  |   |
| Actuarial (gains)/losses arising from changes in financial assumptions-(717)(717)Actuarial (gains)/losses arising from liability experience-(557)(557)Benefits paid(2,577)(2,577)(2,577)-Taxes, premiums and expenses paid(136)(136)Closing balance at 30 June 201831,06326,537(4,526)Total Level 21As at 30 June 2018TotalLevel 21ś'000ś'00031,06331,063   |  |                              |                                  | (1,813)   |
| Actuarial (gains)/losses arising from liability experience       -       (557)       (557)         Benefits paid       (2,577)       (2,577)       -         Taxes, premiums and expenses paid       (136)       (136)       -         Closing balance at 30 June 2018       31,063       26,537       (4,526)         Fair value of plan assets       -       -       -         As at 30 June 2018       Total       Level 21         \$'000       \$'000       \$'000       -         Investment funds       31,063       31,063       -  |  | 237                          |                                  | - (717)   |
| Benefits paid       (2,577)       (2,577)       -         Taxes, premiums and expenses paid       (136)       (136)       -         Closing balance at 30 June 2018       31,063       26,537       (4,526)         Fair value of plan assets       Total       Level 21         S'0000       \$'000       \$'000       \$'000         Investment funds       31,063       31,063       31,063  |  | _                            |                                  |   |
| Taxes, premiums and expenses paid       (136)       -         Closing balance at 30 June 2018       31,063       26,537       (4,526)         Fair value of plan assets       -       -       -         As at 30 June 2018       Total       Level 21       -         \$'000       \$'000       \$'000       -       -         Investment funds       31,063       31,063       -       -   |  |                              |                                  | (557)   |
| Closing balance at 30 June 2018       31,063       26,537       (4,526)         Fair value of plan assets       Total       Level 21         As at 30 June 2018       \$'000       \$'000         Investment funds       31,063       31,063  |  |                              |                                  | _   |
| Fair value of plan assetsAs at 30 June 2018TotalLevel 21\$'000\$'000Investment funds31,06331,063  |  |                              |                                  | (4,526)   |
| As at 30 June 2018         Total         Level 21           \$'000         \$'000           Investment funds         31,063         31,063  |  |                              |                                  |   |
| \$'000         \$'000           Investment funds         31,063         31,063  | Fair value of plan assets                                  |                              |                                  |   |
| Investment funds 31,063 31,063  | As at 30 June 2018   | Total                        | Level 2 <sup>1</sup>             |   |
|   |  | \$′000                       | \$′000                           |   |
| Total 31,063 31,063   |  | 31,063                       | 31,063                           |   |
|   | Total  | 31,063                       | 31,063                           |   |

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

# **3 Cost of delivering services** (continued)

# Significant actuarial assumptions at reporting date

| 2018  | 2017      |
|---|-----------|
| Assumptions to determine defined benefit cost       |           |
| Discount rate 2.4% p.a.                             | 2.2% p.a. |
| Expected salary increase rate4.0% p.a.              | 4.0% p.a. |
|   |           |
| Assumptions to determine defined benefit obligation |           |
| Discount rate 2.7% p.a.                             | 2.4% p.a. |
| Expected salary increase rate4.0% p.a.              | 4.0% p.a. |

#### Sensitivity analysis

The defined benefit obligation as at 30 June 2018 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.

|   | BASE CASE | SCENARIO A                  | SCENARIO B                  | SCENARIO C                            | SCENARIO D                            |
|---|-----------|-----------------------------|-----------------------------|---------------------------------------|---------------------------------------|
|   |           | -0.5% p.a.<br>discount rate | +0.5% p.a.<br>discount rate | -0.5% p.a.<br>salary increase<br>rate | +0.5% p.a.<br>salary increase<br>rate |
| Discount rate                                       | 2.7% p.a. | 2.2% p.a.                   | 3.2% p.a.                   | 2.7% p.a.                             | 2.7% 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><br>(\$'000) | 26,537    | 27,748                      | 25,399                      | 25,505                                | 27,622                                |

1. includes contributions tax provision.

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

# **Expected contributions**

City West Water does not expect to make any employer contributions for the year ending 30 June 2019.

# Maturity profile of defined benefit obligation

The weighted average duration of the defined benefit obligation as at 30 June 2018 is eight years (30 June 2017, eight years).

Expected benefit payments for the financial year ending on:

|                      | (\$'000) |
|----------------------|----------|
| 30 June 2019         | 1,967    |
| 30 June 2020         | 2,068    |
| 30 June 2021         | 2,116    |
| 30 June 2022         | 2,343    |
| 30 June 2023         | 2,173    |
| Following five years | 12,439   |

# **3 Cost of delivering services** (continued)

## 3.4 Remuneration of auditor

|   | 2018   | 2017   |
|---|--------|--------|
|   | \$′000 | \$′000 |
| Amounts received, or due and receivable by the auditor of<br>City West Water for the audit of the financial report: |        |        |
| Victorian Auditor-General's Office  | 141    | 138    |
| Total auditor's remuneration  | 141    | 138    |

# 3.5 Other operating expenses

Other operating expenses are recognised as incurred if they can be reliably measured. Costs are measured at nominal value.

|   | 2018   | 2017   |
|---|--------|--------|
|   | \$′000 | \$′000 |
| Operating contracts                       | 29,583 | 29,997 |
| Billing and collection                    | 7,160  | 7,189  |
| Information technology                    | 7,199  | 6,369  |
| Operating leases                          | 3,574  | 3,283  |
| Facilities maintenance                    | 1,824  | 1,803  |
| Energy                                    | 1,608  | 1,486  |
| Insurance                                 | 1,182  | 1,317  |
| Impaired receivables                      | 1,370  | 1,240  |
| Grants and water conservation initiatives | 353    | 851    |
| Licence fees                              | 723    | 703    |
| Other                                     | 9,917  | 10,610 |
| Total other operating expenses            | 64,493 | 64,848 |

Other operating expenses generally represent the day to day running costs incurred in normal operations. It also includes impaired receivables expense. Other operating expenses are recognised on an accrual basis in the reporting period in which they are incurred.

Operating contracts are expenses related to City West Water's maintenance contractor and the field work performed by it.

Billing and collection costs are all costs relating to the issuing of bills and the collection of debt.

Information technology expenditure relates to all operating expenses, maintenance contracts, licence fees and other costs associated with operating the information technology environment of the corporation.

Operating lease payments are recognised on a straight line basis over the lease term.

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.

# **3 Cost of delivering services** (continued)

# 3.6 Commitments for operating lease expenditure

City West Water has operating lease commitments for its head office in Footscray as well as two maintenance depots in Brooklyn and South Kensington. These commitments are not recognised in the Balance Sheet. They are disclosed below at their nominal value inclusive of GST payable.

|   | 2018<br>\$'000 | 2017<br>\$'000 |
|---|----------------|----------------|
| Not later than one year                           | 4,636          | 4,550          |
| Later than one year but not later than five years | 20,184         | 24,954         |
| Later than five years                             | 61,203         | 61,965         |
| Total lease commitments                           | 86,023         | 91,469         |

Refer to Note 4.5.2 for Environmental Contribution commitments, Note 5.4 for Infrastructure, property, plant and equipment commitments and Note 5.8 for Intangible asset commitments.

# 4. Statutory obligations

This section provides an account of the statutory obligations of City West Water.

# Structure

4.1 Income tax expense

4.2 Deferred tax assets and deferred tax liabilities

4.3 Current tax liability

4.4 Dividends

4.5 Environmental Contribution

# 4.1 Income tax expense

|   | 2018    | 2017    |
|---|---------|---------|
|   | \$'000  | \$′000  |
| Income tax expense  |         |         |
| Current tax   | 38,460  | 34,867  |
| Deferred tax relating to temporary differences  | (4,725) | 1,825   |
| Total income tax expense  | 33,735  | 36,692  |
| Income tax expense is attributable to:  |         |         |
| Profit from continuing operations   | 33,735  | 36,692  |
| Total income tax expense  | 33,735  | 36,692  |
| Deferred income tax expense/(benefit) included in income tax expense comprises:         |         |         |
| Decrease/(increase) in deferred tax assets  | 313     | 457     |
| Increase/(decrease) in deferred tax liabilities   | (5,038) | 1,368   |
| Total deferred income tax expense/(benefit)   | (4,725) | 1,825   |
| Reconciliation of income tax expense to prima facie tax payable                         |         |         |
| Profit before income tax expense  | 112,777 | 110,293 |
| Tax at the Australian tax rate of 30% (2017 30%)  | 33,833  | 33,088  |
| Tax effect of amounts which are not deductible/(taxable) in calculating taxable income: |         |         |
| Non-deductible expenses   | 215     | 257     |
| Non-deductible depreciation   | 886     | 886     |
| Additional deductible expenses/non-assessable income                                    | (1,199) | 2,461   |
| Total income tax expense  | 33,735  | 36,692  |
| Deferred income tax recognised in Other Comprehensive Income                            |         |         |
| Gain/(loss) on revaluation of infrastructure  | (5,566) | 4,211   |
| Gain/(loss) on revaluation of land and buildings  | 482     | 153     |
| Actuarial gain/(loss) on defined benefit superannuation plan                            | 926     | 1,060   |
| Total deferred income tax recognised in Other Comprehensive Income                      | (4,158) | 5,424   |

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# 4 **Statutory obligations** (continued)

City West Water is subject to the National Tax Equivalent Regime (NTER) pursuant to section 88(1) of the *State Owned Enterprises Act 1992*. Under this regime City West Water is required to pay the Victorian 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.

# 4.2 Deferred tax assets and deferred tax liabilities

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted at balance date. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. No deferred tax asset or liability is recognised in relation to

these temporary differences if they arose as the result of a transaction that at the time of the transaction did not affect either accounting profit or loss or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

# 4.2.1 Deferred tax assets

|   | 2018<br>\$'000 | 2017<br>\$′000 |
|---|----------------|----------------|
| The balance of deferred tax assets comprises temporary differences attributable to: | \$ 000         | \$ 000         |
| Amounts recognised in the Comprehensive Operating Statement                         |                |                |
| Accrued expenses  | 24             | 17             |
| Provisions  |                |                |
|   | 5,643          | 5,946          |
| Amortisation of intellectual property   | 12             | 15             |
| Business related costs  | 49             | 60             |
| Prepayments   | 1              | 4              |
| Total deferred tax assets   | 5,729          | 6,042          |
|   |                |                |
| Movements:  |                |                |
| Opening balance at the start of financial year                                      | 6,042          | 7,051          |
| Credited/(charged) to the Comprehensive Operating Statement                         | (313)          | (457)          |
| Credited/(charged) to equity  | -              | (552)          |
| Closing balance at the end of financial year  | 5,729          | 6,042          |
|   |                |                |
| Deferred tax assets expected to be recovered within 12 months                       | 5,643          | 4,443          |
| Deferred tax assets expected to be recovered after more than 12 months              | 86             | 1,599          |
| Total deferred tax assets   | 5,729          | 6,042          |
|   |                |                |
| Set off of deferred tax assets pursuant to set off provisions                       | (5,729)        | (6,042)        |
| Net deferred tax assets   | -              | -              |

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# 4 **Statutory obligations** (continued)

# 4.2.2 Deferred tax liabilities

|  | 2018<br>\$′000 | 2017<br>\$′000 |
|--|----------------|----------------|
| The balance of deferred tax liabilities comprises temporary differences attributable to:   | \$ 000         | \$ 000         |
| Amounts recommised in the Community Operating Statement                                    |                |                |
| Amounts recognised in the Comprehensive Operating Statement<br>Fixed assets - depreciation | 88,504         | 92,413         |
| Developer contributed assets   | 59,714         | 60,599         |
|  |                | 167            |
| Defined benefit superannuation fund asset  | (76)           | 107            |
| Amounts recognised in equity   |                |                |
| Defined benefits actuarial gain  | 1,434          | 508            |
| Land and buildings revaluation   | 2,721          | 2,240          |
| Infrastructure assets revaluation  | 82,251         | 87,817         |
| Total deferred tax liabilities   | 234,548        | 243,744        |
|  |                |                |
| Movements:   |                |                |
| Opening balance at the start of the financial year   | 243,744        | 237,505        |
| (Credited)/charged to the Comprehensive Operating Statement                                | (5,038)        | 1,368          |
| (Credited)/charged to equity   | (4,158)        | 4,871          |
| Closing balance at the end of financial year   | 234,548        | 243,744        |
| Deferred tax liabilities expected to be settled after more than 12 months                  | 234,548        | 243,744        |
| Total deferred tax liabilities   | 234,548        | 243,744        |
|  | 237,370        | 243,744        |
| Set off of deferred tax assets pursuant to set off provisions                              | (5,729)        | (6,042)        |
| Net deferred tax liabilities   | 228,819        | 237,702        |
|  | 220,019        | 237,702        |

# 4.3 Current tax liability

|                             | 2018   | 2017   |
|-----------------------------|--------|--------|
|                             | \$'000 | \$′000 |
|                             |        |        |
| Current tax liability       | 10,430 | 15,511 |
| Total current tax liability | 10,430 | 15,511 |
|                             |        |        |

# **4 Statutory obligations** (continued)

City West Water's current tax liability is tax payable based on the current financial year's taxable income less any instalments paid during the year.

# 4.4 Dividends

|  | 2018   | 2017   |
|--|--------|--------|
|  | \$′000 | \$'000 |
| Final dividend paid during 2018 in respect of 2017   | 48,200 | -      |
| Final dividend paid during 2017 in respect of 2016   | -      | 13,000 |
| Interim dividend paid during 2018 in respect of 2018 | 14,400 | -      |
| Total dividends paid                                 | 62,600 | 13,000 |

As City West Water is a Public Non-financial Corporation, 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 the 2018 final dividend has not been determined by the Treasurer, it has not been provided for at reporting date. The Board's preliminary estimate of the 2018 final dividend is \$20.4m.

# 4.5 Environmental Contribution

Section 193 of the *Water Industry (Environmental Contributions) Act 2004* (the Act) establishes an obligation for water corporations to pay into the consolidated fund environmental contributions in accordance with an Order issued by the Minister for Water. *The Environmental Contributions Order 2016 to 2020* establishes a schedule of amounts payable by each corporation for the reporting periods 2017 to 2020.

The purpose of the Environmental Contribution is set out in the Act. Funds may be used for the purpose of 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 2016 to 2020* made under section 193 of the *Water Industry Act 1994*, City West Water pays an Environmental Contribution to the Victorian Government. These contributions are recognised as expenses when they occur.

# 4.5.1 Environmental Contribution expense

|  | 2018<br>\$′000 | 2017<br>\$'000 |
|--|----------------|----------------|
| Environmental Contribution expense       | 18,563         | 18,563         |
| Total Environmental Contribution expense | 18,563         | 18,563         |

# 4.5.2 Environmental Contribution commitment

Consistent with the requirements of the *Water Industry Act 1994*, City West Water has a commitment to pay an Environmental Contribution of \$26.5m for the next two years to the Department of Environment, Land, Water and Planning.

|   | 2018   | 2017   |
|---|--------|--------|
|   | \$′000 | \$′000 |
| Not later than one year                           | 26,457 | 18,563 |
| Later than one year but not later than five years | 26,457 | 52,914 |
| Total Environmental Contribution commitment       | 52,914 | 71,477 |

# 5. Assets available to support the provision of services

City West Water controls infrastructure and other assets that are utilised in fulfilling its objectives and conducting its activities. These assets represent the resources that are owned by City West Water for use in the delivery of services. Where the assets included in this section are carried at fair value, additional information is disclosed in Section 8 of this report regarding how fair value is determined.

# Structure

- 5.1 Infrastructure, property, plant and equipment
- 5.2 Depreciation of infrastructure, property, plant and equipment
- 5.3 Impairment of infrastructure, property, plant and equipment
- 5.4 Commitments for capital expenditure on infrastructure, property, plant and equipment
- 5.5 Intangible assets
- 5.6 Amortisation of intangible assets
- 5.7 Impairment of intangible assets
- 5.8 Commitments for capital expenditure on intangible assets

# 5.1 Infrastructure, property, plant and equipment

|  | Specialised<br>land<br>\$'000 | Non-<br>specialised<br>land<br>\$'000 | Non-<br>specialised<br>buildings<br>\$'000 | Infrastructure<br>assets<br>\$'000 | Plant &<br>equipment<br>\$'000 | Motor<br>vehicles<br>\$,000 | Leasehold<br>improvements<br>\$,000 | Works in<br>progress<br>\$'000 | Total<br>\$′000 |
|--|-------------------------------|---------------------------------------|--|------------------------------------|--------------------------------|-----------------------------|-------------------------------------|--------------------------------|-----------------|
| 2017   |                               |                                       | • • • •                                    |                                    | • • • •                        | .,                          |                                     |                                | • • • •         |
| Fair value at 1 July<br>2016<br>Accumulated<br>depreciation at 1   | 29,335                        | 497                                   | 4,908                                      | 1,656,984                          | 32,430                         | 4,206                       | 5,960                               | 171,059                        | 1,905,379       |
| July 2016  | -                             | -                                     | (720)                                      | -                                  | (23,775)                       | (1,967)                     | (397)                               | -                              | (26,859)        |
| Carrying amount<br>at 1 July 2016  | 29,335                        | 497                                   | 4,188                                      | 1,656,984                          | 8,655                          | 2,239                       | 5,563                               | 171,059                        | 1,878,520       |
| Additions  | -                             | -                                     | -  | -                                  | -                              | -                           | -                                   | 114,613                        | 114,613         |
| Developer<br>contributed assets  | -                             | -                                     | -  | 35,651                             | -                              | -                           | -                                   | (35,651)                       | -               |
| Transfers (net) <sup>1</sup>   | -                             | 482                                   | 474  | 54,563                             | 3,561                          | 1,675                       | 491                                 | (61,097)                       | 149             |
| Revaluation<br>(decrement)/<br>increment<br>recognised<br>in other<br>comprehensive<br>income<br>Revaluation | 1,917                         | 24                                    | -  | 36,431                             | -                              | -                           | -                                   | -                              | 38,372          |
| (decrement)/<br>increment<br>recognised in   |                               |                                       |  |                                    |                                |                             |                                     |                                |                 |
| profit or loss   | 65                            | -                                     | -  | -                                  | -                              | -                           | -                                   | -                              | 65              |
| Adjustments  | -                             | -                                     | (8)  | (1,278)                            | -                              | -                           | -                                   | 1,278                          | (8)             |
| Disposals (net)  | -                             | -                                     | -  | -                                  | -                              | (578)                       | -                                   | -                              | (578)           |
| Impairment (net)   | -                             | -                                     | -  | (219)                              | (36)                           | -                           | -                                   | (18)                           | (273)           |
| Depreciation<br>expense  | -                             | -                                     | (282)                                      | (33,100)                           | (4,140)                        | (805)                       | (209)                               | -                              | (38,536)        |
| Fair value at 30   |                               |                                       |  |                                    |                                |                             |                                     |                                |                 |
| June 2017  | 31,317                        | 1,003                                 | 5,010                                      | 1,749,032                          | 35,871                         | 4,190                       | 6,967                               | 190,184                        | 2,023,574       |
| Accumulated  |                               |                                       |  |                                    |                                |                             |                                     |                                |                 |
| depreciation at<br>30 June 2017  | -                             | -                                     | (638)                                      | -                                  | (27,831)                       | (1,659)                     | (1,122)                             | -                              | (31,250)        |
| Carrying amount  |                               |                                       | (000)                                      |                                    | (27,001)                       | (1,557)                     | (1,122)                             |                                | (31/230)        |
| at 30 June 2017  | 31,317                        | 1,003                                 | 4,372                                      | 1,749,032                          | 8,040                          | 2,531                       | 5,845                               | 190,184                        | 1,992,324       |

1. Balance represents a transfer to/from intangible assets. This occurs upon capitalisation of a project that generates both tangible and intangible assets.

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# 5 Assets available to support the provision of services (continued)

| 2018   | Specialised<br>land<br>\$'000 | Non-<br>specialised<br>land<br>\$'000 | Non-<br>specialised<br>buildings<br>\$'000 | Infrastructure<br>assets<br>\$'000 | Plant &<br>equipment<br>\$'000 | Motor<br>vehicles<br>\$,000 | Leasehold<br>improvements<br>\$,000 | Works in<br>progress<br>\$'000 | Total<br>\$′000 |
|--|-------------------------------|---------------------------------------|--|------------------------------------|--------------------------------|-----------------------------|-------------------------------------|--------------------------------|-----------------|
| Fair value at 1 July<br>2017<br>Accumulated<br>depreciation at 1   | 31,317                        | 1,003                                 | 5,010                                      | 1,749,032                          | 35,871                         | 4,190                       | 6,967                               | 190,184                        | 2,023,574       |
| July 2017<br>Carrying amount<br>at 1 July 2017   | - 31,317                      | - 1,003                               | (638)                                      | - 1,749,032                        | (27,831)<br>8,040              | (1,659)<br>2,531            | (1,122)                             | - 190,184                      | (31,250)        |
| Additions<br>Developer<br>contributed assets   | -                             | -                                     | -  | 48,142                             | -                              | -                           | -                                   | (48,142)                       | 151,027         |
| Transfers (net) <sup>1</sup>   | (187)                         | 1,865                                 | 2,668                                      | 46,795                             | 383                            | 935                         | 20                                  | (52,490)                       | (11)            |
| Revaluation<br>(decrement)/<br>increment<br>recognised<br>in other<br>comprehensive<br>income<br>Revaluation<br>(decrement)/<br>increment<br>recognised in | 3,055                         | 186                                   | _  | (19,513)                           | -                              | _                           | _                                   | -                              | (16,272)        |
| profit or loss   | 94                            | -                                     | -  | -                                  | -                              | -                           | -                                   | -                              | 94              |
| Disposals (net)  | -                             | -                                     | -  | -                                  | -                              | (276)                       | -                                   | -                              | (276)           |
| Impairment (net)<br>Depreciation   | -                             | -                                     | -  | (748)                              | -                              | -                           | -                                   | (30)                           | (778)           |
| expense  | -                             | -                                     | (194)                                      | (35,447)                           | (3,024)                        | (805)                       | (423)                               | -                              | (39,893)        |
| Fair value at 30<br>June 2018<br>Accumulated<br>depreciation at  | 34,279                        | 3,054                                 | 7,678                                      | 1,788,261                          | 36,254                         | 4,412                       | 6,987                               | -                              | 2,121,474       |
| 30 June 2018   | -                             | -                                     | (832)                                      | -                                  | (30,855)                       | (2,027)                     | (1,545)                             | -                              | (35,259)        |
| Carrying amount<br>at 30 June 2018   | 34,279                        | 3,054                                 | 6,846                                      | 1,788,261                          | 5,399                          | 2,385                       | 5,442                               | 240,549                        | 2,086,215       |

1. Balance represents a transfer to/from intangible assets. This occurs upon capitalisation of a project that generates both tangible and intangible assets.

# Initial recognition

All assets are measured at cost on initial recognition. Cost is determined as cash paid or the fair value of other consideration given up at the date of acquisition plus any costs directly attributable to acquisition. Fair value at acquisition is equal to cost.

The cost of non-current assets constructed by City West Water includes all costs directly attributable to their construction. City West Water has a policy of capitalising labour costs which are

directly attributable to capital projects. In the case of developer contributed assets, where actual cost is not available, cost is calculated using a schedule of rates determined by the corporation 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 capitalisation threshold of greater than or equal to \$100 inclusive of GST (2017 \$100).

# Subsequent measurement

Infrastructure, property, plant and equipment are subsequently measured at fair value less accumulated depreciation and impairment losses (if applicable). Fair value is determined with regard to an asset's highest and best use considering legal or physical restrictions imposed on the asset, public announcements, or commitments made in relation to the intended use of the asset. Fair value determination of non-current physical assets is discussed further in Section 8 - Risks contingencies and valuation judgements.

The carrying amount of a replaced or abandoned asset is written off in the Comprehensive Operating Statement as an expense. 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.

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

Net revaluation increases are credited directly to equity in the physical asset revaluation surplus unless the increase reverses a previous decrease that was recognised in profit or loss. In this case, the increase is recognised in profit or loss.

Net revaluation decreases are recognised immediately as expenses in profit or loss, unless there is an asset revaluation surplus. In this case the decrease is recognised against the physical asset revaluation surplus.

There were no changes in valuation techniques throughout the year to 30 June 2018.

# Land and buildings

An independent valuation of land and buildings is required every five years. The last valuation was undertaken by a Certified Practicing Valuer, Peter Molloy AAPI of Property Dynamics Pty Ltd, on behalf of the Valuer-General Victoria (VGV) as at 30 June 2016. An interim management valuation of land was performed at 30 June 2017 using VGV indices. The interim valuation led to an increment of \$2.0m which was recognised in the accounts at 30 June 2017. Another interim management valuation was performed on 30 June 2018, which led to an increment of \$3.3m recognised in the accounts at 30 June 2018.

The historical carrying amount of land and buildings was \$4.4m (2017 \$2.7m) and \$6.0m (2017 \$3.6m) respectively.

A full revaluation of land and buildings 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 the 2016 reporting period for the entire portfolio.

# Infrastructure

The valuation of infrastructure assets has been determined in accordance with an independent valuation. KPMG 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 fair value estimate provided, fair market value is defined 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.

The historical carrying amount of infrastructure was \$1,596.9m (2017 \$1,534.1m).

# Plant and equipment, motor vehicles and leasehold improvements

Plant and equipment, motor vehicles and leasehold improvements are measured at carrying value (current replacement cost) which is fair value. Unless there is market evidence that carrying value is significantly different to market value no adjustment will be made to the existing carrying value.

# 5.2 Depreciation of infrastructure, property, plant and equipment

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

Depreciation is 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.

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.

# **Useful lives**

The estimated useful lives of infrastructure, property plant and equipment are listed on the next page.

| ASSET TYPE             | RANGE         |
|------------------------|---------------|
| Buildings              | 5 - 90 years  |
| Infrastructure assets  | 4 - 100 years |
| Plant and equipment    | 3 - 50 years  |
| Motor vehicles         | 5 years       |
| Leasehold improvements | 7 - 20 years  |

# 5.3 Impairment of infrastructure, property, plant and equipment

Infrastructure, property, plant and equipment are assessed annually for indicators of impairment.

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 Comprehensive Operating Statement, unless the write-down can be offset against an asset revaluation surplus amount applicable to that class of asset.

Recoverable amounts for assets held primarily to generate net cash inflows are measured at the higher of the net 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 unless an impairment loss on the same class of asset was previously recognised in the Comprehensive Operating Statement. In this case the reversal of that impairment loss is recognised in the Comprehensive Operating Statement.

# 5.4 Commitments for capital expenditure on infrastructure, property, plant and equipment

|   | 2018   | 2017   |
|---|--------|--------|
|   | \$′000 | \$′000 |
|   |        |        |
| Not later than one year                           | 10,015 | 3,786  |
| Later than one year but not later than five years | -      | 17,147 |
| Total capital commitments                         | 10,015 | 20,933 |

Commitments for future expenditure include capital commitments arising from contracts. These commitments are not recognised in the Balance Sheet. They are disclosed at 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.

# 5.5 Intangible assets

Carrying amount at 30 June 2018

|  | Software | Water<br>entitlements | Other<br>intangible<br>assets | Works in<br>progress | Total    |
|--|----------|-----------------------|-------------------------------|----------------------|----------|
|  | \$'000   | \$'000                | \$'000                        | \$′000               | \$′000   |
| 2017                                     |          |                       |                               |                      |          |
| Cost at 1 July 2016                      | 89,132   | 96,916                | 765                           | 32,735               | 219,548  |
| Accumulated amortisation at 1 July 2016  | (47,718) | -                     | (75)                          | -                    | (47,793) |
| Carrying amount at 1 July 2016           | 41,414   | 96,916                | 690                           | 32,735               | 171,755  |
| Additions                                | -        | -                     | -                             | 10,338               | 10,338   |
| Transfers (net) <sup>1</sup>             | 6,872    | -                     | (621)                         | (6,400)              | (149)    |
| Disposals (net)                          | -        | -                     | -                             | (2,074)              | (2,074)  |
| Impairment (net) <sup>2</sup>            | -        | -                     | -                             | (1,800)              | (1,800)  |
| Amortisation expense                     | (9,251)  | -                     | (69)                          | -                    | (9,320)  |
| Cost at 30 June 2017                     | 96,004   | 96,916                | -                             | 32,799               | 225,719  |
| Accumulated amortisation at 30 June 2017 | (56,969) | -                     | -                             | -                    | (56,969) |
| Carrying amount at 30 June 2017          | 39,035   | 96,916                | -                             | 32,799               | 168,750  |
| 2018                                     |          |                       |                               |                      |          |
| Cost at 1 July 2017                      | 96,004   | 96,916                | -                             | 32,799               | 225,719  |
| Accumulated amortisation at 1 July 2017  | (56,969) | -                     | -                             | -                    | (56,969) |
| Carrying amount at 1 July 2017           | 39,035   | 96,916                | -                             | 32,799               | 168,750  |
| Additions                                | -        | -                     | -                             | 6,795                | 6,795    |
| Transfers (net) <sup>1</sup>             | 34,065   | -                     | 26                            | (34,080)             | 11       |
| Impairment (net)                         | -        | -                     | -                             | (132)                | (132)    |
| Amortisation expense                     | (10,982) | -                     | -                             | -                    | (10,982) |
| Cost at 30 June 2018                     | 130,069  | 96,916                | 26                            | 5,382                | 232,393  |
| Accumulated amortisation at 30 June 2018 | (67,951) | -                     | -                             | -                    | (67,951) |

1. Balance represents a transfer to/from infrastructure, property, plant and equipment. This occurs upon capitalisation of a project that generates both tangible and intangible assets.

62,118

96,916

26

5,382

164,442

2. This impairment relates to two work in progress IT projects (MABAL \$878k and Myaccount \$922k) as part of our annual assessment of indicators of impairment.

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

#### 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.

Water entitlements represent 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 corporations with access to Melbourne's pooled entitlement.

#### Other intangible assets

Other intangible assets 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.

#### 5.6 Amortisation of intangible assets

All intangible assets with a useful life are amortised.

Amortisation is 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.

Amortisation of new software and other intangible assets begins in the month following commissioning.

# **Useful lives**

The estimated useful lives of intangible assets are listed below.

| ASSET TYPE              | RANGE        |
|-------------------------|--------------|
| Software                | 3 - 10 years |
| Water entitlements      | Indefinite   |
| Other intangible assets | Indefinite   |

# 5.7 Impairment of intangible assets

Intangible assets with indefinite useful lives are tested annually for indicators of impairment.

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 Comprehensive Operating Statement, unless the write-down can be offset against an asset revaluation surplus amount applicable to that class of asset.

The recoverable amount for most intangible assets is measured as the higher of current 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 intangible asset is credited directly to equity, unless an impairment loss on the same class of asset was previously recognised in the Comprehensive Operating Statement. In this case a reversal of that impairment loss is also recognised in the Comprehensive Operating Statement.

# 5.8 Commitments for capital expenditure on intangible assets

|   | 2018   | 2017   |
|---|--------|--------|
|   | \$′000 | \$′000 |
|   |        |        |
| Not later than one year                           | 1,124  | 22     |
| Later than one year but not later than five years | 76     | 68     |
| Total capital commitments                         | 1,200  | 90     |

Commitments for future capital expenditure on intangible assets include capital commitments arising from contracts. These commitments are not recognised in the Balance Sheet. They are disclosed at 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.

# 6. Other assets and liabilities

This section sets out the assets and liabilities that arose from City West Water's operations.

# Structure

6.1 Receivables

- 6.2 Payables
- 6.3 Unearned income

6.4 Inventory

6.5 Other non-financial assets

6.6 Other provisions

## 6.1 Receivables

|  | 2018    | 2017    |
|--|---------|---------|
|  | \$'000  | \$'000  |
| Contractual                              |         |         |
| Unbilled receivables                     | 53,420  | 69,548  |
| Trade receivables                        | 51,650  | 42,317  |
| Less: Provision for impaired receivables | (2,736) | (3,260) |
| Other receivables                        | -       | 20      |
| Total contractual receivables            | 102,334 | 108,625 |
|  |         |         |
| Statutory                                |         |         |
| Trade receivables                        | 5,538   | 1,699   |
| Total statutory receivables              | 5,538   | 1,699   |
|  |         |         |
| Total receivables                        | 107,872 | 110,324 |
|  |         |         |
| Represented by                           |         |         |
| Current receivables                      | 107,872 | 110,304 |
| Non-current receivables                  | -       | 20      |

Contractual receivables are classified as financial instruments. They are initially recognised at fair value and subsequently at amortised cost less provision for impairment.

Statutory receivables are not classified as financial instruments as they do not arise from contracts. Statutory receivables are recognised and measured similarly to contractual receivables, except for impairment. Statutory trade receivables are GST receivables.

Unbilled receivables are recognised for water and sewage usage as well as other works and services that have been rendered to balance date but not yet invoiced. An accrual is done to account for water and sewer services not billed at the end of the period. The accrual of water usage charges and sewage disposal charges is made by using the volume of water City West Water purchases from Melbourne Water, less an estimate of non-revenue water. Non-revenue water is water lost to bursts and leaks and used for firefighting. During 2018, City West Water reviewed its estimate of non-revenue water and adjusted its assumption so that it more closely aligns with actual experience of non-revenue water. The change resulted in a decrease in revenue and unbilled receivables of \$24m and will have no impact on future years.

Trade receivables are due for settlement no later than 14 days from the date of recognition.

**6 Other assets and liabilities** (continued)

# 6.1.1 Movements in the provision for impaired receivables

|  | 2018    | 2017    |
|--|---------|---------|
|  | \$′000  | \$'000  |
|  |         |         |
| Opening balance at the start of the year                             | (3,260) | (3,846) |
| Provision for impaired receivables recognised during the year        | (2,519) | (2,147) |
| Contractual receivables written off during the year as uncollectible | 3,043   | 2,733   |
| Closing balance at the end of the year                               | (2,736) | (3,260) |

Receivables are assessed for bad and doubtful debts on a regular basis. A provision for impaired receivables is recognised when there is objective evidence that the debts may not be collected. Bad debts are written off when identified. In assessing impairment of statutory (non-contractual) financial assets, which are not financial instruments, professional judgement is applied in assessing materiality using estimates, averages and other methods in accordance with AASB 136 *Impairment of Assets*.

A provision is made for estimated unrecoverable amounts from the sale of goods and services when there is objective evidence that an individual receivable is impaired. The increase in the provision for the year is recognised in the net result.

# 6.1.2 Ageing analysis of contractual receivables

|             |                    |                                     | Past due and not impaired |            |                            |  |
|-------------|--------------------|-------------------------------------|---------------------------|------------|----------------------------|--|
|             | Carrying<br>amount | Not past<br>due and not<br>impaired | 30-59 days                | 60-89 days | Greater<br>than 90<br>days |  |
| 2017        | \$′000             | \$′000                              | \$′000                    | \$′000     | \$′000                     |  |
| Receivables | 108,625            | 101,398                             | 3,642                     | 921        | 2,664                      |  |
| Total       | 108,625            | 101,398                             | 3,642                     | 921        | 2,664                      |  |
|             |                    |                                     |                           |            |                            |  |
| 2018        |                    |                                     |                           |            |                            |  |
| Receivables | 102,334            | 91,809                              | 5,348                     | 1,164      | 4,013                      |  |
| Total       | 102,334            | 91,809                              | 5,348                     | 1,164      | 4,013                      |  |

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# **6 Other assets and liabilities** (continued)

#### 6.2 Payables

|                                   | 2018   | 2017   |
|-----------------------------------|--------|--------|
|                                   | \$′000 | \$'000 |
| Contractual                       |        |        |
| Trade payables                    | 46,600 | 33,339 |
| Other payables                    | 17,755 | 17,649 |
| Advances and deposits             | 6,135  | 5,969  |
| Deferred developer reimbursements | 19,425 | 8,756  |
| Sundry liabilities                | 361    | 51     |
| Total contractual payables        | 90,276 | 65,764 |
|                                   |        |        |
| Statutory                         |        |        |
| Trade payables                    | 2,471  | 398    |
| Other payables                    | 4,120  | 3,453  |
| Total statutory payables          | 6,591  | 3,851  |
|                                   |        |        |
| Total payables                    | 96,867 | 69,615 |
|                                   |        |        |
| Represented by                    |        |        |
| Current payables                  | 96,867 | 69,615 |

Contractual payables are classified as financial instruments. They are measured at amortised cost and recognised on an accrual basis in the period in which they are incurred. Trade payables represent liabilities for goods and services provided to City West Water prior to the end of the financial year that are unpaid at the end of the financial year. Other payables represents accrued loan interest. Advances and deposits represent deposits received as security for capital works. Deferred developer reimbursements represent a liability to reimburse developers for their costs incurred in constructing water, sewerage and/or recycled water assets on behalf of City West Water.

Statutory payables are recognised and measured similarly to contractual payables, but are not classified as financial instruments and are not included in the category of financial liabilities as they do not arise from contracts.

City West Water complies with its policy to settle all payables within 30 days of receipt of invoice or, in the event of a dispute, within 30 days of the resolution of the dispute.

# 6.2.1 Maturity analysis of contractual payables

|                            | Carrying<br>amount | Nominal<br>Amount | 1 Year<br>or less | Over 1<br>Year | Total  |
|----------------------------|--------------------|-------------------|-------------------|----------------|--------|
| 2017                       | \$′000             | \$′000            | \$′000            | \$'000         | \$′000 |
| Payables                   | 65,764             | 65,764            | 65,764            | -              | 65,764 |
| Total contractual payables | 65,764             | 65,764            | 65,764            | -              | 65,764 |
| 2018                       |                    |                   |                   |                |        |
| Payables                   | 90,276             | 90,276            | 90,276            | -              | 90,276 |
| Total contractual payables | 90,276             | 90,276            | 90,276            | -              | 90,276 |

# **6 Other assets and liabilities** (continued)

## 6.3 Unearned income

|                       | 2018<br>\$′000 | 2017<br>\$'000 |
|-----------------------|----------------|----------------|
| Unearned income       | 1,348          | 589            |
| Total unearned income | 1,348          | 589            |

Unearned income represents income received in advance of the corporation performing obligations required to recognise the income in the Comprehensive Operating Statement.

## 6.4 Inventory

|                     | 2018<br>\$′000 | 2017<br>\$'000 |
|---------------------|----------------|----------------|
| Inventory (at cost) | 1,698          | 1,142          |
| Total inventory     | 1,698          | 1,142          |

Inventory represents stock on hand at the end of the reporting period. Inventory is primarily used for the repair and maintenance of existing assets. Inventory is measured at the lower of cost and net realisable value.

# 6.5 Other non-financial assets

|                                  | 2018<br>\$'000 | 2017<br>\$'000 |
|----------------------------------|----------------|----------------|
| Prepayments                      | 4,571          | 1,585          |
| Total other non-financial assets | 4,571          | 1,585          |

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. Amounts are recognised as an asset upon payment and subsequently expensed over the period the payment covers.

# **6 Other assets and liabilities** (continued)

#### 6.6 Other provisions

|  | 2018   | 2017   |
|--|--------|--------|
|  | \$'000 | \$′000 |
| Current  |        |        |
| Insurance provision  | 558    | 699    |
| Biosolids management and desludging of Altona Treatment Plant lagoon | 126    | 126    |
| Other sundry provisions  | 985    | 811    |
| Total other provisions - current                                     | 1,669  | 1,636  |

#### Reconciliation of movements in other provisions

|   | Biosolids/ |          |         |         |
|---|------------|----------|---------|---------|
|   | Insurance  | desludge | Other   | Total   |
|   | \$′000     | \$′000   | \$′000  | \$′000  |
| Carrying amount as at 1 July 2017             | 699        | 126      | 811     | 1,636   |
| Additional provisions recognised              | 625        | -        | 1,697   | 2,322   |
| Payments/other sacrifices of economic benefit | (766)      | -        | (1,523) | (2,289) |
| Carrying amount as at 30 June 2018            | 558        | 126      | 985     | 1,669   |

Other provisions are recognised when the corporation 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.

When 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 the 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, a receivable is recognised if it is virtually certain that the economic benefits will be received and their amount can be measured reliably.

# 7. Financing our operations

This section provides information on the sources of finance used by City West Water during its operations as well as interest expense (the cost of borrowings) and other information relating to the financing activities of the corporation.

# Structure

7.1 Borrowings

7.2 Cash flow information and balances

# 7.1 Borrowings

|  | 2018      | 2017      |
|--|-----------|-----------|
|  | \$′000    | \$′000    |
| Treasury Corporation of Victoria - current     | 22,700    | -         |
| Treasury Corporation of Victoria - non-current | 1,157,500 | 1,102,500 |
| Total borrowings                               | 1,180,200 | 1,102,500 |

Borrowings refers to interest bearing liabilities raised from public borrowings through the Treasury Corporation of Victoria.

Borrowings are initially recognised at fair value, net of transaction costs incurred and subsequently measured at amortised cost. Borrowings include overnight (11am) borrowings, floating rate notes, fixed rate loans and flexi loans. Borrowings are used to meet working capital requirements and fund capital expenditure.

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

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

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

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

During the current and prior years there were no defaults or breaches of any loan.

City West Water's credit rating is BBB (2017 BBB+).

# **7 Financing our operations** (continued)

# 7.1.1 Maturity analysis of borrowings

|                       | Weighted      | Carrying  | Nominal   | 1 year  | Over      | Total     |
|-----------------------|---------------|-----------|-----------|---------|-----------|-----------|
|                       | average       | amount    | amount    | or less | 1 year    |           |
| 2017                  | interest rate | \$′000    | \$′000    | \$′000  | \$′000    | \$′000    |
| Borrowings - fixed    | 4.49%         | 1,052,500 | 1,052,500 | -       | 1,052,500 | 1,052,500 |
| Borrowings - floating | 2.09%         | 50,000    | 50,000    | -       | 50,000    | 50,000    |
| Total borrowings      | _             | 1,102,500 | 1,102,500 | -       | 1,102,500 | 1,102,500 |
| 2018                  |               |           |           |         |           |           |
| Borrowings - fixed    | 4.13%         | 1,117,500 | 1,117,500 | -       | 1,117,500 | 1,117,500 |
| Borrowings - floating | 1.95%         | 62,700    | 62,700    | 22,700  | 40,000    | 62,700    |
| Total borrowings      | _             | 1,180,200 | 1,180,200 | 22,700  | 1,157,500 | 1,180,200 |

# 7.1.2 Finance expenses

|                              | 2018   | 2017   |
|------------------------------|--------|--------|
| Finance expenses             | \$′000 | \$′000 |
| Interest on borrowings       | 49,007 | 49,377 |
| Financial Accommodation Levy | 15,925 | 14,074 |
| Bank charges                 | 7      | 6      |
| Total finance expenses       | 64,939 | 63,457 |

Finance expenses include costs incurred in connection with the borrowing of funds. Finance expenses include interest on bank overdrafts, and short and long term borrowings. Finance expenses are recognised in the period in which they are incurred.

## 7.2 Cash flow information and balances

|                                 | 2018   | 2017   |
|---------------------------------|--------|--------|
|                                 | \$′000 | \$′000 |
| Cash and cash equivalents       |        |        |
| Cash at bank/(bank overdraft)   | 723    | (946)  |
| Deposits at call                | 23     | 6,850  |
| Total cash and cash equivalents | 746    | 5,904  |

Cash and deposits, including cash equivalents, comprise cash on hand and cash at bank, deposits at call and highly liquid investments with an original maturity of three months or less. They are held for the purpose of meeting short term cash commitments, are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

For cash flow statement presentation purposes, cash and cash equivalents includes bank overdrafts, which are classified as current borrowings on the Balance Sheet.

# 7 **Financing our operations** (continued)

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

|  | 2018     | 2017     |
|--|----------|----------|
|  | \$'000   | \$′000   |
| Profit after income tax expense                            | 79,042   | 73,601   |
|  |          |          |
| Non-cash movements:  |          |          |
|  |          |          |
| Depreciation and amortisation of assets                    | 50,875   | 47,856   |
| Impaired receivables                                       | 2,519    | 2,147    |
| Defined benefit superannuation fund expense                | 811      | 924      |
| Net (gain)/loss on disposal of non-current physical assets | (121)    | (260)    |
| Asset impairments  | 910      | 2,073    |
| Asset revaluation increment                                | (94)     | (65)     |
| Developer contributed assets                               | (48,137) | (35,574) |
|  |          |          |
| Movements in assets and liabilities:                       |          |          |
|  |          |          |
| Decrease/(increase) in receivables                         | (68)     | (16,082) |
| Decrease/(increase) in prepayments                         | (2,987)  | (228)    |
| Decrease/(increase) in inventories                         | (555)    | (1,142)  |
| Increase/(decrease) in payables                            | 19,371   | (4,045)  |
| Increase/(decrease) in unearned income                     | 759      | (1,732)  |
| Increase/(decrease) in current tax liability               | (5,080)  | 6,932    |
| Increase/(decrease) in provision for employee benefits     | (524)    | (167)    |
| Increase/(decrease) in other provisions                    | 33       | (2,185)  |
| Increase/(decrease) in deferred tax liabilities            | (4,725)  | 1,824    |
|  |          |          |
| Net cash inflow from operating activities                  | 92,029   | 73,877   |

# 8. Risks, contingencies and valuation judgements

City West Water is exposed to risk from its activities and outside factors. In addition, it is often necessary to make judgements and estimates associated with recognition and measurement of items in the financial statements.

# Structure

8.1 Financial instruments specific disclosures

8.2 Contingent assets and contingent liabilities

8.3 Fair value determination

# 8.1 Financial instruments specific disclosures

#### Introduction

Financial instruments arise out of contractual agreements that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Due to the nature of City West Water's activities, certain financial assets and financial liabilities arise under statute rather than a contract (for example, taxes, dividends and the Environmental Contribution). Such assets and liabilities do not meet the definition of financial instruments in AASB 132 - *Financial Instruments: Presentation.* 

# **Categories of financial instruments**

Receivables and cash are financial instrument assets with fixed and determinable payments that are not quoted on an active market. These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial measurement, receivables are measured at amortised cost less provision for impairment.

Financial liabilities are initially recognised on the date of origin. They are initially measured at fair value plus any attributable transaction costs. Subsequent to initial recognition, financial liabilities are measured at amortised cost, with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the interest bearing liability using the effective interest rate method. City West Water recognises the following liabilities in this category:

- payables (excluding statutory payables)
- borrowings.

Financial instrument assets and liabilities are offset and the net amount is presented in the balance sheet when the corporation has a right to offset the amounts and intends either to settle on a net basis or realise the asset and settle the liability simultaneously.

A financial asset is derecognised when the rights to receive cash flows from the asset have expired.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

At the end of each reporting period, the corporation assesses whether there is objective evidence that a financial asset or group of assets is impaired. All financial instrument assets are subject to annual review for impairment.

In assessing impairment of statutory (non-contractual) financial assets, which are not financial instruments, professional judgement is applied in assessing materiality using estimates, averages and other methods in accordance with AASB 136 - *Impairment of Assets*.

# 8.1.1 Categorisation of financial instruments

|                             | Note  | Contractual financial<br>assets - loans and<br>receivables | Contractual financial<br>liabilities at amortised cost |
|-----------------------------|-------|--|--|
| 2017                        |       | \$′000   | \$′000   |
| Financial assets            |       |  |  |
| Cash and cash equivalents   | 7.2   | 5,904  | -  |
| Receivables <sup>1</sup>    | 6.1   | 108,625  | -  |
| Total financial assets      | -     | 114,529  | -  |
| Financial liabilities       |       |  |  |
| Payables <sup>1</sup>       | 6.2   | -  | 65,764   |
| Borrowings - fixed          | 7.1.1 | -  | 1,052,500  |
| Borrowings - floating       | 7.1.1 | -  | 50,000   |
| Total financial liabilities | _     | -  | 1,168,264  |
| 2018                        |       |  |  |
| Financial assets            |       |  |  |
| Cash and cash equivalents   | 7.2   | 746  | -  |
| Receivables <sup>1</sup>    | 6.1   | 102,334  | -  |
| Total financial assets      | -     | 103,080  | <u> </u>   |
| Financial liabilities       |       |  |  |
| Payables <sup>1</sup>       | 6.2   | -  | 90,276   |
| Borrowings - fixed          | 7.1.1 | -  | 1,117,500  |
| Borrowings - floating       | 7.1.1 | -  | 62,700   |
| Total financial liabilities | _     | -  | 1,270,476  |

1. Does not include statutory receivables or payables.

# 8.1.2 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)
- borrowings.

City West Water's principal financial instruments are loans sourced from the Treasury Corporation of Victoria (TCV). These loans include overnight (11am) borrowings, floating rate notes and fixed rate loans. They are used to meet working capital requirements and fund capital expenditure. The corporation 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 a range that is in accordance with the risk criteria established by the Board of Directors. The Chief Financial Officer evaluates and implements risk mitigation strategies in consultation with the corporation's relevant departments. The main purpose in holding financial instruments is to prudently manage the corporation'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 ageing 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.

City West Water manages its capital by maintaining a prudent level of gearing in order to provide the State with adequate returns and to ensure City West Water 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%. City West Water's gearing ratio (debt/total assets) for the year was 49.8% compared to 48.3% in 2017.

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*
- 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*.

# 8.1.2.1 Financial instruments - credit risk

Credit risk is the risk of financial loss to City West Water as the result of a customer or counterparty to a financial instrument failing to meet a contractual obligation. 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. The corporation'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.

There was no material change to City West Water's credit risk profile during 2018.

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# 8 Risks, contingencies and valuation judgements (continued)

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

|                           | Note | Government<br>agencies | Financial<br>institutions | Other<br>unrated |
|---------------------------|------|------------------------|---------------------------|------------------|
|                           |      | AAA                    | AA-                       |                  |
| 2017                      |      | \$′000                 | \$′000                    | \$′000           |
| Cash and cash equivalents | 7.2  | 6,850                  | (946)                     | -                |
| Receivables <sup>1</sup>  | 6.1  | -                      | -                         | 108,625          |
| Total                     | _    | 6,850                  | (946)                     | 108,625          |
| 2018                      |      |                        |                           |                  |
| Cash and cash equivalents | 7.2  | 23                     | 723                       | -                |
| Receivables <sup>1</sup>  | 6.1  | -                      | -                         | 102,334          |
| Total                     | _    | 23                     | 723                       | 102,334          |

1. Does not include statutory receivables.

### 8.1.2.2 Financial instruments - liquidity risk

Liquidity risk is the risk that City West Water will no longer meet its financial obligations as they fall due. City West Water's policy is to pay its trade accounts payable liablilities within 30 days, or in the event of a 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.

The carrying amounts of contractual financial liabilities represent the corporation's maximum exposure to liquidity risk.

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 values 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.

#### 8.1.2.3 Financial instruments - 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 to its floating rate debt, roll 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 mixture of fixed and floating rate debt. City West Water's Treasury Risk Management Policy requires the corporation to limit the proportion of floating rate debt to a maximum of 30% 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.

# Interest rate exposure and maturity analysis of financial instruments

The carrying amounts of financial assets and financial liabilities that are exposed to interest rates and the corporation's sensitivity to interest rate risk is set out in the table below.

|                             |       | Weighted<br>average<br>interest | 1 Year  | Over 1    | Non-<br>interest |           |
|-----------------------------|-------|---------------------------------|---------|-----------|------------------|-----------|
|                             | Note  | rate                            | or less | year      | bearing          | Total     |
| 2017                        |       |                                 | \$′000  | \$′000    | \$′000           | \$′000    |
| Financial assets            |       |                                 |         |           |                  |           |
| Cash and cash equivalents   | 7.2   | 1.66%                           | 5,904   | -         | -                | 5,904     |
| Receivables <sup>1</sup>    | 6.1   |                                 | -       | -         | 108,625          | 108,625   |
| Total financial assets      |       | -                               | 5,904   | -         | 108,625          | 114,529   |
| Financial liabilities       |       |                                 |         |           |                  |           |
| Payables <sup>1</sup>       | 6.2   |                                 | -       | -         | 65,764           | 65,764    |
| Borrowings - fixed          | 7.1.1 | 4.49%                           | -       | 1,052,500 | -                | 1,052,500 |
| Borrowings - floating       | 7.1.1 | 2.09%                           | -       | 50,000    | -                | 50,000    |
| Total financial liabilities |       | -                               | -       | 1,102,500 | 65,764           | 1,168,264 |
| 2018                        |       |                                 |         |           |                  |           |
| Financial assets            |       |                                 |         |           |                  |           |
| Cash and cash equivalents   | 7.2   | 1.04%                           | 746     | -         | -                | 746       |
| Receivables 1               | 6.1   | _                               | -       | -         | 102,334          | 102,334   |
| Total financial assets      |       | -                               | 746     | -         | 102,334          | 103,080   |
| Financial liabilities       |       |                                 |         |           |                  |           |
| Payables <sup>1</sup>       | 6.2   |                                 | -       | -         | 90,276           | 90,276    |
| Borrowings - fixed          | 7.1.1 | 4.13%                           | -       | 1,117,500 | -                | 1,117,500 |
| Borrowings - floating       | 7.1.1 | 1.95%                           | 22,700  | 40,000    | -                | 62,700    |
| Total financial liabilities |       |                                 |         |           |                  |           |

1. Does not include statutory receivables or payables.

Interest rate risk sensitivity

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

|  |      |           |        | Interest ra | te risk |        |
|--|------|-----------|--------|-------------|---------|--------|
|  |      |           |        | -0.5%       |         | +0.5%  |
|  | Note | Total     | Profit | Equity      | Profit  | Equity |
| 2017                                   |      | \$'000    | \$′000 | \$′000      | \$′000  | \$′000 |
| Financial assets                       |      |           |        |             |         |        |
| Cash and cash equivalents <sup>1</sup> | 7.2  | 5,904     | (15)   | (15)        | 15      | 15     |
| Receivables <sup>2</sup>               | 6.1  | 108,625   | -      | -           | -       | -      |
| Total financial assets                 |      | 114,529   | (15)   | (15)        | 15      | 15     |
| Financial liabilities                  |      |           |        |             |         |        |
| Payables <sup>2</sup>                  | 6.2  | 65,764    | -      | -           | -       | -      |
| Borrowings <sup>3</sup>                | 7.1  | 1,102,500 | 680    | 680         | (680)   | (680)  |
| Total financial liabilities            |      | 1,168,264 | 680    | 680         | (680)   | (680)  |
| Total increase/(decrease)              |      |           | 665    | 665         | (665)   | (665)  |
| 2018                                   |      |           |        |             |         |        |
| Financial assets                       |      |           |        |             |         |        |
| Cash and cash equivalents <sup>1</sup> | 7.2  | 746       | (17)   | (17)        | 17      | 17     |
| Receivables <sup>2</sup>               | 6.1  | 102,334   | -      | -           | -       | -      |
| Total financial assets                 |      | 103,080   | (17)   | (17)        | 17      | 17     |
| Financial liabilities                  |      |           |        |             |         |        |
| Payables <sup>2</sup>                  | 6.2  | 90,276    | -      | -           | -       | -      |
| Borrowings <sup>3</sup>                | 7.1  | 1,180,200 | 920    | 920         | (920)   | (920)  |
| Total financial liabilities            |      | 1,270,476 | 920    | 920         | (920)   | (920)  |
| Total increase/(decrease)              |      |           | 903    | 903         | (903)   | (903)  |

1. Calculation is based on average cash holdings of \$3.3m (2017 \$3.0m).

2. Does not include statutory receivables and payables.

3. Calculation is based on new borrowings, loans refinanced, forward rate agreements struck during the year and average 11am balance during the year.

#### 8.2 Contingent assets and contingent liabilities

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

Contingent assets are assets that arise from past events, whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future event(s) that are not within the control of the corporation. These are classified as either quantifiable where the potential economic benefit is known or non-quantifiable.

Contingent liabilities are:

- possible obligations that arise from past events, whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future event(s) that are not within the control of the corporation, or
- present obligations that arise from past events but are not recognised because:
  - it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligations, or
  - the amount of the obligations cannot be measured with sufficient reliability.

#### Quantifiable contingent assets

In the ordinary course of business a developer will often provide a commitment to City West Water to construct water supply and sewerage assets as part of a development project. These assets are constructed within an agreed timeframe and upon completion, ownership is transferred to City West Water. Assets that service a particular development are paid for by the developer. Assets that are required to be upsized to service adjoining developments are paid for by City West Water. Upon completion of these assets they will be transferred to City West Water, which will maintain them in perpetuity. These assets will be recognised as developer contributions upon completion (refer Note 2.3).

|  | 2018    | 2017    |
|--|---------|---------|
|  | \$′000  | \$′000  |
| Quantifiable contingent assets         |         |         |
| Water supply assets under construction | 25,108  | 19,057  |
| Sewerage assets under construction     | 29,102  | 19,402  |
| Water supply assets committed to       | 34,094  | 25,829  |
| Sewerage assets committed to           | 46,689  | 41,899  |
| Total quantifiable contingent assets   | 134,993 | 106,187 |

#### Risks, contingencies and valuation judgements (continued) 8

# Quantifiable contingent liabilities

Contingent upon the completion of the above assets City West Water has a liability to reimburse developers for additional works constructed at City West Water's request. These reimbursements will occur either immediately on 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.

These reimbursements 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 2013 (for the 2018 reporting period).

|   | 2018   | 2017   |
|---|--------|--------|
|   | \$′000 | \$′000 |
| Quantifiable contingent liabilities       |        |        |
| Reimbursement for water supply assets     | 21,089 | 12,614 |
| Reimbursement for sewerage assets         | 47,998 | 42,414 |
| Total quantifiable contingent liabilities | 69,087 | 55,028 |

#### Non-quantifiable contingent assets and liabilities

City West Water has legal claims pending arising out of a small 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.

#### 8.3 Fair value determination

Fair value is 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.

The following assets and liabilities are carried at fair value:

- · land, buildings, infrastructure, property plant and equipment
- defined benefit superannuation liability/(asset).

In addition, the fair values of other assets and liabilities which are carred at amortised cost need to be determined for disclosure purposes.

# Fair value hierarchy

In determining fair value a number of inputs are used. To increase consistency and comparability in the financial statements, these inputs are categorised into three levels, also known as the fair value hierarchy. These levels are as follows:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities

- Level 2 valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 valuation techniques for which the lowest level • input that is significant to the fair value measurement is unobservable.

City West Water determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

#### 8.3.1 Fair value determination of financial assets and liabilities

The fair values of financial liabilities are determined as follows:

- Level 1 fair value of a financial instrument with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market prices
- Level 2 fair value is determined using inputs other than quoted prices that are observable for the financial asset or liability, either directly or indirectly
- Level 3 fair value is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using unobservable market inputs.

# Fair value of financial instruments measured at amortised cost and fair value hierarchy measurements

|                             |      | Carrying  | Fair      | Fair value measurement using |                      |           |  |
|-----------------------------|------|-----------|-----------|------------------------------|----------------------|-----------|--|
|                             | Note | amount    | value     | Level 1 <sup>3</sup>         | Level 2 <sup>4</sup> | Level 3 ⁵ |  |
| 2017                        |      | \$′000    | \$′000    | \$′000                       | \$′000               | \$′000    |  |
| Financial assets            |      |           |           |                              |                      |           |  |
| Cash and cash equivalents   | 7.2  | 5,904     | 5,904     | 5,904                        | -                    | -         |  |
| Receivables <sup>1</sup>    | 6.1  | 108,625   | 108,625   | -                            | 108,625              | -         |  |
| Total financial assets      | _    | 114,529   | 114,529   | 5,904                        | 108,625              | -         |  |
| Financial liabilities       |      |           |           |                              |                      |           |  |
| Payables <sup>1</sup>       | 6.2  | 65,764    | 65,764    | -                            | 65,764               | -         |  |
| Borrowings <sup>2</sup>     | 7.1  | 1,102,500 | 1,193,066 | -                            | 1,193,066            | -         |  |
| Total financial liabilities | _    | 1,168,264 | 1,258,830 | -                            | 1,258,830            | -         |  |
| 2018                        |      |           |           |                              |                      |           |  |
| Financial assets            |      |           |           |                              |                      |           |  |
| Cash and cash equivalents   | 7.2  | 746       | 746       | 746                          | -                    | -         |  |
| Receivables <sup>1</sup>    | 6.1  | 102,334   | 102,334   | -                            | 102,334              | -         |  |
| Total financial assets      |      | 103,080   | 103,080   | 746                          | 102,334              | -         |  |
| Financial liabilities       |      |           |           |                              |                      |           |  |
| Payables <sup>1</sup>       | 6.2  | 90,276    | 90,276    | -                            | 90,276               | -         |  |
| Borrowings <sup>2</sup>     | 7.1  | 1,180,200 | 1,256,849 | -                            | 1,256,849            | -         |  |
| Total financial liabilities |      | 1,270,476 | 1,347,125 | -                            | 1,347,125            | -         |  |

1. Does not include statutory receivables or payables.

2. Fair value of borrowings is calculated by discounting expected future cash flows at the yield offered by the Treasury Corporation of Victoria as at 30 June each year.

3. Quoted prices (unadjusted) in active markets for identical assets.

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

5. Inputs not based on observable market data.

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 each year.

There were no transfers between levels during the reporting period.

# 8.3.2 Fair value determination of non-financial physical assets

Subsequent valuation of infrastructure, property, plant and equipment is at fair value. An asset's fair value is determined with regard to the property's highest and best use after due consideration is made for any legal or constructive restrictions imposed on the asset, 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.

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 uses the highest and best use consideration 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.

Infrastructure assets are measured using the income approach (discounted cash flow method). This method

calculates fair value by discounting estimated future cash flows of the business to their present value and arriving at an enterprise value range. Net debt is deducted from the enterprise value range to obtain an equity value. The valuation of infrastructure assets is derived from the equity value after deducting all other assets and liabilities and grossing up for deferred tax of 30%. In order to assess the reasonableness of the enterprise valuation, cross checks are performed by comparing the earnings before interest, tax and depreciation and the regulated asset value multiples under the income approach against multiples implied by share prices for comparable trading organisations and recent transactions in comparable assets. Such an approach is often referred to as a market approach or a relative value approach. Judgement is applied in selecting the appropriate valuation within the enterprise value range.

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

Refer to Section 5 for further information on non-financial physical assets.

A full valuation of City West Water's infrastructure assets was performed by KPMG as at 30 June 2018. The valuation process derived a range of values. The valuation adopted by City West Water represents the mid-point of this range.

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 corporation after taking into account the market cost of debt and equity.

The 2018 valuation resulted in a decrement of \$19.5m compared to an increment of \$36.4m in 2017.

# Fair value of non-financial physical assets

| 2017  | Carrying  | Fair value           | Fair value measurement using: |                      |  |  |
|---|-----------|----------------------|-------------------------------|----------------------|--|--|
|   | amount    | Level 1 <sup>1</sup> | Level 2 <sup>2</sup>          | Level 3 <sup>3</sup> |  |  |
|   | \$'000    | \$'000               | \$'000                        | \$′000               |  |  |
| Freehold land at fair value                         | 32,320    | -                    | -                             | -                    |  |  |
| Non-specialised land                                |           | -                    | 1,003                         | -                    |  |  |
| Specialised land                                    |           | -                    | -                             | 31,317               |  |  |
| Non-specialised buildings at fair value             | 4,372     | -                    | 4,372                         | -                    |  |  |
| Infrastructure assets at fair value                 | 1,749,032 | -                    | -                             | 1,749,032            |  |  |
| Plant and equipment at fair value                   | 8,040     | -                    | -                             | 8,040                |  |  |
| Motor vehicles at fair value                        | 2,531     | -                    | -                             | 2,531                |  |  |
| Leasehold improvements at fair value                | 5,845     | -                    | -                             | 5,845                |  |  |
| Total infrastructure, property, plant and equipment | 1,802,140 | -                    | 5,375                         | 1,796,765            |  |  |
| 2018  |           |                      |                               |                      |  |  |
| Freehold land at fair value                         | 37,333    | -                    | -                             | -                    |  |  |
| Non-specialised land                                |           | -                    | 3,054                         | -                    |  |  |
| Specialised land                                    |           | -                    | -                             | 34,279               |  |  |
| Non-specialised buildings at fair value             | 6,846     | -                    | 6,846                         | -                    |  |  |
| Infrastructure assets at fair value                 | 1,788,261 | -                    | -                             | 1,788,261            |  |  |
| Plant and equipment at fair value                   | 5,399     | -                    | -                             | 5,399                |  |  |
| Motor vehicles at fair value                        | 2,385     | -                    | -                             | 2,385                |  |  |
| Leasehold improvements at fair value                | 5,442     | -                    | -                             | 5,442                |  |  |
| Total infrastructure, property, plant and equipment | 1,845,666 | -                    | 9,900                         | 1,835,766            |  |  |

1. Quoted prices (unadjusted) in active markets for identical assets.

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

3. Inputs not based on observable market data.

# Reconciliation of Level 3 fair value movements

| 2017  | Specialised<br>land | Infrastructure<br>assets | Plant and equipment | Motor<br>vehicles | Leasehold<br>improvements |
|---|---------------------|--------------------------|---------------------|-------------------|---------------------------|
|   | \$'000              | \$'000                   | \$'000              | \$′000            | \$'000                    |
| Opening balance at 1 July 2016                              | 29,335              | 1,656,984                | 8,655               | 2,239             | 5,563                     |
| Purchases (sales)   | -                   | -                        | -                   | (578)             | -                         |
| Transfers in (out) of Level 3                               | -                   | -                        | -                   | -                 | -                         |
| Developer contributed assets                                | -                   | 35,651                   | -                   | -                 | -                         |
| Transfers   | -                   | 54,563                   | 3,561               | 1,675             | 491                       |
| Adjustments   | -                   | (1,278)                  | -                   | -                 | -                         |
| Gains or losses recognised in profit after income tax       |                     |                          |                     |                   |                           |
| Depreciation  | -                   | (33,100)                 | (4,140)             | (805)             | (209)                     |
| Impairment  | -                   | (219)                    | (36)                | -                 | -                         |
| Revaluation increment/(decrement)                           | 65                  | -                        | -                   | -                 | -                         |
| Subtotal  | 65                  | (33,319)                 | (4,176)             | (805)             | (209)                     |
| Gains or losses recognised in Other<br>Comprehensive Income |                     |                          |                     |                   |                           |
| Revaluation increment/(decrement)                           | 1,917               | 36,431                   | -                   | -                 | -                         |
| Subtotal  | 1,917               | 36,431                   | -                   | -                 | -                         |
| Closing balance at 30 June 2017                             | 31,317              | 1,749,032                | 8,040               | 2,531             | 5,845                     |
| 2018  |                     |                          |                     |                   |                           |
| Opening balance at 1 July 2017                              | 31,317              | 1,749,032                | 8,040               | 2,531             | 5,845                     |
| Purchases (sales)   | -                   | -                        | -                   | (276)             | -                         |
| Transfers in (out) of Level 3                               | -                   | -                        | -                   | -                 | -                         |
| Developer contributed assets                                | -                   | 48,142                   | -                   | -                 | -                         |
| Transfers   | (187)               | 46,795                   | 383                 | 935               | 20                        |
| Gains or losses recognised in profit after income tax       |                     |                          |                     |                   |                           |
| Depreciation  | -                   | (35,447)                 | (3,024)             | (805)             | (423)                     |
| Impairment  | -                   | (748)                    | -                   | -                 | -                         |
| Revaluation increment/(decrement)                           | 94                  | -                        | -                   | -                 | -                         |
| Subtotal  | 94                  | (36,195)                 | (3,024)             | (805)             | (423)                     |
| Gains or losses recognised in Other<br>Comprehensive Income |                     |                          |                     |                   |                           |
| Revaluation increment/(decrement)                           | 3,055               | (19,513)                 | -                   | -                 | -                         |
| Subtotal  | 3,055               | (19,513)                 | -                   | -                 | -                         |
| Closing balance at 30 June 2018                             | 34,279              | 1,788,261                | 5,399               | 2,385             | 5,442                     |

# 8 Risks, contingencies and valuation judgements (continued)

# Description of significant unobservable inputs to Level 3 valuations

# 2017

| Asset                     | Valuation<br>technique                         | Significant<br>unobservable input                   | Range<br>(Weighted Average)               | Sensitivity of the input to fair value   |
|---------------------------|--|---|---|--|
| Specialised<br>land       | Market<br>approach                             | Community Service<br>Obligation (CSO)<br>adjustment | 9% - 40%<br>(27%)                         | An increase or decrease in a CSO<br>adjustment would result in a lower or<br>higher fair value.  |
| Infrastructure<br>assets  | Income<br>approach<br>(discounted<br>cash flow | Discount rate (WACC)                                | 5.4% - 6.0%<br>(5.7%)                     | An increase or decrease of 0.25% in the<br>estimated discount rate would result in an<br>increase of \$377m or a decrease of \$202m<br>to the valuation. |
|                           | method)  | Terminal growth rate                                | 3.25%<br>(3.25%)                          | An increase or decrease of 0.25% in the<br>terminal growth rate would result in an<br>increase of \$246m or a decrease of \$200m<br>to the valuation.    |
|                           |  | Inflation rate                                      | 2.5%<br>(2.5%)                            | An increase or decrease in the inflation rate would result in a higher or lower fair value.  |
|                           |  | Terminal value capital<br>expenditure               | \$94,383m -<br>\$115,357m<br>(\$104,870m) | An increase or decrease in the terminal value of capital expenditure would result in a higher or lower fair value.                                       |
|                           |  | Useful life   | 3 - 100 years<br>(76.7 years)             | An increase or decrease in the estimated<br>useful life of an asset would result in a<br>higher or lower fair value.                                     |
| Plant and equipment       | Current<br>replacement                         | Cost per unit                                       | \$1,000 - \$469,000<br>(\$16,000)         | An increase or decrease in cost per unit would result in a higher or lower fair value  |
|                           | cost   | Useful life   | 3 - 50 years<br>(12.8 years)              | An increase or decrease in the estimated<br>useful life of an asset would result in a<br>higher or lower fair value.                                     |
| Motor vehicles            | Current<br>replacement                         | Cost per unit                                       | \$6,000 - \$48,000<br>(\$33,000)          | An increase or decrease in cost per unit would result in a higher or lower fair value.   |
|                           | cost   | Useful life   | 5-15 years<br>(5.0 years)                 | An increase or decrease in the estimated<br>useful life of an asset would result in a<br>higher or lower fair value.                                     |
| Leasehold<br>improvements | Current<br>replacement                         | Cost per unit                                       | \$1,674 - \$724,000<br>(\$183,000)        | An increase or decrease in cost per unit would result in a higher or lower fair value.   |
|                           | cost   | Useful life   | 7 – 20 years<br>(15.3 years)              | An increase or decrease in the estimated<br>useful life of an asset would result in a<br>higher or lower fair value.                                     |

# 8 Risks, contingencies and valuation judgements (continued)

# 2018

| Asset                     | Valuation<br>technique                         | Significant<br>unobservable input                   | Range<br>(Weighted Average)        | Sensitivity of the input to fair value   |
|---------------------------|--|---|------------------------------------|--|
| Specialised<br>land       | Market<br>approach                             | Community Service<br>Obligation (CSO)<br>adjustment | 9% - 40%<br>(27%)                  | An increase or decrease in a CSO<br>adjustment would result in a lower or<br>higher fair value.  |
| Infrastructure<br>assets  | Income<br>approach<br>(discounted<br>cash flow | Discount rate (WACC)                                | 5.2% - 5.8%<br>(5.5%)              | An increase or decrease of 0.25% in the<br>estimated discount rate would result in an<br>increase of \$270m or a decrease of \$322m<br>to the valuation. |
|                           | method)  | Terminal growth rate                                | 3.25%<br>(3.25%)                   | An increase or decrease of 0.25% in the<br>terminal growth rate would result in an<br>increase of \$275m or a decrease of \$220m<br>to the valuation.    |
|                           |  | Inflation rate                                      | 1.9%<br>(1.9%)                     | An increase or decrease in the inflation rate would result in a higher or lower fair value.  |
|                           |  | Terminal value capital<br>expenditure               | \$83,768 - 102,384m<br>(\$93,076m) | An increase or decrease in the terminal value of capital expenditure would result in a higher or lower fair value.                                       |
|                           |  | Useful life   | 3 - 100 years<br>(74.2 years)      | An increase or decrease in the estimated<br>useful life of an asset would result in a<br>higher or lower fair value.                                     |
| Plant and equipment       | Current<br>replacement                         | Cost per unit                                       | \$1,000 - \$469,000<br>(\$16,000)  | An increase or decrease in cost per unit would result in a higher or lower fair value  |
|                           | cost   | Useful life   | 3 – 50 years<br>(13.8 years)       | An increase or decrease in the estimated useful life of an asset would result in a higher or lower fair value.   |
| Motor vehicles            | Current<br>replacement<br>cost                 | Cost per unit                                       | \$21,000 - \$49,000<br>(\$37,000)  | An increase or decrease in cost per unit would result in a higher or lower fair value.   |
|                           |  | Useful life   | 5 years<br>(5 years)               | An increase or decrease in the estimated<br>useful life of an asset would result in a<br>higher or lower fair value.                                     |
| Leasehold<br>improvements | Current<br>replacement                         | Cost per unit                                       | \$1,674 - \$724,000<br>(\$159,000) | An increase or decrease in cost per unit would result in a higher or lower fair value.   |
|                           | cost   | Useful life   | 7-20 years<br>(15.3 years)         | An increase or decrease in the estimated<br>useful life of an asset would result in a<br>higher or lower fair value.                                     |

The sensitivity of the fair value of infrastructure assets to a change in key assumptions is detailed in the table below.

| ASSUMPTION                          |        | 2018  |        | 2017  |
|-------------------------------------|--------|-------|--------|-------|
| Terminal year growth rate +/- 0.50% | -22.3% | 35.1% | -21.0% | 31.7% |
| Terminal year growth rate +/- 0.25% | -12.3% | 15.4% | -11.5% | 14.1% |
| Discount rate +/- 0.50%             | -27.8% | 44.4% | -25.8% | 39.7% |
| Discount rate +/- 0.25%             | -18.0% | 15.1% | -11.5% | 21.5% |

# 9. Other disclosure

This section includes additional material disclosures required by accounting standards or otherwise for the understanding of this financial report.

#### Structure

- 9.1 Responsible persons and executives
- 9.2 Related parties
- 9.3 Equity
- 9.4 Ex gratia expenses
- 9.5 Accounting Standards issued that are not yet effective
- 9.6 Subsequent events

## 9.1 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*.

## 9.1.1 Responsible persons

## Persons who held the position of responsible person at any time during the 2018 financial year were as follows:

| The Hon. Lisa Neville MP  | Minister for Water | 1 July 2017 - 30 June 2018      |
|---------------------------|--------------------|---------------------------------|
| Mr David Middleton        | Chair              | 1 July 2017 - 30 June 2018      |
| Mr David Ryan             | Managing Director  | 1 July 2017 - 30 June 2018      |
| Ms Elizabeth Parkin       | Director           | 1 July 2017 - 30 June 2018      |
| Ms Mary Beth Bauer        | Director           | 1 July 2017 - 30 June 2018      |
| Dr Bruce Cohen            | Director           | 1 July 2017 - 30 June 2018      |
| Ms Constantina Dertimanis | Director           | 1 July 2017 - 30 June 2018      |
| Ms Tania Fryer            | Director           | 1 October 2017 - 30 June 2018   |
| Mr Bill Jaboor            | Director           | 1 July 2017 - 30 June 2018      |
| Mr Christopher Lovell     | Director           | 1 October 2017 - 30 June 2018   |
| Mr Philip Clark           | Director           | 1 July 2017 - 30 September 2017 |
| Ms Kim McAliney           | Director           | 1 July 2017 - 30 September 2017 |

#### Persons who held the position of responsible person at any time during the 2017 financial year were as follows:

| The Hon. Lisa Neville MP  | Minister for Water  | 1 July 2016 20 June 2017   |
|---------------------------|---------------------|----------------------------|
| THE HOH. LISA NEVILLE MP  | WIINISTER TOT WATER | 1 July 2016 - 30 June 2017 |
| Mr David Middleton        | Chair               | 1 July 2016 - 30 June 2017 |
| Mr David Ryan             | Managing Director   | 1 July 2016 - 30 June 2017 |
| Ms Elizabeth Parkin       | Director            | 1 July 2016 - 30 June 2017 |
| Ms Mary Beth Bauer        | Director            | 1 July 2016 - 30 June 2017 |
| Mr Philip Clark           | Director            | 1 July 2016 - 30 June 2017 |
| Dr Bruce Cohen            | Director            | 1 July 2016 - 30 June 2017 |
| Ms Constantina Dertimanis | Director            | 1 July 2016 - 30 June 2017 |
| Mr Bill Jaboor            | Director            | 1 July 2016 - 30 June 2017 |
| Ms Kim McAliney           | Director            | 1 July 2016 - 30 June 2017 |

The Minister's remuneration and allowances are set by the *Parliamentary Salaries and Superannuation Act 1968* and are reported in the Department of Parliamentary Services' Financial Report.

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.

|                |        |                   | 2018   | 2017   |
|----------------|--------|-------------------|--------|--------|
|                |        |                   | No.    | No.    |
| \$             |        | \$                |        |        |
| 10,000         | -      | 19,999            | 2      | -      |
| 30,000         | -      | 39,999            | 2      | -      |
| 40,000         | -      | 49,999            | 2      | 7      |
| 50,000         | -      | 59,999            | 3      | -      |
| 90,000         | -      | 99,999            | 1      | 1      |
| 330,000        | -      | 339,999           | -      | 1      |
| 400,000        | -      | 409,999           | 1      | -      |
| Total          |        |                   | 11     | 9      |
|                |        |                   |        |        |
|                |        |                   | 2018   | 2017   |
|                |        |                   | \$'000 | \$'000 |
| Total amo      | ount   |                   | 854    | 793    |
| 9.1.2 E        | VOCU   | tives             |        |        |
| <b>7.1.2</b> L | .ccu   | uve5              |        |        |
|                |        |                   | 2018   | 2017   |
|                |        |                   | \$'000 | \$′000 |
| Short term     | n emp  | ployment benefits | 1,674  | 1,525  |
| Post empl      | oyme   | ent benefits      | 122    | 105    |
| Other long     | g terr | n benefits        | 34     | 34     |
| Terminatio     | on be  | nefits            | 130    | 80     |
| Total          |        |                   | 1,960  | 1,744  |
| Total emp      | oloye  | es (no.)          | 8      | 10     |

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

The number of executive officers other than the Minister or responsible persons and their total remuneration during the reporting period is shown in the table above.

Remuneration comprises employee benefits in all forms of consideration paid, payable or provided for by the corporation, or on behalf of the corporation, in exchange for services rendered, and is disclosed in the following categories:

Short term employee benefits - includes amounts such as wages, salaries, annual leave or sick leave that are usually

paid or payable on a regular basis, as well as non-monetary benefits such as allowances and free or subsidised goods or services.

5.8

6.0

Post-employment benefits - includes pensions and other retirement benefits paid or payable on a discrete basis when employment has ceased.

Other long term benefits - includes long service leave, other long service benefits and deferred compensation.

Termination benefits - includes termination of employment payments, such as severance packages.

#### 9.2 Related parties

#### **Relevant Minister**

The relevant Minister for City West Water for the period 1 July 2017 to 30 June 2018 was the Hon. Lisa Neville MP, Minister for Water.

# Transactions with the relevant Minister and relevant minister related entities

Outside of normal citizen type transactions, there were no material transactions with the relevant Minister, their close family members or business interests during the reporting period.

#### **Key Management Personnel**

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

The names of persons who were key management personnel of City West Water at any time during the current or previous financial years are as follows: D. Middleton, D. Ryan, E. Parkin, M. B. Bauer, B. Cohen, C. Dertimanis, T. Fryer, B. Jaboor, C. Lovell, P. Clark and K. McAliney.

#### Transactions with key management personnel and key management personnel related entities

Mr David Middleton is a Director of CH2MHill Australia Pty Ltd. During the year City West Water paid CH2MHill \$124,942 (2017 \$133,104) for services relating to works at the corporation's treatment plants.

Mr David Ryan is the Chair of the Managing Directors

#### **Payments to Key Management Personnel**

Committee of the Victorian Water Industry Association (VWIA) and is also a Director of VWIA. In addition, Ms Kim McAliney was an alternate Director of VWIA at the time of her cessation as a Director of City West Water on 30 September 2017. During the year City West Water paid \$127,709 (2017 \$179,805) to VWIA with a further \$4,250 (2017 \$0) outstanding and payable.

Ms Kim McAliney is a councillor and Deputy Mayor of the Wyndham City Council. Up until Ms McAliney's cessation as a Director on 30 September 2017 City West Water paid \$1,393,510 for the Armstrong Road dual water main project (2017 \$630,256) to Wyndham City Council. In addition, City West Water received \$1,205 (2017 \$218,303) with a further \$0 (2017 \$13,959) outstanding and payable for a range of services.

Mr Chris Lovell is the Chair of the CBD Community Reference Group - Melbourne Metro Rail Authority (MMRA), the Parkville Stakeholder Reference Group - MMRA, and the Parkville Community Reference Group - MMRA. During the year, the corporation received \$197,485 (2017 \$241,371) from Rail Projects Victoria (formerly MMRA) with a further \$85,776 (2017 \$19,948) outstanding and receivable for services rendered to the Metro Tunnel Project.

Outside of normal citizen type transactions, there were no further material transactions either with key management personnel, their close family members or business interests during the reporting period other than remuneration for employment.

Key management personnel with related party interests are not involved in any relevant decision making processes.

|                                       | 2018   | 2017   |
|---------------------------------------|--------|--------|
|                                       | \$′000 | \$′000 |
| Short term employment benefits        | 788    | 715    |
| Post employment benefits              | 58     | 57     |
| Other long term benefits <sup>1</sup> | 8      | 21     |
| Termination benefits                  | -      | -      |
| Total                                 | 854    | 793    |
| Total employees (no.)                 | 11     | 9      |

1. Other long term benefits represent long service leave.

#### Other related parties

All Victorian cabinet ministers and their close family members, as well as all departments and public sector entities that are controlled and consolidated into the whole of government consolidated financial statements are considered to be related parties of City West Water.

#### Transactions with cabinet members and related entities

Outside of normal citizen type transactions, there were no material related party transactions with cabinet members, their close family members or their personal business interests during the current or prior financial years.

#### 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 Minister for Water and makes income tax equivalent and dividend payments to the Victorian Government.

The below table details City West Water's dealings with government controlled entities, which are considered to be related parties of City West Water.

| 2017                                | Paid    | Payable | Received   | Receivable |
|-------------------------------------|---------|---------|------------|------------|
|                                     | \$      | \$      | \$         | \$         |
| South East Water                    | 177,284 | -       | 30,442     | 17,805     |
| Yarra Valley Water                  | 541,050 | -       | 37,421     | 6,694      |
| Goulburn Murray Water               | 384,780 | -       | -          | -          |
| Development Victoria                | 565,653 | -       | 16,231,714 | 231        |
| Western Water                       | 15,927  | -       | 500        | -          |
| Victorian Auditor-General's Office  | 171,050 | 57,900  | -          | -          |
| Rail Projects Victoria              | -       | -       | 241,371    | 19,948     |
| Environment Protection Authority    | 120,995 | -       | -          | -          |
| Energy and Water Ombudsman Victoria | 140,556 | -       | -          | -          |
| 2018                                |         |         |            |            |
| South East Water                    | 52,641  | -       | 66,095     | 24,866     |
| Yarra Valley Water                  | 338,110 | -       | 81,961     | 11,329     |
| Goulburn Murray Water               | 494,588 | -       | -          | -          |
| Development Victoria                | 4,948   | -       | 63,098     | -          |
| Western Water                       | 54      | -       | 108,394    | 5,105      |
| Victorian Auditor-General's Office  | 129,690 | 81,000  | -          | -          |
| Rail Projects Victoria              | -       | -       | 197,485    | 85,776     |
| Environment Protection Authority    | 122,154 | -       | -          | -          |
| Energy and Water Ombudsman Victoria | 89,472  | 52,611  | -          | -          |

#### **Related parties with significant transactions**

Payments and receipts in the tables below are presented on a cash basis inclusive of GST where applicable. Payables and receivables are presented on an accrual basis.

#### 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.

|   | 2018   | 2017   |
|---|--------|--------|
|   | \$′000 | \$'000 |
| Payments                                  |        |        |
| Environmental Contribution                | 18,563 | 18,563 |
| Parks Charge collected on behalf of DELWP | 49,092 | 45,832 |
| Other                                     | 138    | 106    |
|   |        |        |
| Receipts                                  | 2.210  | 2 456  |
| Billings and collection fee               | 2,210  | 2,456  |
| Other                                     | -      | 1,269  |
| Payables                                  |        |        |
| Parks Charge collected on behalf of DELWP | 43     | 62     |
|   |        |        |
| Receivables                               |        |        |
| Billings and collection fee               | 200    | 130    |

## **Department of Treasury and Finance**

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

|                              | 2018   | 2017   |
|------------------------------|--------|--------|
|                              | \$'000 | \$'000 |
| Payments                     |        |        |
| Dividend                     | 62,600 | 13,000 |
| Capital repatriation         | 10,880 | -      |
| Income tax equivalent        | 43,540 | 29,599 |
| Financial Accommodation Levy | 15,259 | 13,884 |
| Licence fee                  | 379    | 664    |
|                              |        |        |
| Payables                     |        |        |
| Income tax equivalent        | 10,430 | 15,511 |
| Financial Accommodation Levy | 4,120  | 3,453  |

# **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.

|                     | 2018   | 2017   |
|---------------------|--------|--------|
|                     | \$'000 | \$'000 |
|                     |        |        |
| Payments            |        |        |
| Finance costs       | 47,334 | 48,703 |
| Administration fees | 1,297  | 1,272  |

|                                | 2018<br>\$′000 | 2017<br>\$'000 |
|--------------------------------|----------------|----------------|
| Receipts                       | \$ 000         | \$ 000         |
| Net borrowings during the year | 77,700         | 11,800         |
| Interest received              | 72             | 7              |
|                                |                |                |
| Payables                       |                |                |
| Finance costs                  | 17,272         | 17,193         |
| Administration fees            | 483            | 457            |
| Total borrowings               | 1,180,200      | 1,102,500      |
|                                |                |                |
| Receivables                    |                |                |
| Interest receivable            | 7              | 2              |
| 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.

|  | 2018   | 2017    |
|--|--------|---------|
|  | \$′000 | \$′000  |
| Payments   |        |         |
| Bulk water and sewage charges 3                        | 40,692 | 339,714 |
| Drainage Charge collected on behalf of Melbourne Water | 64,188 | 64,351  |
| Property information statements                        | 218    | 214     |
| Other  | 364    | 160     |
|  |        |         |
| Receipts   |        |         |
| Billings and collection fee                            | 3,751  | 3,896   |
| Other  | 50     | 144     |
|  |        |         |
| Payables   |        |         |
| Bulk water and sewage charges                          | 2,874  | 2,540   |
| Drainage Charge collected on behalf of Melbourne Water | 1,274  | 1,678   |
| Property information statements                        | 103    | 106     |
| Other  | 16     | -       |
|  |        |         |
| Receivables  |        |         |
| Billings and collection fee                            | 200    | 130     |

# **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.

|                  | 2018   | 2017   |
|------------------|--------|--------|
| Douments         | \$′000 | \$′000 |
| Payments         |        |        |
| Land tax         | -      | 85     |
| Payroll tax      | 2,382  | 2,249  |
| Unclaimed monies | 1,475  | 364    |
|                  |        |        |
| Receipts         |        |        |
| Pension rebate   | 403    | 527    |
| Land tax refund  | 219    |        |
|                  |        |        |
| Payables         |        |        |
| Land tax         | -      | 36     |
| Payroll tax      | 195    | 195    |
|                  |        |        |
| Receivables      |        |        |
| Pension rebate   | 284    | 138    |

## **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.

|                                      | 2018   | 2017   |
|--------------------------------------|--------|--------|
|                                      | \$'000 | \$'000 |
| Payments                             |        |        |
| Safe Drinking Water Levy             | 138    | 135    |
| Other                                | -      | 2      |
| Pagainta                             |        |        |
| Receipts                             |        |        |
| Pension rebate                       | 21,252 | 21,924 |
| Administration fee on pension rebate | 179    | 205    |
| Dialysis users rebate                | 13     | 21     |
| Utility relief grant                 | 334    | 335    |
| Other                                | 19     | -      |
| Receivables                          |        |        |
| Pension rebate                       | 3,256  | 4,262  |
| Administration fee on pension rebate | 21     | 27     |
| Dialysis users rebate                | 5      | -      |

## 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.

# 9.3 Equity

|                                    | 2018    | 2017    |
|------------------------------------|---------|---------|
|                                    | \$'000  | \$′000  |
| Contributed equity                 | 200,128 | 211,008 |
| Physical asset revaluation surplus | 180,718 | 191,906 |
| Retained profits                   | 455,487 | 436,884 |
| Total equity                       | 836,333 | 839,798 |
| 9.3.1 Contributed equity           |         |         |

|   | 2018<br>\$'000 | 2017<br>\$'000 |
|---|----------------|----------------|
| Contributed equity at the beginning of the financial year | 211,008        | 211,008        |
| Capital repatriation                                      | (10,880)       | -              |
| Contributed equity at the end of the financial year       | 200,128        | 211,008        |

Consistent with the requirements of AASB 1004 *Contributions*, contributions by owners are treated as equity transactions and therefore do not form part of the income and expenses of City West Water. Additions to net assets that have been designated as contributions by owners are recognised as contributed capital. Other transfers that are in the nature of contributions to, or distributions by owners, have also been designated as contributions by owners.

## 9.3.2 Physical asset revaluation surplus

|   | 2018     | 2017    |
|---|----------|---------|
|   | \$'000   | \$′000  |
| Physical asset revaluation surplus at the beginning of the financial year | 191,906  | 157,898 |
| Infrastructure assets revaluation, net of tax                             | (13,948) | 32,221  |
| Land revaluation, net of tax  | 2,759    | 1,788   |
| Physical asset revaluation surplus at the end of the financial year       | 180,718  | 191,906 |

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

## 9.3.3 Retained profits

|   | 2018     | 2017     |
|---|----------|----------|
|   | \$′000   | \$′000   |
| Retained profits at the beginning of the financial year                   | 436,884  | 373,811  |
| Profit after income tax expense   | 79,042   | 73,601   |
| Final dividend paid during 2018 in respect of 2017                        | (48,200) | -        |
| Final dividend paid during 2017 in respect of 2016                        | -        | (13,000) |
| Interim dividend paid in respect of current year                          | (14,400) | -        |
| Actuarial gain/(loss) on defined benefit superannuation plan (net of tax) | 2,161    | 2,472    |
| Retained profits at the end of the financial year                         | 455,487  | 436,884  |

Retained profits represent accumulated retained profits over the lifetime of the corporation.

## 9.4 Ex-gratia expenses

|                               | 2018   | 2017   |
|-------------------------------|--------|--------|
|                               | \$'000 | \$′000 |
| Forgiveness or waiver of debt | 567    | 754    |
| Other                         | 12     | 1      |
| Total ex gratia expenses      | 579    | 755    |

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 corporation 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.

Ex gratia expenses are recognised as part of other expenses (refer Section 3).

# 9.5 Accounting standards issued that are not yet effective

Certain new Australian Accounting Standards have been published that are applicable to City West Water, but are not mandatory for the 30 June 2018 reporting period. These standards are listed below.

| STANDARD  | EFFECTIVE DATE | KEY CHANGES   | ІМРАСТ  |
|---|----------------|---|---|
| AASB 9 Financial<br>Instruments                     | 1 January 2018 | Key changes include simplified<br>requirements for the classification<br>and measurement of financial assets,<br>a new hedge accounting model and<br>a revised impairment loss model to<br>recognise impairment losses earlier<br>as opposed to the current approach<br>that recognises impairment only<br>when incurred. | The expected credit loss impairment<br>model introduced in AASB 9 will<br>result in an earlier recognition of<br>credit losses than has previously<br>been the case.<br>The impact of the change in<br>methodology is not expected to be<br>material.   |
| AASB 15 Revenue<br>from Contracts with<br>customers | 1 January 2018 | The core principle of AASB 15<br>requires an entity to recognise<br>revenue when the entity satisfies<br>a performance obligation by<br>transferring a promised good or<br>service to a customer.   | The changes in revenue recognition<br>requirements in AASB 15 may<br>result in changes to the timing<br>and amount of revenue recorded<br>in the financial statements. The<br>standard will also require additional<br>disclosures on service revenue and<br>contract modifications.<br>A preliminary assessment of the<br>changes has not identified any<br>material impact for City West Water.   |
| AASB 16 Leases                                      | 1 January 2019 | Key changes introduced by AASB<br>16 include the recognition of most<br>operating leases (which are not<br>currently recognised) on the Balance<br>Sheet.   | Assessment has indicated that City<br>West Water will need to include<br>most operating leases on the<br>Balance Sheet.<br>Recognition of lease assets and<br>lease liabilities will cause net debt to<br>increase. Depreciation of lease assets<br>and interest on lease liabilities will<br>be recognised in the Comprehensive<br>Operating Statement. Cash paid<br>for the principal portion of a lease<br>liability will be presented within<br>financing activities and interest<br>payments will be presented within<br>operating activities in the Statement<br>of Cash Flows. |

# 9.6 Subsequent events

No matter or circumstance has arisen since 30 June 2018 which has significantly affected, or may significantly affect:

- the corporation's operations
- the results of those operations
- the corporation's state of affairs in the financial year subsequent to 30 June 2018.

# **Statutory Certification**

The attached financial statements of City West Water Corporation (the corporation) have been prepared in accordance with Direction 5.2 of the Standing Directions of the Minister for Finance under the *Financial Management Act 1994*, 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 Comprehensive Operating Statement, 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 2018 and the financial position of the corporation at 30 June 2018.

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 28 August 2018.

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David Middleton Chair **David Ryan** Managing Director

**Michael Wootten** Chief Financial Officer

Melbourne 28 August 2018



# **Independent Auditor's Report**

To the Board of the City West Water Corporation

| Opinion  | I have audited the financial report of the City West Water Corporation (the corporation) which comprises the:   |
|--|---|
|  | <ul> <li>balance sheet as at 30 June 2018</li> <li>comprehensive operating statement for the year then ended</li> <li>statement of changes in equity for the year then ended</li> <li>statement of cash flows for the year then ended</li> </ul>  |
|  | <ul><li>notes to the financial statements, including significant accounting policies</li><li>statutory certification.</li></ul>   |
|  | In my opinion, the financial report presents fairly, in all material respects, the financial position of the corporation as at 30 June 2018 and their financial performance and cash flows for the year ther ended in accordance with the financial reporting requirements of Part 7 of the <i>Financial Management Act 1994</i> and applicable Australian Accounting Standards.  |
| Basis for<br>Opinion   | I have conducted my audit in accordance with the <i>Audit Act 1994</i> which incorporates the Australian Auditing Standards. I further describe my responsibilities under that Act and those standards in the <i>Auditor's Responsibilities for the Audit of the Financial Report</i> section of my report.   |
|  | My independence is established by the <i>Constitution Act 1975.</i> My staff and I are independent of the corporation in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 <i>Code of Ethics for Professional Accountants</i> (the Code) that are relevan to my audit of the financial report in Victoria. My staff and I have also fulfilled our other ethical responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion. |
| Information<br>other than the<br>Financial<br>Report,<br>Performance | The Board is responsible for the "other information" included in the corporation's annual report for the year ended 30 June 2018. The other information comprises the information in the annual report but excludes the financial report, the performance report and my auditor's reports thereon. My opinion on the financial report does not cover the other information included in the annual report and accordingly I do not express any form of assurance conclusion thereon.   |
| Report and<br>Auditor's<br>Reports                                   | In connection with my audit of the financial report, my responsibility is to read the other information when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a materially misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.   |
| Board's<br>responsibilities<br>for the<br>financial report           | The Board of the corporation is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the <i>Financial Management Act 1994</i> , and for such internal control as the Board determines is necessary to enable the preparation and fair presentation of a financial report that is free from material misstatement, whether due to fraud or error.  |
|  | In preparing the financial report, the Board is responsible for assessing the corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is inappropriate to do so.  |

Level 31 / 35 Collins Street, Melbourne Vic 3000

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## Auditor's responsibilities for the audit of the financial report

As required by the *Audit Act 1994*, my responsibility is to express an opinion on the financial report based on the audit. My objectives for the audit are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial report, whether due to
  fraud or error, design and perform audit procedures responsive to those risks, and obtain
  audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of
  not detecting a material misstatement resulting from fraud is higher than for one resulting
  from error, as fraud may involve collusion, forgery, intentional omissions,
  misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit 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 corporation's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board.
- conclude on the appropriateness of the Board's use of the going concern basis of accounting
  and, based on the audit evidence obtained, whether a material uncertainty exists related to
  events or conditions that may cast significant doubt on the corporation's ability to continue
  as a going concern. If I conclude that a material uncertainty exists, I am required to draw
  attention in my auditor's report to the related disclosures in the financial report or, if such
  disclosures are inadequate, to modify my opinion. My conclusions are based on the audit
  evidence obtained up to the date of my auditor's report. However, future events or
  conditions may cause the corporation to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Man

Paul Martin as delegate for the Auditor-General of Victoria

MELBOURNE 3 September 2018

# **APPENDIX 1:**

# Disclosure of information on letter of expectations Ministerial Reporting Direction 07

In February 2017, the Minister for Water wrote to all 19 Victorian water corporations to outline performance expectations for the 2018 year. The letter of expectations (LOE) outlined seven priority policy areas that water corporations were expected to focus on during the 2018 year. Performance indicators, definitions, measures and reporting requirements for the seven priority areas outlined in the LOE are identified in the table below.

| Priority Area   | Key Performance<br>Indicator   | Definition   | Measure  | Reporting<br>requirement<br>(Page number)   |  |        |
|---|--|--|--|---|--|--------|
| Climate Change  | E2<br>Emission reduction<br>pledges.   |  |  |   | Net tonnes of $CO_2$<br>equivalent emissions | 30, 33 |
| Providing services<br>that minimise<br>environmental<br>impacts, mitigate<br>climate change<br>and put in place<br>adaptation |  | (scope 1 and scope 2<br>emissions only) for the<br>whole business and its<br>activities. | Baseline established in the 2017 financial year.   |   |  |        |
|   | Pledges to commit<br>to specific actions<br>to achieve net zero<br>emissions e.g. Take 2<br>Pledge.  |  |  |   |  |        |
| strategies.   | Climate adaptation   | Planning for adaptation  | Baseline established   | 24–25, 27   |  |        |
|   | Apply the Guidelines for<br>Assessing the Impact of<br>Climate Change on Water<br>Supplies in Victoria and<br>demonstrate adaptation<br>by:                            | climate conditions Report or   | in 2017 financial year.<br>Report on progress<br>towards commitments.  |   |  |        |
|   | <ul> <li>their application in<br/>drought preparedness<br/>and urban water<br/>strategies (urban).</li> </ul>  |  |  |   |  |        |
|   | <ul> <li>rural water<br/>corporations develop<br/>low flow contingency<br/>plans that include an<br/>appropriate range<br/>of climate scenarios<br/>(rural)</li> </ul> |  |  |   |  |        |
| Customer and  | C1   | First response to  | Percentage of responses  | No report required.   |  |        |
| community<br>outcomes   | comes Customer satisfaction or ex<br>with response (including expe<br>ispects of digitally).<br>ice delivery<br>be customer<br>community                               | customer query meets<br>or exceeds customer<br>expectations.                             | that meet or exceed<br>customer expectations.<br>Baseline established in<br>the '2016/17 ESC WATER<br>PERFORMANCE REPORT<br>Performance of Victorian<br>urban water and<br>sewerage businesses'. | Department of<br>Environment, Land,   |  |        |
| All aspects of<br>service delivery<br>will be customer<br>and community<br>centred.   |  |  |  | Water and Planning<br>(DELWP) to obtain<br>data from Essential<br>Services Commission<br>(ESC). |  |        |

| Priority Area | Key Performance<br>Indicator   | Definition   | Measure   | Reporting<br>requirement<br>(Page number)   |
|---------------|--|--|---|---|
|               | C2<br>ESC customer satisfaction<br>survey.   | Customer confidence in performance of water corporation.                                     | Aggregate customer<br>satisfaction score for<br>water corporation.  | No report required.<br>DELWP to obtain<br>data from ESC.                            |
|               |  |  | Baseline established in<br>the '2016/17 ESC WATER<br>PERFORMANCE REPORT<br>Performance of Victorian<br>urban water and<br>sewerage businesses'. |   |
|               | C3   | Use of Department of   | A strategy that   | 16–17   |
|               | Appropriate<br>engagement methods<br>used when working with                                      | Environment, Land,<br>Water and Planning<br>community charter or<br>equivalent best-practice | demonstrates<br>approaches to<br>community engagement<br>that are open, honest  | Pricing Submission<br>Community<br>Engagement Process:                              |
|               | communities.   | engagement methods.  | and occur frequently.   | https://<br>www.gww.com.au/<br>about/corporate-<br>information/price-<br>submission |
|               | CR1  | Reduced number of  | No. of water quality<br>complaints regarding<br>discolouration, taste,<br>odour, stained washing,<br>illness or cloudy water<br>(ESC CRS 4).    | 55  |
|               | Water quality complaints<br>about colour, turbidity,<br>taste and odour reduced<br>year on year. | complaints per 1,000<br>customers year on year.  |   |   |
|               |  |  | Baseline established in<br>the '2017 ESC WATER<br>PERFORMANCE REPORT<br>Performance of Victorian<br>urban water and<br>sewerage businesses'.    |   |
|               | CR4  | Billing/payment issues complaints per 1,000  | Reduced number of complaints year on year.  | 15, 55  |
|               | Billing/payment issue complaints.  | customers year on year.  | complaints year on year.  |   |

| Priority Area   | Key Performance<br>Indicator   | Definition  | Measure  | Reporting<br>requirement<br>(Page number)   |
|---|--|---|--|---|
| Water for<br>Aboriginal<br>cultural,<br>spiritual and<br>economic values<br>Recognising<br>and supporting<br>Aboriginal<br>cultural values<br>and economic<br>inclusion in the<br>water sector. | AC1<br>Effective engagement of<br>Aboriginal communities<br>for involvement in<br>business opportunities<br>and access to water for<br>economic development. | Explore and develop<br>opportunities for<br>business arrangements<br>with Traditional<br>Owners and Aboriginal<br>enterprises to deliver<br>value for money<br>catchment and water<br>services.   | A strategy that<br>demonstrates how<br>the water corporation<br>will build capability<br>and understanding of<br>procurement processes<br>to address barriers for<br>Aboriginal enterprises to<br>supply goods/services to<br>water corporations.  | 22<br>Reconciliation Action<br>Plan<br>https://www.<br>citywestwater.<br>com.au/about_us/<br>reports_<br>publications/<br>reconciliation_<br>action_plan.aspx |
|   |  | Inform Traditional<br>Owners when<br>opportunities arise<br>to access water<br>entitlements within<br>existing framework.<br>Provide opportunities for<br>cross cultural learning<br>in the water sector, as<br>well as skills training<br>and employment for<br>Aboriginal Victorians. | Number of sponsorships<br>of Aboriginal people<br>in relevant study<br>and training courses,<br>including scholarships,<br>vocational education and<br>traineeships.<br>Staff have undertaken<br>a cross-cultural training<br>course (by relevant<br>Traditional Owner) in the<br>last five years. | 12, 22  |
|   | AC2<br>Effective engagement of<br>Traditional Owners for<br>inclusion of Aboriginal<br>values in water planning.   | Incorporate traditional<br>ecological knowledge<br>into water planning<br>and management using<br>Aboriginal Waterway<br>Assessments and other<br>tools developed by<br>Traditional Owners.<br>Notify and engage with<br>Traditional Owners to<br>achieve shared benefits.              | Number of engagements<br>with Traditional Owners<br>in water planning and<br>management and<br>reporting of outcomes.<br>Number of pilot<br>programs to test different<br>ways to achieve shared<br>benefits.  | 12, 22  |

| Priority Area   | Key Performance<br>Indicator  | Definition   | Measure   | Reporting<br>requirement<br>(Page number)                                  |
|---|---|--|---|--|
| Resilient and<br>liveable cities<br>and towns<br>Contributing<br>to healthy<br>communities by<br>supporting safe,<br>affordable, high<br>quality services<br>and resilient<br>environments. | L1<br>Enabling local<br>government and<br>communities to realise<br>liveability outcomes. | Facilitating local<br>government and<br>community projects with<br>liveability benefits.   | Engagement with<br>local councils and<br>sponsorships of<br>integrated water<br>management programs.  | 24   |
|   | L2<br>Water efficiency.   | Implement water<br>efficiency programs<br>aligned with Target 155<br>(Metros) and Target Your<br>Water Use (Regional<br>Urbans). Does not apply<br>to Rurals.  | Number of engagements<br>with local government,<br>schools and community<br>groups.   | 22   |
|   | L3<br>Victorian water bills are<br>amongst the lowest in<br>Australia.                    | Comparison with national average.  | Total residential bill<br>based on:<br>a) average<br>consumption<br>b) 200kl consumption.   | 16–17  |
|   | L4<br>Hardship programs.  | Customers accessing<br>hardship arrangements/<br>payment plans over<br>time. Develop capability<br>and capacity to improve<br>support for victims<br>of family violence<br>experiencing financial<br>hardship. | <ul><li>a) Percentage of<br/>customers on installment<br/>plans</li><li>b) Number of<br/>customers applied and<br/>awarded hardship grants.</li></ul> | No report required.<br>DELWP to obtain<br>data from ESC (UPP1<br>and UPP6) |

| Priority Area  | Key Performance<br>Indicator   | Definition   | Measure  | Reporting<br>requirement<br>(Page number)   |
|--|--|--|--|---|
| Recognising<br>recreational<br>values<br>Supporting the<br>wellbeing of rural<br>and regional<br>communities<br>by considering<br>the recreational<br>values in water<br>management. | Explicit inclusion of<br>recreational values in<br>planning and reporting<br>activities.                   | Recognise and support<br>recreational values<br>in water/waterway<br>planning, information<br>provision and<br>infrastructure. | Report on efforts taken<br>to work with community<br>members and other<br>government agencies<br>to explore cost effective<br>opportunities to<br>provide complementary<br>social, recreational and<br>economic benefits.  | 28–29   |
| Leadership and<br>Culture<br>Water<br>corporations<br>reflect the needs<br>of our diverse<br>communities.  | G1<br>Gender and cultural<br>diversity in workforce<br>including gender equity<br>in executive leadership. | Development of a<br>Diversity Inclusion Plan/s<br>that cover gender equity<br>and cultural, indigenous<br>inclusion.           | <ul> <li>Diversity Inclusion<br/>Plan/s provided to<br/>DELWP to establish<br/>baseline for each<br/>water corporation.</li> <li>Follow up on annual<br/>basis for predicted<br/>increase in the<br/>number of females<br/>occupying senior<br/>executive positions<br/>over projected five-<br/>year period.</li> <li>Adopt a 1% target<br/>for Aboriginal people<br/>in the business<br/>consistent with Vic<br/>government policy1<br/>and commit to a<br/>stretch target of 3%<br/>by 2020 (DELWP<br/>policy2).</li> <li>Increase capacity of</li> </ul> | 12<br>Diversity and<br>Inclusion Strategy:<br>https://www.<br>citywestwater.com.<br>au/documents/<br>diversity_inclusion_<br>accessible.pdf |

Traditional Owners to participate in boards and committees.

| Priority Area  | Key Performance<br>Indicator   | Definition  | Measure   | Reporting<br>requirement<br>(Page number)                     |
|--|--|---|---|---|
|  |  | Staff participation in the<br>Victorian Public Sector<br>Commission (VPSC)<br>People Matter Survey.<br>Water corporation<br>to encourage staff<br>participation to<br>complete annual survey<br>or equivalent survey. | <ul> <li>Number of<br/>respondents to the<br/>VPSC People Matter<br/>Survey from each<br/>water corporation<br/>increase over time.</li> <li>Results indicate<br/>favourable response<br/>to implementation<br/>of diversity inclusion<br/>plan.</li> </ul> | No report required.<br>DELWP to obtain<br>data from VPSC.     |
|  | G2<br>Annual board<br>performance report<br>prepared.  | Annual board<br>performance report<br>identifying areas for<br>further development.   | Board performance<br>report submitted in a<br>timely manner with<br>recommendations<br>for continuous<br>improvement.   | No report required.<br>DELWP to review<br>reports internally. |
|  | G3<br>Health and safety  | Sustained annual<br>improvement against<br>H&S performance<br>benchmarks<br>(AS/NZS standard 4801).   | Performance indicators<br>adopted to monitor<br>health and safety in line<br>with FRD 22H, section<br>6.10  | 12–13   |
| Financial<br>Sustainability<br>Delivering<br>safe and cost-<br>effective water<br>and wastewater<br>services in<br>a financially<br>sustainable way. | <ul> <li>F1 interest cover</li> <li>F2 gearing ratio</li> <li>F3 internal financing ratio</li> <li>F4 current ratio</li> <li>F5 return on assets</li> <li>F6 return on equity</li> <li>F7 EBITDA margin</li> </ul> | Financial indicators as<br>prescribed by DELWP's<br>Performance Reporting<br>Framework (PRF)  | Maintenance or<br>improvement of credit<br>rating.  | 53  |
|  | F8 credit rating   |   |   |   |

# **APPENDIX 2:**

# The United Nations Global Compact

As a signatory to the UN Global Compact, we outline below where our policies, actions and programs highlighted in this annual report align with the 10 principles of the UN SDGs.

|   | Global Compact Principles   | Page<br>Description Reference  |
|---|---|--|
|   | Human Rights  |  |
| 5 GENDER<br>EQUIALITY                           | <ol> <li>Businesses should support<br/>and respect the protection<br/>of internationally proclaimed<br/>human rights; and</li> <li>Make sure that they are pat</li> </ol> | City West Water is committed to providing a healthy and safe<br>workplace for all staff, customers and the community, where<br>the wellbeing of individuals is supported and diversity is actively<br>encouraged and championed. The following policies and programs<br>outlined in this report reflect this commitment: |
| 3 GOOD HEALTH<br>AND WELL-BEING                 | 2. Make sure that they are not<br>complicit in human rights<br>abuses.  | Diversity and Inclusion Strategy committing to fair and<br>equitable treatment for employees without regard<br>to race, colour, sexual preference, age, physical or<br>mental disability, pregnancy, religion, political opinion,<br>national extraction or social origin.   |
| 16 PEACE, JUSTICE<br>AND STRONG<br>INSTITUTIONS |   | Disability Policy and Action Plan to eliminate barriers     for people with disability accessing goods, services,     facilities and employment  |
|   |   | Health and Safety Policy, performance and associated     12–13     actions   |
| 1 <sup>po</sup> verty<br>∭ <b>*#</b> ∰#∭        |   | Community service actions and financial inclusion     programs to support customers and community     across our service area  |
| 10 REDUCED<br>INEQUALITIES                      |   | Our commitment and involvement in the WaterAid     program   |
| 2 ZERO<br>HUNGER                                |   |  |

| C      | Global Compact Principles  | Description  | Page<br>Reference |
|--------|--|--|-------------------|
| L      | .abour   |  |                   |
| 3      | <ol> <li>Businesses should uphold the<br/>freedom of association and<br/>the effective recognition of the<br/>right to collective bargaining;</li> </ol> | City West Water is committed to a diverse and inclusive we<br>culture free of discrimination where the human rights of en<br>customers and the community are supported. Our efforts a<br>through the following items in this report: | mployees,         |
| 4      | <ul> <li>The elimination of all forms of<br/>forced and compulsory labour;</li> </ul>  | Our employee targets for Aboriginal and Torres Strait     Islander peoples   | 11                |
| 5      | 5. The effective abolition of child  | Transparency in employee benefit reporting   | 68–72             |
| Ĵ      | labour; and  | Diversity and Inclusion Strategy and actions regarding   | 11–13             |
| e<br>P | <ol> <li>The elimination of<br/>discrimination in respect of<br/>employment and occupation.</li> </ol>   | equal opportunity and fairness   |                   |

|                                  | Global Compact Principles  | Description  | Page<br>Reference    |
|----------------------------------|--|--|----------------------|
|                                  | Environment  |  |                      |
| 7 AFFORDABLE AND<br>CLEAN ENERGY | <ol> <li>Businesses should support a precautionary approach to environmental challenges;</li> <li>Undertake initiatives to promote greater environmental responsibility; and</li> <li>Encourage the development and diffusion of environmentally friendly</li> </ol> | The protection and enhancement of our environment is en<br>in City West Water's vision for the future. City West Water is o<br>to benefiting customers and the community, and understa | dedicated<br>nds the |
| 14 UE                            |  | intrinsic link between water, the environment and human h<br>wellbeing. The following actions and strategies highlighted<br>annual report, reflect this commitment:                    |                      |
| 14 BELOW WATER                   |  | <ul> <li>Reporting on progress regarding our commitment and<br/>obligations outlined within our Environmental Policy</li> </ul>  | 30–33                |
|                                  |  | Climate Resilience Strategy  | 30                   |
| O INDUSTRY, INNOVATION           | technologies.  | Urban Water Strategy actions and report on progress  | 24                   |
|                                  |  | Our delivery of Greening the West initiative and<br>progress   | 28–29                |
| 90                               |  | Stormwater harvesting and IWM programs   | 24–25                |
| 15 LIFE DN LAND                  |  | Energy recovery and renewable energy implementation  | 34                   |
| 11 SUSTAINABLE CITIES            |  |  |                      |









|  | Global Compact Principles  | Description   | Page<br>Reference                      |
|--|--|---|--|
|  | Anti-Corruption  |   |  |
| 12 RESPONSIBLE<br>CONSUMPTION<br>AND PRODUCTION<br>COO<br>4 QUALITY<br>EDUCATION | 10.Businesses should work<br>against corruption in all its<br>forms, including extortion and<br>bribery. | City West Water is committed to ensuring transparency and<br>accountability in its administrative and management pract<br>the corporation supports the making of disclosures that re-<br>conduct, conduct involving a substantial mismanagement<br>resources or conduct involving substantial risk to public he<br>safety or the environment. | ices, and<br>veal corrupt<br>of public |
|  |  | Commitment to compliance with the Protected     Disclosure Act 2010   | 48                                     |
| 16 PEACE, JUSTICE<br>AND STRONG<br>INSTITUTIONS                                  |  | <ul> <li>Oversight of the corporation's financial reports and<br/>information by the Risk Management and Audit<br/>Committee</li> </ul>   | 44                                     |
|  |  | Reporting on related party transactions as part of our<br>Financial Statements.   | 111–116                                |
| 8 DECENT WORK AND<br>ECONOMIC GROWTH   |  |   |  |

# **APPENDIX 3:**

# Bulk water entitlement reporting

City West Water Corporation holds 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).

| REPORTING<br>REQUIREMENTS   | GREATER YARRA SYSTEM<br>– THOMSON RIVER POOL <sup>1</sup> | VICTORIAN<br>DESALINATION<br>PROJECT <sup>2</sup> | GOULBURN SYSTEM <sup>3</sup> | MURRAY RIVER ⁴               |
|---|---|---|------------------------------|------------------------------|
| Amount of water taken   | clause 16.1(a)  | clause 13.1(a)                                    | clause 14.1(b)               | n/a                          |
|   | 114,943 ML  | -   | -                            |                              |
| Opening carryover at  | clause 16.1(b) <sup>5,6</sup>                             | clause 13.1(a)                                    | clause 14.1(c)               | clause 11.1(a)               |
| 1 July 2018   | 139,082 ML  | -   | 9,882 ML                     | 6,416 ML                     |
| Annual water allocation   | clause 16.1(b)  | clause 13.1(a)                                    | clause 14.1(c)               | clause 11.1(a)               |
| made available during 2018  | 90,755 ML   | 3,960 ML  | 5,480 ML                     | 4,707 ML                     |
| Closing carryover as at   | clause 16.1(b) <sup>7,8</sup>                             | clause 13.1(a) <sup>9</sup>                       | clause 14.1(c) <sup>10</sup> | clause 11.1(a) <sup>11</sup> |
| 30 June 2018  | 111,081 ML  | 3,957 ML  | 5,206 ML                     | 4,480 ML                     |
| Compliance with   | clause 16.1(c) <sup>12</sup>                              | clause 13.1(e)                                    | n/a                          | n/a                          |
| entitlement volume  | 114,943 ML  | n/a   |                              |                              |
| Assignment of bulk  | clause 16.1(d)  | clause 13.1(b)                                    | clause 14.1(d)               | clause 11.1(b)               |
| entitlement   | -   | -   | - 9,882 ML                   | - 6,407 ML                   |
| Permanent transfer of all or  | clause 16.1(d)  | clause 13.1(b)                                    | clause 14.1(e)               | clause 11.1(c)               |
| part of bulk entitlement  | None  | None  | None                         | None                         |
| Approval, amendment and   | clause 16.1(e)  | n/a   | n/a                          | n/a                          |
| implementation of the<br>metering program   | continuing <sup>13</sup>                                  |   |                              |                              |
| Amendment of bulk   | clause 16.1(f)  | Clause 13.1(c)                                    | Clause 14.1(f)               | Clause 11.1(d)               |
| entitlement   | None  | None  | None                         | None                         |
| Any new bulk entitlement  | clause 16.1(g)  | clause 13.1(d)                                    | None                         | None                         |
| of water granted  | None  | None  |                              |                              |
| Any failure to comply with  | clause 16.1(h)  | clause 13.1(f)                                    | clause 14.1(g)               | clause 11.1(e)               |
| any provision of this bulk<br>entitlement   | None  | None  | None                         | None                         |
| Any difficulties experienced  | clause 16.1(i)  | clause 13.1(g)                                    | clause 14.1(h)               | clause 11.1(f)               |
| or anticipated in complying<br>with this bulk entitlement<br>and any remedial action<br>taken or proposed | None  | None  | None                         | None                         |

Notes for compliance with bulk entitlements:

- Consolidated Bulk Entitlement (Greater Yarra System -Thomson River Pool - City West Water) Order 2014 as at June 2017. Compliance requirements in clauses 16.1(a)-(i).
- Bulk Entitlement (Desalinated Water City West Water) Order 2014. Compliance requirements in clauses 13.1(a)-(g).
- 3. Bulk Entitlement (Goulburn System City West Water) Order 2012 as at June 2014. Compliance requirements in clauses 14.1(a)-(h).
- Bulk Entitlement (Murray River City West Water) Conversion Order 2012 as at July 2014. Compliance requirements in clauses 11.1(a)-(f).
- 5. Inclusive of 1,661 ML carried over in City West Water's Gippsland and Southern Rural Water sub-account.
- 6. Inclusive of all water carried over against Bulk Entitlement (Desalinated Water – City West Water) Order 2014.
- 7. Net of 3,768 ML of spills in respect of City West Water's Greater Yarra System Thomson River Pool account.

- 8. Net of 47 ML of spills in respect of City West Water's Gippsland and Southern Rural Water sub-account (refer note 6).
- Desalinated water carried over is held in the Melbourne Headworks System as defined in clause 5 of Bulk Entitlement (Desalinated Water – City West Water) Order 2014.

10.Inclusive of evaporation of 275 ML.

11.Inclusive of evaporation of 236 ML.

- 12. Annual entitlement volume is 152,797 ML.
- 13.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.

# **APPENDIX 4:** Disclosure index

City West Water's 2018 Annual Report is prepared in accordance with all relevant Victorian legislation and pronouncements including Financial Reporting Directions (FRDs), Ministerial Reporting Directions (MRDs) and Standing Directions of the Minister for Finance (SDs). This index has been prepared to facilitate identification of City West Water's compliance with statutory disclosure requirements.

| FRD 22HPurpose, functions, powers and dutiesFRD 22HKey initiatives and projectsFRD 22HNature and range of services providedAmagement = structureFRD 22HOrganisational structureFRD 22HDirectors of the BoardFInancial and structureInformationFRD 22HDirectors of the BoardFRD 22HDirectors of the BoardFRD 22HDisclosure IndexFRD 22HFive year summary of financial resultsFRD 22HDisclosure of ICT expenditureFRD 22HVorkforce data disclosureFRD 22HOperational and budgetary objectives and performance against objectivesFRD 22HSignificant changes in financial position during the yearFRD 22HMajor changes or factors affecting performanceFRD 22HHealth and safetyFRD 22HSubsequent eventsFRD 22HApplication and operation of the <i>Freedom of Information Act 1982</i> FRD 22HApplication and operation of the <i>Protected Disclosure Act 2012</i> FRD 22HStatement on National Competition PolicyFRD 22HEnvironmental performanceFRD 22HEnvironmental performanceFRD 22HCompliance with building and maintenance provisions of the <i>Building Act 1993</i> FRD 22HDetails of consultancies over \$10,000FRD 22HDetails of consultancies over \$10,000FRD 22HDisclosure of government advertising expenditure   | PAGE    |
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