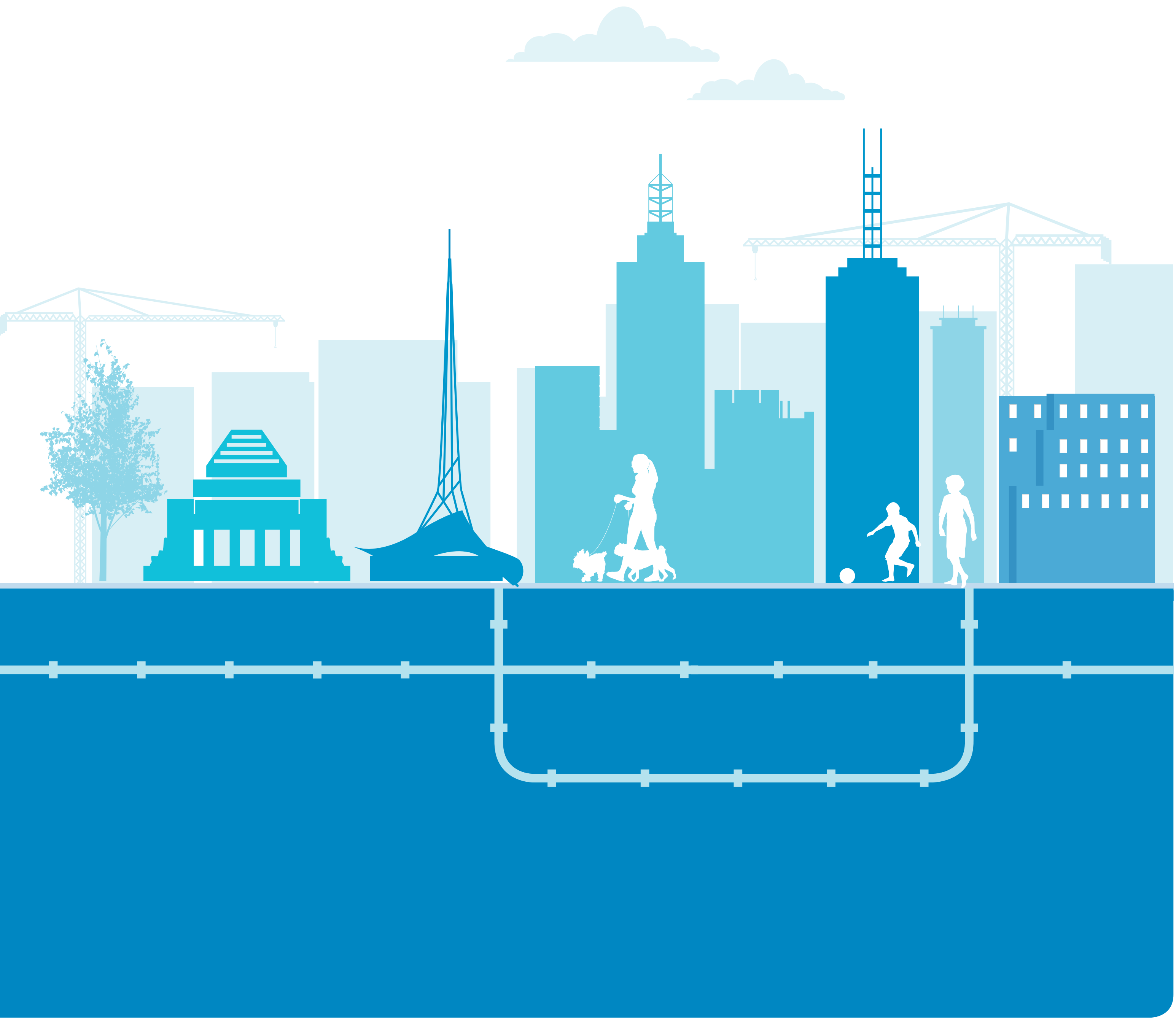
South East Water

healthy water for life

Annual Report

2016–17

Including the Consolidated Financial Report



Aboriginal acknowledgement

South East Water proudly acknowledges our region's Aboriginal communities and their rich culture and pays respect to their Elders past and present.

We acknowledge Aboriginal people as Australia's first peoples and as the Traditional Owners and custodians of the land and water on which we rely. We recognise and value the ongoing contribution of Aboriginal people and communities to Victorian life and how this enriches us. We embrace the spirit of reconciliation, working towards the equality of outcomes and ensuring an equal voice.

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Report of operations

Responsible body declaration

In accordance with the *Financial Management Act 1994*, I am pleased to present South East Water's annual report for the year ending 30 June 2017.

Lucia Cade
Chair

South East Water Corporation
4 September 2017

Overview

South East Water's vision is to provide healthy water for life and its fundamental purpose is to deliver high quality water, wastewater and recycled water services.

Values of clarity, unity, agility and delivery underpin the corporation's vision and purpose, while customers, efficiency, leadership and planning for future challenges are at the heart of South East Water's activities.

Manner of establishment and responsible minister

South East Water is a water corporation established under the *Water Act 1989*. The responsible Minister during the 2016–17 reporting period was the Hon Lisa Neville MP, Minister for Water. The Department of Environment, Land, Water and Planning (DELWP) was the responsible department.

Objectives, functions, powers and duties

Since becoming a statutory corporation in 2012, South East Water has operated under a Statement of Obligations issued by the Minister for Water under section 4I(2) of the *Water Industry Act 1994*.

The corporation's activities are governed by a number of other Acts, including the *Catchment and Land Protection Act 1994*, the *Safe Drinking Water Act 2003*, the *Food Act 1984* and the *Environment Protection Act 1970*.

The Environment Protection Authority Victoria (EPA Victoria) and the Department of Health and Human Services (DHHS) oversee recycled water quality and drinking water respectively.

The Essential Services Commission (ESC) is the water industry's economic regulator. Water plans outlining what South East Water will deliver and proposed prices are submitted to the ESC for review and approval. Water Plan 3 (2013–18) commenced on 1 July 2013.

Nature and range of services provided

South East Water delivers water, wastewater and recycled water services for more than 743,000 residential, commercial and industrial customers – encompassing more than 1.75 million people – within Melbourne's south east. South East Water's service region covers 3,640 square kilometres from Port Melbourne to Portsea and some 30 kilometres east of Pakenham. It is responsible for $4 billion of assets and manages more than 25,250 kilometres of pipeline to deliver its services with the support of 81 water pump stations, 262 sewage pump stations, nine recycled water pump stations, eight water recycling plants and one stormwater treatment plant.

South East Water is driven by a vision to provide healthy water for life, and is committed to providing customers with safe, affordable and sustainable integrated water solutions that are both resilient and adaptable to change.

South East Water takes pride in its record of consistently being one of Australia's most operationally efficient water utilities, while delivering a positive customer experience and managing water resources sustainably for today and the future.

South East Water's key stakeholders include customers, developers, the community, its people, the state government's departments and regulatory authorities, suppliers, local councils and business partners.

South East Water holds the ISO 14001 for Environmental Management, ISO 9001 for all aspects of its operations, AS/NZS 4801 for Occupational Health and Safety and certification to Hazard Analysis and Critical Control Points (HACCP), as well as the ISO22000 Food Quality Standard for management of water quality.

A message from the Chair and Managing Director

We are pleased to present South East Water's *Annual Report 2016–17* to provide an overview of our operational performance, audited financial reports and key highlights, along with statements on our governance and management practices.

As we enter the last year of the 2013–18 price regulatory period and we plan for the services we'll deliver our customers for 2018–23, we find ourselves in an exciting phase. As an organisation, we have been consolidating and enhancing the programs, plans and outcomes that the hard work of recent years has driven. From augmenting online services for customers and our property and development stakeholders to provide greater choice and convenience, to connecting our 2,000th customer to the sewer network in our Peninsula ECO program – we continued to build upon the services our customers have told us they want.

We have a responsibility to manage water resources on behalf of our customers and community for the future, and it's one we take seriously. In the past 12 months we've implemented some significant integrated water management programs that we believe will help transform how we consider traditional water supply to homes. This is particularly important in the face of climate change and a rapidly growing population, which will place pressure on Melbourne's waterways, reservoirs and sewer systems.

At the Aquarevo residential development in Lyndhurst, we're excited to be creating a landmark water-efficient community by plumbing three types of water into homes to showcase the possibilities of harnessing all sources of water available to us: drinking, recycled and rainwater. These will be supported by intelligent sewer systems and high tech rain-to-hot-water systems – just some examples of new, more efficient ways of using water sources.

We're also proud to be collaborating with stakeholders to design and plan an integrated approach to water supply and sewer systems at Fishermans Bend – Australia's largest urban renewal project. We aim to create a water sensitive community that dramatically cuts potable water consumption and reduces wastewater discharge, while creating a greener urban environment. And we delivered our *Urban Water Strategy* (released in July 2017) with six key actions we'll take to manage water resources for the next 50 years. We further cemented our commitment to our environment in 2017 with a pledge to reduce our carbon emissions to zero by 2030. These exciting initiatives will ensure our customers' needs are met well into the future in a way that protects and enhances the liveability of Melbourne.

It was due to these projects and the innovations we have invested in to deliver more sustainable solutions, that we were recognised by our global peers as a Leading Utilities of the World during the year. We see this as positive acknowledgement of how we're leveraging emerging technologies to manage the challenges of climate change, population growth, and changing customer expectations and to collaborate with others for greater customer benefit.

It is our customers who are at the very heart of our efforts to improve our services. By creating efficiencies, choice and greater reliability, we're delivering affordable, fair and high quality outcomes. We've spoken with many customers over the past 18 months as part of planning for our price submission, and they've told us they expect us to focus on the basics, make sure prices are fair for all, and to tell them about our services. We intend to deliver on these.

We've also been engaging with the indigenous community and the Traditional Owners of the land in which we operate to help us understand the cultural value of water and spiritual connection to land and water for these customers. Our Aboriginal Engagement Strategy will be adopted in 2017 and our leadership team and board will meet with Traditional Owners to develop the relationships and action plan that will underpin shared value.

Meanwhile, we're also continuing to share our innovations to provide value to other utilities both in Australia and abroad. Through iota Services, our Melbourne-made OneBox® technology and pressure sewer system is not only supporting local jobs, but also enabling growth of communities where traditional sewer systems are prohibitive and, particularly in Christchurch, New Zealand, it is supporting a city's regeneration. We're honoured that our inventions are delivering wide-reaching benefits.

Our people are central to these achievements. Their safety remains a priority for us, and during the year we trained all our employees in our top safety risks through our Living Safely Rules program. Similarly, our Safety and Wellbeing Strategy was launched and guides how we support our people and through our diversity and inclusion policy we've addressed our first year targets. These included building an employee profile that focuses on flexibility and caring responsibilities; gender equity; a gender pay gap analysis; and building strong relationships with disability employers.

On behalf of the board, we thank all our employees for their ongoing commitment to delivering healthy water for life. We also thank our outgoing Managing Director Kevin Hutchings for his leadership and 22 years of service to the corporation, and thank Charlie Littlefair for leading the organisation so well as Acting Managing Director for three months.

In accordance with the *Financial Management Act 1994*, we are pleased to attest that South East Water Corporation's *Annual Report 2016–17* is compliant with all statutory reporting requirements.

Lucia Cade
Chair

Terri Benson
Managing Director

4 September 2017

Year in review

Corporation highlights

South East Water's vision *healthy water for life* is the aspiration behind its many activities and achievements in 2016–17. Aligned to four strategic objectives that are underpinned by core business, values and behaviours, the corporation and its people continued to place customers, sustainability, efficiency and leadership at the heart of its activities – while anticipating future challenges.

South East Water also welcomed its new Managing Director, Terri Benson, who commenced in the role on 29 May 2017.

Strategic objective 1: customer value

We will continue to provide greater customer value by responding to the changing expectations and preferences of our customers and stakeholders.

Completed ✓	Ongoing ↺

Key initiatives		Our progress in 2016–17
Continue to evolve and innovate our digital customer experience to deliver greater customer and business value.	↺	Significant enhancements were made to the registration and concessions processes in mySouthEastWater, South East Water's online self-service hub. These changes have positively impacted customer experience delivering a 60 per cent reduction in customer enquiries related to these services. South East Water upgraded its smartphone app including offering water usage tips and Touch ID access. A complaints, feedback and enquiries form was also created for the mobile website.
Evolve our understanding of customer needs and expectations to innovate our service offerings, particularly around vulnerability and managing water use.	↺	South East Water's partnership with the University of Melbourne was designed to test the effectiveness of different behavioural interventions, particularly focused on reducing water usage. The first trial was successful, using an extension of the existing mySouthEastWater app to show water usage by day/week/month and down to the appliance level. Verbatim comments from customers participating in the trial highlighted they valued having access to an app that showed them how much water they used, with water saving efforts during the 5 – 7 am shower timeslot most impacted by this real-time information. At 30 June, a second trial was underway with 700 customers to test whether using a showerhead that displays water temperature and length has any effect on reducing water use.
Enhance our existing capability to provide proactive alerts and notifications for key products and services.	✓	The existing system that is used to issue an SMS or email notice to customers whose property is experiencing an emergency outage was successfully extended to include proactive alerts for planned water outages. This is a quicker, more efficient method that helps remove the need to rely on mailing or hand delivering notifications. It also provides a reminder of the planned outage prior to the event, informs customers when water supply is restored and offers them another convenient, timely channel to suit their communications preferences.
Increase the number of digital offerings available for land and property development customers.	↺	To create efficiencies, remove print-based processes and save customers' time, 13 processes were identified to be automated during 2016–17. At 30 June, three automation processes were completed, five in development and five awaiting implementation.
Develop and implement a holistic customer engagement framework to shape the way South East Water engages its customers.	↺	In 2016–17, South East Water undertook a customer research and engagement program to understand what value for money means for customers, what they are willing to pay for services, and how the application of charges could be improved. This was conducted to support the development of its water price submission for 2018–23.

Highlights in 2016–17 to deliver customer value

South East Water delivers its customers high quality water, wastewater and recycled water services. In 2016–17, the corporation supplied:

- 135 billion litres of drinking water
- 5.5 billion litres of recycled water.

It also collected 12.9 billion litres of sewage into its eight water recycling plants.

South East Water continued to enhance its service through the channels customers can use to make contact or pay their bill. With a rise in the number of customers electing to manage their account or seek support online, the number of phone enquiries continued to decline. The customer support team responded to more than 441,000 phone calls and emails from customers and held almost 30,000 live web chats. Monitoring customers' experience with South East Water, showed they gave a 93 per cent satisfaction rating in 2016–17, up four per cent on the previous year.

Support for customers

South East Water continued to proactively identify customers experiencing financial difficulty and supported more than 4,500 customers through its South East Water Assist program to apply for Utility Relief Grants, concessions and setting up payment plans. Through its partnership with Good Shepherd Australia New Zealand, 408 customers were also able to access free financial counselling.

The corporation connected with the community by attending events and programs that helped support and educate those experiencing vulnerability, homelessness, family violence, or those from culturally and linguistically diverse backgrounds. As a co-sponsor of Cultural Diversity Week and Day at the Melbourne Zoo, South East Water was able to engage with thousands of newly arrived refugees, asylum seekers and immigrants who are learning English through adult education centres across Melbourne (including offering an introduction on who their water and wastewater utility is, and how they can obtain support if needed).

South East Water was proud to participate in the Vulnerable Customer Taskforce, and to work with the ESC on guidelines for water corporations to implement to help address family violence. In 2016–17, work began to deliver against outcomes from the ESC's Report from the Royal Commission into Family Violence, and this will be a key program in the next financial year.

Creating efficiencies and streamlining processes is an ongoing commitment at South East Water, and in 2016–17 an automation to the notice of property sale process reduced processing times from three weeks to next-day. The introduction of an EFT payment option to business customers and a portal for real estate agents to pay group accounts provided additional choice and efficiencies for customers and the corporation.

In support of the water price submission for 2018, South East Water conducted research to better understand what customers value from its services and what they would be willing to pay or not pay for them. The results and feedback from customers are valuable, and will inform the services and prices proposed in the submission to the ESC.

Upgrading the water and sewer network

To deliver water and wastewater services to a growing population and continue to manage its 25,250 kilometre network of water and sewer pipes, in 2016–17 South East Water:

- built 109 kilometres of new water pipes, 175 kilometres of new sewer pipes and 87 kilometres of recycled water pipes to expand its existing network
- replaced 33 and 34 kilometres of ageing water and sewer pipes respectively.

In one significant sewer upgrade project, as at 30 June seven kilometres of ageing sewer main was in the process of being replaced between Mentone and Mordialloc, including along Beach Road.

South East Water also continued to play a significant support role in state government infrastructure projects by managing water and sewer realignments to enable other works to take place. These projects included a major tramline upgrade in Acland Street, St Kilda, an extension to the Monash Freeway, level crossing removal train line works, and the metro rail tunnel.

Year in review

Strategic objective 2: Environmental sustainability

We will support a more sustainable environment by ensuring our services are more resilient to climate change and that we reduce our impact on the environment. We will also play an active role in building more sustainable communities.

Completed ✓	Ongoing ↺

Key initiatives		Our progress in 2016–17
Further develop our approach to integrated water management as a long-term sustainable solution to water demand and supply through the delivery of the Aquarevo development.	Ongoing	Through the water efficient residential development Aquarevo, South East Water continued to deliver on its objective of further enhancing its integrated water management activities. The solutions at Aquarevo demonstrate there's a better way to use water at home, while enhancing liveability and delivering positive water-efficient outcomes for customers within the development, and the broader community through reduced reliance on our drinking water supplies. In partnership with Holmesglen Institute, South East Water developed a live training site replicating the water technology to be installed in Aquarevo homes, providing learning opportunities for local plumbers and builders while also providing stringent testing grounds for these new water technologies, including the rain-to-hot-water system.
Explore alternative service options to support a more sustainable environment.	Ongoing	South East Water collaborated with the City of Port Phillip, the City of Melbourne, and government agencies to develop plans for an integrated water system for Fishermans Bend, Australia's largest urban renewal project. As a result, there is an opportunity to dramatically cut drinking water consumption, reduce wastewater discharge and mitigate flood risk, while creating a greener urban environment.
Implement the Climate Change Mitigation Strategy, incorporating an energy efficient reduction strategy, to minimise our long-term impact on the environment.	Completed	South East Water developed its Climate Change Mitigation Strategy and an Emissions Reduction Pledge. These plans will outline the actions the corporation will take to achieve carbon neutrality by 2030 in support of the state government's *Water for Victoria* plan and its aims to mitigate the impacts of climate change. The Emission Reduction Pledge was included in the updated Statement of Obligations issued to South East Water by DELWP.
Develop solutions to replace or rehabilitate asbestos cement pipes.	Ongoing	South East Water completed trials of two innovative pipe liners on abandoned asbestos cement water mains. After the liners were installed, the pipes were exhumed and sent for rigorous industry tests to identify weaknesses. They passed the tests, giving South East Water confidence to continue testing the suitability of these pipe rehabilitation tools in future. South East Water also trialled a pipe slider removal tool on an abandoned asbestos cement main, delivering some success and identifying improvements. At 30 June, a second version of the pipe slider was being manufactured and a patent applied for.
Develop a new model for inspection management of septic tanks.	Completed	South East Water has partnered with Melbourne Water and the Mornington Peninsula Shire Council on a pilot project aimed at improved management of septic tanks. This is intended to help deliver better outcomes for the environment by reducing the number of failing septic tanks, and also helps delay the need to connect customers to the sewer network ahead of future planned works. The initial stages of the project have seen educational material provided to septic tank owners, engagement with the septic tank clean and pump-out operators and a significant increase in inspections of septic tanks by a field officer employed for the program. Current results indicate an improved environmental health outcome at a lower whole of community cost.
Develop an *Urban Water Strategy* to provide direction in managing long-term water security issues.	Completed	The corporation published its *Urban Water Strategy*, a 50 year plan that outlines how South East Water will manage its water supplies for its customers and community through six key actions to enhance water availability and create more liveable communities.

Highlights in 2016–17 to deliver environmental sustainability

In an Australian-first, South East Water installed solar technology to power a pressure sewer system at a community sports ground in Tootgarook. This demonstrated how solar supported by battery technology can pump wastewater from a pressure sewer holding tank to the reticulated sewer network. It also solved a failing septic tank and potential groundwater pollution issue for the Mornington Peninsula Shire Council-run reserve.

More than 10 per cent of the energy needs of South East Water's headquarters will be met through 400 solar panels installed on its roof. The 99kW panels are intended to deliver up to a third of the office's electricity needs during summer months, and form part of South East Water's upcoming climate change mitigation strategy.

An upgrade to increase treatment capacity and produce Class A recycled water at the Lang Lang Water Recycling Plant progressed during the year and is expected to be complete in 2017–18. The plant will collect and treat sewage from both South Gippsland Water and South East Water customers and provide greater access to recycled water for the local community for irrigation.

South East Water was proud to provide scientific expertise and development resources to test and aid research into biosolids and recycled water as part of its role joining the Co-operative Research Centre for High Performance Soils. Biosolids are a by-product of the sewage treatment process, and the corporation already produces these for use in agriculture as a fertilizer replacement.

Year in review

Strategic objective 3: Efficiency through innovation

We aim to operate more efficiently by enhancing our services and developing leading-edge, innovative water solutions.

Completed ✓ | Ongoing ↺

Key initiatives		Our progress in 2016–17
Establish a criteria for the installation of low pressure sewers in greenfield sites.	↺	Pressure sewer systems can provide a viable and cost-effective alternative to sewage removal compared with traditional gravity sewer systems. South East Water established criteria for installing these in greenfield areas in 2016–17, and pressure sewer systems were approved for installation in new residential developments in Lang Lang and in an industrial development in Dandenong South.
Align our systems with ISO 55001 to improve the effectiveness and efficiency of the management of our assets.	↺	South East Water already had a robust asset management system in place, and has updated the system to more strongly align it to ISO 55001. Further development and continuous improvement projects will support this system in the long term.
Trial internet of things (IoT) capability into South East Water sewer and water networks.	↺	In 2016–17 South East Water trialled IoT technology, including NB-IoT chipsets in digital meters and OneBox® devices and NB-IoT data transmission via NB-IoT enabled telecommunications towers. The corporation also successfully completed the end-to-end integration of IoT technology with its existing information technology systems. This work has enabled South East Water to embark on a broader IoT metering trial in 2017–18, working with meter vendors, telecommunications carriers and IT providers to test the reliability and performance of all aspects of the technology, and the value that can be delivered to customers. Learnings from these trials will support City West Water, South East Water and Yarra Valley Water who are collaborating on the metropolitan Melbourne Digital Metering Joint Program. Including to better understand the possibilities for leak detection; improved operational efficiencies; and cost savings for customers and the water corporations from digital meters.
Complete high level future state enterprise architecture incorporating the drivers around digital utility and ISO 55001.	✓	South East Water's digital utility program aims to integrate its water and sewer assets and devices using IoT technology to form intelligent infrastructure. The vision for South East Water as a digital utility focuses on how data, information and knowledge about its network and how customers use its services can be combined to deliver value, choice and control for customers and shareholders. To support the development of its digital utility program, South East Water developed a future state architecture plan that outlines the IT platforms required to achieve the desired outcomes.
Review our capital procurement models to ensure efficient delivery of our capital program.	✓	The capital procurement models review was completed with the renewals contract extended for 12 months.
Develop and deploy a new Information Security framework aligned to ISO 27001 and the new Victorian Protective Data Security Standards (VPDSS).	✓	South East Water revamped its information security framework and moved information security from being an IT risk into corporate-wide risk. During the year, all employees completed security awareness training and the corporation is pleased to have taken a lead role within the Victoria water industry in how it is approaching IT security.
Deliver advanced and predictive analytic capabilities around the management of asset and customers.	↺	The corporation conducted machine learning trials on assets to test this approach to advanced analytics. By receiving greater data about assets, machine learning can help predict their behaviours resulting in efficiencies and improved management of assets. These capabilities will form the building blocks required to support South East Water's Digital Utility Program.

Highlights in 2016 –17 to deliver efficiency through innovation

A $60 million upgrade to the Mt Martha Water Recycling Plant was completed and it is now the first treatment plant in Australia to use thermophilic anaerobic digestion. The process breaks down organic matter more quickly, which creates a more efficient treatment process and significantly reduces the plant's environmental impact by capturing and using more methane and producing less odour during the process. This innovation also has the potential to deliver significant savings by delaying the need for upgrades and new digesters.

South East Water commenced a trial to explore the benefits of identifying undetected leaks in the water network. The trial involved installing remote zone meters within the water network and digital water meters at approximately 700 residential properties. Together, the meters transmit regular readings of water flows into the network and to properties. The results and learnings from the trial will feed into South East Water's digital utility program to help inform greater network efficiencies, and water and cost savings to benefit customers and the corporation. The learnings will also be used to inform the metropolitan Melbourne Digital Metering Joint Program between City West Water, South East Water and Yarra Valley Water, who are working together to build a greater understanding of the benefits to customers, community and efficiencies that can be gained from digital water meters.

Engineered solutions

A re-engineering of South East Water's Blokaid remote sewer monitoring device, initially developed 10 years ago, aims to move sewer flow monitoring to a new frontier. The device leverages ultrasonic level sensors and cutting-edge electronics. The advanced Blokaid was designed by South East Water engineers and at 30 June 2017 initial prototypes were deployed.

South East Water engineers are also behind a new innovation that will see vibration sensors fitted to digital water meters to detect leaks within the water network. All leaks produce a vibration signature, and the sensor will identify where these are present. Prototype sensors were designed and tested, and a final design approved with devices due to be manufactured in late 2017.

iota and OneBox® technology

South East Water's wholly-owned subsidiary iota Services Pty Ltd is responsible for the commercialisation of innovative technologies emanating from the operational needs of South East Water. In 2016–17, iota progressed contracts for the use of OneBox® and low pressure sewer systems with water utilities in both Australia and overseas. OneBox® delivers reporting on sewer infiltration, and real-time control and monitoring of sewage flows.

Key contracts and trials of OneBox® low pressure sewer system include:

- a 10 year contract to supply OneBox® technology in all new developments in Christchurch, New Zealand across 7,500 properties
- installation of 152 systems in Western Bay of Plenty, New Zealand
- a trial of 50 OneBox® systems in Pitt Town, New South Wales, with a private water utility.

South East Water's Peninsula ECO program uses the OneBox® low pressure sewer system and it enabled the accelerated rollout of a reticulated sewer system to the southern Mornington Peninsula. In 2016–17, South East Water exceeded its connection targets for the third consecutive year and connected its 2,000th customer to the sewer system.

Year in review

Strategic objective 4: Proactive leadership

We will continue to develop our capabilities to respond to changing customer expectations. We will continue to build trust and cooperation within our business and with our shareholder, customers and community through effective communication and engagement.

Completed ✓	Ongoing ↺

Key initiatives		Our progress in 2016–17
Incorporate liv it behaviours into the employee performance management framework.	✓	The liv it safety behaviours, which outlines the behaviours expected of all employees, is now incorporated in the end of year Values Assessment. This forms part of the performance management framework for all employees.
Develop our approach to diversity and inclusion to ensure South East Water's workforce reflects the community we serve.	↺	The key year-one initiatives within South East Water's Diversity and Inclusion Framework have been completed and continue to evolve. Key advancements include: building an employee profile that focused on flexibility and caring responsibilities; a gender pay gap analysis; strong relationships with disability employers established; and unconscious bias training provided to all executive and people leaders.
Recruitment selection criteria reviewed by June 2017 to strengthen our focus on innovation.	✓	A review was completed and South East Water's recruitment and selection policy was updated to align to the corporation's strategic and operational objectives.
Review the performance management system to emphasise continuous learning and growth.	↺	Options to improve development as part of the performance management framework were reviewed. A growth pathways framework has been developed to support the transparency of technical and non-technical competency requirements against specific roles. Education sessions on the framework were held with employees across the business.
Develop and implement initiatives in response to findings from the annual stakeholder engagement survey.	↺	While the overall results of the stakeholder survey were high, it did highlight opportunities for further improvement. Recommendations were shared with all parts of the business with a greater focus placed on collaboration, communication and transparency. Customer perception of value for money of the services it receives from South East Water was highlighted as an area for improvement and a project to address this has commenced.
Promote employment opportunities and skill development within local communities.	✓	South East Water partnered with the Brotherhood of St Laurence to trial an intern program to offer employment opportunities to four youths within the local community. Three interns graduated, with one receiving a six month contract with South East Water and the remaining two in full time work at 30 June. The corporation also established partnerships with community employment providers including the Frankston branch of WISE employment group, and became a committee member on the Frankston Mornington Peninsula Community Investment group which establishes programs to address youth unemployment in the Frankston and Mornington Peninsula region. These evolving partnerships will enable South East Water to better understand youth and indigenous employment needs, and equip South East Water to implement targeted and relevant initiatives.
In collaboration with Gippsland Water, establish the most efficient solution for the treatment of waste water for customers within the Drouin and Longwarry area.	✓	A joint scheme is no longer needed due to Gippsland Water obtaining a new, large recycled water customer which will diminish the need to divert wastewater. South East Water also worked with EPA Victoria, which issued approval under strict licence conditions to divert excess winter flows to a nearby waterway. The approval followed on from an extensive ecological risk assessment undertaken by South East Water that identified discharging high quality treated effluent into the waterway at times of high flow (winter discharge only) significantly mitigated any environmental or health risk. The licence amendment removes the need to expand existing storage capacity at Longwarry Water Recycling Plant, and results in significant expenditure savings of approximately $12 million.

Highlights in 2016–17 to deliver proactive leadership

Safety and Wellbeing Strategy

South East Water's commitment to the safety and wellbeing of employees, contractors and its community was reinforced in the development of the new Safety and Wellbeing Strategy. A key deliverable included the development of the Living Safely Rules and training was rolled out to employees and relevant contractors. Refer to the statement on occupational health and safety on page 35 for more details. The strategy's focus areas include the renewal of the OH&S management system, development of safety cases, increased focus on operational risk, enhanced industry collaboration, progressing the safety culture and employee wellbeing.

Support for diversity and inclusion

The continued delivery of South East Water's Diversity and Inclusion Framework saw the rollout of unconscious bias training for all leaders within the organisation.

South East Water reviewed its procurement practices to ensure a proportion of contracts and purchases support social outcomes and local suppliers. As a founding member of a collaborative working group with VicWater and other metropolitan water utilities, South East Water is aiming to achieve positive social outcomes through combined purchasing power.

South East Water was proud to launch its Women in the Pipeline program, which aims to encourage an interest in water industry careers among female students. Noble Park Secondary College was the first school involved, with students gaining work experience, touring the Mt Martha Water Recycling Plant and education centre, and South East Water participating in the school's careers expo.

South East Water's people

South East Water developed its first five-year People Strategy, endorsed by the Board of Directors in 2017. The People Strategy supports the corporation's strategic priorities and its 'narrative' defines what the organisation aspires to culturally in 2021. An in-depth cultural audit was undertaken to identify the key focus areas that will support the delivery of the People Strategy. The audit measured high levels of employee engagement, trust and progression of its safety culture and identified the underpinning behaviours and values needed for future success.

In 2017 a new approach to employee reward and recognition was launched. The program includes formal, informal and peer-to-peer recognition. Designed in consultation with employees, the new program recognises behaviours aligned to South East Water's values.

The evolution of the employee value proposition included the delivery of a new online on-boarding solution and enhanced induction program.

Year in review

Five year financial summary

Financial results for the year ended 30 June extract	2013 ($M)	2014 ($M)	2015 ($M)	2016 ($M)	2017 ($M)
Total revenue	706.0	968.2	916.5	1,038.9	1,029.4
EBIT	138.1	196.0	195.4	253.3	273.0
Financial costs	62.9	69.7	77.1	80.5	81.0
Net result before tax	75.3	126.4	118.3	172.8	192.0
Tax expense	22.6	33.3	35.6	52.0	57.7
Net result after tax	**52.6**	**93.1**	**82.7**	**120.8**	**134.3**

Financial position as at 30 June extract	2013 ($M)	2014 ($M)	2015 ($M)	2016 ($M)	2017 ($M)
Total assets	3,298.6	3,509.4	3,781.4	3,873.8	3,993.6
Payables and provisions	662.5	678.4	692.9	656.4	641.1
Borrowings	1,045.5	1,162.0	1,321.1	1,386.5	1,460.2
Net assets	1,590.6	1,669.0	1,767.4	1,830.9	1,892.3

Financial result for the year ended 30 June extract	2013 ($M)	2014 ($M)	2015 ($M)	2016 ($M)	2017 ($M)
Operating	113.4	89.2	128.1	126.1	136.3
Investing	(172.5)	(189.9)	(233.3)	(153.4)	(162.7)
Financing	59.0	100.5	107.1	26.3	26.7

Current year financial review

South East Water delivered a solid financial result for 2016–17 driven largely by an increase in customers as a result of strong growth in both the development of new housing estates and of new housing in established areas, and lower expenses.

Customers benefited from the full pass through of lower wholesale charges as part of Melbourne Water's 2016–21 price determination and payment of the third instalment of the $100 Government Water Rebate. In 2016–17, this rebate totalled $67.8 million and was paid to residential, water usage customers through their bills. As scheduled, 2017–18 will be the fourth and final year the Government Water Rebate will be paid to customers.

The corporation's financial results demonstrate the benefits that management focus, strong cost control, innovation, ongoing improvements and efficiencies to core business, and investments in new technology and infrastructure have delivered. These activities support South East Water's preparation for the 2018–23 price submission and its aims of ensuring the corporation is well placed to deliver the services customers expect.

The financial year was also marked by the delivery of new customer payment channels, procurement efficiencies and the launch of the Aquarevo initiative, a collaboration with Villawood Properties, which saw the first four stages of land sell out.

Overall, the business was able to achieve a 0.8 per cent reduction in controllable operating costs in 2016–17 after allowing for inflation and growth in customer numbers.

Capital expenditure totalled $166.9 million, up $23.5 million on the prior year and reflects increased investments in network capacity, local water recycling plants, backlog sewer systems and new recycled water infrastructure. These investments included the installation of the first thermophilic anaerobic digestion system in Australia at the Mt Martha Water Recycling Plant, which will improve odour management, and create a more efficient treatment process. It also enabled the upgrade works at Lang Lang Water Recycling Plant, and the supply of 5.5 billion litres of recycled water.

Cash flows from operating activities also improved during 2016–17 due largely to lower wholesale water and sewerage charges and improvements in working capital management.

The financial position of the business continues to remain sound with gearing (net debt/[net debt+equity]) at 43.5 per cent and funds from operations net interest cover at 2.7 times. This is also supported by South East Water's standalone credit opinion of 'A-' which was reconfirmed by Fitch Ratings during the year.

Shareholder returns for the year included a final dividend of $47 million in respect of the 2015–16 financial year. The interim dividend for 2016–17 was deferred and will be paid as part of the final dividend payment in October 2017.

Capital projects

South East Water manages a number of capital projects, including water recycling plant upgrades and water and sewer system growth projects. For information on other recent capital projects for South East Water and the broader Victorian public sector, please refer to the most recent Budget Paper No. 4 State Capital Program (BP4) available on the Department of Treasury and Finance's website. This publication also contains information on Victorian govenment departments and their related portfolio agencies' asset investment programs.

Significant changes in financial position

There were no significant matters which changed South East Water's financial position during the reporting period.

Significant changes or factors affecting performance

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

Subsequent events

There were no events occurring after balance date which may significantly affect South East Water's operations in subsequent reporting periods.

Environmental reporting

Water consumption

Water consumption report

	Residential customers				Non-residential customers			
District	Number	Potable water (ML)	Recycled water (ML)	Recycled stormwater (ML)	Number	Potable water (ML)	Recycled water (ML)	Recycled stormwater (ML)
South East Water	684,589	102,772	485	0	58,451	32,218	5,008	0

Residential customers in the South East Water district consumed an average of 163 litres of potable water per person per day.

District	Total number of customers	Total potable water volume (ML)	Total recycled water volume (ML)	Total consumption (ML)	Average annual consumption (ML)
South East Water	743,040	134,990	5,493	140,483	131,651

	Non-revenue water				
District	Leakage (ML)	Firefighting (ML)	Other (ML)	Total non-revenue water	Total water all sources
South East Water	11,826	525	6,269	18,620	159,103

Corporate water consumption report

Location	Average full time equivalent employees and contractors	Office space (m2)	Water consumption (kL)	kL/FTE	Water consumption by office space (l/m2)*
101 Wells Street Frankston	567	11,731	2,253	4.0	192

South East Water's headquarters also includes rainwater use for toilet flushing and garden irrigation. This system is not metered and therefore is not reflected in the data. Data is for the headquarters in Frankston only, and excludes water consumption by employees based at water recycling plants and storage sites.

Major non-residential water users

Customer by volume range

South East Water supplies water to 19 non-residential customers that use more than 100 ML per year.

Volumetric range – ML per year	Number of customers
Equal to or greater than 100 ML and less than 200 ML	13
Equal to or greater than 200 ML and less than 300 ML	2
Equal to or greater than 300 ML and less than 400 ML	2
Equal to or greater than 400 ML and less than 500 ML	1
Equal to or greater than 500 ML and less than 750 ML	1
Equal to or greater than 750 ML and less than 1,000 ML	-
Greater than 1,000 ML	-
Total number of customers	**19**

Names of major customers

Name of customer	Name of customer
Alfred Health	Lesaffre Australia Pacific Pty Ltd
Australian Meat Properties Pty Ltd	Mondelez Australia (Foods) Ltd
Bluescope Steel Limited	G & K O'Connor Pty Ltd
Coca-Cola Amatil (Aust) Pty Ltd	Parmalat Australia Ltd
Corval Ingham Pty Ltd	Saurin Investments Pty Ltd
Crown Melbourne Ltd	Simplot Australia Pty Ltd
Defence Corp Support Sth Vic	Southern Health Care Network Monash Medical Centre Clayton
Esso Aust Ltd	Southern Health Care Network Dandenong and District Hospital
Fountain Gate Trust	USG Boral Building Products Pty Ltd
L D & D Milk Pty Ltd	

Participation in water conservation programs

South East Water provides water efficiency support to all business customers through the availability of water and energy calculators and a national industry water use benchmarking resource. The Water Management Action Plan (WaterMAP) program became voluntary in 2011 and during 2016–17 no customers participated in the program.

Trade Waste Management

South East Water works with trade waste customers to manage the quality and quantity of the waste they discharge. In 2016-17, there were 10,575 customers who contributed a combined volume of over 5, 237 ML of trade waste. Charges for trade waste customers contributed $22.8M in 2016-17.

Environmental reporting

Environmental and social sustainability reporting

Sustainable water use

South East Water promotes the integrated and sustainable use of water resources in its region, including better use of alternative supplies, by undertaking the following actions:

Water recycling

South East Water has eight water recycling plants that each produce Class A or Class C recycled water. In 2016–17, construction works continued at the Lang Lang Water Recycling Plant to upgrade its treatment from Class C to Class A, and planning commenced for an upgrade to the Boneo Water Recycling Plant to expand its daily Class A production capacity.

In 2016–17, the corporation supplied customers with 5.5 billion litres of recycled water for reuse and continued to expand its recycled water network. This included three new schools in the outer south east suburbs of Officer, Clyde North and Cranbourne West and nearly 5,300 residential homes, which receive the alternative supply for toilet flushing, garden watering and use in the washing machine. At 30 June, South East Water had close to 24,400 homes in its region able to receive recycled water. This is in addition to the large open spaces and sporting ovals irrigated with recycled water by the Mornington Peninsula, Frankston, Casey and Cardinia councils, and the vineyards, golf courses, market gardens, nurseries and turf growers which rely on it to support their businesses.

Water efficiency

South East Water continued to encourage schools within its service region to join the Schools Water Efficiency Program, which helps them to identify leaks and understand and reduce their water use through deployment of a data logger and access to regular water usage readings. The program is funded by DELWP and Department of Education and Training, and at 30 June 237 schools in the region were participating in the program. They have collectively saved 693 million litres of water worth an estimated $2.4 million since 2012. This has also reduced South East Water's energy use by 75 tonnes of carbon since 2012 through water it hasn't needed to pump and manage through its network.

South East Water also continued to promote to its customers the Target 155 program and through water bills, website content, social media posts and videos, encouraged them to be aware of their water use and aim to keep it below Melbourne's average daily use per person.

To support customers accessing a greater range of water efficiency tips, South East Water partnered with Smart Approved Water Mark – an international water efficiency program that certifies products and services that save water and provides advice about these online.

The corporation also collaborated with all Victorian water utilities to develop a joint approach towards creating water efficient communities through a strategy that seeks to enhance customer value and promote sustainable water use behaviours. The Victorian Water Efficiency Strategy will be finalised in 2017–18.

More than 15,000 members of the culturally and linguistically diverse community in Melbourne attended events and presentations hosted by the South East Water Assist team on water awareness education for new migrants, asylum seekers, refugees, students and families.

To support water efficiency behaviour change, the corporation is conducting a behavioural research trial with University of Melbourne that is designed to provide greater understanding on water use information and how it can help customers. The first phase of the trial began in 2016 and the second and third phases will continue into 2018.

Sustainable and resilient water services systems

For Fishermans Bend, Australia's largest urban renewal project, South East Water has continued to collaborate with key stakeholders and authorities to design water and sewer services for the region. These plans seek to ensure water reuse, waste regeneration, stormwater harvesting and sewer mining are some of the sustainable systems in place for this community in future.

South East Water also collaborated with City West Water and Yarra Valley Water to agree standard diagrams based on the corporation's designs for installation of food and oil interceptors. A consistent approach across Melbourne provides greater ease for plumbers, building consultants and developers to understand the requirements for the interceptors, which have a significant role in capturing greasy waste and preventing it from entering Melbourne's sewer systems.

South East Water worked to improve how groundwater discharge from construction sites to the sewer system is managed, considering optimum flow capacity and helping keep healthy saline limits to support recycled water programs.

With the Aquarevo project, South East Water is collaborating with Villawood Properties to create a residential development where homes feature a range of unprecedented water saving features. Homes will be built to receive three types of water: drinking, recycled and rainwater. Each source is specifically chosen for its intended use, reducing reliance on drinking water for uses that don't require it. Homes will also use pressure sewer systems to pump wastewater to a local water recycling plant within the residential development, where water will be treated to Class A standard and sent back to each home for use in the garden, toilet or washing machine.

Sustainable water strategies

South East Water's *Urban Water Strategy* was published in 2016–17, outlining a 50-year plan to sustainably manage water resources for the future in the face climate change and a population that's set to nearly double by 2065. It outlines six key actions the corporation will take to enhance water availability and create more liveable communities, including delivering effective wastewater systems and creating water efficient communities.

South East Water has developed a regional strategy for managing sewer services in the rapidly growing Cardinia-Clyde region. This sets out plans to reduce reliance on potable water by making recycled water available for household and agricultural use.

Sustainable and resilient water services systems

With regards to water efficiency and sustainable and resilient water services systems, South East Water undertook the following activities:

Community education and water awareness campaigns

The Mt Martha Water Recycling Plant is home to an education centre that hosts tours of school students and community groups who learn how sewage is collected and treated. In 2016–17, 2,180 people toured the plant.

To communicate water efficiency tips in line with the reintroduction of Target 155, South East Water developed a proactive social media campaign that ran over the summer months when water use tends to increase. This water awareness campaign used Facebook and Twitter to share videos depicting four different customers who shared their own water use tips. Combined, there were more than 440,000 views of the videos and the customer support team reported lower 'high water use' bill questions and contacts from customers than the previous year.

The research project with University of Melbourne (also referenced on pages 6 and 18) focuses on engaging customers about their water use and encouraging them to be more aware of their consumption and to change their water use behaviours.

Local scout groups are now able to complete their waterwise badge through new water-based learning activities, and a new children's water club was launched where families who register receive a letter about water education each term.

South East Water supported 59 local community events across its region with access to free drinking water through its portable hydration station.

During Cultural Diversity Week, South East Water spoke with thousands of customers across three events supporting Harmony Day in Pakenham, Day at the Melbourne Zoo, and Melbourne's Multicultural Festival at Federation Square. This week is the culmination of ongoing engagement South East Water undertakes throughout the year to support and educate customers who may be new settlers, refugees, asylum seekers or part of the region's culturally and linguistically diverse (CALD) communities. Additionally, South East Water supports local and state National Aborigines and Islanders Day Observance Committee (NAIDOC) events, and is a member of the South East CALD Network.

South East Water also partnered with the City of Casey and the Royal Botanic Gardens to host the annual Cranbourne Family Day, which focuses on engagement with families and diverse communities.

Community consultation and engagement to help water cycle decision making

At the Aquarevo residential development, a small water recycling plant will be built to treat waste from homes in the estate, turn it into Class A recycled water, and return it to homes for use in toilet flushing and outdoor garden watering – closing the loop. In 2016–17, property owners in the estate and within nearby suburbs were consulted about the water recycling plant and invited to ask questions, have a say and vote and comment on ideas about the plant in an online engagement forum.

As part of the development of South East Water's *Urban Water Strategy*, which outlines how the corporation will manage water resources for the future, South East Water conducted research with customers to understand their views on the value of water, and to explore what alternative water sources they would consider using for appropriate purposes to help reduce reliance on Melbourne's drinking water supplies.

Environmental reporting

Work undertaken with industry to improve water management outcomes

To help protect harmful waste from entering the sewer, South East Water works with businesses to help them manage their waste and meet acceptance parameters. This includes working with food retailers to install food and oil interceptors that collect grease and fats before they enter the sewer. This is managed through a Wastelog program and in 2016–17 nearly 25 million litres of fats, oils and grease were prevented from entering the sewer and congesting pipes. South East Water also worked with customers, other water utilities and the ESC to determine a more appropriate measure for sodium levels which can impact the quality of waste entering the sewer and affect the production of recycled water.

South East Water continued to collaborate and provide advice to industry associations like the Master Plumbers, and the Association of Hydraulics Services Consultants Australia on ensuring appropriate standards and codes are followed, including in the Fishermans Bend region where recycled water and rainwater plumbing requirements need to be incorporated in the building designs.

Work undertaken with local government and the community to realise water's interface with liveability outcomes, including healthier urban waterways, effective and affordable wastewater systems, reduced drinking water consumption and increased use of alternative water sources

South East Water worked with Kingston City Council, Frankston City Council and Glen Eira Council during the year to discuss providing information to ratepayers about the Target 155 program and the importance of water efficiency. These messages were shared through council newsletters and social media channels, and the aim is for ongoing engagement with local government to expand information sharing across the region.

One of South East Water's strategic initiatives is to develop a new model for the inspection of septic tanks (refer to page 8). To achieve this, South East Water is partnering with Mornington Peninsula Shire Council and Melbourne Water to support healthier waterways and environment by implementing a septic tank monitoring program. By improving management of septics, it is preventing groundwater pollution from failing tanks. Greater engagement with septic tank owners is helping to educate them about the importance of healthy sewer systems and their relationship to liveability outcomes for the community.

Promote efficient use of drinking water and increased use of alternative water sources with householders and businesses

South East Water promoted the efficient use of drinking water through a number of channels, using the Target 155 program as a key message. These included South East Water's website, on its bills and envelopes, through social media, and at community events. The high water use campaign (see page 19) through social media supported the message that small behaviour changes can make a difference to water usage.

Through its annual *Purple Press* newsletter sent to customers with recycled water supply, South East Water encourages the use of the alternative resource and promotes the benefits of access to it and the positive effect it has on helping reduce demand on drinking water supplies.

Reporting on environmental flow recommendations and availability and delivery of environmental flow allocations

South East Water has water management strategies in place, including with the other metropolitan water utilities and Melbourne Water, to ensure all environmental flow obligations within the bulk entitlement framework for the Melbourne water supply system are met. Similarly, strategies exist to manage water allocations holdings in the Murray River and Goulburn System to maximise the value of the resources held to customers and minimise risk of spilling water allocation. These strategies include the transfer of allocations between bulk entitlement allocation accounts and trading water allocations.

Uniform drought response plan

Permanent water saving (use) rules were in place for Melbourne at 30 June 2017. South East Water published its Drought Preparedness Plan, incorporating its Uniform Drought Response Plan, but the plan was not invoked in 2016–17. In accordance with the plan all metropolitan water corporations and Melbourne Water published an annual Water Outlook on 1 December 2016. It outlined a number of individual and joint industry short and medium-term actions to improve future drought response. During the year, 46 ML of desalinated water was delivered to Melbourne's water supplies.

Other statutory obligations

Catchment Management Strategy

South East Water is a founding stakeholder of the Port Phillip and Westernport Catchment Management Authority (PPWCMA) Living Links catchment program. Living Links is a large-scale environmental and social project involving councils, government agencies and community groups working together to create a web of green spaces in Melbourne's south east. It aims to improve the connections between the many parks, reserves, open spaces, coasts, beaches, pathways, rivers, creeks and wetlands to make this area a world-class urban ecosystem. Living Links is one of the key projects underpinning the regional catchment strategy to which South East Water actively contributes. In 2016–17, Living Links has achieved improved community connectivity, liveability and environmental outcomes across key project areas through delivering pest plant control across 37.4 ha of disturbed land, establishing 8.1 ha of long-term planted communities and hosting four community events.

Victorian Biodiversity Strategy

South East Water aims to continually improve environmental performance and contribute to protecting ecological biodiversity for present and future generations. As part of the corporation's environmental initiatives, biodiversity assessments have been reviewed and a holistic *Biodiversity Master Plan* created for key sites where biodiversity values have been identified. The *Biodiversity Master Plan* has been developed with the aim to preserve and improve the natural biota within the area South East Water has stewardship and to create an asset which is valued by the community. In 2016–17, South East Water improved the habitats for the southern brown bandicoot at its Koo Wee Rup Water Recycling Plant and the sugar glider at its Mt Martha Water Recycling Plant; initiated the rehabilitation of the Tootgarook wetlands at its site on Browns Road; and removed noxious weeds and planted indigenous species to improve waterway health along Deep Creek in Pakenham and Balcombe Creek in Mt Martha.

Victorian Waterway Management Strategy

South East Water complied with all its environmental obligations in regards to its bulk water entitlements. Additionally, the corporation played an active role with Melbourne Water to improve local waterway health through its improved septic tank management pilot program.

State Environmental Protection Policy (Waters of Victoria)

South East Water actively contributed to the ongoing review by DELWP on the State Environmental Protection Policy (Waters of Victoria). The corporation participated in a number of workshops aimed at improving the policy clauses while also trialling a number of pilot projects to assist in the science that sits behind the development of this policy, such as the Elster Creek wet weather overflow study.

Environmental reporting

Greenhouse gas emissions and net energy consumption

In 2016–17, South East Water developed its Climate Change Mitigation Strategy and an Emissions Reduction Pledge. These plans will outline the actions the corporation will take to achieve carbon neutrality by 2030 in support of the state government's *Water for Victoria* plan and its aims to mitigate the impacts of climate change.

CO_2 equivalent emissions	2016–17	2015–16	2014–15	2013–14	2012–13
Water treatment and supply (tonnes)	5,515	5,981	5,915	5,218	6,053
Sewage treatment and management (tonnes)	34,700	31,648	33,502	29,262	31,766
Transport (tonnes)	1,540	1,549	1,489	1,445	1,377
Other (tonnes)	1,694	2,609	2,394	2,200	2,665
CO_2 offsets (tonnes)	-1,351	-1,472	-974	-1,762	-1,650
Total CO_2 emissions (tonnes)	41,322*	40,315	42,327	36,363	40,212
Energy use – non fleet GJ	119,774	112,683	106,264	101,884	108,781

* This is a preliminary result based on available data at the time of reporting. A more comprehensive and accurate result will be available at the submission of National Greenhouse and Energy Reporting in October 2017.

Net energy consumption

	2016–17	2015–16	2014–15	2013–14	2012–13
Water net energy consumption as kWh/ML	28.1	29.4	32.2	29.9	34.9
Sewage net energy consumption as kWh/ML	171.2	176.5	184.1	148.0	151.5

Social sustainability

Community service obligations

South East Water manages the following community service obligations that were funded by the State Government of Victoria in 2016–17.

Value of community service obligation provided	2016–17 ($)	2015–16 ($)
Provision of concessions to pensioners	45,651,373	44,752,177
Rebates paid to not-for-profit organisations under the water and sewerage rebate scheme	889,831	811,296
Utility Relief Grants Scheme payments	814,826	630,560
Water concession on life support machines (haemodialysis)	30,933	32,016
Hardship Relief Grant Scheme (Sewer Connection Scheme)	0*	2,900

* In 2016–17, the backlog sewer connections team informed customers about the Hardship Relief Grant Scheme however no customers applied for and received a grant.

Compliance with South East Water's bulk entitlements

South East Water holds bulk entitlements to the water resources of the Greater Yarra System – Thomson River pool, the Victorian Desalination Project and bulk entitlements in the River Murray and Goulburn System.

South East Water's reporting requirements	Greater Yarra System – Thomson River Pool[1,2]	Desalinated water[7,8]	Goulburn System[11,12]	Murray River[15,16]
The annual volume of water taken	Clause 16.1 (a) 152,475.0 ML	Clause 13.1 (a) 16,469.5 ML[9]	N/A	N/A
The water allocation volume made available	Clause 16.1 (b) 170,318.6[3] ML	N/A	Clause 14.1 (c) 6,833.0 ML[13]	Clause 11.1 (a) 4,786.5 ML[17]
The volume of carry over	Clause 16.1 (b) 181,916.5 ML	N/A	N/A	N/A
Compliance with the entitlement volume	Clause 16.1 (c) Yes[4]	Clause 13.1 (e) Yes[10]	N/A	N/A
Any temporary assignment or permanent transfer of all or part of entitlement	Clause 16.1 (d) -3,281.0 ML[6]	Clause 13.1 (b) 0 ML	Clause 14.1 (d) -3,525.0 ML Clause 14.1 (e) 0 ML	Clause 11.1 (b) -1,260. 0 ML Clause 11.1 (c) 0 ML
The approval, amendment and implementation of the metering program	Clause 16.1 (e) Continuing[5]	N/A	N/A	N/A
Any amendment to this entitlement	Clause 16.1 (f) Yes[6]	Clause 13.1 (c) Nil	Clause 14.1 (f) Nil	Clause 11.1 (d) Nil
Any new entitlement of water granted	Clause 16.1 (g) Nil	Clause 13.1 (d) Nil	N/A	N/A
Any failure to comply with any provision of this entitlement and any remedial action taken or proposed	Clause 16.1 (h) None	Clause 13.1 (f) None	Clause 14.1 (g) None	Clause 11.1 (e) None
Any difficulties experienced or anticipated in complying with this entitlement and any remedial action taken or proposed	Clause 16.1 (i) None	Clause 13.1 (g) None	Clause 14.1 (h) None	Clause 11.1 (f) None
Daily amount of water taken from the waterway	N/A	N/A	Clause 14.1 (a) 0 ML[14]	N/A
Annual amount of water taken from the waterway	N/A	N/A	Clause 14.1 (b) 0 ML[14]	N/A

Environmental reporting

Notes for compliance with bulk entitlements

Greater Yarra System – Thomson River Pool

1. South East Water holds Bulk Entitlement (Greater Yarra System–Thomson River Pool – South East Water) Order 2014 – WSE000077.
2. South East Water is a primary entitlement holder with a delivery bulk entitlement to 206,281.0 ML.
3. The Resource Manager – Melbourne Water makes seasonal allocations monthly.
4. Compliance with the entitlement volume is measured by compliance with the overall cap within the source entitlements for the Thomson and Yarra systems (held by Melbourne Water). The caps were complied with. Further, South East Water understands that Melbourne Water has meet all minimum environmental flow obligations contained in its source entitlements.
5. Metering programs for this bulk entitlement are continually maintained and reviewed via the Bulk Water Supply Agreement between South East Water and Melbourne Water and System Management Rules established by Melbourne Water.
6. On 1 June 2017, South East Water's bulk entitlement WSE000077 was amended by Order to give the Victorian Environmental Water Holder a 3.9 per cent share of inflow into the Thomson Reservoir and an additional 8 GL of storage capacity. South East Water's share of that equated to a reduction of its entitlement within the Greater Yarra System – Thomson River Pool entitlement by 3,281.0 ML. In June 2016, the state reached consensus with South East Water and the other Melbourne retailers to reduce its entitlement by 3,281 ML to provide additional environmental resources in the Thomson River.

Victorian Desalination Project

7. South East Water holds Bulk Entitlement (Desalinated Water – South East Water) Order 2014 – WSE000053.
8. South East Water may take an average annual volume of up to 53,454 ML of desalinated water over any period of five consecutive years that is delivered to a delivery point to the Melbourne headworks system.
9. In March 2016, the Hon Lisa Neville MP, Minister for Environment, Climate Change and Water made a 50 GL desalinated water order for the 2016–17 year, of which South East Water's share is 17,818 ML. As of 30 June 2017, 16,469.5 ML was delivered to South East Water's system. On 16 May 2017, the Minister for Water announced a further water order of 15 GL to be delivered during 2017–18.
10. Compliance with the entitlement volumes is measured with respect to whether the annual volume taken exceeds the entitlement. This did not occur this year.

Goulburn System

11. South East Water holds Bulk Entitlement (Goulburn System – South East Water) Conversion Order 2012 – WSE000009.
12. South East Water is entitled to a water entitlement in the Goulburn System equal to one-ninth of the total Phase 4 water savings achieved in the Goulburn component of the Goulburn Murray Irrigation District (GMID) from Goulburn Murray Water Connections Project Stage 1 as verified in the latest audit.
13. South East Water's annual water allocation in a given year from the Goulburn System is equal to one-ninth of the total Phase 3 water savings achieved in the previous year of the Goulburn component of the GMID from the Goulburn Murray Water Connections Project Stage 1 as verified in the latest audit.
14. Diversion limits are specified in Clause 9 of the Bulk Entitlement.

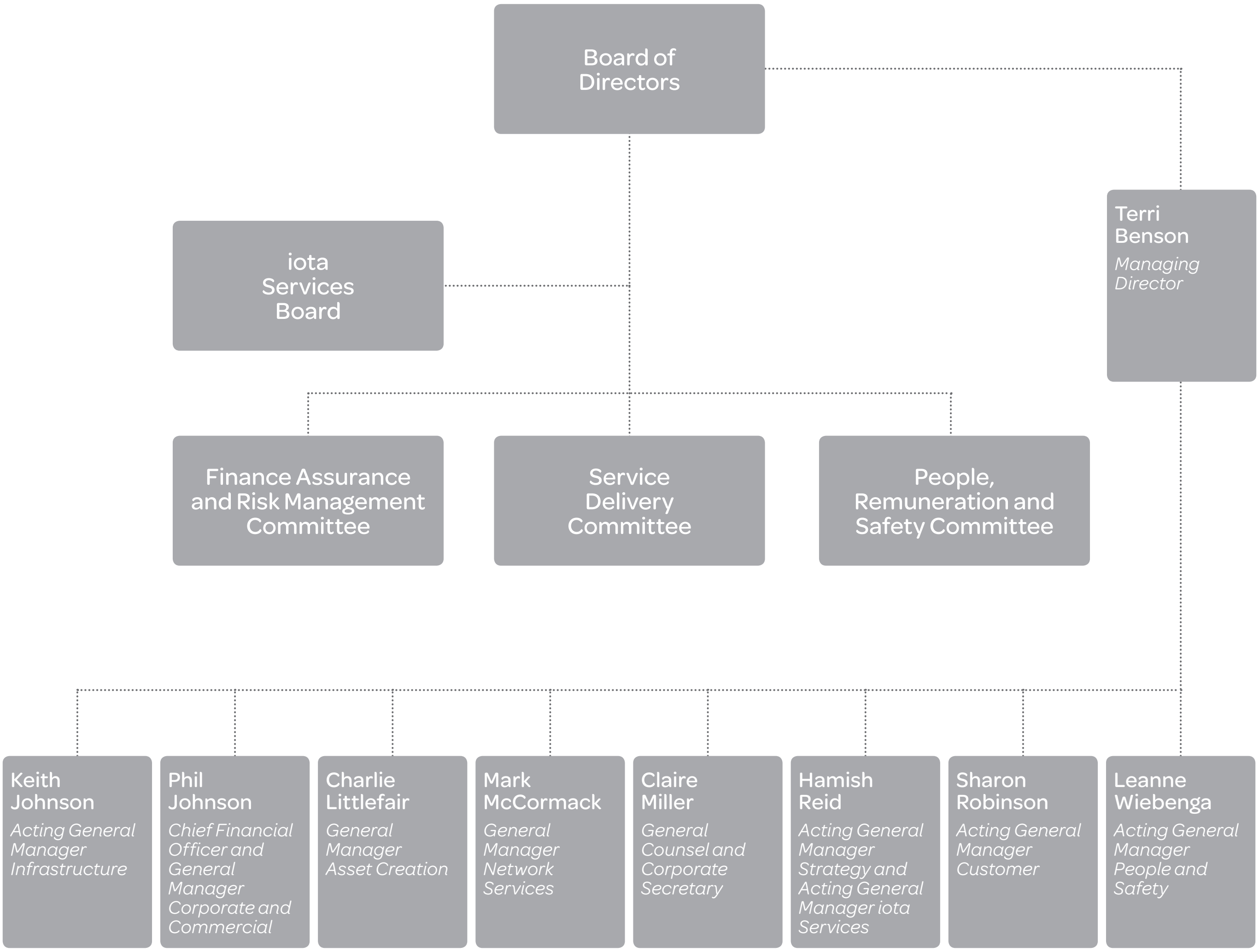
Murray River

15. South East Water holds Bulk Entitlement (Murray River – South East Water) Conversion Order 2012 – WSE000133.
16. South East Water is entitled to a water entitlement volume in the following parts of the River Murray System equal to one-ninth of the total Phase 4 water savings achieved in these parts of the GMID from Goulburn Murray Water Connections Project Stage 1 as verified in the latest audit:
    - Trading zone 6
    - Trading zone 7.
17. South East Water's annual water allocation in a given year from the River Murray is equal to one-ninth of the total Phase 3 water savings achieved in the previous year of the Goulburn component of the GMID from the Goulburn Murray Water Connections Project Stage 1 as verified in the latest audit.

South East Water has in place water management strategies to manage water allocations holdings in the Murray River and Goulburn System to maximise the value of the resources held to our customers and minimise risk of spilling water allocation. These strategies include the transfer of allocations between bulk entitlement allocation accounts and trading water allocations.

Corporate governance

Organisational chart at 30 June 2017



Corporate governance

Directors' biographies

Lucia Cade

BEng (Civil) (Hons), BEc, MEngSc, MBA, FAICD, FIEAust

Chair

Ms Cade was appointed as Chair of South East Water in October 2015. She has extensive experience in the utility, infrastructure and construction industries as a director, executive and an advisor, specialising in business strategy, organisational change, strategic stakeholder engagement, incentivised procurement models and major projects. Ms Cade is Chair of Australian WaterSecure Innovations Ltd and a Director of the Energy Pipelines Co-operative Research Centre. She is a member of the Value Assessment Panel of the University of Melbourne School of Engineering and is a Global Advisor to the UN Global Compact Cities Programme, based at RMIT. She was formerly Chair of Western Water and National President of the Australian Water Association.

Tony Beach

MAICD, MIE Aust, BEng (Civil)

Director

Mr Beach was appointed as a Director of South East Water in October 2013 and reappointed in October 2015 and is Chair of South East Water's Service Delivery Committee. His executive career included roles as the foundation Managing Director of the Zinfra Group and he also undertook key executive management roles with Jemena, Asciano, AGL, Powercor Australia and HEC Tasmania. Mr Beach has extensive experience in essential infrastructure across electricity, gas, water, rail and ports and provides strategic advisory and non-executive director services via his role as the Managing Principal of Phase 10 Consulting Ltd.

Gabrielle Bell

BLaws (Hons), BEng (Chem) (Hons), GAICD

Deputy Chair

Ms Bell was appointed as a Director of South East Water in October 2015 and is Chair of South East Water's People, Remuneration and Safety Committee. Ms Bell is a corporate lawyer with broad experience working in Australia and Southeast Asia. She specialises in corporate advisory (including corporate governance), mergers and acquisitions and capital markets. She is also a Director of V/Line Corporation and InLife Independent Living Ltd. Ms Bell was a Director of Southern Rural Water from October 2012 to September 2015.

W Peter Day

LLb (Hons), MBA, FCA, FCPA, FAICD

Director

Mr Day was appointed as a Director of South East Water in October 2015. Mr Day previously held executive positions as Chief Financial Officer of Amcor, Chief Financial Officer and Executive Director at Bonlac Foods and Managing Director Business Services with Rio Tinto. He is currently a non-executive Director of a number of ASX listed companies including Alumina, Ansell, Australian Unity Office Fund and Boart Longyear. Mr Day was a Director of Gippsland Water from October 2008 to September 2015. He is also involved in not-for-profit activities for disability services and financial education mentoring.

Directors’ biographies *continued*

Timothy Lyons

BA, DipFinSvcs, GAICD

Director

Mr Lyons was appointed as a Director of South East Water in October 2015. Mr Lyons is a qualified and experienced company Director with an extensive track record in governance, accountability and risk management. His most recent role was Assistant Secretary at Australian Council of Trade Unions. Mr Lyons is a Trustee Director at HOSTPLUS Super Fund and a Research Fellow at Per Capita. He has also served on several other boards including LUCRF Super, HESTA Super Fund, The Union Education Foundation Ltd and Industry Super Australia Pty Ltd.

Freya Marsden

MComm, BAgResEc, GAICD

Director

Ms Marsden was appointed as a Director of South East Water in October 2015 and is Chair of South East Water’s Finance Assurance and Risk Management Committee. Ms Marsden is the Managing Director of The Acuity Group which provides governance, strategy, policy and economic advice. She has held senior advisory and economist roles across state and federal governments and Federal Parliament and is a former Director of Policy at the Business Council of Australia. An experienced non-executive Director Ms Marsden’s other current boards include the Victorian Planning Authority (Director and Chair of Risk and Audit), Chair of the Victorian Government’s Sustainability Fund, Committee Member of VicRoads Risk, Audit and Governance Committee, non-executive director of Brotherhood of St Laurence and Deputy Chair of the David Scott School Council.

Kim McGrath

BLaws, BA, GAICD

Director

Ms McGrath was appointed as a Director of South East Water in October 2015. Ms McGrath is Principal Consultant at BKE Consulting, a public policy advisory and research service. She has over 20 years’ experience in public policy formulation and implementation at international, federal and state levels including eight years as water policy adviser to the Premier of Victoria. She has provided strategic advice, research, policy development, writing and editorial services to governments, private companies, universities and not-for-profit organisations. She is currently a doctoral candidate at Monash University. Ms McGrath has previously served on the board of South Gippsland Water.

Terri Benson

BBus (Act), CPA, GAICD

Managing Director

Refer to Ms Benson’s biography on page 28.

Corporate governance

Executives' biographies

Terri Benson

BBus (Act), CPA, GAICD

Managing Director

Terri was appointed Managing Director of South East Water in May 2017. A highly experienced Chief Executive Officer, she has held a range of both executive and non-executive director roles in the government utility and private infrastructure sectors. She is former CEO of SEQWater, a water wholesale utility in south-east Queensland, former Managing Director of Essential Energy and also former Chair of the Energy and Water Ombudsman NSW. Prior to joining South East Water, Terri was the Managing Director of Birdon, a diversified engineering and services business providing innovative solutions to the military and marine industries with operations across Australia, USA and Europe.

Keith Johnson

BEng (Civil), EWS, Grad Dip Mgt

Acting General Manager Infrastructure

Keith leads the Infrastructure group, which is responsible for developing plans and systems to ensure the corporation's assets meet the ongoing and future service needs of customers and stakeholders. He has extensive experience in the water industry in all facets of engineering commencing with State Rivers and Water Supply Commission and its successor authorities over a period of 40 years. Highlights have been working in the area of planning with Melbourne's supply-demand strategy in 2006 and related collaborations across the industry. Keith joined South East Water in 1995.

Phil Johnson

BBus (Acc), CPA, GAICD

Chief Financial Officer and General Manager Corporate and Commercial

Phil is the Chief Financial Officer and leads the Corporate and Commercial group, which encompasses commercial services, business technology services, major projects, business improvement, quality and risk. He is also a director of iota Services, a wholly-owned subsidiary of South East Water. Previously, Phil was Group Manager, Commercial and Technical Services for Utility Services, an alliance formed between South East Water, Thiess and Siemens to deliver the corporation's operations, maintenance and capital works program. He was also a member of the alliance governance board. Prior roles include other senior commercial positions within the utilities industry. Phil joined South East Water in 1995.

Charlie Littlefair

BEng (Civil), FIEAust, CPEng, EngExec, NER APEC Eng, IntPE (NZ), MIPENZ, GAICD

General Manager Asset Creation

Charlie leads the Asset Creation group, which manages the design and construction of South East Water built infrastructure assets, developer works and customer connection of new developer built assets. He also manages the handover of assets to Network Services. During 2016–17 Charlie was Acting General Manager iota Services from 23 December 2016 to 3 March 2017 and Acting Managing Director South East Water from 4 March 2017 to 28 May 2017. During this time, Rohan Ogier was Acting General Manager Asset Creation. Previously Charlie was General Manager, Asset Investment for Metrowater in Auckland. He has more than 30 years of international experience in the water and sewerage industry, having worked for both private and public water utility organisations in New Zealand, Australia and the United Kingdom. Charlie joined South East Water in 2008.

Executives' biographies *continued*

Mark McCormack

BEng (Civil), EWS, GAICD

General Manager Network Services

Mark leads the Network Services group, which oversees the operation and maintenance of South East Water's water and sewer network, treatment plants and 24-hour emergency call centre. Previously he was the acting General Manager of the Utility Services ('us') alliance and a member of the alliance board, which delivered the corporation's capital works and maintenance programs. He has more than 30 years of experience in the water industry working in roles encompassing design, construction, development, operations and maintenance. He commenced his career with the State Rivers and Water Supply Commission. Mark joined South East Water in 1995.

Claire Miller

BA, LLB, MAICD, AGIA, ACIS

General Counsel and Corporate Secretary

Claire leads the Governance and Legal group which is responsible for the legal, compliance and corporate secretarial functions. Claire has extensive executive experience and has held the role of General Counsel and Company Secretary including the functions of compliance, risk, audit and insurance across a diverse range of industry sectors including energy, infrastructure, gas, utilities, mining, and property in government, listed and private entities. Claire was appointed General Counsel and Corporate Secretary in 2017.

Hamish Reid

BSc (Hons), PhD, GAICD

Acting General Manager Strategy and Acting General Manager iota Services

Hamish leads the Strategy group, which encompasses strategy, regulation, corporate communications and public policy. Hamish also leads the iota Services group, which is a wholly-owned subsidiary of South East Water, and is responsible for the commercialisation of innovative technologies emanating from the operational needs of South East Water. iota is a distributor of engineered products and solutions serving the water, wastewater and utility sectors. Prior to these acting appointments, Hamish was the General Manager Customer and has previously held the role of General Manager Corporate Strategy and has held a range of water industry and government roles including with EPA Victoria and the New Zealand Ministry for the Environment. Hamish joined South East Water in 2005.

Sharon Robinson

BBus (Marketing and Management), GAICD

Acting General Manager Customer

Sharon leads the Customer group which is responsible for delivering South East Water's overarching customer strategy. She oversees key customer functions including customer contact centre, customer accounts and billing, customer engagement and experience, and the various digital channels that support these. Prior to this acting appointment, Sharon was the General Manager of People and Safety. She brings a wealth of experience in operations, organisational and leadership development, safety and human resources, gained across various industries including financial services, natural resource management, hospitality, retail franchising, consulting and engineering. She has held senior roles at Crown Melbourne Ltd, National Australia Bank and Arup Group. Sharon joined South East Water in 2012.

Leanne Wiebenga

Exec Cert Bus (Mgt), CAHRI

Acting General Manager People and Safety

Leanne leads the People and Safety group, which includes South East Water's operational and strategic functions of human resources, organisational development, diversity and inclusion, internal communications and safety and wellbeing. Prior to this acting appointment Leanne was the Group Manager, People, Strategy and Performance at South East Water. Leanne has held a number of senior positions and national roles in a range of public and private sectors including health, telecommunications, legal and local and state government and brings a diverse set of capabilities to the organisation. Leanne joined South East Water in 2010.

Corporate governance

The Board of Directors

The central role of the board is to set the corporation's strategic direction and to preside over all significant strategic, commercial, regulatory, financial and risk-focused elements of the business.

The board is accountable for the good governance of the corporation including:

- setting the strategic objectives of the corporation
- risk management
- determining all material policies governing operations
- reviewing the progress and performance of the corporation against its strategic objectives.

The board is presently comprised of seven non-executive directors (following the resignation of Ross Passalaqua in February 2017) and an executive director, representing a diverse mix of skills, experience and backgrounds. The Board of Directors is appointed by the Minister for Water, in consultation with the Treasurer.

Director independence

The board has considered the status of each non-executive director and is of the view that each non-executive director is independent, having no relationships or interests, business or otherwise, which could compromise their autonomy.

Independent advice

Directors are entitled (with prior approval of the Chair or the Board) to obtain independent professional advice related to the discharge of their directors duties. All reasonable costs are reimbursed by South East Water.

Reporting to government

The board informs the government and relevant government departments of all major developments through:

- quarterly performance reports
- annual and half-yearly reports (each containing information about operations and financial and non- financial performance against key indicators)
- a detailed annual corporate plan in accordance with section 247 of the *Water Act 1989*
- direct contact between the chair, managing director and government representatives on key issues
- frequent communication at an executive level on performance, industry and policy issues
- annual board performance evaluation.

Board performance

South East Water is required to evaluate the board's performance annually under the *Public Administration Act 2004* and its Statement of Obligations.

The board conducts an annual assessment of its performance and effectiveness, as well as of its committees and individual directors. As part of this review, a survey was completed by all directors and members of the executive and individual interviews were conducted. Each director participates in an individual interview with the Chair. The performance of each committee is discussed and reviewed as part of the board's annual assessment.

External experts are engaged as required to review aspects of the board's activities and assist in continuous improvement process and the results are compiled and a written report provided to the Chair.

Board committees

The board has established committees to provide strategic guidance and assist the board in the discharge of its responsibilities. Committee membership is determined by the board and reviewed at least every two years. Each of the committees is chaired by a non-executive director selected by the board. Each committee has its own charter which sets out its role, responsibilities, composition, structure, membership requirements and operation.

These are available on South East Water's website. Committee membership for the reporting period 1 July 2016 to 30 June 2017 was as follows:

	Finance Assurance and Risk Management	People, Remuneration and Safety	Service Delivery
Independent non-executive directors	Freya Marsden (Chair) Lucia Cade W Peter Day Kim McGrath	Gabrielle Bell (Chair) Freya Marsden Tony Beach Lucia Cade W Peter Day	Tony Beach (Chair) Lucia Cade Timothy Lyons Kim McGrath Ross Passalaqua (until Feb 2017)
Executive director			Terri Benson (May 2017) Kevin Hutchings (until March 2017)

Finance, Assurance and Risk Management Committee

The Finance Assurance and Risk Management Committee assists the board in discharging its duties regarding the corporation's financial management, risk and control framework.

The committee reviews, monitors, and where necessary, recommends improvements to:

- the financial management framework and reporting process
- quality management systems including environmental safety reporting and compliance
- the efficiency and effectiveness of internal control and risk management system
- the functioning of the internal audit function
- the process for monitoring compliance with laws, regulations, internal standards, policies and expectations of key stakeholders
- the external audit process.

Meetings are held quarterly and at any other time on request of a committee member or the internal or external auditor. Four meetings were held during the financial year and were regularly attended by the Victorian Auditor-General's Office and the internal auditor.

People, Remuneration and Safety Committee

The People, Remuneration and Safety Committee provides guidance on strategic people matters.

The committee reviews, monitors and recommends relevant policies and strategies in relation to executive remuneration, employer brand and reputation, strategic workforce planning, wellbeing and safety, and delivery of organisational cultural objectives. The committee is also responsible for monitoring, at a strategic level, the identification of safety and wellbeing risks.

Meetings were held quarterly during the financial year.

Service Delivery Committee

The Service Delivery Committee assists the board in discharging its duties regarding the corporation's service delivery responsibilities.

The committee reviews, monitors and, where necessary, recommends:

- the development of plans and master plans for the delivery of services to customers and stakeholders
- asset strategy and proposals (including IT projects)
- annual capital, operations and maintenance budgets consistent with approved plans.

Meetings were held quarterly during the financial year.

Managing Director Recruitment Committee

During this reporting period, a committee of the board was established in October 2016 to manage recruitment of a new Managing Director. The committee was in place until April 2017 when the appointment of Terri Benson as Managing Director was finalised and formally announced. Ms Benson commenced in the role on 29 May 2017. The recruitment committee comprised of Lucia Cade (Chair), Gabrielle Bell, W Peter Day and Timothy Lyons.

Corporate governance

iota Services Board

Lucia Cade (Chair) *Independent*

Tony Beach *Independent* (from 22 May 2017)

Gabrielle Bell *Independent*

Timothy Lyons *Independent*

Ross Passalaqua (until February 2017) *Independent*

Terri Benson (from 29 May 2017)

Phil Johnson

Kevin Hutchings (until March 2017)

The board of iota Services Pty Ltd ('iota'), is responsible for steering it in a manner that ensures iota fulfils its functions effectively and complies with its governance framework.

The iota board is accountable to South East Water and presides over all significant strategic, commercial, regulatory, financial and risk focused elements of iota.

Board composition consists of a majority of independent directors: four non-executive directors from South East Water's board, the managing director and chief financial officer.

Six meetings were held during the financial year. Meetings are generally held on a bi-monthly basis.

iota review

In response to general conditions of iota's operations, during 2016–17 a formal review of iota was undertaken and focused on the areas of corporate form/governance, business planning, financial performance and intellectual property commercialisation. The results of the review and recommendations were compiled into a written report and are being implemented.

Director attendance at board and committee meetings – 1 July 2016 to 30 June 2017

	South East Water Board	Finance, Assurance and Risk Management Committee	Service Delivery Committee	People, Remuneration and Safety Committee	iota Services Board
Lucia Cade	11/11	4/4	4/4	4/4	7/7
Tony Beach	10/11[1]		2/4	3/4	1/1[2]
Gabrielle Bell	11/11			4/4	6/7[3]
W Peter Day	11/11	4/4		4/4	
Timothy Lyons	10/11		3/4		6/7
Freya Marsden	11/11	4/4		4/4	
Kim McGrath	10/11	3/4	3/4		
Ross Passalaqua	6/6[4]		3/3[4]		4/4[4]
Kevin Hutchings	7/7[5]		3/3[5]		5/5[5]
Phil Johnson					5/7
Charlie Littlefair	3/3[6]		1/1[6]		
Terri Benson	1/1[7]				1/1[8]

[1] Tony Beach was unable to attend the April 2017 board meeting due to the rescheduling of the meeting date
[2] Tony Beach was appointed a director of iota Services on 22 May 2017
[3] Gabrielle Bell was unable to attend the April 2017 iota board meeting due to the rescheduling of the meeting date
[4] Ross Passalaqua resigned as a director on 22 February 2017
[5] Kevin Hutchings resigned as Managing Director on 3 March 2017
[6] Charlie Littlefair was appointed Acting Managing Director from 4 March 2017 to 28 May 2017
[7] Terri Benson was appointed Managing Director from 29 May 2017
[8] Terri Benson was appointed a director of iota Services on 29 May 2017

Governance and management arrangements

South East Water maintains a comprehensive framework of governance practices designed to provide appropriate levels of review and oversight. These practices derive principally from statutory requirements and good governance guidelines and are embedded throughout the corporation.

South East Water management systems underpin the corporation's performance. The management systems, frameworks and standards are subject to independent auditing and certification, including:

- ISO 9001 (Quality Management System)
- ISO 14001 (Environment Management System)
- AS/NZS 4801 (Occupational Health and Safety)
- Hazard Analysis and Critical Control Point (HACCP) for drinking water and recycled water management
- ISO 22000 (Food Safety Management) for sewage quality management.

South East Water also aligns to ISO 31000 (Risk Management) and ISO 19600 (Compliance Management System).

South East Water's management systems are also fundamental to providing appropriate levels of assurance and accountability across the corporation and perform a key role in ensuring the processes and controls against strategic and operational risks are functioning effectively. South East Water has strengthened its overarching view of assurance against its risk profile by including an internal attestation over the management of its material risks at both board and executive management to ensure an appropriate level of risk governance.

South East Water is committed to continually improving the quality of its operating systems, ISO 55001 (Asset Management) and ISO 27001 (Information Security Management)/Victorian Protective Data.

South East Water's material risks

As a business, South East Water faces many uncertainties that challenge the achievement of its strategic objectives. The corporation identifies major risk exposures using an enterprise-wide risk management process based on the AS/NZS ISO 31000:2009 Risk Management Standard and the Victorian Government Risk Management Framework. The following describes, at a whole of entity level, South East Water's material risk areas (in no particular order) and how the corporation seeks to manage them.

Risk area	Description and plans to manage
Safety and wellbeing	To reduce serious workplace injury which may be physical, mental, health or wellbeing related. • South East Water believes safety and wellbeing are not just important, they are absolutely essential. The corporation is always improving its certified safety management system and has a comprehensive wellbeing program aimed at improving employee health.
Water quality	To provide safe drinking water that meets expectations of customers and complies with regulatory obligations. • South East Water's vision is to provide healthy water for life. This underpins everything the corporation does so its focus in this area is strong, comprising a number of quality management systems, frameworks and standards the corporation abides by and that are subject to stringent audit.

Corporate governance

Risk area	Description and plans to manage
Customer and our communities	To better understand the customers and the communities South East Water serves (and for them to better understand its services) and to provide them with a positive experience that meets their expectations. • South East Water's customer engagement and research program informs its strategies on how to improve services in areas that matter most to customers. It has in place a number of key programs that strive to constantly deliver value for money and enhanced outcomes for the entire customer base.
People	To attract, recruit and retain the right people for the right role to take South East Water forward and help achieve its strategic goals. • As the needs of the business evolve, the corporation has committed to initiatives that continually improve culture, capability and diversity and inclusion practices so that South East Water develops its people and attracts high calibre talent.
IT/OT and data security	To effectively manage the information technology and operational technology (IT/OT) assets that underpins business operations and to protect customer and corporate data in line with regulatory and customer expectations. • IT/OT infrastructure is managed to an asset management plan to ensure the stability and reliability of all platforms. South East Water aligns its data security to the Victorian Protective Data Security Standards and already has in place mandatory data security awareness training and network controls to protect the data it stores.
Asset management	To plan, build, operate and maintain assets reliably and efficiently to meet the service expectations of customers. • South East Water has in place comprehensive asset management plans and constantly monitors asset condition. The corporation is driving further improvement in this area by aligning its practices to ISO 55001:2014 Asset Management.
Regulatory environment and stakeholder management	To respond and influence the regulatory and policy environment to outcomes aligned to strategic goals, with the proactive and consistent engagement of key stakeholders. • South East Water has fostered and continues to develop strong relationships with key stakeholders, built on a platform of transparency and trust. Its underlying approach is to engage in a constructive and collaborative manner to achieve positive solutions for customers.
Climate change	To understand and plan for the impacts of a changing climate on assets and effectively transition to a carbon-free future. • Climate change is real and South East Water has developed adaptation and mitigation plans for its assets and business operations. The corporation is committed to carbon reduction and anticipates to make its pledge on greenhouse gas emissions in 2017–18.
Disruption and non-traditional markets	To be able to adapt South East Water's business and positively respond to major changes in industry composition, technology or consumer behaviours. • The corporation has a long and proud history of innovation and continues to monitor shifts inside (and outside of) the industry and trial emerging technologies. The Aquarevo development and establishment of iota are just two examples of how South East Water challenges the conventional approach of a regulated water business.
Organisational resilience	To effectively manage and learn from planned or unplanned significant impact events that disrupt the services provided to customers. • South East Water has in place a comprehensive continuity framework that comprises of business continuity plans, incident and emergency management response as well as crisis management procedures to help prevent service interruptions and to respond and recover in the event they do occur.

Note: Ensuring the financial sustainability and management of South East Water is also fundamental to its ongoing viability. For details on how South East Water manages its various financial risk factors, please refer to the financial risk management objectives and policies as part of the 'Notes to the financial statements'.

Workforce data

Occupational health and safety

The launch of the new Safety and Wellbeing Policy established a commitment to a safe and healthy workplace with a fair and just culture, with a clear aspiration to achieve a workplace that is free from harm to people. The Safety and Wellbeing Strategy focuses on operational risk, industry collaboration and growth of a resilient safety culture.

The Living Safely Rules are a key element of the Safety and Wellbeing Strategy, highlighting the 10 highest risk work activities conducted by South East Water employees and contractors. They describe the behavioural standards expected of all who work for South East Water. All employees and contractors received training in the Living Safely Rules.

South East Water developed its first 'safety case' for the Mt Martha Water Recycling Plant, a risk management document that is used to facilitate continuous improvement and develop annual risk management action plans. The safety case approach will be progressively adopted across the corporation.

Performance against occupational health and safety indicators

A continued focus on open reporting of hazards and close calls saw hazard reporting exceed its annual target by 55 per cent. South East Water's safety performance improved upon the previous financial year with 18 per cent fewer recordable injuries (excluding restricted work injuries). Five recordable incidents were reported by South East Water employees for the year which represents a significant improvement on the 15 incidents reported in the previous year.

Six lost time injuries (LTIs) were recorded for the year combining South East Water and contractor performance data. There were nine LTIs in the previous year. The lost time injury frequency was 2.9 injuries per million work hours. Safety performance improvement was driven by leadership commitment, heightened safety awareness through the Living Safely Rules and full commitment to collaboration with South East Water's contractors. South East Water did not achieve its target of zero lost time injuries for the year.

There were four accepted WorkCover claims in the year with average costs of $53,216 compared with five claims last year with average costs of $8,701.

Performance against occupational health and safety management measures

Measure	KPI	2014–15	2015–16	2016–17
Incidents*	Number of reported incidents	5	15	5
	Rate per 100 FTE	0.92	2.51	0.81
Hazards	Number of reported hazards	413	497	360
	Rate per 100 FTE	75.71	83.32	58.57
Claims (WorkCover)	Number of standard claims	0	1	4
	Rate per 100 FTE	0.0	0.19	0.65
	Number of lost time claims	1	4	3
	Rate per 100 FTE	0.20	0.76	0.49
Fatalities	Fatality claims	nil	nil	nil
Claim costs	Average cost per standard claim	$8,500	$8,071	$53,216
Management commitment	Management participation in planned safety observations	26	59	199
Consultation and participation	OH&S committee meetings including employee elected and management representatives	11	12	12
Risk management	Safety management system audit actions closed	100%	100%	100%
Training	Safety compliance training completed within 10 days of commencement	94.60%	96%	100%

Note: information based on South East Water employee data only.
* Incidents include the sum of LTI, MTI and RWI for the year for South East Water employee data only.

Workforce data

Application of employment conduct principles

South East Water has a comprehensive Employment and Conduct Policy Framework. This was established to provide clarity of expectations to employees and operates in alignment with public sector values. South East Water's obligation to ensure all employees are familiar with the policy framework and their application is met by ensuring policies are read and understood during the on-boarding process and by conducting education sessions throughout the year and refreshment training each two years. Each employment policy is reviewed on an annual basis in collaboration and consultation with relevant employee groups and other key stakeholders.

The policy framework is guided by legislation including the *Public Administration Act 2004*, to ensure compliance and alignment with the public sector. The policy framework ensures equal employment opportunity for all employees.

Workforce composition data

South East Water's total FTE has increased from 560.8 FTE to 567 FTE.

Full time equivalents (FTE) staffing trends from 2015 to 2017		
2017	**2016**	**2015**
567.0	560.8	525.2

Employment levels in June of 2016 and 2017

	Ongoing employees				Fixed term and casual
	Employees (headcount)	Fulltime (headcount)	Part time (headcount)	FTE	FTE
Jun 17	569	469	100	536.9	30.1
Jun 16	569	483	86	538.4	22.4

Aims for gender parity

The first year implementation of South East Water's Diversity and Inclusion Framework has supported moves towards gender parity. Two key enablers include the updating of the Recruitment and Selection Policy. A new shortlisting process sets the expectation that all positions will have a balanced shortlist consisting of 50 per cent female and 50 per cent male applicants. Secondly, the introduction of diverse interview panels consisting of both female and male representatives is now an expected practice.

Details of gender distribution in management positions in June 2016 and 2017

June 2017					
Classification	**Total (headcount)**	**Female**	**Male**	**Female %**	**Male %**
Executive	7	3	4	43	57
Group managers	16*	2	14	12	88
Senior officers	123	30	93	24	76

*Two group managers were acting in executive positions at 30 June 2017, however have been classified here in their substantive roles.

June 2016					
Classification	**Total (headcount)**	**Female**	**Male**	**Female %**	**Male %**
Executive	9	1	8	11	89
Group managers	17	3	14	18	82
Senior officers	119	25	94	21	79

Details of employment levels in June of 2017

	June 2017						
	All employees		Ongoing			Fixed term and casual	
	Number (headcount)	FTE	Full-time (headcount)	Part-time (headcount)	FTE	Number (headcount)	FTE
Gender							
Male	325	321.6	294	13	303.6	18	18.0
Female	275	245.5	175	87	233.4	13	12.1
Age							
Under 25	12	12.0	4	0	4.0	8	8.0
25 – 34	124	116.6	93	22	107.6	9	9.0
35 – 44	152	142.4	118	28	136.4	6	6.0
45 – 54	189	179.5	153	30	173.6	6	5.9
55 – 64	110	103.6	89	19	102.3	2	1.2
Over 64	13	12.9	12	1	12.9	0	0.0
Classification							
Executive	7	7.0	7	0	7.0	0	0.0
Group managers	16*	15.8	15	1	15.8	0	0.0
Senior officers	123	119.2	107	14	117.2	2	1.8
Officers	454	425.1	339	86	396.8	29	28.3

*Two group managers were acting in executive positions at 30 June 2017, however have been classified here in their substantive roles.

Details of employment levels in June of 2016

	June 2016						
	All employees		Ongoing			Fixed term and casual	
	Number (headcount)	FTE	Full-time (headcount)	Part-time (headcount)	FTE	Number (headcount)	FTE
Gender							
Male	332	327.2	312	13	320.7	7	6.5
Female	262	233.6	171	73	217.7	18	15.9
Age							
Under 25	14	14.2	8	0	8.0	6	6.2
25 – 34	138	128.8	113	16	120.2	9	8.6
35 – 44	153	142.6	120	28	137.8	5	4.8
45 – 54	173	164.5	141	29	161.8	3	2.7
55 – 64	99	96.0	89	10	96.0	0	0.0
Over 64	15	14.6	12	3	14.6	0	0.0
Classification							
Executive	9	9.0	9	0	9.0	0	0.0
Group managers	17	16.8	16	1	16.8	0	0.0
Senior officers	120	117.1	111	8	116.1	1	1.0
Officers	447	417.8	347	77	396.4	23	21.4

Workforce data

Executive officer disclosure

Annualised total salary, by $20,000 bands, for executives and other senior non-executive staff.

Income band (salary)	Executives	Group managers*^	Senior officers*^	Levels 1 – 5
<$160,000		7	6	
$160,000 – 179,999		6	4	
180,000 – 199,999		3		
200,000 – 219,999				
220,000 – 239,999	2			
240,000 – 259,999	2			
260,000 – 279,999	2			
280,000 – 299,999				
300,000 – 319,999				
320,000 – 339,999				
340,000 – 359,999	1			
Total	**7**	**16**	**10**	**0**

Note: the salaries reported above are for the full financial year, at a 1-FTE rate, and excludes superannuation.
^One group manager and one senior officer were employed on a part-time basis at an 0.8 FTE rate.
* Three group managers were in long-term acting executive positions at a last pay run in June 2017. Substantive role and salary band reported.

Other disclosures

Consultancy expenditure

Details of consultancies greater than $10,000

In 2016–17 the corporation engaged consultants for two projects where the total fees payable was $10,000 or greater (GST exclusive). Total expenditure incurred during the reporting period in relation to these consultants was $72,950 (GST exclusive).

Details of individual consultancies are outlined on South East Water's website at **southeastwater.com.au**

Details of consultancies less than $10,000

South East Water had one consultancy where total fees payable was less than $10,000 (GST exclusive).

Total expenditure incurred for this consultancy during 2016–17 was $5,372 (GST exclusive).

Government advertising expenditure

South East Water's expenditure in the 2016–17 reporting period on government campaign expenditure did not exceed $100,000.

Information Communications Technology (ICT) expenditure

For the 2016–17 reporting period, South East Water had a total ICT expenditure of $20.3 million, with the details shown below:

($'000s)			
Business as usual (BAU) ICT expenditure (Total)	Non-business as usual (non-BAU) ICT expenditure (Total = operational expenditure and capital expenditure)	Operational expenditure	Capital expenditure
12,950	7,305	0	7,305

ICT refers to South East Water'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 and enhancing South East Water's current ICT capabilities. BAU ICT expenditure is all remaining ICT expenditure which primarily relates to ongoing activities to operate and maintain the current ICT capability.

Disclosure of major contracts

South East Water did not award any major contracts (valued at $10 million or more) during 2016–17.

Application and operation of the *Freedom of Information Act 1982*

The Freedom of Information Act 1982 allows the public a right of access to documents held by South East Water. In 2016–17, South East Water received 20 requests to access documents. Access was granted to all 20 requests.

In addition:

- No reviews or complaints were received by the Freedom of Information Commissioner.
- No appeals were submitted to VCAT by Freedom of Information applicants.
- Most requests related to details about water and sewer faults.

Requests for access to South East Water documents under the *Freedom of Information Act 1982* may be made in writing to:

Freedom of Information Principle Officer
Governance and Legal Group, South East Water
PO Box 2268, Seaford, 3198

Each application must be accompanied by a $28.40 application fee and clearly identify the documents sought.

Compliance with *Protected Disclosure Act 2012*

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

What is a 'protected disclosure'?

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

What is 'improper or corrupt conduct'?

Improper or corrupt conduct involves substantial:

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

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

Other disclosures

How do I make a 'protected disclosure'?

You can make a protected disclosure about South East Water or its board members, officers or employees by contacting the Independent Broad-Based Anti-Corruption Commission on the contact details provided below. Please note that South East Water is not able to receive protected disclosures.

How can I access South East Water's procedures for the protection of persons from detrimental action?

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

Contact

Independent Broad-Based Anti-Corruption Commission (IBAC) Victoria

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

Compliance with the *Building Act 1993*

South East Water owns one office in Frankston and operates warehousing facilities in Heatherton and Lynbrook and buildings associated with water recycling plants at Koo Wee Rup, Lang Lang, Longwarry, Somers, Blind Blight, Pakenham, Boneo, and Mt Martha.

South East Water complies with the *Building Act 1993*, the *Building Regulations 2006* and associated statutory requirements and amendments. South East Water maintains internal control systems to ensure compliance with its Certificate of Occupancy and engages the expertise of qualified service providers to conduct regular weekly, monthly, quarterly and annual building inspection routines to ensure the building's assets are efficiently maintained and to ensure the workplace is safe for occupants. Contractor compliance is closely monitored through the provision of maintenance reports and regular meeting communications.

South East Water completed two major projects in 2016–17 on the development and building owned by the corporation at a sum greater than $50,000:

- installation of solar panels at the headquarters in Frankston
- new retail tenancy fitout works at the headquarters in Frankston.

There were several building permits processed at the headquarters in Frankston including four occupancy permits for retail tenancies, four relating to fire services alterations and one for the proposed installation of a revolving door.

National Competition Policy

Competitive neutrality seeks to enable fair competition between government and private sector businesses. Any advantages or disadvantages that government businesses may experience, simply as a result of government ownership, should be neutralised. South East Water continues to implement and apply this principle in its business undertakings.

Victorian Industry Participation Policy (VIPP)

The *Victorian Industry Participation Policy Act 2003* requires public sector bodies to report on the implementation of the Victorian Industry Participation Policy (VIPP). The VIPP aims to foster industry development by encouraging Victorian government departments and public bodies to genuinely consider Victorian, Australian and New Zealand supply.

During 2016–17, for metropolitan Melbourne, South East Water:

- registered one VIPP applicable project totalling $4 million
- commenced one VIPP procurement totalling $3.4 million.

The outcomes expected from the implementation of the VIPP projects include:

- an estimated 55 – 60 per cent local content committed to the project
- a total of seven jobs (Annualised Employee Equivalent (AEE) committed, encompassing the creation of seven new jobs.

The commitments to the Victorian economy in terms of skills and technology transfer include:

- training and knowledge transfer related to the development of new technologies around product manufacture and test of both subassemblies and final assembled product
- training to operators, technicians, test engineers, manufacturing engineers on general product, component quality, and evaluation
- new Intellectual Property developed around the product assembly.

Additional 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 South East Water and are available (in full) on request, subject to the provisions of the *Freedom of Information Act 1982*:

a) A statement of completion of declarations of pecuniary interests by relevant officers.

b) Details of shares held by a senior officer as nominee or held beneficially in a statutory authority or subsidiary.

c) Details of publications produced by South East Water about itself, and how these can be obtained.

d) Details of changes in prices, fees, charges, rates and levies charged by South East Water.

e) Details of any major external reviews carried out on South East Water.

f) Details of major research and development activities undertaken by South East Water.

g) Details of overseas visits undertaken, including a summary of the objectives and outcomes of each visit.

h) Details of major promotional, public relations and marketing activities undertaken by South East Water to develop community awareness of the entity and its services.

i) Details of assessments and measures undertaken to improve the occupational health and safety of employees.

j) A general statement on industrial relations and time lost through industrial accidents within South East Water.

k) A list of South East Water's major committees; the purposes of each committee; and the extent to which the purposes have been achieved.

l) Details of all consultancies and contractors including:

i) consultants/contractors engaged
ii) services provided
iii) expenditure committed for each engagement.

This information is available on request from South East Water. Requests can be made in writing to the Governance and Legal Group PO Box 2268, Seaford 3198.

Office based environmental reporting

Energy use

The data below represents energy consumed for running and operating South East Water's headquarters in Frankston. Data was collected through the building management system and retailer billing information.

Indicator	2016–17			2015–16		
	Electricity kWh	Natural gas (GJ)	Green power	Electricity kWh	Natural gas (GJ)	Green power
Total energy usage segmented by primary source (MJ)	5,072,987	2,484,495	0	6,481,222	2,781,856	0
Greenhouse gas emissions associated with energy use, segmented by primary source and offsets (t CO_2 e)	1,536	128	0	2,124	143	-
Percentage of electricity purchased as green power	0	0	N/A	-	-	-
Units of energy used per FTE (MJ/FTE)	8,947	4,382	0	11,557	4,961	-
Units of energy used per unit of office area (MJ/m^2)	432	212	0	692	258	-
Actions undertaken						
New headquarters	2016–17 was the first full year that South East Water's Frankston headquarters were occupied. In December 2016, a 99 kW solar photovoltaic system was commissioned that reduced electricity requirements by five per cent during the year. Optimisation of the heating/cooling system, including a reduction in building temperatures and rectification of air leakage issues, resulted in significant electricity and gas savings.					

Other disclosures

Targets

South East Water's headquarters was designed and constructed to deliver a NABERS Rating (National Australian Built Environment Rating System) of 4.5 stars. An accredited assessor has assessed the headquarters to be on track to deliver the 4.5 rating with a benchmarking factor of 197.

The following target has been set for 2017–18:

- Further reduce consumption and improve efficiencies to reduce the benchmarking factor to below 195 and surpass the NABERS rating target of 4.5 stars.

The waste generated within the headquarters in Frankston is divided into three general classes: landfill, recycling and compost. In 2016–17 recycling was expanded to include co-mingled, coffee capsules and secure document recycling. The data presented below is derived from one waste audit conducted at the headquarters in Frankston.

Waste

Indicator	2016–17					2015–16		
	Landfill	Co-mingled recycling	Coffee capsule	Secure document	Compost	Landfill	Co-mingled recycling	Compost
Total units of waste disposed of by destination (kg/yr)	9,042.5	4,662.5	1,072.5	3,499.4	3,017.5	9,562.5	6,745	1,975
Units of waste disposed of per FTE by destinations (kg/FTE)	15.9	8.2	1.9	6.2	5.3	17	12	3.5
Recycling rate (percentage of total waste)	57.5					56.1		
Greenhouse gas emissions associated with waste disposal (kg CO_2–e)	14,438					14,911		
Actions undertaken	Employee communications were delivered to improve the management of office waste. Its success was demonstrated by reduced landfill volumes and an increase in compost and recycling. An onsite composting unit trial commenced in late 2016–17, enabling the organic waste to be composted onsite and the waste product supplied to local community gardens.							

Paper

Paper use reduced compared with 2015–16. Note that the 2015–16 data was only for 11 months, hence the reduction is slightly underestimated.

Indicator	2016–17	2015–16
Total units of copy paper used (reams)	4,051	4,653
Units of copy paper used per FTE (reams/FTE)	7.1	8.29
Percentage of 75 – 100 per cent recycled content copy paper purchased	100	60
Percentage of 50 – 70 per cent recycled content copy paper purchased	0	40
Percentage of 0 – 50 per cent recycled content copy paper purchased	0	0
Actions undertaken		
The reduced paper use could be attributed to an increased number of tablet devices used by employees with associated Microsoft OneNote training, online invoice approvals, online business cases and a six per cent increase in customers opting to receive eBills. All paper used is now 100 per cent recycled.		

Transport

South East Water operates a fleet of vehicles for field and maintenance operations, and salary packaged vehicles for senior employees. Consideration is given to fuel efficiency and related emissions. This is highlighted in the data below with a reduction in greenhouse gas emissions per 1,000 kilometres.

	2016–17	2016–17	2015–16	2015–16
Operational vehicles	Diesel	Petrol	Diesel	Petrol
Total energy consumption by vehicles (MJ)	7,596,480	9,603,360	8,741,623	8,946,944
Total vehicle travel associated with entity operations (km)	2,376,210	2,993,581	2,450,209	2,801,946
Total greenhouse gas emissions from vehicle fleet (t CO_2 –e)	536	669	678	691
Greenhouse gas emissions from vehicle fleet per 1,000 km travelled (t CO_2 –e)	0.225	0.224	0.277	0.247

Procurement

South East Water's main areas of procurement are construction (35 per cent), maintenance (35 per cent) and goods and services (30 per cent).

Examples of how South East Water has incorporated environmental considerations into procurement decisions include:

- clauses in market approach documents requiring tenderers to disclose environmental practices
- weighting of environmental considerations in request for quotes and tenders, where relevant
- considering environmental impacts in the selection of goods/services procured.

Tenders, contracts, or products for which South East Water has developed or is using sustainability clauses or specifications include:

- paper purchase and printed stationery
- waste collection and disposal
- solar panels
- chemicals
- cleaning services.

In 2016–17, South East Water:

- switched to using 100 per cent recycled paper
- improved the process of segregating its waste streams at its Lynbrook warehouse.

Targets

The following targets have been set for 2017–18:

- Always purchase printing paper containing at least 100 per cent recycled properties and/or FSC certified paper.
- Continuously improve the process of better segregating waste streams.
- Ensure environmental considerations are taken into account when developing specifications and requirements.

Performance reporting

Financial performance indicators

KPI number	Key performance indicator	2015–16 result	2016–17 result	2016–17 target	Variance to prior year	Notes	Variance to target	Notes
F1	**Cash Interest Cover** Net operating cash flows before net interest and tax/net interest payments	3.1	3.4	3.1	9.7%	-	9.7%	-
F2	**Gearing Ratio** Total debt including finance leases/total assets * 100	35.8%	36.6%	34.6%	2.2%	-	5.8%	-
F3	**Internal Financing Ratio** Net operating cash flow less dividends/net capital expenditure * 100	65.2%	54.0%	49.2%	(17.2%)	1a	9.8%	-
F4	**Current Ratio** Current assets/current liabilities excluding long-term employee provisions and revenue in advance (times)	0.9	1.1	0.9	22.2%	2a	22.2%	2b
F5	**Return on Assets** Earnings before net interest and tax/average assets * 100	6.6%	6.9%	4.9%	4.5%	-	40.8%	3b
F6	**Return on Equity** Net profit after tax/average total equity * 100	6.7%	7.2%	4.3%	7.5%	-	67.4%	4b
F7	**EBITDA Margin** Earnings before interest, tax, depreciation and amortisation/ total revenue * 100	33.1%	35.2%	31.9%	6.3%	-	10.3%	5b

Notes:
1a The unfavourable variance to prior year primarily relates to higher dividend payments from $26 million in 2015–16 to $47 million in 2016–17 due to a better profit result in 2015–16 largely driven by non-cash developer related revenue. Paying an additional amount in dividends reduced internal cash available to finance our Capital Expenditure Program, which was also higher by $10 million in 2016–17. This ratio is expected to smooth out in the future in-line with forecast capital expenditure.
2a, 2b The favourable variance to prior year and target is due largely to higher receivables of $150.7 million ($140.7 million in 2015–16) and the recognition of $11.9 million land held for sale as a current asset (previously reported as a non-current asset).
3b The favourable variance to target is due largely to stronger than expected income from land development activity during 2016–17, as budget targets are set conservatively. Additionally, the attributed cost for developer contributed assets from prior years were updated to reflect more accurate estimates during 2016-17 which resulted in an increase of $12.7 million.
4b The favourable variance to target is mainly due to higher than forecast developer activity in South East Water's service area resulting in higher profits. A target of $72.4 million was set for developer related income based on an expected slowdown in development.
5b The 2016–17 result is higher than the target mainly due to higher than expected developer activity of $125.1 million, which was forecast at $72.4 million. This therefore resulted in a higher than expected profit result.

Water and sewerage service performance indicators

KPI number	Key performance indicator	2015–16 result	2016–17 result	2016–17 target	Variance to prior year	Notes	Variance to target	Notes
WS 1	**Unplanned water supply interruptions** Number of customers receiving 5 unplanned interruptions in the year/total number of water (domestic and non-domestic) customers * 100	0.070%	0.063%	0.047%	(10.0%)	6a	34.0%	6b
WS 2	**Interruption time** Average duration of unplanned water supply interruptions (minutes)	81.2	83.0	89.7	2.2%	-	(7.5%)	7b
WS 3	**Restoration of unplanned water supply** Unplanned water supply interruptions restored within 5 hours/total unplanned water supply interruptions * 100	99.1%	98.5%	99.0%	(0.6%)	-	(0.5%)	-
SS 1	**Containment of sewer spills** Sewer spills from reticulation and branch sewers contained within 5 hours/total sewer spills from reticulation and branch sewers * 100	100.0%	100.0%	100.0%	0.0%	-	0.0%	-
SS 2	**Sewer spills customer interruptions** Number of residential sewerage customers affected by sewerage interruptions restored within 4 hours/ total residential sewerage interruptions * 100	99.8%	98.9%	98.6%	(0.9%)	-	0.3%	-

Notes:
6a The improved result compared to last year is due to the majority of mains that were causing unfavourable results in 2015-16 being renewed during 2016-17. Further improvements in performance are anticipated in 2017-18 with additional mains scheduled for renewal.
6b The 2016-17 result was unfavourable to target largely due to climatic conditions during the period which resulted in higher than target water main bursts and leaks across the network. Mains affecting performance are scheduled for renewal during 2017-18 to ensure we meet customer service standards and minimise the impact of unplanned shutdowns.
7b The 2016-17 result was favourable to target due to the majority of mains that were causing unfavourable results in 2015-16 being renewed during 2016-17. Further improvements in performance are anticipated in 2017-18 with additional mains scheduled for renewal.

Performance reporting

Customer responsiveness performance indicators

KPI number	Key performance indicator	2015–16 result	2016–17 result	2016–17 target	Variance to prior year	Notes	Variance to target	Notes
CR 1	**Water quality complaints** Number of complaints per 100 customers	0.18	0.15	0.27	(16.7%)	8a	(44.4%)	8b
CR 2	**Sewerage service quality complaints** Number of complaints per 100 customers	0.000	0.001	0.001	0.10%	-	0.0%	-
CR 3	**Sewage odour complaints** Number of complaints per 100 customers	0.003	0.006	0.005	100%	9a	20.0%	9b
CR 4	**Billing complaints** Number of complaints per 100 customers	0.050	0.048	0.050	(4.0%)	-	(4.0%)	-

Notes:
8 a, b The 2016–17 result was favourable to target and the prior period due to improved water main shutdown procedures and improved management of chlorinators. There were 1,082 water quality complaints received in 2016–17 compared to the 2015–16 result of 1,266.
9 a, b The 2016–17 result was unfavourable due to an increase in complaints as a result of the extended warm weather during March (temperatures up to 3°C above average). Multiple complaints were also received at pump stations, with work completed or currently underway to improve odour management facilities. There were 45 sewage odour complaints received in 2016–17 compared to the 2015–16 result of 23.

Environmental performance indicators

KPI number	Key performance indicator	2015–16 result	2016–17 result	2016–17 target	Variance to prior year	Notes	Variance to target	Notes
E1	**Effluent reuse and volume (end use)** Volume of treated sewage effluent reused	31.8%	23.7%	22.0%	(25.5%)	10a	7.7%	10b
E2	**Total net CO_2 emissions** Net tonnes CO_2 equivalent	40,315*	41,322	46,800	2.5%	-	(11.7%)	11b

*The 2015–16 figure was estimated at 43,127. The actual result for 2015–16 was 40,315 tonnes as reported to the Essential Services Commission in October 2016. The 2015–16 result reported in this performance report has been amended accordingly.

Notes:
10 a, b The 2016–17 result was favourable against target, which was set based on prior years' reuse volumes, and unfavourable to the prior year largely due to a mild summer which resulted in lower effluent reuse volumes and potable supplementation for Boneo and Pakenham Class A recycled water customers. The consumption of recycled water is significantly impacted by weather conditions which can vary greatly from year to year.
11b The favourable result compared to target is due to a combination of factors including the installation of new solar systems commissioned during 2016–17.

Certification of performance report for 2016–17

We certify, in our opinion, that the accompanying Performance Report for the Group in respect of the 2016–17 financial year is presented fairly in accordance with the *Financial Management Act 1994*.

The Performance Report outlines the relevant performance indicators for the financial year as determined by the Minister for Water and as set out in the 2016–17 Corporate Plan, the actual and comparative results achieved for the financial year against predetermined performance targets and these indicators, and an explanation of any significant variance between the actual results and performance targets and/or between the actual results in the current year and the previous year.

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

Dated this 4th day of September 2017

Lucia Cade	**Terri Benson**	**Phil Johnson**
Chair	Managing Director	Chief Financial Officer

Independent Auditor's report on performance

VAGO
Victorian Auditor-General's Office

Independent Auditor's Report

To the Board of the South East Water Corporation

Opinion	I have audited the accompanying performance report for the year ended 30 June 2017 of the South East Water Corporation (the corporation) and its controlled entity (together the group) which comprises the: • financial performance indicators • water and sewerage service performance indicators • customer responsiveness performance indicators • environmental performance indicators • certification of performance report for 2016–17. In my opinion, the performance report of the group in respect of the year ended 30 June 2017 presents fairly, in all material respects, in accordance with the performance reporting requirements of the *Financial Management Act 1994*.
Basis for Opinion	I have conducted my audit in accordance with the *Audit Act 1994* which incorporates the Australian Standards on Assurance Engagements. My responsibilities under the Act are further described in the *Auditor's responsibilities for the audit of the performance report* section of my report. My independence is established by the *Constitution Act 1975*. I and my staff are independent of the group in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the performance report in Australia 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 responsibilities for the performance report	The Board is responsible for the preparation and fair presentation of the performance report in accordance with the performance reporting requirements of the *Financial Management Act 1994* and for such internal control as the Board determines is necessary to enable the preparation and fair presentation of the performance report that is free from material misstatement, whether due to fraud or error.

Level 31 / 35 Collins Street, Melbourne Vic 3000
T 03 8601 7000 enquiries@audit.vic.gov.au www.audit.vic.gov.au

Auditor's responsibilities for the audit of the performance report

As required by the *Audit Act 1994*, 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. 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 our 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 group's internal control
- evaluate the overall presentation, structure and content of the performance report, including the disclosures, and whether the 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
5 September 2017

Roberta Skliros
as delegate for the Auditor-General of Victoria

Consolidated Financial Report

2016–17

Contents

Directors' and Chief Financial Officer's declaration

We certify that, in our opinion the attached Financial Statements for the Group have been prepared in accordance with Direction 5.2 of the Standing Directions of the Minister for Finance issued under the *Financial Management Act 1994*, applicable Financial Reporting Directions, Australian Accounting Standards including Interpretations and other mandatory professional reporting requirements.

We further state that, in our opinion the information set out in the Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement and Notes to and forming part of the Financial Statements, presents fairly the financial transactions during the year ended 30 June 2017 and the financial position of the Group as at 30 June 2017.

At the time of signing, we are not aware of any circumstances which would render any particulars included in the Consolidated Financial Statements to be misleading or inaccurate.

We authorise the attached financial statements for issue on this 4th day of September 2017.

Lucia Cade
Chair

Terri Benson
Managing Director

Phil Johnson
Chief Financial Officer

Directors' report

The directors present their report on the financial year ended 30 June 2017 on South East Water Corporation (the corporation).

The directors of the corporation in office for the period 1 July 2016 to 30 June 2017 were:

Lucia Cade	Chair
Kevin Hutchings	Managing Director (resigned 3 March 2017)
Terri Benson	Managing Director (commenced 29 May 2017)
Tony Beach	Director
Gabrielle Bell	Deputy Chair
W Peter Day	Director
Timothy Lyons	Director
Freya Marsden	Director
Kim McGrath	Director
Ross Passalaqua	Director (resigned 22 February 2017)

Particulars of the directors' and corporate secretary's qualifications, experience and special responsibilities (if any) are set out on pages 26 to 29 of the Annual Report.

Directors' meetings

The number of board meetings and board committee meetings, and number of meetings attended by each of the directors of the corporation during the financial year are set out in the governance section of this Annual Report.

Principal activities

South East Water's fundamental business objective is to provide water, sewerage and integrated water management services that customers value, while providing strong financial returns to the government and community. Accordingly, the principal activities of the corporation during the financial year, within the State of Victoria, were the provision of retail water supply and sewerage services (including recycled water) and collection of trade waste.

In addition, South East Water, in partnership with Villawood Properties Pty Ltd, finalised the sale of the first four stages of land as part of the Aquarevo development. This project will result in 460 new residential lots within the municipality of Casey and will showcase innovative water recycling solutions and leading-edge efficiency features, both designed to help homes significantly reduce reliance on drinking water supplies.

South East Water continued to progress with the commercialisation of its innovations, engineering solutions and products through its wholly-owned subsidiary, iota Services.

Other than as previously referred to in the annual report, there were no other significant changes in the nature of the corporation's activities during the year.

Dividends

The corporation's profit after tax for the financial year was $134.3 million.

A final dividend of $47 million for the financial year ended 30 June 2016 was paid on 30 November 2016. As no interim dividend was paid, this amount represents the total full year dividend.

No interim dividend for the financial year ended 30 June 2017 was paid.

The final dividend for the year ended 30 June 2017 will be determined after consultation between the Minister for Water, Treasurer of Victoria and South East Water's board.

Review of operations

A review of the operations of the corporation during the financial year and the results of those operations is set out in the main body of the annual report.

State of affairs

There were no significant changes to the state of affairs of the corporation during the financial year ended 30 June 2017.

Likely developments

Certain likely developments in the operations of the corporation known at the date of this report have been covered generally within the main body of the annual report.

Environmental regulation performance

The corporation is subject to significant environmental regulations in respect of its operations. In particular, the corporation holds an amalgamated licence for its eight sewage treatment plants issued by the Environment Protection Authority (EPA) Victoria under the *Environment Protection Act 1970* (Vic).

South East Water has many environmental aspects to its business. In order to effectively and efficiently manage its environmental aspects, the corporation implemented an Environmental Management System (EMS).

The EMS is that part of the overall integrated management system which includes organisational structure, planning activities, responsibilities, practices, procedures, processes and resources for developing, implementing, achieving, reviewing and maintaining the organisation's Management Systems Policy.

The EMS is one of the tools providing a structured process for continual improvement of environmental performance. South East Water has maintained certification against the ISO 14001 standard since 1996.

South East Water achieved 100 per cent discharge quality compliance for all its eight water recycling plants, however was unable to contain all flows on site at the Lang Lang Water Recycling Plant, which resulted in a breach of the corporation's EPA amalgamated licence.

The Lang Lang Water Recycling Plant upgrade is currently underway and is due for completion in October 2017, which will increase reuse capacity and relieve the need for future offsite discharge.

Directors' benefits

No director has received, or has become entitled to receive, a benefit (other than a remuneration benefit included in Note 9.1 of the Financial Report) because of a contract the director or a firm of which the director is a member or an entity in which the director has a substantial financial interest, has made (during the financial year ended 30 June 2017 or at any other time) with the corporation. The directors of iota Services Pty Ltd also receive a committee allowance as part of their role as directors of iota. Additional information about director related disclosure is provided in Note 9.1 of the Financial Report.

Directors' and officers' liability insurance

During the financial year, the corporation paid insurance premiums in respect of directors' and officers' liability insurance. The policy does not specify a premium for individual directors and officers. The director and officer liability insurance policy provides cover against all costs and expenses involved in defending legal actions and any resulting payments arising from a liability to persons (other than the corporation) incurred in their position as director or officer unless the conduct involves a wilful breach of duty or an improper use of information or position to gain advantage.

The terms of the insurance policy prohibit the disclosure of the nature of the liabilities insured and the amount of the premium.

Dated at Melbourne this 4th day of September 2017.

Signed in accordance with a resolution of the directors.

Lucia Cade
Chair

Terri Benson
Managing Director

Independent Auditor's report

Independent Auditor's Report

Victorian Auditor-General's Office

To the Board of the South East Water Corporation

Opinion

I have audited the consolidated financial report of the South East Water Corporation (the corporation) and its controlled entity (together the group), which comprises the:

- consolidated balance sheet as at 30 June 2017
- consolidated statement of comprehensive income for the year then ended
- consolidated statement of changes in equity for the year then ended
- consolidated cash flow statement for the year then ended
- notes to the financial statements
- directors' and chief financial officer's declaration.

In my opinion, the consolidated financial report presents fairly, in all material respects, the financial position of the group as at 30 June 2017 and their financial performance and cash flows for the year then ended in accordance with the financial reporting requirements of Part 7 of the *Financial Management Act 1994* and applicable Australian Accounting Standards.

Basis for Opinion

I have conducted my audit in accordance with the *Audit Act 1994* which incorporates the Australian Auditing Standards. My responsibilities under that Act and those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of my report.

My independence is established by the *Constitution Act 1975*. My staff and I are independent of the group in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the consolidated financial report in Australia. 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.

Board's responsibilities for the consolidated financial report

The Board of the group is responsible for the preparation and fair presentation of the consolidated financial report in accordance with Australian Accounting Standards and the *Financial Management Act 1994*, and for such internal control as the Board determines is necessary to enable the preparation and fair presentation of a consolidated financial report that is free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial report, the Board is responsible for assessing the group'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.

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

As required by the *Audit Act 1994*, my responsibility is to express an opinion on the consolidated financial report based on the audit. My objectives for the audit are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 our 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 group'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 group'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 consolidated 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 group to cease to continue as a going concern
- evaluate the overall presentation, structure and content of the consolidated financial report, including the disclosures, and whether the consolidated financial report represents the underlying transactions and events in a manner that achieves fair presentation
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the financial report. I remain responsible for the direction, supervision and performance of the audit of the group. I remain solely responsible for my audit opinion.

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	Roberta Skliros
5 September 2017	*as delegate for the Auditor-General of Victoria*

Consolidated Statement of Comprehensive Income

for the year ended 30 June 2017

Consolidated entity	Note	2017 $'000	2016 $'000
Sales revenue	2	1,028,029	1,038,666
Other income		1,378	225
Total income		**1,029,407**	**1,038,891**
Expenses	3.1	(756,397)	(785,529)
Finance costs	7.2	(81,045)	(80,534)
Total expenses		**(837,442)**	**(866,063)**
Net result before income tax expense		**191,965**	**172,828**
Income tax expense	3.2	(57,706)	(52,000)
Net result after income tax		**134,259**	**120,828**
Other economic flows included in net result			
Net gain on revaluation of non-financial assets [a]		-	755
Net loss from change in long service leave liability estimates [b]		-	(866)
Deferred income tax relating to other economic flows		-	116
Total other economic flows included in net result		**-**	**5**
Net result after income tax		**134,259**	**120,833**
Other comprehensive income			
Items that will not be reclassified to net result			
Increase/(decrease) from revaluation of infrastructure assets [c]	8.2	(58,148)	(77,044)
Increase from revaluation of land and building assets	8.2	9,200	42,867
Actuarial gains/(losses) on defined benefit fund	9.3	8,048	(8,618)
Deferred income tax relating to other comprehensive income	3.2	15,030	24,653
Other comprehensive income after tax		**(25,870)**	**(18,142)**
Total comprehensive income for the year		**108,389**	**102,691**

[a] Net gain/(loss) on non-financial assets includes gains/(losses) from revaluations of all physical assets and intangible assets, except when these are taken through the asset revaluation surplus.

[b] Net gain/(loss) from change in accounting estimates includes change in long service leave provision due to change in calculation methodology.

[c] The (decrease) in infrastructure assets value from the revaluation is mainly due to changes in financial planning assumptions relating to revenue (including developer activity), capital expenditure and rates of return used by a hypothetical buyer which are used to determine the fair value of infrastructure assets.

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

Consolidated Balance Sheet

as at 30 June 2017

Consolidated entity	Note	2017 $'000	2016 $'000
Current assets			
Cash assets		1,835	1,452
Receivables	6.1	150,662	140,746
Inventories		4,907	5,202
Prepayments		6,907	1,637
Non-current assets held for sale	5.5	11,920	-
Total current assets		**176,231**	**149,037**
Non-current assets			
Infrastructure, property, plant and equipment	5.1	3,688,520	3,602,401
Intangible assets	5.3	122,872	122,376
Defined benefit superannuation asset	9.3	6,007	-
Total non-current assets		**3,817,399**	**3,724,777**
Total assets		**3,993,630**	**3,873,814**
Current liabilities			
Payables	6.2	86,044	92,132
Borrowings	7.1	45,200	46,500
Provisions	4.2	16,749	17,382
Income tax payable	3.2	21,814	16,456
Deposits and advances	6.3	9,795	7,513
Total current liabilities		**179,602**	**179,983**
Non-current liabilities			
Borrowings	7.1	1,415,000	1,340,000
Deferred tax liabilities	3.2	504,873	520,567
Provisions	4.2	1,839	1,781
Defined benefit superannuation liability	9.3	-	556
Total non-current liabilities		**1,921,712**	**1,862,904**
Total liabilities		**2,101,314**	**2,042,887**
Net assets		**1,892,316**	**1,830,927**
Equity			
Contributed equity		430,508	430,508
Reserves		799,875	831,379
Retained profits		661,933	569,040
Total equity		**1,892,316**	**1,830,927**

Contingent assets and contingent liabilities – Note 8.3
Commitments – Notes 5.4 and 7.5

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

Consolidated Statement of Changes in Equity

for the year ended 30 June 2017

	Contributed equity	Asset revaluation surplus: land and buildings	Asset revaluation surplus: infrastructure	Retained profits	Total equity
	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2015	443,608	122,882	720,606	480,240	1,767,336
Total comprehensive income for the year					
Net result after income tax	-	-	-	120,833	120,833
Other comprehensive income for the year after tax	-	41,852	(53,961)	(6,033)	(18,142)
Total comprehensive income for the year after tax	**-**	**41,852**	**(53,961)**	**114,800**	**102,691**
Transactions with equity holders in their capacity as equity holders					
Dividends paid [a]	-	-	-	(26,000)	(26,000)
Return of capital to owners	(13,100)	-	-	-	(13,100)
Total transactions with owners in their capacity as equity holders	**(13,100)**	**-**	**-**	**(26,000)**	**(39,100)**
Balance at 30 June 2016	**430,508**	**164,734**	**666,645**	**569,040**	**1,830,927**
Total comprehensive income for the year					
Net result after income tax	-	-	-	134,259	134,259
Other comprehensive income for the year after tax	-	9,200	(40,704)	5,634	(25,870)
Total comprehensive income for the year after tax	**-**	**9,200**	**(40,704)**	**139,893**	**108,389**
Transactions with owners in their capacity as equity holders					
Dividends paid	-	-	-	(47,000)	(47,000)
Total transactions with owners in their capacity as equity holders	**-**	**-**	**-**	**(47,000)**	**(47,000)**
Balance at 30 June 2017	**430,508**	**173,934**	**625,941**	**661,933**	**1,892,316**

[a] The Group is required to pay a dividend to the Treasurer of Victoria under the *Public Authorities (Dividend) Act 1983* based on a prescribed methodology. An obligation to pay a dividend only arises after consultation with the relevant portfolio minister, the Minister for Water, and the Treasurer, and a formal determination is made by the Treasurer. Dividend expense is recognised in the accounts upon payment. The interim dividend payable for 2016–17 was deferred, and expected to be called upon in late 2017.

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

Consolidated Cash Flow Statement

for the year ended 30 June 2017

Consolidated entity	Note	2017 $'000	2016 $'000
Cash flows from operating activities			
Receipts from customers		942,225	960,631
Payments to suppliers and employees		(693,037)	(735,766)
GST refunded from the Australian Tax Office (ATO) [a]		20,669	20,314
Income tax paid		(53,011)	(39,012)
Interest received		362	331
Interest and other costs of finance paid		(80,859)	(80,412)
Net cash inflow from operating activities	7.4	**136,349**	**126,085**
Cash flows from investing activities			
Proceeds from sale of infrastructure, property, plant and equipment		1,833	1,707
Payments for infrastructure, property, plant and equipment, and intangibles		(165,568)	(155,096)
Net proceeds for water entitlements		1,069	-
Net cash outflow from investing activities		**(162,666)**	**(153,389)**
Cash flows from financing activities			
Proceeds from borrowings [b]		205,275	187,900
Repayment of borrowings [c]		(131,575)	(122,500)
Capital repatriation		-	(13,100)
Dividends paid		(47,000)	(26,000)
Net cash inflow from financing activities		**26,700**	**26,300**
Net increase/(decrease) in cash held		383	(1,004)
Cash at the beginning of the financial year		1,452	2,456
Cash at the end of the financial year		**1,835**	**1,452**

[a] GST refunded from the ATO is presented on a net basis.
[b] Proceeds from borrowings includes the amount of borrowings that were paid down and refinanced during the year.
[c] Repayment of borrowings represents borrowings that were paid down and refinanced during the financial year.

The above Consolidated Cash Flow Statement should be read in conjunction with the accompanying notes.

Notes to the financial statements

for the year ended 30 June 2017

1. About this report

The Consolidated Financial Report is a general purpose financial report that consists of a Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement and notes accompanying these statements. These are the consolidated financial statements for South East Water Corporation and its controlled entity, iota Services Pty Ltd, collectively referred to as the Group.

This general purpose Financial Report has been prepared in accordance with the requirements of Australian Accounting Standards (including Australian Interpretations), the requirements of the *Financial Management Act 1994* and other mandatory professional reporting requirements.

The Consolidated Financial Report has been prepared on an accruals and going concern basis and is based on historical cost, except for infrastructure, property, plant and equipment and the defined benefit obligation, which have been measured at fair value. The Consolidated Financial Report is presented in Australian dollars.

The Consolidated Financial Report of South East Water Corporation (the Corporation) for the year ended 30 June 2017 was authorised for issue in accordance with a resolution of the directors on 4 September 2017.

South East Water is a state government owned corporation which has been classified as a for-profit entity for the purposes of reporting. The State Government of Victoria is the sole shareholder.

Principles of consolidation

iota Services Pty Ltd is 100 per cent owned by South East Water Corporation. Information relating to the Parent is disclosed in Note 9.6. South East Water Corporation has made judgements and determined that the control test under AASB 10 *Consolidated Financial Statements* is satisfied based on:

1. South East Water Corporation having the capacity to affect the relevant activities of iota Services Pty Ltd that can significantly affect its returns.
2. South East Water Corporation has exposure to variable returns from iota Services Pty Ltd.
3. South East Water Corporation has sufficient discretion to direct the activities of iota Services Pty Ltd.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated. For details regarding the controlled entity, please refer to Note 9.6.

Significant accounting judgements, estimates and assumptions

In the application of Australian accounting standards, management is required to make judgements, estimates and assumptions about the carrying values of assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period relate to the financial planning and valuation assumptions used to determine the fair value of infrastructure assets, land and building valuations, accrued revenue, provisions, actuarial assumptions used to determine the Group's defined benefit obligations, the useful life of fixed assets, deferred tax balances, contingent assets and liabilities and the impairment of assets.

The assumptions and the related carrying amounts are discussed in the following Notes:

Description	Note(s)	Page
Contingent assets and liabilities	8.3	93
Defined benefit superannuation	9.3	99
Employee benefits	4.1 – 4.2	69
Infrastructure, property, plant and equipment	5.1	71
Receivables	6.1	77
Taxes	3.2	67

Goods and services tax (GST)

Revenues, expenses, liabilities and assets are recognised net of the amount of GST except where the GST incurred on a purchase of goods and services is not recoverable from the Australian Taxation Office, in which case the GST is recognised as part of the acquisition cost of the asset or as part of the expense item as applicable.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from or payable to the Australian Taxation Office is included as part of receivables or payables in the Consolidated Balance Sheet.

Cash flows are included in the Consolidated Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the Australian Taxation Office are classified as operating cash flows.

Commitments and contingencies are disclosed inclusive of GST recoverable from, or payable to, the Australian Taxation Office.

Rounding

Unless otherwise shown in the Consolidated Financial Report, amounts have been rounded to the nearest thousand dollars.

Accounting policies

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

Joint arrangements – Aquarevo

Joint arrangements are contractual arrangements between the Group and one or more other parties to undertake an economic activity that is subject to joint control.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities of the joint arrangement require the unanimous consent of the parties sharing control.

Investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement.

The Group entered into a joint operation called Aquarevo with Villawood Properties to develop, subdivide, market and sell land owned by the Group at Evans Road in Lyndhurst through the signing of a Development Deed on 8 December 2015. The Group established that joint control of the operation exists as a Project Control Group (PCG):

1. The PCG consists of four members, two from each party to the arrangement.
2. Decisions made by the PCG require a majority vote, which therefore requires consent from both parties.
3. Major project decisions made by the PCG require unanimous approval.

The Group retains ownership of the land throughout the project until sold to a third party and therefore remains an asset of the Group and is recognised as such in the financial statements. A development fee will be paid to Villawood Properties from sales proceeds and will be recognised as incurred as a selling cost in calculating the net gain or loss on sale of assets. The gain or loss on sale of land assets will be calculated as the net of the sales proceeds less development costs and the carrying value of the land.

The development arrangement is expected to increase the gains on sale of the land versus selling the land as one single parcel.

As the land associated with the arrangement is subdivided and available for sale the value is transferred from non-current assets to current assets held for sale (refer to Note 5.5).

Notes to the financial statements

for the year ended 30 June 2017

2. Funding delivery of our services

Introduction:

This section provides information on income generated by the Group and relevant accounting policies, key estimates and judgements.

Structure:

2.1 Summary of income
2.2 Service and usage charges
2.3 Developer related income
2.4 Other revenue

2.1. Summary of income

Consolidated entity	2017 $'000	2016 $'000
Service and usage charges	852,874	867,482
Developer related income	125,169	119,319
Other revenue	49,986	51,865
Total revenue	**1,028,029**	**1,038,666**

Income is recognised to the extent it is probable the economic benefits will flow to the Group and the income can be reliably measured.

2.2. Service and usage charges

Consolidated entity	2017 $'000	2016 $'000
Service charges		
Water service charges	85,870	81,740
Sewerage service charges	260,165	260,208
Trade waste service charges	5,420	5,297
Recycled water service charges	2,858	2,859
Usage charges		
Water usage charges	375,581	386,730
Sewage disposal charges	170,364	175,940
Trade waste disposal charges	17,476	18,022
Recycled water usage charges	2,949	2,826
Government Water Rebate	(67,809)	(66,140)
	852,874	**867,482**

Service and usage charges

Service charges are brought to account evenly throughout the financial year in order to reflect how they are earned. Service charges represent charges for access to water and sewerage services. Usage and disposal charges are brought to account as revenue in the financial year the water is consumed and sewage or trade waste disposed.

Government Water Rebate represents a rebate back to customers provided by South East Water on behalf of the state government on water bills of residential water customers. It was first issued in 2014–15 and is due to be provided each year until 2017–18. The rebate was provided through initiatives including lower interest costs of debt, innovative use of technology and efficient scheduling of maintenance and capital works.

2.3. Developer related income

Consolidated entity	2017 $'000	2016 $'000
New customer contributions	46,751	47,660
Developer contributed assets [a]	78,418	71,659
Total income	**125,169**	**119,319**

[a] Income from developer contributed assets for 2016–17 includes a $12.7 million adjustment to revenue. In prior financial years, assets received from developers were initially capitalised based on the best cost estimates available from the developers at that point in time. During 2016–17, updated cost estimates relating to these assets became available due to changes in procedures and information flow from developers. As a result, these updated rates were used to adjust the prior year developer contributed revenue, with the adjusted amounts recognised in the current financial year. Depreciation associated with these assets has also been updated, with an increase of $0.1 million (refer note 5.2). The value of infrastructure, property, plant and equipment assets presented on the Balance Sheet has also increased by the net amount of $12.6 million.

New customer contributions

Developers are required to make a contribution towards the cost of developing the Group's water supply distribution systems and sewage disposal systems. The level of these cash contributions is regulated by the Essential Services Commission and is recorded as new customer contributions.

Consistent with the requirements of applicable accounting standards, these cash contributions have been recognised as income in the Consolidated Statement of Comprehensive Income upon receipt.

Developer contributed assets

Developers are required to provide water supply and sewerage facilities and in some cases recycling facilities to new subdivisions which are subsequently gifted to, and maintained by, the Group.

In accordance with the requirements of Interpretation 18 *Transfers of Assets from Customers* and AASB 118 *Revenue*, the fair value of these assets is recognised as income in the accounts when the Group gains control of the assets. This non-cash income is recorded as developer contributed assets on the Consolidated Balance Sheet.

2.4. Other revenue

Consolidated entity	2017 $'000	2016 $'000
Sale of goods and services	8,114	7,273
Other services rendered	29,302	28,688
Rent revenue	2,111	1,375
Interest revenue	362	331
Miscellaneous income	10,097	14,198
	49,986	**51,865**

Revenue from the sale of goods is recognised when the transfer of the significant risks and rewards of ownership have transferred to the buyer.

Revenue from the supply of services and miscellaneous income is recognised following completion of the services being performed.

Rent revenue is recognised in accordance with AASB 117 *Leases* on a straight line basis across the term of the rental lease agreement.

Interest revenue is recognised using the effective interest rate method, in the period in which it is earned.

Notes to the financial statements

for the year ended 30 June 2017

3. The cost of delivering our services

Introduction:

This section provides information on the expenses incurred by the Group in delivering its services and generating income. It includes relevant accounting policies, key estimates and judgements.

Structure:

3.1 Expenses incurred in delivering our services
3.2 Income tax

3.1. Expenses incurred in delivering our services

Consolidated entity	2017 $'000	2016 $'000
Bulk water and sewerage charges	487,312	552,775
Government Water Rebate received from Melbourne Water Corporation	-	(29,424)
Operating contracts [(a)]	66,143	64,068
Environmental contribution	27,860	27,860
Taxes, fees and charges	7,355	6,908
Bad and doubtful debts	2,037	2,195
Asset write-offs	2,940	1,016
Other expenses	21,135	21,027
Total expenses incurred in delivering our services	**614,782**	**646,425**

[(a)] Operating contract expenses includes $148,500 ($144,800 in 2015–16) for audit fees to the Victorian Auditor-General's Office for auditing the financial statements.

Bulk water and sewerage charges are levied by Melbourne Water for the cost of water the Group purchases, and for sewage treated at Melbourne Water's Eastern and Western Treatment Plants. Variable charges are levied in arrears and recognised as an expense upon receipt of an invoice. Any variable charges that remain outstanding at period end are accrued. Fixed charges are levied once a month, and are recognised on receipt of an invoice from Melbourne Water.

Government Water Rebate: As a result of an efficiency review of Victoria's urban water corporations, the Group received a rebate from Melbourne Water Corporation on bulk water and sewerage charges during the 2015–16 year of $29.424 million. From 2016–17 onwards no such rebate is being received as the rebate has been incorporated into Melbourne Water's lower bulk water and sewerage prices.

Operating and other expenses are recognised as an expense in the reporting period in which they are incurred. The carrying amounts of any inventories held for distribution are expenses when the inventories are distributed. Where expenditure relates to acquisition of a new asset or enhancement of an existing asset the cost is capitalised and depreciated.

Environmental contribution is recognised as an expense in the period in which it is paid. Environmental contributions are funds collected from water supply authorities under the *Water Industry Act 1994*. Under a 2004 amendment to the Act, environmental contributions are collected to fund initiatives that seek to promote the sustainable management of water or address adverse water related environmental impacts. In May 2016 the State Government of Victoria committed to a fourth tranche of the environmental contribution for another four years commencing from 1 July 2016 (the commitments related to this are disclosed in Note 7.5).

3.2. Income tax

Consolidated entity	2017 $'000	2016 $'000
(a) Income tax expense		
The major components of income tax expense are:		
Current tax	58,369	51,265
Income tax under provided in prior year	-	960
Deferred tax expense/(income) relating to timing differences	(663)	(225)
	57,706	**52,000**
(b) Deferred income tax recognised in other comprehensive income		
Gain/(loss) on revaluation of infrastructure assets	(17,445)	(23,113)
Gain on revaluation of land and buildings	-	1,045
Defined benefit superannuation plan actuarial gain/loss	2,414	(2,585)
	(15,031)	**(24,653)**
(c) Reconciliation of income tax expense to prima facie tax payable		
Accounting profit before tax	191,964	172,828
Income tax calculated at 30%	57,589	51,848
Add		
Non-deductible depreciation	-	5
Non-deductible expenses	117	147
Income tax expense	**57,706**	**52,000**
(d) Deferred tax items		
Deferred tax liabilities		
Defined benefit superannuation asset	1,802	-
Prepayments	20	-
Land and buildings	3,927	3,944
Infrastructure	506,760	524,428
Total deferred tax liabilities	**512,509**	**528,372**
Recognised directly in equity	344,397	360,040
Recognised directly in net profit	168,112	168,332
Total deferred tax liabilities	**512,509**	**528,372**

Notes to the financial statements

for the year ended 30 June 2017

3.2. Income tax *continued*

Consolidated entity	2017 $'000	2016 $'000
Deferred tax assets		
Provisions	(1,008)	(1,125)
Employee benefits	(5,429)	(5,479)
Property, plant and equipment	(175)	-
Leasehold improvements future deductible amounts	(322)	(310)
Defined benefit superannuation liability	-	(167)
Other	(702)	(724)
Total deferred tax assets	**(7,636)**	**(7,805)**
Recognised directly in equity	-	(2,585)
Recognised directly in net profit	(7,636)	(5,220)
Total deferred tax assets	**(7,636)**	**(7,805)**
Net deferred tax liabilities	**504,873**	**520,567**

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

Income tax on the Consolidated Statement of Comprehensive Income for the year comprises current and deferred tax. Income tax is recognised in the Consolidated Statement of Comprehensive Income except to the extent that it relates to items recognised directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes at balance date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax assets and liabilities are recognised 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 substantially enacted at balance date. Deferred tax liabilities are reported net of any deferred tax assets.

The Group has formed an income tax consolidated group consisting of South East Water Corporation and iota Services Pty Ltd. South East Water Corporation is the head entity of the group.

4. Our people

Introduction:

This section provides information on employee benefit expenses incurred during the reporting period which are presented in the Consolidated Statement of Comprehensive Income and employee benefit provisions recognised in the consolidated balance sheet.

Structure:

4.1 Employee benefits cost
4.2 Employee benefit provisions

4.1. Employee benefits cost

Consolidated entity	2017 $'000	2016 $'000
Salaries and wages, annual leave and long service leave	45,170	43,049
Superannuation expense	6,649	6,032
	51,819	**49,081**

Salaries and wages, annual leave and long service leave

Employment expenses include all costs related to employment including salaries and wages, fringe benefits tax, leave entitlements, termination payments and WorkCover premiums.

Superannuation expenses

The amount charged to the Consolidated Statement of Comprehensive Income in respect of superannuation represents the contributions made by the Group to superannuation funds for the current service of current staff. Contributions to superannuation plans are charged to the Consolidated Statement of Comprehensive Income as the contributions are paid or become payable. Actuarial gains and losses arising from the Group's defined benefit superannuation scheme are recognised immediately in Other Comprehensive Income in the Consolidated Statement of Comprehensive Income in the year in which they occur.

4.2. Employee benefit provisions

Provision is made for benefits accruing to employees in respect of salaries and wages, annual leave and long service leave for services rendered to the reporting date and recorded as an expense during the period the services are delivered.

Consolidated entity	2017 $'000	2016 $'000
Current		
Annual leave		
Unconditional and expected to settle within 12 months	3,735	3,634
Long service leave		
Unconditional and expected to settle within 12 months	1,057	1,046
Unconditional and expected to settle after 12 months	8,725	9,027
Provisions for on-costs		
Unconditional and expected to settle within 12 months	952	926
Unconditional and expected to settle after 12 months	1,791	1,849
Total current employee benefit provisions	**16,260**	**16,482**
Non-current		
Employee benefits	1,525	1,478
On-costs	313	303
Total non-current provisions	**1,838**	**1,781**
Total employee benefit provisions	**18,098**	**18,263**

Notes to the financial statements

for the year ended 30 June 2017

Salaries and wages, annual leave and sick leave

In accordance with AASB 119 *Employee Benefits*, liabilities for salaries and wages (including non-monetary benefits) are recognised as current liabilities because the Group does not have an unconditional right to defer settlements of these liabilities and expects the liabilities to be wholly settled within 12 months of the reporting date. The liabilities are measured using remuneration rates which are current at the reporting date. All on-costs including payroll tax, workers compensation premiums and superannuation are included in the determination of these liabilities.

The annual leave liability is classified as a current liability and measured at the undiscounted amount expected to be paid, as the Group does not have an unconditional right to defer settlement of the liability and the discounted value of amounts expected to be paid after 2017–18 is not materially different from its nominal value.

No provision has been made for sick leave as all sick leave is a non-vesting benefit and is not expected to exceed current and future sick leave entitlements.

Long service leave

The liability for employees' benefits to long service leave represents the present value of the estimated future cash outflows to be made by the Group resulting from employees' services provided up to the reporting date. Expected future cash outflows are discounted using interest rates attached to national government guaranteed securities as at reporting date with terms to maturity that closely match the estimated future long service leave cash outflows. Discount rates, probability factors and wage/salary growth assumptions are provided by Victoria's Department of Treasury and Finance as part of its long service leave financial model.

Unconditional long service leave is disclosed as a current liability even where the Group does not expect to settle the liability within 12 months because it will not have the unconditional right to defer the settlement of the entitlement.

The components of the current long service leave liability are measured at:

- nominal (undiscounted) value where the Group expects leave to be taken within 12 months of balance date, based on historical data and known commitments for the forthcoming financial year
- present value for employees with seven or more years of continuous service, where the Group does not expect leave to be taken within the forthcoming financial year.

Conditional long service leave is disclosed as a non-current liability. There is an unconditional right to defer the settlement of the entitlement until the employee has completed the requisite years of services. The non-current portion is measured as the present value of long service leave entitlements for employees with less than seven years' service.

Any gain or loss following revaluation of the present value of the non-current liability is recognised as a transaction, except to the extent that a gain or loss arises due to changes in bond interest rates for which it is then recognised as an 'other economic flow' in the net result.

On-costs related to employee benefits

On-costs such as payroll tax and workers compensation are not employee benefits and are therefore recognised separately from the provision for employee benefits.

5. Key assets used to support delivery of our services

Introduction:

This section provides information on infrastructure, property, plant and equipment, and intangible assets that are controlled by the Group and used to deliver its services. It includes relevant accounting policies, key estimates and judgements.

Where the assets included in this section are carried at fair value, additional information is disclosed in Note 8.2 in connection with how those fair values were determined.

Structure:

5.1. Total infrastructure, property, plant and equipment

Consolidated entity	2017 $'000	2016 $'000
Land		
At fair value	181,402	186,403
Land at fair value	**181,402**	**186,403**
Buildings		
Gross carrying amount	87,156	86,760
Less: Accumulated depreciation	(3,864)	(1,684)
Buildings at fair value	**83,292**	**85,076**
Leasehold improvements		
Gross carrying amount	2,072	1,755
Less: Accumulated depreciation	(1,496)	(1,387)
Leasehold improvements at fair value	**576**	**368**
Plant and equipment		
Gross carrying amount	40,230	36,655
Less: Accumulated depreciation	(22,881)	(19,440)
Plant and equipment at fair value	**17,349**	**17,215**
Infrastructure assets		
At fair value	3,324,880	3,267,351
Infrastructure assets at fair value	**3,324,880**	**3,267,351**
Capital works in progress at cost	**81,021**	**45,988**
Total infrastructure, property, plant and equipment	**3,688,520**	**3,602,401**

Notes to the financial statements

for the year ended 30 June 2017

Initial recognition

Items of infrastructure, property, plant and equipment are measured initially at cost and subsequently revalued at fair value less any accumulated depreciation and impairment. Where an asset is acquired for no or nominal cost, the cost is its fair value at the date of acquisition.

The cost of constructed non-financial physical assets includes the cost of all materials used in construction, direct labour on the project and an appropriate proportion of variable and fixed overheads.

The cost of leasehold improvements is capitalised and depreciated over the shorter of the remaining term of the lease or their estimated useful lives.

Developer reimbursements

In accordance with the Group's land development policy, the Group will reimburse developers, subject to the nature of the works involved, for all or part of their costs incurred in constructing water, sewerage and/or recycling assets. Reimbursements are generally paid on completion of the works, however, in cases where reimbursements are to be paid at an agreed date in the future, a liability is recognised.

Developer reimbursements are capitalised with the asset recognised as infrastructure, property, plant and equipment in the Consolidated Balance Sheet.

Subsequent measurement

Infrastructure, property, plant and equipment are subsequently measured at fair value less accumulated depreciation and impairment. Fair value is determined with regard to the 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) and is summarised below by asset category.

Non-specialised land and non-specialised buildings are valued using the market approach, whereby assets are compared to recent comparable sales or sales of comparable assets that are considered to have nominal value.

Specialised land is also valued using the market approach, although it is adjusted for the community service obligation (CSO) to reflect the specialised nature of the land or building 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.

Infrastructure assets are valued using the 'income approach' (based on discounted cash flows). This approach has been adopted as there is no market-based evidence of 'fair value' due to the specialised nature of the Group's infrastructure assets. Furthermore, consistent with the business's classification as a 'for-profit' entity for financial reporting purposes, the future economic benefits of the infrastructure assets is primarily dependant on their ability to generate net cash inflows.

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

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

Plant and equipment assets are stated at fair value. Due to their non-specialised nature, management has confirmed that the carrying value of plant and equipment, based on depreciated cost, is consistent with fair value.

Assets acquired at no cost to the Group (developer contributed assets) are brought to account at fair value, being the actual or estimated cost of construction.

If land and buildings were measured at historical cost, the carrying amount would be $106 million. The carrying amount for infrastructure assets would be $2,565 million if measured using the cost model.

Refer to Note 8.2 for additional information on fair value determination of infrastructure, property, plant and equipment.

Depreciation

All infrastructure assets, buildings, plant and equipment and other non-financial physical assets that have finite useful lives are depreciated. The exceptions to this rule include items under operating leases, assets held for sale and land. Depreciation commences from the date of acquisition or, in respect of constructed assets, from the time an asset is completed or held ready for use. Depreciation rates are reviewed annually.

Items of infrastructure, property, plant and equipment, excluding land, are depreciated over their expected useful lives to the Group on the following basis:

Description	Depreciation method	Useful life
Buildings	Straight line	20 – 50 years
Leasehold improvements	Straight line	2 – 10 years [(i)]
Infrastructure assets	Straight line	2 – 99 years [(ii)]
Plant and equipment	Reducing balance	5% – 70%
Plant and equipment (iota)	Straight line	3 – 20 years

[(i)] Leasehold improvements useful life range changed from 1 – 20 years to 2 – 10 due to the review and adjustment of asset useful lives.
[(ii)] Infrastructure useful life range changed from 5 – 99 years to 2 – 99 years due to review and adjustment of useful life and addition of a new asset.

Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purposes of assessing for impairment, assets are grouped at a whole of business level which is considered to be the lowest level for which there are separately identifiable cash flows (cash generating unit).

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 as an 'other economic flow', except to the extent that it can be debited to an asset revaluation surplus amount applicable to that class of asset.

If there is an indication that there has been a reversal in impairment, the carrying amount shall be increased to its recoverable amount. However this reversal shall not increase the asset's carrying amount above what would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised in prior years.

The recoverable amount for most assets is measured at the higher of depreciated replacement cost and fair value less costs to sell. Recoverable amount for assets held primarily to generate net cash inflows is 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.

Derecognition and disposal

The carrying amount of an item of infrastructure, property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any loss arising on derecognition of an item of property, plant and equipment is included in profit or loss in the year the asset is derecognised.

Gains or losses on the sale of infrastructure, property, plant and equipment assets are calculated in accordance with AASB 116. This is the gross sale proceeds less the book value of the asset less selling expenses.

Notes to the financial statements

for the year ended 30 June 2017

5.2. Reconciliation of movements in carrying values of infrastructure, property, plant and equipment

2017	Infrastructure assets	Plant and equipment	Leasehold improvements	Land	Buildings	Capital works in progress	Total
Consolidated entity	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Opening balance	3,267,351	17,215	368	186,403	85,076	45,988	3,602,401
Additions	-	7,507	245	352	470	223,032	231,606
Fair value of assets received from developers	78,418	-	-	-	-	(78,418)	-
Transfers	109,581	-	73	-	(73)	(109,581)	-
Disposals	(823)	(1,639)	-	(2,633)	-	-	(5,095)
Revaluations	(58,148)	-	-	9,200	-	-	(48,948)
Depreciation expense	(71,499)	(5,734)	(110)	-	(2,181)	-	(79,524)
Transfer to disposal group held for sale	-	-	-	(11,920)	-	-	(11,920)
Closing balance	**3,324,880**	**17,349**	**576**	**181,402**	**83,292**	**81,021**	**3,688,520**

2016	Infrastructure assets	Plant and equipment	Leasehold improvements	Land	Buildings	Capital works in progress	Total
Consolidated entity	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Opening balance	3,118,662	10,182	363	143,166	208	238,228	3,510,809
Additions	-	13,867	225	47	86,344	106,390	206,873
Fair value of assets received from developers	71,659	-	-	-	-	(71,659)	-
Transfers	227,190	-	-	(369)	150	(226,971)	-
Disposals	(717)	(1,717)	-	-	-	-	(2,434)
Revaluations	(77,044)	-	-	43,559	63	-	(33,422)
Depreciation expense	(72,399)	(5,117)	(220)	-	(1,689)	-	(79,425)
Closing balance	**3,267,351**	**17,215**	**368**	**186,403**	**85,076**	**45,988**	**3,602,401**

5.3. Intangible assets

2017 Consolidated entity	IT software	Works in progress	Water entitlements	Other	Total
	$'000	$'000	$'000	$'000	$'000
Gross carrying amount					
Opening balance as at 1 July 2016	80,615	2,817	96,916	373	180,721
Additions	-	12,744	-	-	12,744
Transfers	9,780	(9,780)	-	-	-
Disposals	(1,975)	-	-	-	(1,975)
Closing balance as at 30 June 2017	**88,420**	**5,781**	**96,916**	**373**	**191,490**
Accumulated amortisation					
Opening balance as at 1 July 2016	(58,158)	-	-	(187)	(58,345)
Amortisation	(10,226)	-	-	(47)	(10,273)
Closing balance as at 30 June 2017	**(68,384)**	**-**	**-**	**(234)**	**(68,618)**
Net book value as at 30 June 2017	**20,035**	**5,781**	**96,916**	**139**	**122,872**

2016	IT software	Works in progress	Water entitlements	Other	Total
Consolidated entity	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Gross carrying amount					
Opening balance as at 1 July 2015	74,387	2,678	96,916	373	174,354
Additions	-	9,348	-	-	9,348
Transfers	9,209	(9,209)	-	-	-
Disposals	(2,981)	-	-	-	(2,981)
Closing balance as at 30 June 2016	**80,615**	**2,817**	**96,916**	**373**	**183,664**
Accumulated amortisation					
Opening balance as at 1 July 2015	(50,550)	-	-	(140)	(50,690)
Amortisation	(7,608)	-	-	(47)	(7,655)
Closing balance as at 30 June 2016	**(58,158)**	**-**	**-**	**(187)**	**(58,345)**
Net book value as at 30 June 2016	**22,457**	**2,817**	**96,916**	**186**	**122,376**

Intangible assets are comprised of IT software and water entitlements arising from the Group's investment in Stage 1 of the Goulburn-Murray Water Connections Project (formerly Northern Victoria Irrigation Renewal Project). Intangible assets acquired separately are initially recognised at cost. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses. Costs incurred subsequent to initial acquisition are capitalised when it is expected that additional future economic benefits will flow to the Group.

Internally generated intangible assets primarily include the development costs of information management systems. These costs are capitalised only if they satisfy the criteria as defined by AASB 138 *Intangible assets*.

Items recognised as intangible assets are amortised over their useful lives from date of acquisition on the following basis:

Description	Depreciation method	Useful life
IT software	Diminishing value	2 – 5 years
Other	Straight line	15 years

Amortisation rates are reviewed annually.

Notes to the financial statements

for the year ended 30 June 2017

5.4. Capital commitments

Capital commitments arise from contracts for costs associated with the acquisition of assets which will be due and payable in the 12 months after the reporting date. These commitments are recorded at their nominal value and inclusive of GST. These future expenditures cease to be disclosed as commitments once the related liabilities are recognised in the balance sheet.

Consolidated entity	2017 $'000	2016 $'000
Total capital expenditure contracted for at balance date but not provided for in the financial statements, payable not later than one year and inclusive of GST	12,139	24,546
Less GST recoverable from the Australian Taxation Office	(1,104)	(2,231)
Total capital expenditure (exclusive of GST)	**11,035**	**22,315**

5.5. Non-current assets held for sale

Consolidated entity	2017 $'000	2016 $'000
Land held for sale	11,920	-
Total non-current assets held for sale	**11,920**	**-**

The land held for sale balance of $11.92 million is the portion of land at Evans Road, Lyndhurst in relation to the Aquarevo joint arrangement (Note 1) that is available for immediate sale as at 30 June 2017 and the sale of such land is highly probable. The total book value of the land as at 30 June 2016 was $32.8 million and a balance of $20.9 million remains as a non-current asset at 30 June 2017 as it is not expected to be sold until the 2018–19 financial year.

Non-financial physical assets are treated as current and classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use.

This condition is regarded as met only when:

- the asset is available for immediate use in the current condition
- the sale is highly probable and the asset's sale is expected to be completed within 12 months from the date of classification.

These non-financial physical assets, related liabilities and financial assets are measured at the lower of carrying amount and fair value less costs to sell, and are not subject to depreciation or amortisation.

Freehold land held for sale is carried at fair value less costs to disposal. Refer to Note 8.2 for the valuation technique applied to non-specialised land.

6. Other assets and liabilities

Introduction:

This section provides information on other assets and liabilities utilised and controlled by the Group in its operations.

Structure:

6.1 Receivables
6.2 Payables
6.3 Deposits and advances

6.1. Receivables

Consolidated entity	2017 $'000	2016 $'000
Contractual		
Trade debtors	65,820	58,388
Less: Provision for doubtful debts	(2,870)	(2,850)
Accrued revenue	82,420	80,738
Other debtors	57	52
	145,427	136,328
Statutory		
GST input tax credits receivable	5,235	4,418
Total receivables	150,662	140,746

Trade debtors are recorded at the amount of contracted sales proceeds less a provision for doubtful debts. Trade debtors are required to be settled within 14 days. Accrued revenue represents the estimated value of water consumed and sewage disposal charges earned but not yet billed at reporting date.

Contractual receivables are classified as financial instruments and are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial measurement they are measured at amortised cost using the effective interest method, less any impairment.

Statutory receivables do not arise from contracts and are recognised and measured similarly to contractual receivables (except for impairment), but are not classified as financial instruments.

Bad and doubtful debts: Provision for doubtful debts is recognised to the extent that recovery of the outstanding receivable balance is considered no longer probable. The provision represents an estimate of bad debts to be written off and is made when there is objective evidence that the Group will not be able to collect the debt. Bad debts are written off when determined uncollectable, subject to approval by the board or delegated officer.

Notes to the financial statements

for the year ended 30 June 2017

6.1.1. Ageing analysis of contractual receivables

Consolidated entity	2017 $'000	2016 $'000
Receivables not past due and not impaired	119,787	111,818
Receivables past due and not impaired	25,640	24,510
Receivables past due and impaired	-	-
	145,427	**136,328**
The ageing of receivables past due and not impaired is as follows:		
Less than 30 days	12,967	13,536
30 to 90 days	4,841	4,126
Greater than 90 days	7,832	6,848
	25,640	**24,510**

6.1.2. Movement in the provision for doubtful debts

Consolidated entity	2017 $'000	2016 $'000
Balance at the beginning of the year	**(2,850)**	**(2,600)**
Amounts written off during the year	2,060	1,995
Amounts recovered during the year	(43)	(50)
(Increase)/decrease in provision	(2,037)	(2,195)
Balance at the end of the year	**(2,870)**	**(2,850)**

6.2. Payables

Consolidated entity	2017 $'000	2016 $'000
Contractual		
Trade creditors	10,588	4,085
Accruals	75,458	84,208
	86,046	**88,293**
Statutory		
Taxes payable	3,839	3,839
Total current payables	**89,885**	**92,132**

Payables represent the amounts to be paid in the future by the Group for goods and services received and accrued interest on borrowings. Trade creditors payable are normally settled within 30 days from the date of invoice.

Accruals consist of charges for goods and services which have been received but not invoiced at 30 June 2017. All payables are due and payable within 12 months.

6.3. Deposits and advances

Consolidated entity	2017 $'000	2016 $'000
Unearned revenue	2,062	1,754
Advances	7,732	5,759
Total deposits and advances	**9,794**	**7,513**

Deposits and advances mainly represent monies held by the Group as security for capital works and unearned revenue.

Unearned income represents income received in advance of the Group performing obligations required to recognise the income in the Consolidated Statement of Comprehensive Income.

7. Financing our operations

Introduction:

This section provides information on the sources of finance utilised by the Group during its operations, along with interest expenses (the cost of borrowings) and other information related to financing activities of the Group.

This section includes disclosures of balances that are financial instruments (such as borrowings and cash balances). Notes 8.1 and 8.2 provide additional, specific financial instrument disclosures.

Structure:

7.1. Borrowings

Consolidated entity	2017 $'000	2016 $'000
Current		
11am borrowings	45,200	46,500
Non-current		
Fixed rate loans	1,415,000	1,340,000
	1,460,200	**1,386,500**

In accordance with the *Borrowing and Investment Powers Act 1987* borrowings are sourced from the Treasury Corporation of Victoria and secured by the Treasurer in the form of a government guarantee.

Borrowings are classified as financial instruments. All interest bearing borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. The measurement basis subsequent to initial recognition is based on the classification of interest bearing liabilities as financial liabilities at 'amortised cost'.

This classification is determined at initial recognition. The Group has classified borrowings which mature within 12 months as non-current liabilities on the basis that the entity will, and has the discretion to, refinance or rollover these loans with the Treasury Corporation of Victoria, pursuant to section 8 of the Borrowings and Investment Powers Act 1987. Borrowings known as 11am debt are classified as current borrowings.

During the current and prior year, there were no defaults and breaches of any of the loans.

Notes to the financial statements

for the year ended 30 June 2017

7.2. Maturity analysis of borrowings

Consolidated entity	Weighted average interest rate	Less than 1 year	1 to 5 years	More than 5 years	Total
	$'000	$'000	$'000	$'000	$'000
30 June 2017					
Borrowings – floating interest rate	1.67%	45,200	-	-	45,200
Borrowings – fixed interest rate	4.23%	-	544,150	870,850	1,415,000
Total		**45,200**	**544,150**	**870,850**	**1,460,200**
30 June 2016					
Borrowings – floating interest rate	1.92%	46,500	-	-	46,500
Borrowings – fixed interest rate	4.51%	-	547,500	792,500	1,340,000
Total		**46,500**	**547,500**	**792,500**	**1,386,500**

7.3. Finance costs

Consolidated entity	2017 $'000	2016 $'000
Interest expense	61,377	62,499
Financial accommodation levy	19,667	18,011
Bank charges	35	24
Total finance costs	**81,079**	**80,534**

Finance costs are recognised as expenses in the period in which they are incurred. Finance costs include interest on short and long-term borrowings and the Victorian Government's financial accommodation levy. All qualifying assets (being assets that necessarily take a substantial period of time to get ready for their intended use or sale) are measured at fair value. Therefore any finance costs directly attributable to the acquisition, construction or production of these qualifying assets are not required to be capitalised and will continue to be expensed in the period in which they are incurred.

The financial accommodation levy is paid by the Group into the Consolidated Fund in accordance with section 40N of the *Financial Management Act 1994* in respect of financial accommodation provided to the Group by the State Government of Victoria.

7.4. Reconciliation of net result to cash flow from operating activities

Consolidated entity	2017 $'000	2016 $'000
Net result after income tax	**134,259**	**120,828**
Depreciation	79,524	79,424
Write-off of non-current assets	2,940	1,016
Net (profit)/loss on sales of assets	(1,378)	(225)
Amortisation	10,273	10,597
Developer contributed assets	(78,418)	(71,659)
Defined benefit (income)/expenses	1,485	1,236
Changes in operating assets and liabilities		
(Increase)/decrease in receivables	(9,917)	(10,862)
(Increase)/decrease in inventories	296	(1,076)
(Increase)/decrease in prepayments	(5,269)	(454)
Increase/(decrease) in trade creditors	(4,033)	(10,027)
Increase/(decrease) in income tax payable	5,358	13,214
Increase/(decrease) in net deferred tax liabilities	(663)	(227)
Increase/(decrease) in provisions	(576)	509
Increase/(decrease) in deposits and advances	2,282	(6,331)
Increase/(decrease) in accrued interest payable	186	122
Net cash inflow from operating activities	**136,349**	**126,085**

7.5. Commitments

Consolidated entity	2017 $'000	2016 $'000
Environmental contribution levy commitments payable at balance date not subject to GST and not provided for in the financial statements, payable:		
Not later than one year	27,860	27,860
Later than 1 year and not later than 5 years	81,386	109,246
Total environmental contribution levy commitments	**109,246**	**137,106**

In May 2016 the State Government of Victoria committed to a fourth tranche of the environmental contribution for another four years commencing from 1 July 2016. The Act establishes an obligation for the Group to pay to the Department of Environment, Land, Water and Planning annual contributions of $27.9 million per annum until 2017–18 and then $40.7 million per annum until 2019–20. The contribution is recognised as an expense during the reporting period it is paid.

Notes to the financial statements

for the year ended 30 June 2017

Consolidated entity	2017 $'000	2016 $'000
Other expenditure contracted for at balance date and subject to GST and not provided for in the financial statements, payable:		
Not later than one year	1,377	1,253
Later than 1 year and not later than 5 years	383	1,126
Total expenditure (inclusive of GST)	1,760	2,379
Less GST recoverable from Australian Taxation Office	(160)	(216)
Total expenditure (exclusive of GST)	**1,600**	**2,163**

Lease commitments payable

Total lease expenditure contracted for at balance date but not provided for in the financial statements, payable:		
Not later than 1 year	1,412	1,335
Later than 1 year and not later than 5 years	4,085	4,414
Later than 5 years	627	966
Total lease expenditure (inclusive of GST)	6,124	6,715
Less GST recoverable from Australian Taxation Office	(557)	(610)
Total lease expenditure (exclusive of GST)	**5,567**	**6,105**

These commitments represent non-cancellable operating leases which have an average lease term of 6 years. Assets that are subject to operating leases include property, motor vehicles and office equipment.

Non cancellable operating lease receivables:

Not later than 1 year	2,288	2,188
Later than 1 year and not later than 5 years	4,506	5,153
Later than 5 years	3,147	3,045
Total lease receivables (inclusive of GST)	9,941	10,386
Less GST payable to Australian Taxation Office	(904)	(944)
Total lease receivables (exclusive of GST)	**9,037**	**9,442**

These commitments primarily represent mobile telephone tower rental income on South East Water's land and infrastructure, sublease of depot office area and shop space leases at Frankston headquarters.

8. Risk, contingencies and valuation judgements

Introduction:

The Group 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.

This section sets out financial instrument specific information (including exposures to financial risks), as well as those items that are contingent in nature or require a higher level of judgement to be applied, which for the Group related mainly to fair value determination.

Structure:

8.1 Financial instruments specific disclosures
8.2 Fair value determination
8.3 Contingent assets and contingent liabilities

8.1. Financial instruments specific disclosures

Financial instruments arise out of contractual arrangements 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 the Group's activities, certain financial assets and financial liabilities arise under statute rather than a contract (for example taxes, fines and penalties). Such assets and liabilities do not meet the definition of financial instruments in AASB 132 *Financial instruments: presentation*.

Categories of financial instruments

Loans and receivables and cash are financial instrument assets with fixed and determinable payments that are not quoted on an active market. These assets and liabilities are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial measurement, loans and receivables are measured at amortised cost using the effective interest method (and for assets, less any impairment). The Group recognises the following assets in this category:

- Cash and deposits
- Receivables (excluding statutory receivables).

Financial liabilities at amortised cost are initially recognised on the date they are originated. They are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial instruments 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. The Group recognises the following liabilities in this category:

- Payables (excluding statutory payables)
- Borrowings.

Derecognition of financial assets: A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- The Group has transferred its rights to receive cash flows from the asset and either:
  - has transferred substantially all the risks and rewards of the asset; or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has neither transferred nor retained substantially all the risks and rewards or transferred control, the asset is recognised to the extent of the Group's continuing involvement in the asset.

Impairment of financial assets: At the end of each reporting period the Group assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. All financial instrument assets, except those measured at fair value through profit or loss, are subject to annual review for impairment.

The allowance is the difference between the financial asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. 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 computational methods in accordance with AASB 136 *Impairment of Assets*. Impairment losses are recognised in the Consolidated Statement of Comprehensive Income. Impairment losses recognised in the Consolidated Statement of Comprehensive Income on equity instruments classified as available for sale are not reversed through the Consolidated Statement of Comprehensive Income.

Derecognition of financial liabilities: A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised as an 'other economic flow' in the consolidated statement of comprehensive income.

The Group considers that the carrying amount of financial assets and financial liabilities (excluding borrowings) recorded in the consolidated financial report to be a fair approximation of their fair values, because of the short term nature of the financial instruments and the expectation that they will be paid in full.

The Group's principal financial instruments are loans sourced from the Treasury Corporation of Victoria. The loans include overnight borrowings and fixed rate loans which are used to meet working capital requirements and fund capital expenditure programs.

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for the year ended 30 June 2017

8.1.1. Financial risk management objectives and policies

As a whole the Group's financial risk management program seeks to manage these risks and the associated volatility of its financial performance. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement, and the basis on which income and expenses are recognised, with respect to each class of financial asset, financial liability and equity instrument above are disclosed in Note 8.1 to the financial statements.

The main purpose in holding financial instruments is to prudentially manage the Group's financial risks within the policy parameters adopted by the board.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and interest rate risk. The board reviews and endorses policies for managing these risks. The Group uses different methods to measure and manage the different risks to which it is exposed. Primary responsibility for the identification and management of financial risks rests with the Group's Finance Assurance and Risk Management committee.

Financial instruments: credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's exposure to credit risk is limited.

With respect to receivables, the Group has a broad customer base with in excess of 90 per cent being residential customers dispersed across the Group's area of responsibility. Receivable balances are monitored on an ongoing basis and as such the Group is not exposed to significant bad debts. An ageing of the Group's receivables at reporting date has been provided in Note 6.1.

There has been no material change to the Group's credit risk profile in 2016–17. At 30 June 2017, the Group had no credit risk arising from investments.

Financial instruments: liquidity risk

Liquidity risk refers to the risk of not being able to meet short term working capital needs and the financing of new and maturing debt as they fall due.

The Group is exposed to liquidity risk mainly through the financial liabilities as disclosed in the face of the balance sheet and the amounts related to financial guarantees. The Group manages liquidity risk by maintaining and conducting efficient banking practices and account structures, sound cash management practices and regular monitoring of the maturity profile of assets and liabilities, together with anticipated cash flows.

The Group obtains annual approval from the Treasurer of Victoria for new borrowings, borrowings to refinance maturing and non-maturing loans and temporary purpose borrowing facilities.

The Group has adopted a long term capital structure that targets a gearing ratio of less than 50 per cent and funds from operations (FFO) net interest coverage of 2.0 to 3.0 times. These targets are used to ensure the Group is financially sustainable in the medium to long term. The gearing and interest coverage ratios for the years ended 30 June 2017 and 30 June 2016 are:

	2017	2016
Gearing – Net Debt/(Net Debt + Equity)	43.5%	43.1%
FFO net interest cover (times)	2.7	2.6

The Group's exposure to liquidity risk is deemed insignificant based on prior periods' data and current assessment of risk. The carrying amounts detailed in the following table of contractual financial liabilities recorded in the financial statements represents the Group's maximum exposure to liquidity risk.

Financial instruments: interest rate risk

Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates. The Group does not hold any interest bearing financial instruments that are measured at fair value, and therefore has no exposure to fair value interest rate risk.

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of adverse movements in interest rates relates primarily to its debt obligations with terms to maturity or next interest rate reset of less than one year.

The Group minimises its exposure to interest rate changes by holding a mix of fixed and floating rate debt. Debt is sourced from Treasury Corporation Victoria and is managed within a range of Board approved limits with debt levels and interest rates being monitored regularly. The Group has minimal exposure to interest rate risk by managing its debt portfolio consistent with the following target bands:

Term to maturity or next interest rate reset	Target
0 to less than 1 year	0 – 35%
1 to less than 3 years	7 – 25%
3 to less than 5 years	7 – 25%
5 to less than 7 years	7 – 25%
7 to less than 9 years	7 – 25%
9 to less than 11 years	0 – 20%
11 years and over	0 – 20%

The carrying amounts of financial assets and financial liabilities that are exposed to interest rates are set out in the following table.

2017	Weighted average interest rate	Carrying amount	Fixed interest rate	Variable interest rate	Non-interest bearing
		$'000	$'000	$'000	$'000
Financial assets					
Cash and deposits	1.35%	1,835	-	1,835	-
Receivables	-	145,427	-	-	145,427
Total financial assets		**147,262**	**-**	**1,835**	**147,262**
Financial liabilities					
Payables	-	(86,046)	-	-	(86,046)
Deposits and advances	-	(9,794)	-	-	(9,794)
Borrowings – floating interest rate	1.67%	(45,200)	-	(45,200)	-
Borrowings – fixed interest rate	4.23%	(1,415,000)	(1,415,000)	-	-
Total financial liabilities		**(1,556,040)**	**(1,415,000)**	**(45,200)**	**(95,840)**

2016	Weighted average interest rate	Carrying amount	Fixed interest rate	Variable interest rate	Non-interest bearing
		$'000	$'000	$'000	$'000
Financial assets					
Cash and deposits	1.07%	1,452	-	1,452	-
Receivables [(i)]	-	136,328	-	-	136,328
Total financial assets		**137,780**	**-**	**1,452**	**136,328**
Financial liabilities					
Payables [(i)]	-	(88,293)	-	-	(88,293)
Deposits and advances	-	(7,910)	-	-	(7,910)
Borrowings – floating interest rate	1.92%	(46,500)	-	(46,500)	-
Borrowings – fixed interest rate	4.51%	(1,340,000)	(1,340,000)	-	-
Total financial liabilities		**(1,482,703)**	**(1,340,000)**	**(46,500)**	**(96,203)**

[(i)] The carrying amounts disclosed here exclude statutory amounts (e.g. GST amounts receivable or payable).

Interest rate risk sensitivity

As at 30 June 2017, if interest rates changed by +/- 50 basis points from the year end rates with all other variables held constant, post-tax profit would have been $0.9 million higher/lower (2015–16 $0.7 million) as a result of higher/lower interest expense from variable interest rate borrowings.

Notes to the financial statements

for the year ended 30 June 2017

8.2. Fair value determination

Fair value determination requires judgement and the use of assumptions. This section discloses the most significant assumptions used in determining fair values. Changes to assumptions could have a material impact on the results and financial position of the Group.

This section sets out information on how the Group determined fair value for financial reporting purposes. 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. Land, buildings, infrastructure, plant and equipment assets are carried at fair value. In addition, the fair value of other assets and liabilities that are carried at amortised cost, also need to be determined for disclosure purposes.

The Group determines the policies and procedures for determining fair values for both financial and non-financial assets and liabilities as required.

8.2.1. Fair value determination of financial assets and liabilities

The fair values and net fair values of financial instrument assets and liabilities are determined as follows.

Level 1: The fair value of financial instrument with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market prices.

Level 2: The 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: The fair value is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using unobservable market inputs.

The Group considers that the carrying amount of financial instrument assets and liabilities recorded in the financial statements to be a fair approximation of their fair values, because of the short term nature of the financial instruments and the expectation that they will be paid in full.

Where the fair value of the financial instruments is different from the carrying amounts, the following table shows the carrying amounts and fair values of financial assets and financial liabilities, including levels within the fair value hierarchy. The table does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value e.g. cash, receivables and payables.

There have been no transfers between levels during the period.

In the absence of an active market, the fair value of the Group's borrowings are valued using observable inputs such as recently executed transaction prices in securities of the issuer or comparable issuers and yield curves. Adjustments are made to the valuations when necessary to recognise differences in the instrument's terms. To the extent that the significant inputs are observable, the Group categorises these borrowings as Level 2 within the fair value hierarchy.

Consolidated entity	Carrying amount	Fair value		
		Level 1	Level 2	Level 3
	$'000	$'000	$'000	$'000
30 June 2017				
Financial liabilities				
Borrowings	(1,460,200)	-	(1,529,822)	-
30 June 2016				
Financial liabilities				
Borrowings	(1,386,500)	-	(1,510,363)	-

8.2.2. Fair value determination of non-financial physical assets

Fair value measurement levels for non-financial physical assets are based on the following.

Level 1: Fair value from quoted prices (unadjusted) in active markets for identical assets.

Level 2: Fair value based on inputs other than quoted prices based on observable market data either directly using prices or indirectly derived from prices.

Level 3: Fair value determined in accordance with generally accepted pricing models and assumptions using inputs not based on observable market data.

Revaluations are performed annually for infrastructure assets and for all other assets on a cyclical basis in accordance with FRD 103F *Non-financial physical assets* such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of the reporting period.

A full revaluation normally occurs every five years, based upon the asset's government purpose classification but may occur more frequently if fair value assessments indicate material changes in values. Independent valuers are used to conduct these scheduled revaluations. Certain infrastructure assets are revalued using specialised advisors. Any interim revaluations are determined in accordance with the requirements of the Financial Reporting Directions. Revaluation increases or decreases arise from differences between an asset's carrying value and fair value.

The 2016 and 2017 valuations of infrastructure assets were determined in accordance with independent valuations undertaken by KPMG. The valuation was prepared on the basis of 'market value' which KPMG advises is consistent with the definition of 'fair value' per AASB 13 *Fair Value Measurement*, which 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'. Market value typically excludes 'special value', which is any additional value that particular acquirers may be prepared to pay for a business based on synergistic or other benefits. KPMG has derived market value for the infrastructure assets by applying a discounted cash flow methodology, which involved discounting forecast future cash flows to both debt and equity investors by an estimated hypothetical market participant's discount rate. The calculation includes a calculated tax amortisation benefit (TAB), which is an estimate of the present value of future tax amortisation benefits that may be received by a hypothetical market participant where the tax cost base would be reset on acquisition of water infrastructure assets. The valuation of infrastructure assets is determined using the mid-point from a range provided by KPMG.

Land and buildings were independently valued by the Valuer-General Victoria's Office at 30 June 2016, in accordance with FRD 103F. The valuation of land and buildings is at fair value, being market value based on highest and best use permitted by relevant land planning provisions. Where land use is restricted through existing planning provisions the valuation is reduced to reflect this limitation. This adjustment is an unobservable input into the valuation. The adjustment has no impact on the comprehensive income statement. Any significant movements in the unobservable inputs for land will have a significant impact on the fair value of these assets.

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for the year ended 30 June 2017

Fair value measurement hierarchy

Consolidated entity	Carrying amount at 30 June 2017	Fair value measurement at end of reporting period using: Level 1	Level 2	Level 3
	$'000	$'000	$'000	$'000
Land at fair value				
Non-specialised land	27,442	-	27,442	-
Specialised land	153,960	-	-	153,960
Total of land at fair value	**181,402**	**-**	**27,442**	**153,960**
Buildings at fair value				
Non-specialised buildings	83,292	-	83,292	-
Total of buildings at fair value	**83,292**	**-**	**83,292**	**-**
Leasehold improvements at fair value				
Leasehold improvements	576	-	-	576
Total of leasehold improvements at fair value	**576**	**-**	**-**	**576**
Plant and equipment at fair value				
Plant and equipment	17,349	-	-	17,349
Total of plant and equipment at fair value	**17,349**	**-**	**-**	**17,349**
Infrastructure assets at fair value				
Infrastructure	3,324,880	-	-	3,324,880
Total of infrastructure assets at fair value	**3,324,880**	**-**	**-**	**3,324,880**
Land held for sale at fair value				
Land held for sale	11,920	-	11,920	-
Total land held for sale at fair value	**11,920**	**-**	**11,920**	**-**

Fair value measurement hierarchy *continued*

Consolidated entity	Carrying amount at 30 June 2016	Fair value measurement at end of reporting period using: Level 1	Level 2	Level 3
	$'000	$'000	$'000	$'000
Land at fair value				
Non-specialised land	6,178	-	6,178	-
Specialised land	180,225	-	-	180,225
Total of land at fair value	**186,403**	**-**	**6,178**	**180,225**
Buildings at fair value				
Non-specialised buildings	85,076	-	85,076	-
Total of buildings at fair value	**85,076**	**-**	**85,076**	**-**
Leasehold improvements at fair value				
Leasehold improvements	368	-	-	368
Total of leasehold improvements at fair value	**368**	**-**	**-**	**368**
Plant and equipment at fair value				
Plant and equipment	17,215	-	-	17,215
Total of plant and equipment at fair value	**17,215**	**-**	**-**	**17,215**
Infrastructure assets at fair value				
Infrastructure	3,267,351	-	-	3,267,351
Total of infrastructure assets at fair value	**3,267,351**	**-**	**-**	**3,267,351**

Non-specialised land and buildings are valued using the market approach. Under this valuation method, the assets are compared to recent comparable sales or sales of comparable assets which are considered to have nominal or no added improvement value. For non-specialised land and buildings an independent valuation was performed by independent valuers the Valuer-General Victoria as at 30 June 2016 to determine the fair value using the market approach. The valuation of the assets was determined by analysing comparable sales and allowing for share, size, topography, location and other relevant factors specific to the asset being valued. From the sales analysed, an appropriate rate per square metre has been applied to the subject asset. The effective date of the valuation is 30 June 2016.

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

Specialised land: The market approach is also used for specialised land, although it is adjusted for the community service obligation to reflect the specialised nature of the land being valued.

The community service obligation adjustment is a reflection of the valuer's assessment of the impact of restrictions associated with an asset to the extent that is also equally applicable to market participants. This approach is in light of the highest and best use consideration required for fair value measurement, and takes into account the use of the asset that is physically possible, legally permissible, and financially feasible. As adjustments for community service obligations are considered as significant unobservable inputs, specialised land is classified as Level 3 assets. An independent valuation of the Group's specialised land, based on the market approach, was performed by the Valuer-General Victoria. The effective date of the valuation is 30 June 2016.

Notes to the financial statements

for the year ended 30 June 2017

Infrastructure assets: The Group has adopted the income approach (i.e. discounted cash flows) to measure the fair value of infrastructure assets. This approach is in accordance with the revaluation method outlined in AASB 116 *Property, Plant and Equipment* and FRD 103F *Non-financial physical assets*.

The 'income approach' can be used to determine the fair value of property, plant and equipment in circumstances where there is no market-based evidence of 'fair value' because of the specialised nature of the asset(s). As the Group is classified as a for-profit entity for financial reporting purposes, the future economic benefits of the business' infrastructure assets are primarily dependent on their ability to generate net cash inflows. Accordingly, valuing infrastructure assets based on 'discounted cash flows' reflects their economic value. The 'income approach' is based on an assessment of the future free cash flows of the business consistent with the organisation's long term financial plans. Projected free cash flows after the planning period are determined using standard terminal valuation methodology. The significant unobservable inputs are discount rate (WACC), inflation, useful life of the infrastructure, terminal value growth rate and terminal value capital expenditure.

The rate used to discount free cash flows to their present value is based on assumptions that market participants would reasonably be expected to use in determining the fair value of the business after taking into account the market cost of debt and equity.

The valuation estimate is also cross-checked against the earnings and regulated asset value multiples at which comparable companies are trading and recent transactions in comparable assets.

The valuation of infrastructure assets is derived from the valuation estimate after allowing for working capital, non-infrastructure assets and liabilities and borrowings. The valuation also includes a tax amortisation benefit associated with an uplift in the tax base of infrastructure assets as part of the acquisition process by a hypothetical buyer.

A valuation of the Group's infrastructure assets based on the income approach (discounted cash flow) was performed by independent valuation consultants. The valuation resulted in a valuation decrement of $58.148 million ($77.044 million in 2015–16). The effective date of the valuation is 30 June 2017.

The valuation is based on the Group's current long-term forecasts based on its proposed water price submission to the Essential Services Commission (ESC) in late 2017 for the next water pricing period. Therefore, forecast revenue and profitability are subject to review and approval by the ESC and, consequently, there is a risk of forecast earnings being impacted by this review, with consequential impacts on infrastructure values.

As the assumptions used to determine the value of infrastructure assets are considered significant unobservable inputs, infrastructure assets are classified as Level 3 fair value measurements.

Plant and equipment is held at fair value. As there is no evidence of a reliable market-based fair value (or other relevant fair value indicators) for plant and equipment (or any such evidence does not indicate a fair value significantly different from depreciated cost), depreciated cost is the fair value for these types of assets. The valuation of plant and equipment is based on significant unobservable inputs and accordingly is classified as Level 3 assets.

Due to their non-specialised nature, management has confirmed that the carrying value of plant and equipment, based on depreciated cost, is consistent with fair value as at 30 June 2017.

Leasehold improvements are held at fair value being depreciated cost. As there is no evidence of a reliable market-based fair value (or other relevant fair value indicators) for leasehold improvements (or any such evidence does not indicate a fair value significantly different from depreciated cost), depreciated cost is the fair value for these types of assets. The valuation of leasehold improvements is based on significant unobservable inputs and accordingly is classified as Level 3 assets.

Due to their non-specialised nature, management has confirmed that the carrying value of leasehold improvements, based on depreciated cost, is consistent with fair value as at 30 June 2017.

There were no changes in valuation techniques throughout the period to 30 June 2017.

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

Reconciliation of Level 3 fair value

2017	Specialised land	Leasehold improvements	Plant and equipment	Infrastructure assets	Total
Consolidated entity	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Opening balance	180,225	368	17,215	3,267,351	3,465,159
Transfers into class from work in progress	-	318	7,507	187,999	195,824
Transfers in/(out) of Level 3	(26,265)	-	-	-	(26,265)
Disposals	-	-	(1,639)	(823)	(2,462)
Depreciation	-	(110)	(5,734)	(71,499)	(77,343)
Sub total	**153,960**	**576**	**17,349**	**3,383,028**	**3,554,913**
Revaluation gains/(losses)	-	-	-	(58,148)	(58,148)
Sub total	**-**	**-**	**-**	**(58,148)**	**(58,148)**
Closing balance	**153,960**	**576**	**17,349**	**3,324,880**	**3,496,765**

2016	Specialised land	Leasehold improvements	Plant and equipment	Infrastructure assets	Total
Consolidated entity	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Opening balance	69,830	363	10,182	3,118,662	3,199,037
Transfers into class from work in progress	47	225	13,867	298,849	312,988
Transfers in/(out) of Level 3	67,452	(220)	-	-	67,232
Disposals	-	-	(1,717)	(717)	(2,434)
Depreciation	-	-	(5,117)	(72,399)	(77,516)
Sub total	**137,329**	**368**	**17,215**	**3,344,395**	**3,499,307**
Revaluation gains/(losses)	42,896	-	-	(77,044)	(34,148)
Sub total	**42,896**	**-**	**-**	**(77,044)**	**(34,148)**
Closing balance	**180,225**	**368**	**17,215**	**3,267,351**	**3,465,159**

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Description of significant unobservable inputs to Level 3 valuations for 2017 and 2016

Consolidated entity	Valuation technique	Significant unobservable inputs	2017 range (weighted average)	2016 range (weighted average)	Sensitivity of fair value measurement to changes in significant unobservable inputs
Specialised land	Market approach	Community service obligation adjustment	20% – 40% (21%)	20% – 40% (21%)	A significant increase/(decrease) in the community service obligation adjustment would result in a significantly lower (higher) fair value
Leasehold improvements	Depreciated cost (deemed fair value)	Cost per unit	$1,000 – $220,000 ($64,000)	$300 – $360,000 ($17,850)	A significant increase/(decrease) in cost per unit would result in a significantly higher or lower fair value
		Useful life of leasehold improvements (lease term)	2 – 10 yrs (8 yrs)	1 – 40 yrs (22.5 yrs)	A significant increase/(decrease) in the lease term would result in a significantly higher or lower valuation
Plant and equipment	Depreciated cost (deemed fair value)	Cost per unit	$3 – $240,000 ($4,900)	$3 – $255,000 ($5,500)	A significant increase/(decrease) in cost per unit would result in a significantly higher or lower fair value
		Useful life of plant and equipment	1 – 20 yrs (6 yrs)	1 – 41 yrs (17 yrs)	A significant increase/(decrease) in the estimated useful life would result in a significantly higher or lower valuation
Infrastructure assets	Income approach (discounted cash flow)	Discount rates (WACC)	5.4% – 6.0% (5.7%)	5.6% – 6.2% (5.9%)	An increase/(decrease) of 25 bps in growth rates used to calculate terminal value would result in an increase of $672.3 million, or 20.2% or a decrease of ($360.4) million, or (10.8%) to the fair value
		Terminal value growth rate	3.25%	3.25%	An increase/(decrease) of 25 bps in discount rates would result in an increase of $432.3 million, or 13% or a decrease of ($352.2) million, or (10.6%) to the fair value
		Terminal value capital expenditure	$159.7 M	$155.1 M	A significant increase/(decrease) in terminal value capital expenditure would result in a significant higher or lower fair value

8.3. Contingent assets and contingent liabilities

Contingent assets

In the ordinary course of business, developers often provide a commitment to the Group to construct water and sewerage assets. The assets are constructed within an agreed timeframe, generally 12 months, and upon completion are transferred to the Group at no cost.

As at 30 June 2017, various developers have agreed to construct assets to the value of $56.7 million (2015–16 $47.5 million). This value relates to $46.6 million of assets which are under construction (2015–16 $36.1 million) and $10.1 million of assets which have not commenced construction (2015–16 $11.4 million).

Contingent liabilities

Contingent on the construction of assets, the Group is liable to reimburse developers a total amount of $8.9 million (2015–16 $8.4 million) for additional works constructed at the Group's request. This reimbursement together with future investment for urban growth by the Group or developers will be recovered through a combination of new customer contributions, plus service and usage charges from all customers. This is consistent with the Essential Services Commission's final determination for water and sewerage prices in June 2017 (for the 2017–18 year).

9. Other disclosures

Introduction:

This section provides information on other disclosures as required by Australian Accounting Standards or Victorian Government Financial Reporting Directions.

Structure:

9.1 Responsible persons and executive officer disclosures
9.2 Related parties
9.3 Defined benefit superannuation asset/liability
9.4 Ex-gratia expenses
9.5 Controlled entities
9.6 Parent entity information
9.7 Australian Accounting Standards issued not yet effective
9.8 Subsequent events

9.1. Responsible persons and executive officer disclosures

Responsible persons

The relevant Minister and directors of the Group are deemed to be the responsible persons by ministerial direction pursuant to the provisions of the *Financial Management Act 1994*. The responsible Minister during the 2016–17 reporting period was the Hon Lisa Neville MP, Minister for Water. Remuneration paid to the respective Minister is shown in the financial statements of the Department of Parliamentary Services. The names of persons who were directors of South East Water at any time during the financial year are as follows:

Ms L Cade	1/07/2016 – 30/06/2017	Chair
Mr K Hutchings	1/07/2016 – 3/03/2017	Managing Director and Accountable Officer
Mr T Beach	1/07/2016 – 30/06/2017	Director
Ms G Bell	1/07/2016 – 30/06/2017	Director
Mr W P Day	1/07/2016 – 30/06/2017	Director
Mr T Lyons	1/07/2016 – 30/06/2017	Director
Ms F Marsden	1/07/2016 – 30/06/2017	Director
Ms K McGrath	1/07/2016 – 30/06/2017	Director
Mr R Passalaqua	1/07/2016 – 22/02/2017	Director
Mr C Littlefair	4/03/2017 – 28/05/2017	Acting Managing Director and Accountable Officer
Ms T Benson	29/05/2017 – 30/06/2017	Managing Director and Accountable Officer

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for the year ended 30 June 2017

The number of directors whose remuneration from the Group or any related parties was within the specified bands is as follows:

	2017	2016
	Number	Number
$10,000 – $19,999	-	4
$20,000 – $29,999	-	1
$30,000 – $39,999	2	5
$40,000 – $49,999	1	2
$50,000 – $59,999	5	-
$70,000 – $79,999	-	1
$80,000 – $89,999	1	-
$90,000 – $99,999	1	-
$420,000 – $429,999	-	1
$690,000 – $699,999[i]	1	-
Total	**11**	**14**

[i] This amount includes the payout of accrued leave entitlements.

Executive officers

The number of executive officers, other than directors and accountable officers, and their total remuneration during the reporting period are shown in the table below. Total annualised employee equivalents provides a measure of full time equivalent executive officers over the reporting period.

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

Short-term employee benefits include 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.

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

Other long-term benefits include long service leave, other long service benefits or deferred compensation.

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

	2017 [a]
	$'000
Short-term employee benefits	1,945
Post-employment benefits	238
Other long-term benefits	42
Termination benefits	90
Total remuneration	**2,315**
Total number of executives	**12**
Total annualised employee equivalents [b]	**8.0**

[a] No comparatives have been reported because remuneration in the prior year was determined in line with the basis and definition under FRD 21B. Remuneration previously excluded non-monetary benefits and comprised any money, consideration or benefit received or receivable, excluding reimbursement of out-of-pocket expenses, including any amount received or receivable from a related party transaction. Refer to the prior year's financial statements for executive remuneration for the 2015–16 reporting period.

[b] Annualised employee equivalent is based on the time fraction worked over the reporting period.

9.2. Related parties

The Group is a wholly owned and controlled entity of the State of Victoria.

Related parties of the Group include:

- All key management personnel and their close family members and personal business interests (controlled entities, joint ventures and entities they have significant influence over)
- All cabinet ministers and their close family members
- All departments and public sector entities that are controlled and consolidated into the whole of state consolidated financial statements.

All related party transactions have been entered into on an arm's length basis.

Key management personnel (as defined in AASB 124 *Related Party Disclosures*) includes the Portfolio Minister and all directors listed under responsible persons in Note 9.1 who have the authority and responsibility for planning, directing and controlling the activities of the Group directly or indirectly, during the financial year.

The compensation detailed below excludes the salaries and benefits the Portfolio Minister receives. The Minister's remuneration and allowances is set by the *Parliamentary Salaries and Superannuation Act 1968* and is reported within the Department of Parliamentary Services' financial report.

	2017	2016
	$'000	$'000
Short-term employee benefits	782	731
Post-employment benefits	100	110
Other long-term benefits	2	9
	884	849

During the year the Group had no other personnel, by way of contractors, charged with significant management responsibility.

Water and sewerage services were provided to key management personnel and their related parties for properties within South East Water's boundaries on an arm's length basis and under normal commercial terms and conditions.

There were no other transactions, including loan related transactions with key management personnel or their related parties, during the reporting period other than the payments for services referred to below.

Transactions and balances with key management personnel and other related parties

Given the breadth and depth of state government activities, related parties transact with the Victorian public sector in a manner consistent with other members of the public, for example paying water and sewerage service and usage charges. Further employment of processes within the Victorian public sector occur on terms and conditions consistent with the *Public Administration Act 2004* and Codes of Conduct and Standards issued by the Victorian Public Sector Commission. Procurement processes occur on terms and conditions consistent with the Victorian Government Procurement Board requirements.

Outside of normal citizen type transactions, there were no related party transactions that involved key management personnel, their close family members and their personal business interests. No provision has been required, nor any expense recognised, for impairment of receivables from related parties.

Notes to the financial statements

for the year ended 30 June 2017

Entities with significant influence

Department of Environment, Land, Water and Planning

The Department of Environment, Land, Water and Planning leads and directs the Group for implementing the framework for achieving the Victorian Government's responsibilities for sustainability of the natural and built environment.

The Group under a normal commercial agency agreement bills and collects charges relating to Parks Victoria services on behalf of the department. Due to the nature of the agency/principal relationship the Group does not recognise these amounts in its accounts. The Group recognises associated collection administration fees charged to the department in relation to these as revenue.

In addition, the Group receives and makes various other payments to the department (including the Environmental Levy), which are recognised as revenue and expenses.

Consolidated entity	2017 $'000	2016 $'000
Receipts recognised as revenue		
Administration fees for collection of Parks Victoria charges	2,567	2,637
Payments recognised as expense		
Environmental contribution	27,860	27,860
Cash payments		
Parks Charge collected on behalf of Parks Victoria	59,834	57,623

Department of Treasury and Finance

The Department of Treasury and Finance administers the *Water Act 1989* and the *Financial Management Act 1994* with which the Group is required to comply.

The Department of Treasury and Finance also collects income taxes, the financial accommodation levy and dividend payments from the Group.

Consolidated entity	2017 $'000	2016 $'000
Payments recognised as expense		
Taxes and levies	67,920	52,729
Cash payments		
Dividend payments	47,000	26,000
Capital repatriation	-	13,100
	47,000	**39,100**

Related parties with significant transactions

Melbourne Water Corporation

Melbourne Water Corporation has the same controlling entities as the Group, and is therefore considered to be a related party. The Group transacts solely with Melbourne Water Corporation for the purchase of bulk potable water and sewage treatment. The Group, under a normal commercial agency agreement, bills and collects drainage rates on behalf of Melbourne Water. Due to the nature of the agency/principal relationship the Group does not recognise these amounts in its accounts. The Group recognises associated collection administration fees charged to Melbourne Water as revenue. As part of the Government Water Rebate, the Group also received rebates from Melbourne Water in 2015–16, which were recognised through profit and loss.

Consolidated entity	2017 $'000	2016 $'000
Receipts recognised as revenue		
Administration fees for collection of drainage and other charges	4,626	5,109
Government Water Rebate	-	29,424
	4,626	34,533
Payments recognised as expense		
Bulk water and sewage treatment charges	493,309	549,577
Cash payments		
Drainage charges collected on behalf of Melbourne Water	90,705	94,789

Treasury Corporation of Victoria

The Group borrows from, and invests with, the Treasury Corporation of Victoria with transactions based on market interest rates. Treasury Corporation of Victoria also provides advisory and administrative services under normal commercial terms (these services are included in the interest rate).

Consolidated entity	2017 $'000	2016 $'000
Payments recognised as expense		
Finance and interest costs	43,711	62,542
Cash receipts		
Interest revenue received	-	1
Proceeds from borrowings	73,700	65,400
Total cash receipts	**73,700**	**65,401**

Notes to the financial statements

for the year ended 30 June 2017

State Revenue Office

The State Revenue Office is the Victorian Government's major tax collection agency. The State Revenue Office is a service agency of the Department of Treasury and Finance, which falls within the portfolio responsibilities of the Treasurer of Victoria. The State Revenue Office administers Victoria's taxation legislation and collects a range of taxes, duties and levies in addition to providing rebates to not-for-profit organisations.

The Group receives various payments from and makes various payments to the State Revenue Office which are recognised as revenue and expenses.

Consolidated entity	2017 $'000	2016 $'000
Payments recognised as expense		
Taxes	3,875	3,308
Cash receipts		
Customer rebate reimbursements	887	902

Department of Health and Human Services

The Department of Health and Human Services provides a number of services to the community including the provision of rebates and grants to concession holders. The Group receives various payments from and makes various payments to the department which are recognised as revenue and expenses.

Consolidated entity	2017 $'000	2016 $'000
Cash receipts		
Customer rebate reimbursements	45,763	45,281
Administration expenses	257	251
	46,020	**45,532**

iota Services Pty Ltd

iota Services Pty Ltd is a wholly-owned subsidiary of South East Water Corporation. During the financial year ended 30 June 2017, South East Water Corporation purchased goods and services and provided accounting and administrative assistance to iota Services Pty Ltd. All loans are unsecured and are on normal commercial terms and conditions. All financial transactions between South East Water Corporation and iota Services Pty Ltd are eliminated upon consolidation.

Water and sewerage services

Water and sewerage services were provided to related parties for properties within the Group's boundary on the same terms and conditions that apply to all other customers.

Other transactions

All other transactions with Victorian Government related party entities were made on normal commercial terms and conditions.

9.2.1. Related party amounts payable/receivable at balance date

Consolidated entity	2017 $'000	2016 $'000
Receivables		
Department of Environment, Land, Water and Planning	99	14
State Revenue Office	225	224
Department of Health and Human Services	2,293	1,805
Payables		
Department of Treasury and Finance	27,406	21,428
Department of Environment, Land, Water and Planning	11	11
Melbourne Water Corporation	10,193	15,372
State Revenue Office of Victoria	248	403
Treasury Corporation of Victoria (loans and accrued interest)	1,477,867	1,404,412

No provision for doubtful debts has been raised in relation to any of the above outstanding balances, and no expense has been recognised in respect of bad and doubtful debts due from related parties.

Guarantees given/received

The State Government of Victoria has provided a guarantee on loans sourced from the Treasury Corporation of Victoria (*Borrowing and Investment Powers Act 1987*). There were no other guarantees given to or received from any related parties.

9.3. Defined benefit superannuation asset/liability

Superannuation plan

Defined benefit members receive lump sum benefits on retirement, death, disablement and withdrawal. Some defined benefit members are also eligible for pension benefits in some cases. The defined benefit section of the Plan is closed to new members. All new members receive accumulation only benefits.

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

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 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.

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

There are a number of risks to which the Plan exposes the Group. The more significant risks relating to the defined benefits are:

- **Investment risk** – The risk that investment returns will be lower than assumed and the Group will need to increase contributions to offset this shortfall.
- **Salary growth risk** – The risk that wages or salaries (on which future benefit amounts will be based) will rise more rapidly than assumed, increasing defined benefit amounts and thereby requiring additional employer contributions.

Notes to the financial statements

for the year ended 30 June 2017

- **Legislative risk** – The risk is that legislative changes could be made which increase the cost of providing the defined benefits.
- **Pension risks** – The risk is firstly that pensioner mortality will be lighter than expected, resulting in pensions being paid for a longer period. Secondly, that a greater proportion of eligible members will elect to take a pension benefit, which is generally more valuable than the corresponding lump sum benefit.
- **Inflation risk** – The risk that inflation is higher than anticipated, increasing pension payments, and thereby requiring additional employer contributions.

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

Description of significant events

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

Reconciliation of the assets net defined benefit liability/asset	2017 $'000	2016 $'000
Net defined benefit liability/(asset) at start of year	556	(9,298)
Plus current service cost	1,478	1,493
Plus past service cost	-	-
Plus gain/loss on settlements	-	-
Plus net interest	7	(257)
Less actual return on plan assets less interest income	(5,868)	(53)
Plus actuarial (gains)/losses arising from changes in demographic assumptions	18	-
Plus actuarial (gains)/losses arising from changes in financial assumptions	(1,227)	6,163
Plus actuarial (gains)/losses arising from liability experience	(971)	2,508
Plus adjustment for effect of asset ceiling	-	-
Less employer contributions	-	-
Net defined benefit liability/(asset) at end of year	(6,007)	556

Reconciliation of fair value of plan assets	2017	2016
	$'000	$'000
Fair value of plan assets at beginning of the year	**62,323**	**62,385**
Plus interest income	1,280	1,934
Plus actual return on plan assets less interest income	5,868	53
Plus employer contributions	-	-
Plus contributions by plan participants	540	464
Less benefits paid	(3,195)	(2,202)
Less taxes, premiums and expenses paid	(311)	(311)
Fair value of plan assets at end of the year	**66,505**	**62,323**

Reconciliation of the defined benefit obligation	2017	2016
	$'000	$'000
Present value of defined benefit obligations at the beginning of the year	**62,879**	**53,087**
Plus current service cost	1,478	1,493
Plus interest expense	1,287	1,677
Plus contributions by plan participants	540	464
Plus actuarial (gains)/losses arising from changes in demographic assumptions	18	-
Plus actuarial (gains)/losses arising from changes in financial assumptions	(1,227)	6,163
Plus actuarial (gains)/losses arising from liability experience	(971)	2,508
Less benefits paid	(3,195)	(2,202)
Less taxes, premiums and expenses paid	(311)	(311)
Present value of defined benefit obligation at the end of the year	**60,498**	**62,879**

The asset ceiling has no impact on the net defined benefit liability/(asset)

Fair value of plan assets	Total	Quoted prices in active markets for identical assets	Significant observable inputs	Unobservable inputs
		Level 1	Level 2	Level 3
30 June 2017	**$'000**	**$'000**	**$'000**	**$'000**
Asset category				
Investment funds	66,505	-	66,505	-
Total	**66,505**	**-**	**66,505**	**-**

Notes to the financial statements

for the year ended 30 June 2017

The percentage invested in each asset class at the reporting date is:

As at	30 June 2017	30 June 2016
Australian equity	24%	30%
International equity	19%	21%
Fixed income	11%	13%
Property	9%	9%
Growth alternatives	15%	9%
Defensive alternatives	11%	11%
Cash	11%	7%

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

- any of the Group's own financial instruments
- any property occupied by, or other assets used by, the Group.

Significant actuarial assumptions at the reporting date

	Financial year ending	
Assumptions to determine defined benefit cost	**30 June 2017**	**30 June 2016**
Discount rate	2.2%	3.2%
Expected salary increase rate	3.0%	3.0%
Expected pension increase rate	2.5%	2.5%

	As at	
Assumptions to determine defined benefit obligation	**30 June 2017**	**30 June 2016**
Discount rate	2.4%	2.2%
Expected salary increase rate	3.0%	3.0%
Expected pension increase rate	2.5%	2.5%

Sensitivity analysis

The defined benefit obligation as at 30 June 2017 under several scenarios is presented below. Scenarios A and B relate to discount rate sensitivity. Scenarios C and D relate to salary increase rate sensitivity. Scenarios E and F relate to sensitivities in pension assumptions.

Scenario A: 0.5% p.a. lower discount rate assumption

Scenario B: 0.5% p.a. higher discount rate assumption

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

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

Scenario E: 0.5% p.a. lower pension increase rate assumption

Scenario F: 0.5% p.a. higher pension increase rate assumption

	Base case	Scenario A	Scenario B	Scenario C	Scenario D	Scenario E	Scenario F
		-0.5% p.a. discount rate	+0.5% p.a. discount rate	-0.5% p.a. salary increase rate	+0.5% p.a. salary increase rate	-0.5% p.a. pension increase rate	+0.5% p.a. pension increase rate
Discount rate	2.4% p.a.	1.9% p.a.	2.9% p.a.	2.4% p.a.	2.4% p.a.	2.4% p.a.	2.4% p.a.
Salary increase rate	3.0% p.a.	3.0% p.a.	3.0% p.a.	2.5% p.a.	3.5% p.a.	3.0% p.a.	3.0% p.a.
Pension increase rate	2.5% p.a.	2.5% p.a.	2.5% p.a.	2.5% p.a.	2.5% p.a.	2.0% p.a.	3.0% p.a.
Defined benefit obligation* ($'000)	60,498	63,639	57,591	58,701	62,384	59,439	61,664

* Includes contributions tax provision

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

We are not aware of any asset and liability matching strategies adopted by the plan.

Funding arrangements

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

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

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

In the most recent review of the financial position as at 31 December 2016 the actuary recommended a Group contribution rate of nil. The next actuarial review of the financial position and the Group contribution rate will occur as at 30 June 2017.

The Group continues to contribute salary sacrifice contributions and at the required rates for accumulation members.

The expected employer contributions for the financial year ending 30 June 2018 is nil.

Maturity profile of defined benefit obligation

The weighted average duration of the defined benefit obligation as at 30 June 2017 is 8 years.

Expected benefit payments for the financial year ending on:	$'000
30 June 2018	4,644
30 June 2019	4,773
30 June 2020	4,811
30 June 2021	4,515
30 June 2022	4,888
Following 5 years	23,429

The weighted average duration of the defined benefit obligation as at 30 June 2016 was 9 years.

Notes to the financial statements

for the year ended 30 June 2017

9.4. Ex-gratia expenses

Ex-gratia expenses greater than or equal to $5,000 or those considered material in nature.

	2017 $'000	2016 $'000
Forgiveness or waiver of debt[(i)]	161	115
Closing balance	**161**	**115**

[(i)]Forgiveness or waiver of customer debt due to financial hardship or not economical to pursue, also recognised in Note 6.1 under bad and doubtful debts.

9.5. Controlled entities

The consolidated financial statements at 30 June 2017 include the following controlled entity. The financial year of the controlled entity is the same as that of the parent entity.

Controlled entity	Place of incorporation	Book value of parent entity's investment		% of shares held		Contribution to the results in $'000	
		2017	2016	2017	2016	2017	2016
iota Services Pty Ltd	Australia	$1	$1	100	100	430	724

Prior to 1 January 2015 iota operated as an unregulated business division of South East Water Corporation.

The relevant activities of iota Services Pty Ltd include plumbing services, low pressure solutions, civil products and the sale of OneBox®/EOne pumps.

There are no restrictions (statutory, contractual or regulatory) that can affect South East Water Corporation's ability to access or use the assets and settle the liabilities of the group.

South East Water Corporation is not contractually required to provide financial support to iota Services Pty Ltd.

9.6. Parent entity information – South East Water Corporation

Information relating to South East Water Corporation	2017 $'000	2016 $'000
Current assets	172,793	146,382
Non-current assets	3,820,487	3,727,121
Total assets	**3,993,280**	**3,873,503**
Current liabilities	180,729	180,719
Non-current liabilities	1,921,712	1,862,904
Total liabilities	**2,102,441**	**2,043,623**
Contributed equity	430,508	430,508
Reserves	799,875	831,379
Retained earnings	660,456	567,994
Total equity	**1,890,839**	**1,829,881**
Profit or loss of the parent entity	133,828	120,104
Total comprehensive income of the parent entity	107,958	102,691

Notes to the financial statements

for the year ended 30 June 2017

9.7. Australian Accounting Standards issued that are not yet effective

The following applicable Australian Accounting Standards and interpretations have been issued but are not yet effective and therefore have not been adopted for the annual reporting period ending 30 June 2017:

Standard/ interpretation	Summary	Applicable for annual reporting periods beginning on or after	Impact on Consolidated Financial Report
AASB 9 *Financial Instruments*	The key changes include the simplified requirements for the classification and measurement of financial assets, a new hedging accounting model and a revised impairment loss model to recognise impairment losses earlier, as opposed to the current approach that recognises impairment only when incurred.	1 January 2018	The preliminary assessment has identified that there will not be any material impact arising from AASB 9. However, it will continue to be monitored and assessed.
AASB 15 *Revenue from contracts with customers*	The core principle of AASB 15 requires an entity to recognise revenue when the entity satisfies a performance obligation by transferring a promised good or service to a customer.	1 January 2018	The changes in revenue recognition requirements in AASB 15 may result in changes to the timing and amount of revenue recorded in the financial statements. The Standard will also require additional disclosures on service revenue and contract modifications. The Group will be required to review its existing revenue contracts leading up to the proposed implementation date. Potential revenue contracts that may be affected include telco tower rentals, land sales, and commercial retail leases related to the Frankston headquarters. The effective date of this standard is 1 January 2018.
AASB 16 *Leases*	The key changes introduced by AASB 16 include the recognition of most operating leases (which are currently not recognised) on balance sheet.	1 January 2019	The assessment has indicated that as most operating leases will be on balance sheet, recognition of lease assets and lease liabilities will cause net debt to increase. Depreciation of lease assets and interest on lease liabilities will be recognised in the income statement with marginal impact on the operating results. The amounts of cash paid for the principal portion of the lease liability will be presented within financing activities and the amounts paid for the interest portion will be presented within operating activities in the cash flow statement. No change for lease receivables where the Group is the lessor.

9.8. Subsequent events

There were no events after the reporting date that may significantly impact the Group's operations in future reporting periods.

Risk management attestation

Attestation of Compliance with Ministerial Standing Direction 3.7.1 – Risk Management Framework and Processes

I, Lucia Cade, certify that South East Water Corporation has complied with the Ministerial Standing Direction 3.7.1 – *Risk Management Framework and Processes*. This has been verified by the South East Water Board, its supporting committees (Finance Assurance and Risk Management committee, People Remuneration and Safety committee, Service Delivery committee and iota Services board committee) as well as South East Water management.

Lucia Cade
Chair

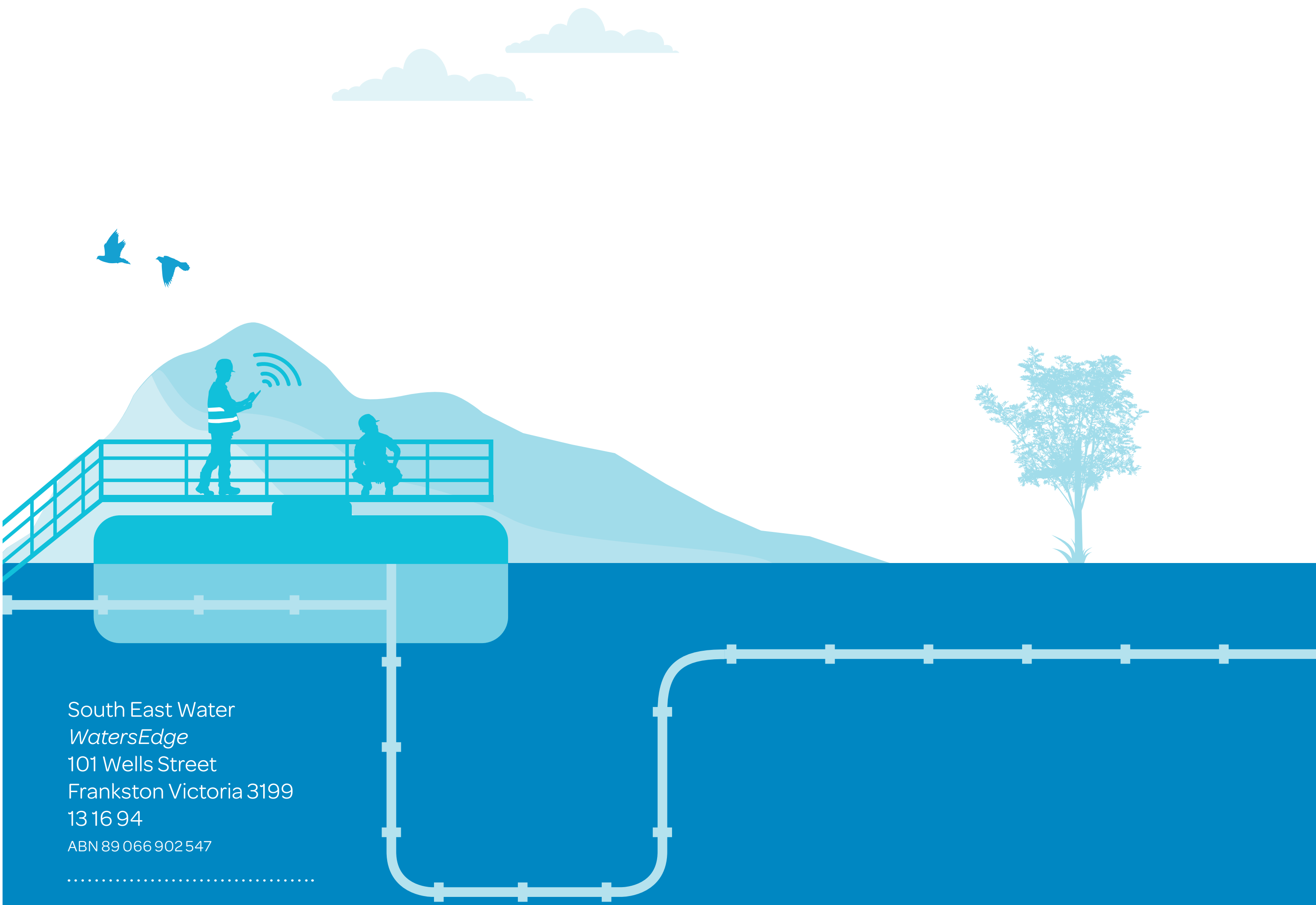
South East Water Corporation
4 September 2017

Disclosure index

South East Water's Annual Report 2016–17 is prepared in accordance with all relevant Victorian legislation and pronouncements. This index has been prepared to identify South East Water's compliance with statutory disclosure requirements.

Legislation

Water Act 1989, Water Industry Act 1994, Freedom of Information Act 1982, Building Act 1993, s.70(1) Protected Disclosure Act 2012, Victorian Industry Participation Policy Act 2003, Financial Management Act 1994, Public Administration Act 2004



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