South East Water

healthy water for life

Annual Report 2017–18

Aboriginal acknowledgement

Priya Kulkarni from our Liveability Group (far left), with members from Bunurong Land Council Aboriginal Corporation, including CEO Dan Turnball (second from left). We work in partnership with Traditional Owners on projects that deliver shared benefits.

South East Water proudly acknowledges the Traditional Owners of the land and waters on which we rely and operate and pays respect to their Elders past and present.

We acknowledge Aboriginal people as Australia's first people and the lands of the Bunurong and Wurundjeri Tribes of the Kulin Nation that are within our service region.

South East Water embraces the spirit of reconciliation. We recognise and value the ongoing contribution of Aboriginal people to Victorian life and how this enriches us.

On our cover:

Beautiful Clyde North in our service region, is one of Australia's fastest-growing areas. See pages 36-37 to discover how we're servicing more customers in a way that considers and supports the environment and ongoing liveability.

Contents

About us

At South East Water, we support healthy and liveable communities by delivering water, sewerage and recycled water services to 1.79 million people who rely on us every day and every night.

Our service area borders more than 270 kilometres of coastline and covers a land area of 3,640 square kilometres from Port Melbourne to Portsea and approximately 30 kilometres east of Pakenham.

Each year we deliver more than 140 billion litres of drinking water and collect more than 100 billion litres of wastewater (waste from the toilet, shower, laundry and kitchen in the home and from businesses) at our local water recycling plants and at Melbourne Water's Eastern and Western Treatment Plants.

To deliver for our customers, we manage more than 25,700 kilometres of pipeline. We own, operate and maintain $4 billion of assets including water, recycled water and sewerage networks.

We're a water corporation under the *Water Act 1989*. The activities of our corporation are governed by the *Water Act 1989* and the Statement of Obligations issued by the Minister for Water under Section 41 of the *Water Industry Act 1994*.

Minister for Water, the Hon. Lisa Neville MP, was our responsible Minister during the 2017–18 reporting period. The Department of Environment, Land, Water and Planning (DELWP) was our responsible department.

We're also 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 our recycled water quality and drinking water quality respectively.

The Essential Services Commission (ESC) is our economic regulator. Every five years we're required to submit a price submission which sets out the services and service standards we propose to deliver to customers, and the proposed prices customers will pay for these. The price period for 2017–18 ended on 30 June 2018.

Our service region*

1.79
million people serviced

200+
languages our customers speak

13,896
kilometres of water mains*

10,861
kilometres of sewer mains*

969
kilometres of recycled water mains*

276
sewage pump stations

8
water recycling plants

9
recycled water pump stations

1
stormwater treatment plant

82
water pump stations

19,245
new customers in the past 12 months, with a growth rate of 2.6 per cent

270
kilometres of coastline

92%
of our customers rely on us for their home

8%
of our customers rely on us for non-household purposes

*All figures quoted as at 30 June 2018.

See pages 12-13: **Serving our customers in 2017-18**

Our direction

Healthy water for life

At South East Water, our purpose every day and every night – at every level of our organisation – is to deliver a continuous flow of **healthy water for life**. This means bringing our customers the clean water they want, and safely managing the wastewater they don't want. It means thinking ahead, understanding and even inventing what we need to do now, so that generations to come can rely on us, too.

Our vision

We're helping create a better world for our customers with forward thinking water solutions, for all and always, that won't cost the earth.

Our customer outcomes

Our *Corporate Plan 2017–22* sets out four customer outcomes that provided us with strategic direction for the year.

1 A safe and reliable water and sewerage service

We're committed to supplying a reliable water and sewerage service now and into the future and will be responsive to the needs of our customers in the unlikely event of an interruption to service.

2 A positive customer experience

We'll create more value for our customers by making it easier for them to engage with us and by providing more ways for them to better manage and control their water use and bills.

3 Supporting a sustainable and resilient community

We will support community liveability through integrated water management solutions, mitigating our impact on the environment, and ensuring long-term water security.

4 Efficient and affordable services

We're committed to delivering efficient and affordable services, while maintaining safety and service and supporting customers in need.

Our business enablers

Underpinning our customer outcomes were business enablers that positioned our organisation to deliver on the priority policy areas outlined in *Water for Victoria* and to operate in a changing environment.

Our business enablers were people, technology, financial capability, governance and strategy.

Our new values

During 2017-18 we reshaped the organisation's values. Our new values drive and guide our decision making and our day-to-day actions.

Find out about us: **Getting together to reshape our values** – see page 44.

A year in review

A message from the Chair and Managing Director

Lucia Cade
Chair

Terri Benson
Managing Director

We're pleased to present South East Water's Annual Report 2017–18 which provides an overview of our operational performance, audited financial reports and key highlights, along with statements on our governance and management practices.

We're proud of what we've achieved this year. Our financial results exceeded expectations and, given affordability is a key concern for our customers, we're pleased to announce that operationally we have the lowest cost-to-serve of any Victorian water corporation. This shows we're investing our effort and resources in the most effective way. However, while the financials are positive, they're only part of our story.

In the past year we submitted our *2018 Price Submission*, which was fast-tracked by the Essential Services Commission (ESC), allowing us to get a head-start on delivering what our customers told us they value most. Further to the extensive customer engagement required to develop our submission, the exercise provided us with the opportunity to refocus on how we do business and engage with our customers. It's seen us embark on a journey to better understand our customers and increasingly align our activities and our organisation around that ambition. We've sought to augment and improve the services we offer them to provide greater choice, convenience and affordability.

In the face of climate change and a growing population we've reinforced our commitment to reducing our impact on climate change by formalising our Emissions Reduction Pledge, and launching it to our employees. Here we've focused on establishing the solutions and approaches that will deliver the most impact to support our target.

We're continually keeping track of how emerging technology can help us meet our responsibility to manage water resources on behalf of our customers and community for the future. That's seen us continue to prioritise integrated water management (IWM) solutions to transform traditional water supply to homes. At the Aquarevo residential development (in partnership with Villawood) our revolutionary rain-to-hot water system, for example, is ready to be installed into the first houses due for construction in October. We've continued to deliver, through our commercial arm iota Services, sustainable and fit-for-purpose solutions to increase the efficiency and reliability of water and wastewater networks.

We know that there's a lot to do and that we can't do it by ourselves. The role we've played in the first IWM collaborative forums to help set the vision and directions for each of our three catchments is an example of how, by working together with our partners, we can share, learn and ultimately make progress. We've also been engaging with Aboriginal communities and the Traditional Owners of the land in which we operate to better understand the cultural value of water and spiritual connection to land and water for these customers. This work will help with the development of our first Reconciliation Action Plan in the coming year.

Essential to the delivery of all of our ambitions, during the past year we refreshed our corporate values, an exercise that was a highlight of the year in as much as it was driven by our employees. Our people are central to what we've achieved and to our future ambitions.

Their safety, and the safety of our customers and partners, remains a priority for us, which is why we continue to look for ways to drive a safer water industry. During the year we've maintained a strong focus on creating a positive safety culture, through our Safety and Wellbeing Strategy. In the spirit of collaboration over the past year we've been working more closely than ever with our fellow metropolitan water corporations on safety issues of common concern and sharing intellectual property to ensure the highest standards possible.

During the past year we articulated a broad vision for the corporation: '*to help create a better world for our customers with forward-thinking water solutions, for all and always, that won't cost the earth*'. We believe what we've achieved in the past year has put in place the building blocks for us to start to bring that vision to life.

On behalf of the Board, we thank all our employees and our contractual partners, and everyone who complements our team, for their ongoing commitment to delivering healthy water for life and meeting the needs of our customers.

In accordance with the *Financial Management Act 1994*, we're pleased to attest that our Annual Report 2017–18 complies with all statutory reporting requirements.

Lucia Cade
Chair

Terri Benson
Managing Director

Performance highlights

Some of our major achievements in 2017–18 that we're proud of.

Discovering new ways to improve safety

Safety remains our highest priority. So we're proud to report that our Total Recordable Injury Frequency Rate, which measures recordable injuries across the number of hours worked, fell below our target of 14.5 injuries for the first time in three years.

We also worked more closely than ever with our fellow metropolitan water corporations and contractual partners on safety issues of common concern, and to share intellectual property to ensure the highest standards possible across our sector.

Bringing our Sustainable Development Goals to life

As a new member of the United Nations (UN) Global Compact we've committed to support principles that align to responsible business practice and also support the broader 17 UN Sustainability Development Goals. Together, these goals aim to end poverty, protect the planet and ensure prosperity for all. We identified five goals most relevant to our organisation and have started to integrate them into our strategy, culture and daily operations.

Technology that supports water efficiency

Our water-saving solutions, brought to market via iota Services, continue to deliver ways to help our customers use less drinking water and to make our network more efficient. This year we collaborated with Monash University on multiple development and testing stages of our new rain-to-hot water system, which is ready to be installed into homes at Aquarevo later this year – allowing residents to shower and bathe using hot rainwater. We also installed 25 new model Advanced BlokAid® devices to detect and prevent spills in our wastewater network – a step toward supporting real-time sewer monitoring.

Supporting community partnerships

Recognising that together we can do more, we proudly committed to two new community partnerships. We joined forces with the broader water, utility and finance industries to support vulnerable customers as a founding partner of the Thriving Communities Partnership. Its purpose is to ensure fair access to the essential services needed to thrive in society. We also signed up to Choose Tap as a corporate partner, as part of our ongoing commitment to tap water as the best choice for health, affordability and in helping to protect our environment.

Planning now for a sustainable future

We've committed to an ambitious plan to reduce our corporation's carbon emissions by 45 per cent by 2025, as part of the state-wide Emissions Reduction Pledge for the water sector. Our employees have pledged to help, putting their signatures to a pledge book, and preliminary works for initial pledge actions have been completed: to install solar panels at our Pakenham and Somers Water Recycling Plants, and to create tools to help evaluate the carbon impact of any new projects.

More affordable pricing and simpler charges

As a result of work undertaken to inform our *2018 Price Submission*, we're proud to support our customers with reliable services and stable pricing for the next five years. We've reduced our service charges (including removing the service charge for recycled water), simplified our pricing structures and reduced our usage prices for water and recycled water. We're proud to have done all this and still offer the lowest cost-to-serve of any Victorian water corporation.

Helping to create a healthier environment

We're celebrating switching 1,145 properties from septic tanks to mains sewer, helping to create healthier homes and a healthier, more liveable environment for our customers. Most of these properties (854) were connected through our Peninsula ECO project on the southern Mornington Peninsula.

Helping our customers connect with us

We use technology to give our customers a better experience with us and this year we launched two new initiatives: a customer call back feature, so customers don't have to wait on hold and we can call them back, and a Manage developers works system that makes it easier for our customers and people to manage the quality assurance process for new water and sewerage assets.

We also made it easier for developers, plumbers, builders and councils to do business with us by enhancing our dedicated property and development industry hub, PropertyConnect, and its related processes (including the ability to lodge previously paper-based forms and applications online).

Expanding our recycled water network

To help reduce pressure on drinking water supplies, we continued to expand our recycled water network and supplied our customers with six billion litres of recycled water for non-drinking purposes.

We also upgraded existing facilities to produce Class A and Class C recycled water and collaborated to ensure greater uptake. This included working with the developer of a Keysborough estate to offer 2,000 properties affordable connection to our recycled water network and working with a quarry in Lang Lang so it could use recycled water for washing sand – also opening up the possibility for it be used in other environments.

Other achievements during the year

2018 Global Water Summit and Awards

iota Services, the commercial arm of South East Water, received a distinction in the Smart Wastewater Project of the Year category for its work in partnership with Christchurch City Council, New Zealand, to deliver a smart pressure sewer system controlled by its OneBox® platform. The approach significantly reduced the need for new pumping stations and transfer mains after the city's infrastructure was damaged from the 2011 earthquake – and saved the city the equivalent of NZ $8 million.

Digital Utility of the Year 2018 award (*Digital Utilities magazine*)

Shortlisted for the Digital Utility of the Year 2018 award, for the work we've accomplished in implementing digital technologies, tools and processes across our organisation to deliver a better experience for our customers, and more efficient systems (particularly in the areas of flow management and leak detection).

Stormwater Victoria Awards for Excellence

Highly Commended in Research and Innovation for our joint project with Mornington Peninsula Shire Council to address the impact of septic tank systems on the Mornington Peninsula.

Green Building Council Australia

Our corporate headquarters, WatersEdge, was officially awarded a 5-star (Green Star Office-as-Built) Certified Rating, which represents Australian excellence in sustainable construction.

2017 Australian Water Association Victorian Branch Awards

Our Environmental Strategist, Ben Spedding, received the 2018 VicWater Emerging Leader Award, recognising his leadership potential, commitment to innovation, and his ability to inspire, motivate and develop others. Andrew Chapman, our Servicing Futures Manager, received a Highly Commended Award for Water Professional of the Year, recognising his work on Fishermans Bend, for challenging traditional thinking and taking integrated water planning to the next level.

Australia's Customer Stewardship 2017 Exemplars

Recognised as one of eight industry exemplars that help complete the picture as to what good customer stewardship looks like and how it's being practiced in Australia. The recognition by the University of Sydney specifically relates to our planning for uncertainty by involving our customer and stakeholders, enabling risk to be a catalyst for innovation and leadership.

Serving our customers in 2017-18

Here's a snapshot of service to our customers over the past year.

OUR REGION

1.79

people serviced (millions)

We grew our customer base by

2.6% to 762,245

IMPROVING OUR SERVICES

29%

decrease in number of water quality complaints

3%

decrease in complaints to water ombudsman despite higher-than-usual complaints as a result of high usage over dry summer

68%

customers perceiving we add value (based on combined responses to customer surveys after interactions with us)

83.4%

customers satisfied with our services (based on combined responses to customer surveys after interactions with us)

98%

of unplanned water supply interruptions restored within five hours

SUPPORTING OUR COMMUNITY

5,298 ▲17%

customers supported through our South East Water Assist program

$800k+

total of Utility Relief Grants accessed by our customers

92%

of employees undertook family violence training to better respond to customers and employees in need

68

community events supplied with free water from our hydration stations

Almost

50%

of schools in our service area are saving water through the Schools Water Efficiency Program

SERVICE TO OUR CUSTOMERS

140
billion litres of water delivered

12.8
billion litres of sewage treated at our eight water recycling plants

6
billion litres of recycled water delivered

854
customer properties switched from septic tank to sewer as part of our Peninsula ECO project

28,000
homes in our region serviced with Class A recycled water

1,806,160
total unique page views of our main digital channel, southeastwater.com.au

379,845
customer phone calls

62,219
email contacts

4,649
call back requests since this feature launched in May

275,000+
visits to South East Water LIVE interactive map (emergency works and planned improvements across our service area)

64.6%
of reachable properties sent an emergency and proactive water outage text and/or email

25%
increase in customers using mobile devices to view **southeastwater.com.au**

18%
increase in customers subscribing to mySouthEastWater online account management hub

87,140
visits to our new water efficiency education website since its launch in October

14,740
followers

9,897
engagements (likes, shares, comments and click throughs) during 2017-18

Totals across our main social media platforms: Facebook, Twitter and LinkedIn

34%
increase in our customers opting for eBilling

Financial overview

Five-year financial summary

Table 1. Financial results for year ended 30 June 2018 (extract)

	2014 ($M)	2015 ($M)	2016 ($M)	2017 ($M)	2018 ($M)
Total revenue	968.2	916.5	1,038.9	1,029.4	1,090.9
EBIT	196.0	195.4	253.3	273.0	316.0
Financial costs	69.7	77.1	80.5	81.0	82.8
Net result before tax	126.4	118.3	172.8	192.0	233.2
Tax expense	33.3	35.6	52.0	57.7	70.1
Net result after tax	**93.1**	**82.7**	**120.8**	**134.3**	**165.0**

Table 2. Financial position as at 30 June 2018 (extract)

	2014 ($M)	2015 ($M)	2016 ($M)	2017 ($M)	2018 ($M)
Total assets	3,509.4	3,781.4	3,873.8	3,993.6	4,224.4
Payables and provisions	678.4	692.9	656.4	641.1	655.7
Borrowings	1,162.0	1,321.1	1,386.5	1,460.2	1,586.3
Net assets	1,669.0	1,767.4	1,830.9	1,892.3	1,982.5

Table 3. Cash flows for year ended 30 June 2018 (extract)

	2014 ($M)	2015 ($M)	2016 ($M)	2017 ($M)	2018 ($M)
Operating	89.2	128.1	126.1	136.3	150.9
Investing	(189.9)	(233.3)	(153.4)	(162.7)	(147.3)
Financing	100.5	107.1	26.3	26.7	(3.2)

Current year financial review

Our 2017-18 financial results exceeded expectations, largely supported by growth in water consumption leading to higher water sales and land development activities.

High water consumption across the year was the key driver behind an increase in cash flows from operation activities in 2017–18.

Our residential water usage customers continued to receive a $100 Victorian Government Water Rebate on their water bills in 2017–18, which totalled $69.2 million. While this financial year marks the fourth and final year of the rebate, customers will receive lower water prices in 2018–19 following our *2018 Price Submission* approved by the ESC.

We continued to deliver on our commitments to drive efficiencies through optimising procurement practices, improving our business processes and focusing on technology to leverage off existing and new data and digital capabilities.

Our Aquarevo project in Lyndhurst has now sold 226 lots, approximately half of those available.

Capital expenditure totalled $151.2 million and was driven largely by population growth, land development activity and the renewal of ageing infrastructure. In 2017–18, our expenditure program included renewing 74.9 kilometres of water and sewer mains, starting to install photovoltaic cells (solar PV) at our Somers and Pakenham Water Recycling Plants and investing in the Casey Clyde area to cater for development growth activity.

Our financial position remains sound with gearing at 44.4 per cent and funds from operations net interest cover at 2.8 times. Shareholder returns for the year include a final dividend of $82.2 million in respect of the 2016–17 financial year and an interim dividend of $24.9 million in respect of the 2017–18 financial year.

Capital projects

We manage a number of capital projects, including projects to upgrade our water recycling plants and growing our water and sewer networks, bringing a number of long-term benefits to our customers. Examples include building a recycled water transfer main which supplies thousands of residential properties in Keysborough and planning an upgrade to our Boneo Water Recycling Plant to respond to growth on the Mornington Peninsula and helping meet our emission reduction targets. For more information on our other recent capital projects, and those of 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 (**dtf.vic.gov.au**). This publication also contains information on state government departments and their related portfolio agencies' asset investment programs.

Significant changes in financial position

There were no significant matters which changed our financial position during the reporting period.

Significant changes or factors affecting performance

There were no significant changes or factors which affected our performance during the reporting period.

Subsequent events

There were no events occurring after balance date which may significantly affect our operations subsequent reporting periods.

Major projects and initiatives

Major projects and initiatives we delivered or that were underway in 2017–18 to deliver improved services

2017

September 2017

2018 Price Submission submitted

Fast-tracked by the ESC, allowing us to get a head-start delivering our commitments to customers.

Wrap of major sewer main upgrade

Stretching along Beach Road in Mentone, Parkdale and Mordialloc.

October 2017

New education website launches

To expand our reach and increase the use of our water efficiency online resources nationally.

liv well wellbeing program launches

Campaigns and initiatives that promote physical, mental and healthy lifestyle choices (like cycling, below) to employees.

Aboriginal Engagement Strategy endorsed by Board

Based on extensive consultation with Traditional Owners and Aboriginal communities and paving the way to develop our first Reconciliation Action Plan.

Manage developer works system launches

Helping developer customers manage quality assurance when constructing new water and sewerage assets (delivered via our online property and development industry hub, PropertyConnect).

November 2017

Onsite trials of integrated water solutions supporting Fishermans Bend

Collaborated with the Cooperative Research Centre for Water Sensitive Cities to identify ways of designing and implementing future developments so that they're better places to live and they reduce the potential impact on other areas.

First-ever IWM forum for our catchments

First of nine collaborative events we helped to lead to set the vision and priorities for each of our water catchments in our service area.

December 2017

Wrap of major water main upgrade

Undertaken with extensive stakeholder collaboration along busy High Street, Prahran.

Supporting the United Nations Global Compact

We joined 12,000 organisations around the world as part of the United Nations Global Compact, the world's largest corporate sustainability initiative.

SEPTEMBER OCTOBER NOVEMBER DECEMBER

2018

January 2018

Summer usage social media campaign launches

Helping customers keep their water bills on track during a period of traditionally higher water use.

Founding partner of the Thriving Communities Partnership

Joined forces with the broader water, utility and finance industries to support vulnerable customers with fair access to the essential services needed to thrive in society.

Recycled water mains switched on

Providing, in collaboration with the developer, 2,000 homebuyers in a Keysborough estate in the fast-growing south-east, an affordable opportunity to become more water efficient.

April 2018

Launch of major water main upgrade

Renewing 1.7 km of water main along Lorimer Street Port Melbourne (below).

Committed to ChooseTap

A community-based initiative that promotes the benefits of drinking water for people's health, the environment and their hip pocket.

June 2018

First new-model Advanced BlokAid® devices installed

Twenty-five devices installed in our network (one device shown below) to support real-time sewer monitoring to detect and prevent spills in our wastewater network.

Emissions Reduction Pledge launches to employees

Inviting our employees to commit to our journey and help to achieve ambitious targets to reduce our emissions by 45 per cent by 2025.

Asset management system review

Identified opportunities to realise additional value and how the system can be improved.

JANUARY MARCH APRIL MAY JUNE

March 2018

Internal values cafe workshops held

Engaging workshops that gave every employee a chance to reshape and recommit to our values.

Panel and hearings on Fishermans Bend Framework

In response to public consultation on our proposed approach to servicing this large urban redevelopment.

Achieving water sensitive outcomes for in-fill developments

Collaborated with the Cooperative Research Centre for Water Sensitive Cities to identify ways of designing and implementing future developments so that they're better places to live and they reduce the potential impact on other areas.

May 2018

Urgent renewal works at Balaclava tram stop

Meeting a tight Yarra Trams/Public Transport Victoria tram line shutdown deadline.

Customer call back feature launches

Informs customers of their call wait time and gives them the option for us to call them – improving the customer experience.

Our first commercial solar-powered pressure sewer installed

Installed at Koonya Beach on the Mornington Peninsula, and part of an ongoing partnership with Parks Victoria to provide environmentally-friendly toilet facilities for beach goers.

Tender process closes to upgrade Boneo Water Recycling Plant

A step closer to responding to growth on the Mornington Peninsula and helping meet our emission reduction targets.

Australian LGBTI Inclusion Award from Pride in Diversity

Received in acknowledgement of our commitment and support of the LGBTI community.

Challenges and looking forward

Challenges and considerations

While our yearly performance has been positive, to ensure we remain confident of achieving our longer-term targets we are addressing a range of considerations and challenges.

- With our ambitious pledge to reduce our carbon emissions by 45 per cent by 2025, we've set up a climate change committee to oversee our ongoing and planned activities.
- Our customer base spans one of Australia's most culturally diverse catchment areas. As a result we've set some aspirational gender, cultural and indigenous targets, captured in and driven via our Diversity and Inclusion Framework.
- While it remains on target, there's a need to balance the extensive public and planning interest in innovative projects like Fishermans Bend (and the need to ensure all stakeholders are adequately and appropriately consulted) without pushing out timelines or integrated water targets significantly.

✓ Set up a climate change committee

✓ Set some aspirational gender, cultural and indigenous targets

✓ Balanced the extensive public and planning interest in innovative projects like Fishermans Bend

The year ahead

Our *Corporate Plan 2018–23*

Our corporate plan outlines our key activities and projected financial position over a five year period and is reviewed annually. It details how we'll deliver on our customer commitments and puts our customers and long-term sustainability at the centre of all we do. We're looking forward to getting started during the coming year (see page 42).

Initiatives and projects

Solar panels at water recycling plants

As part of our commitment to reduce our carbon emissions, we're investing in renewable energy at sites that use a significant amount of power. As just over half of our total electricity use goes into treating wastewater, in 2018–19 we'll start installing solar panels at various water recycling plants. We've designed these systems to get an optimum return on investment and with provisions for future expansion in mind.

Upgrade of Boneo Water Recycling Plant

We're upgrading Boneo Water Recycling Plant to cater for growth on the Mornington Peninsula and contribute to meeting our carbon emission reduction targets. After an extensive procurement phase, we're excited that the design and construction phase is expected to start in August 2018.

New customers to move into Aquarevo

In partnership with Villawood Properties, we're helping create a blueprint for future sustainable and liveable communities at Aquarevo, a new residential estate in Lyndhurst. It's on track to become a water and energy efficient community where homes are plumbed with three sources of water (rain, drinking and recycled) so the right water is used for the right purpose – reducing demand on drinking water supplies. Excitement is building with Aquarevo's very first residents (and our new customers) expected to settle on their land from September 2018, start building their homes and even move in (likely from March 2019).

Getting to know our customers better

We're looking forward to consolidating and continuing the work we've started during the past year to better understand our customers and to build better relationships with our customers, partners and other stakeholders.

We'll also be drawing on the work we've done to redevelop our customer account management hub mySouthEastWater so it better suits the needs of our business and residential customers, and to leverage new technologies.

Our customers

About our customers

At the new Aquarevo estate in Lyndhurst, homes will feature a range of water initiatives unprecedented in a new residential development. Its very first residents (and our new customers) are expected to settle on their land and start building their homes later this year. Discover more on pages 18, 27 and 37.

Our customer base spans one of Australia's most culturally-diverse catchment areas, with our customers speaking more than 200 languages.

We also have one of the fastest-growing regions in the country, with 19,245 new customers in the past 12 months – and a growth rate of 2.6 per cent.

Our water and sewer network ranges from high-rise communities in Southbank to growth suburbs in the City of Casey, and from intensive industrial areas in Dandenong, to small agricultural holdings in Somerville.

Ninety-two per cent of our customers rely on us for their home, eight per cent for commercial or industrial purposes.

At South East Water, we want to create a better world for our customers, whether they're connected to our services, or are stakeholders, partners or simply part of our community. Over the past year we've been on a journey to better understand them and increasingly align our activities and our organisation around that ambition.

92%
of our total customers are residential

RESIDENTIAL
▲2.6%

8%
of our total customers are business

BUSINESS
▲2.4%

19,245
new customers in the past 12 months

2.6%
customer growth rate

Community

All members of the community affected by our services.

- Community groups, visitors, other

Partners

Who we work with in a collaborative manner to meet our connected customer needs.

- Contractors, consultants, property developers, plumbers, builders, real estate agents, councils, VicWater, Melbourne Water and the broader water industry.

Customers

Connected customers

Customers who receive our services and are connected to water/sewerage/recycled water.

Stakeholders

Who have a significant interest and influence on the operation of our organisation.

- Government
- Regulatory

Supporting our customers in need

Members of our South East Water Assist team are specially trained to work with customers who want to pay, but can't pay everything.

This specialised team works in line with our commitment to treating all customers fairly, respectfully and with dignity.

In 2017–18 we partnered with FMC Mediation and Counselling to help support customers with free financial counselling, connection to community support services and referral to specialist providers.

We also joined the Thriving Communities Partnership, a cross-collaboration project across water, utility and finance sectors. Through this partnership we support our customers who, for whatever reason, may be experiencing vulnerability by providing fair access to water as an essential service.

Ways we've supported our customers

- → A payment plan
- → More time to pay
- → Access to concessions and government grants
- → Plumbing audits and rebates
- → Access to free financial counselling through our independent community partner
- → Water efficiency tools and information.

We managed the below Community Service Obligations funded by the state government in 2017–18.

Table 4. Community Service Obligations

Value of community service obligation provided	2017–18 ($)	2016–17 ($)	2015–16 ($)
Provision of concessions to pensioners	45,253,572	45,651,373	44,752,177
Rebates paid to not-for-profit organisations under the water and sewerage rebate scheme	943,113	889,831	811,296
Utility Relief Grant Scheme payments	814,818	814,826	630,560
Water Concession Grant on life support machines (haemodialysis)	30,406	30,933	32,016
Hardship Relief Grant Scheme (Sewerage Connection Scheme)	0*	0*	2,900

* In 2017-18 and 2016–17, our team in backlog sewer connections informed customers about the Hardship Relief Grant Scheme; however no customers applied for and received a grant.

Engaging on our customer commitment

In the lead up to creating our *2018 Price Submission*, which we submitted to the ESC in September 2017, we undertook an extensive customer engagement program over 14 months that built on our usual customer engagement activities.

This submission (now Our Five-year Customer Commitment) sets out the services and service standards we propose to deliver to our customers, and the proposed prices customers will pay for these, for the five years 2018–23. It's intended to guide our actions and priorities during this time – so we wanted to ensure it best reflects our customers' priorities and delivers what they value.

We sought feedback from customers and listened and responded to what they had to say. Here are some highlights of how we went about it.

Testing customers' willingness to pay with our bill simulator

We used a combination of an online bill simulator and face-to-face focus groups, to help determine what our customers value most about the services we provide and their willingness to pay. Our bill simulator achieved an unprecedented 3,791 responses.

3,791
responses

Partnering to build the 'Have your say' collaboration platform

To meet our customers' increasing demands for online engagement we partnered with online engagement provider OurSay to build our own collaboration platform 'Have your say'. We used this to connect, share views, ask questions and engage with our customers about our services and prices – and we received strong results in terms of response and participation.

as at 30 July 2017
6,750+
unique visitors

A focus on the unique needs of our business customers

Our consultation provided us with unique insights into the needs of our business customers, particularly plumbers, builders and developers. We've used these insights to improve the way we engage with these groups on an ongoing basis.

Introducing the Customer Engagement Council

We introduced this council to act as our 'critical friend', testing and challenging our responses to customers' views to make sure we stayed accountable.

See page 34: **A positive customer experience.**

Our five customer outcomes

These five outcomes reflect what our customers told us matters most to them during this consultation.

- Get the basics right, always
- Make my experience better
- Warn me, inform me
- Fair and affordable for all
- Support my community, protect our environment.

We've promised to deliver on these outcome during the next five years.

See page 42: **Our year ahead - *Corporate Plan 2018-23*.**

Water consumption

Water consumption report

Table 5. Residential and non-residential customers

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	702,375	105,560	559	0	59,870	34,796	5,426	0

Residential customers in the South East Water service area consumed an average of 163 litres of potable water per person per day. Their bill based on average consumption was $1,016.86 (and $1,243.49 on 200kL consumption).

Table 6. Total of customers, volumes and consumptions

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	762,245	140,356	5,985	146,341	133,041

Table 7. Non-revenue water

District	Leakage (ML)	Firefighting (ML)	Other (ML)	Total non-revenue water	Total water all sources
South East Water	13,195	656	6,860	20,711	167,052

Table 8. Corporate water consumption report

Location	Average full time equivalent employees and contractors	Office space (m^2)	Water consumption (kL)	kL/FTE	Water consumption by office space (l/m^2)*
101 Wells Street Frankston	596.8	11,510	2,463	4.1	214

Data in the table above is for our headquarters in Frankston only, and excludes water consumption by employees based at water recycling plants and storage sites. Our headquarters also uses rainwater for toilet flushing and garden irrigation. This system isn't metered and therefore isn't reflected in the data.

Major non-residential water users

We supply water to 22 non-residential customers that use more than 100 ML per year.

Major customers

Alfred Health	L D & D Milk Pty Ltd
Australian Meat Properties Pty Ltd	Lesaffre Australia Pacific Pty Ltd
Bega Cheese Limited	Nissan Casting Australia Pty Ltd
Bluescope Steel Limited	Pakenham Land Co Pty Ltd
Chobani Pty Ltd	Parmalat Australia Ltd
Coca-Cola Amatil (Aust) Pty Ltd	Saurin Investments Pty Ltd
Corval Ingham Pty Ltd	Simplot Australia
Crown Melbourne Ltd	Southern Health Care Network (Monash Medical Centre, Clayton)
Defence Corp Support Sth Vic	Southern Health Care Network (Dandenong and District Hospital)
Esso Aust Ltd	USG Boral Building Products Pl
Fountain Gate Trust	Victoria Amateur Turf Club

Table 9. Customer by volume range

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	6
Equal to or greater than 300 ML and less than 400 ML	1
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	0
Greater than 1,000 ML	
Total number of customers	**22**

Participation in water conservation programs

We provide 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 2017–18 no business customers participated in the program.

Trade waste management

We work with trade waste customers to manage the quality and quantity of the waste they discharge. In 2017–18, 10,753 customers contributed a combined volume of more than 5,834 ML of trade waste. Charges for trade waste customers contributed $24.4 million in 2017–18.

Our community and environment

Our community and environment

Our customers believe that we should focus on being environmentally responsible as well as giving back to the local community.

We're future-focused, putting liveable communities and a healthy environment at the forefront of our decision-making and creating technology that supports water efficiency. We're proudly on a path to achieve net zero carbon emissions by 2030.

One of our greatest responsibilities is to ensure long-term water security while also protecting Port Phillip Bay and minimising our impact on the environment. This includes removing septic tanks and connecting properties to the sewerage system, creating water efficient communities and implementing our plan to reduce carbon emissions. We're also committed to working with local communities to make our service area and its surrounds more liveable.

Protecting our environment

In Our Five-year Customer Commitment 2018–23, we've promised to reduce our carbon emissions in a way that's financially responsible, by implementing solar power at a number of water recycling plants and identifying new efficiency opportunities within our existing operations. This supports our commitment to reduce our carbon emissions by 45 per cent from our 2016 baseline – and by acting now to help to mitigate the impacts of climate change, helps to secure the reliability of our services into the future.

To ensure we minimise sewage spills to the environment, we've committed to improve our current levels of significant spills while implementing a sewer monitoring program to reduce them further.

To help create water efficient communities, we've committed to exploring ways to better harness the water cycle to reduce reliance on drinking water for purposes where it is not required – helping to create liveable communities that are more resilient to the impacts of climate change and a growing population.

Working with local government, community groups and other agencies

We work closely with local government, community groups and other government agencies to identify and plan for works to enhance the social, recreational and economic benefits associated with parks, waterways and other recreational facilities that we each manage.

We know our customers and community value being able to use and enjoy Port Phillip and Western Port bays for recreational purposes. We've committed to minimising the impact of our activities. Where we do have an adverse impact on the community, by causing a beach closure, we'll work with community groups to improve the amenity of beaches and local waterways.

Environmental sustainability

We promote an integrated and sustainable use of water resources in our area, including better use of alternative supplies. Throughout 2017–18 numerous projects and strategies supported and promoted **sustainable water use** and **sustainable and resilient water services systems**.

Recycled water

Our eight water recycling plants each produce Class A or Class C recycled water. In 2017–18, construction works continued to upgrade our Lang Lang Water Recycling Plant so it can treat Class A recycled water, as well as Class C. We also planned and went out to tender to procure a contractor to help us upgrade our Boneo Water Recycling Plant.

In 2017–18, we supplied our customers with six billion litres of recycled water for reuse, and continued to expand our recycled water network. This included building a recycled water transfer main which supplies approximately 2,000 residential properties in Keysborough.

As of 30 June, approximately 28,000 homes in our region were able to receive recycled water. This is in addition to the open spaces and sporting ovals irrigated with recycled water by local councils, and the vineyards, golf courses, market gardens, nurseries and turf growers who rely on recycled water to support their businesses.

Water efficiency and awareness

We continue to encourage customers to use water efficiently around the home and at work through website content, water bill messages, and social media campaigns, posts and videos, as part of the following campaigns and partnerships:

- Target 155 (aimed at minimising Melbourne's average daily per person water consumption)
- Smart Approved WaterMark, as a member of the Victorian Water Efficiency Strategy Group.

We continued to support the Schools Water Efficiency Program (SWEP), which helps schools to identify leaks through data logger technology and regular water usage readings. During 2017–18 we sponsored 40 SWEP customer school memberships, which helped grow the number of schools in our region participating to 291 (equating to almost half of the schools in our catchment area). Collectively since 2012, participating SWEP schools have saved 913 million litres of water worth an estimated $3.7 million.

To support water efficiency behaviour change, we're conducting a long-term study with other metropolitan water corporations, to analyse water consumption behaviours and the take up of water saving appliances in the home. We also continue to partner with University of Melbourne on a research project that's exploring how water use information can improve household water efficiency. Findings from both studies will be used to inform water efficiency initiatives.

This past financial year, we also:

- launched a new education website (promoting information about the water cycle and water efficiency) to expand our reach and increase the use of our online resources
- conducted site visits and education sessions for 1,327 participants at our Mount Martha Water Recycling Plant
- attended 68 community events (with a total number of attendees of 737,500) with our mobile hydration station.

Integrated water solutions

To meet our responsibility to manage water resources on behalf of our customers and community for the future, we continue to implement solutions that we believe will help transform traditional water supply to homes.

Elements of an integrated water solution are that it captures rainwater, reduces flooding, treats sewage, recycles Class A water to replace non-drinking water for uses that don't require it i.e. flushing the toilet and reduces demand on drinking water.

In conjunction with Water for Victoria, and as part of our Urban Water Strategy, we've committed to collaborating with stakeholders through the new IWM forum process. Over the past year we've played a leading role in the newly-formed IWM forums (led by DELWP) for our three catchments, Westernport, Dandenong and Yarra. This has involved collaborating with DELWP, councils, other water businesses, the Victorian Planning Authority and catchment management authorities to identify new IWM opportunities for the region. Through the forums we've developed a vision – in the form of draft strategic direction statements – and priority projects for the three catchments.

To ensure the future growth and development of Melbourne is supported by integrated water solutions, we kicked off research projects with the Cooperative Research Centre for Water Sensitive Cities and with Water Services Association of Australia (WSAA), including how to make sure water sensitive aspects are included in development in existing urban areas.

Fishermans Bend

Fishermans Bend, Australia's largest urban renewal project, is an exciting opportunity to deliver a water sensitive city using integrated water solutions that maximises locally available water; minimises water and sewage loads; reduces flooding; and transforms urban amenity.

We've continued to collaborate with key stakeholders and authorities to plan and design integrated water solutions for this area and we've made significant progress.

We've finalised collaborative draft guidelines for developers, plumbers and councils to clarify plumbing requirements for recycled water and rainwater in medium to high density developments. This will aid consistency across the water and plumbing sectors as integrated water solutions become more common (and more necessary) across Victoria. We've also made progress on the feasibility of a combined sustainability hub.

Aquarevo

Our partnership with Villawood Properties to create Aquarevo continues. Aquarevo is a residential development in one of our fastest-growing areas, where homes will use recycled water and rain-to-hot-water to reduce reliance on drinking water by up to 70 per cent. To date, 226 housing lots have been sold out of 460.

During 2017–18, civil works continued to prepare the site for housing construction (expected to start late 2018). We undertook further work to plan the estate's onsite water recycling plant, which will eventually treat all wastewater from homes on the estate to Class A recycled water standard. This recycled water will then be sent back to Aquarevo homes for use for non-drinking purposes.

Monash National Employment and Innovation Cluster ('Monash Cluster')

The Monash Cluster is one of seven major centres of health, education and employment identified in Plan Melbourne 2050. Through a collaborative IWM study we've identified synergies in water cycle planning to manage the existing and future water demands within this area.

Casey–Cardinia regional servicing

We continued to develop a regional IWM scheme in the Casey–Cardinia region and engaged with stakeholders on key issues including managing the ecological impacts in the sensitive Westernport catchment and integrating long-term treated water demand with emerging land use and employment opportunities.

The geospatial assessment of the impact of the sewerage system we undertook on the Westernport catchment provides a current reference point to ensure the future scheme improves environmental outcomes.

Drought response and alternative water sources

Permanent water use rules were in place for Melbourne at 30 June 2018. We published our Drought Preparedness Plan in 2016–17, incorporating our Uniform Drought Response, although the plan was not invoked in 2017–18.

In accordance with the plan we joined other metropolitan water corporations and Melbourne Water to jointly publish the Annual Water Outlook in December 2017. This outlined a number of individual and joint industry short and medium-term actions to improve future drought response.

During the year, 15 GL of desalinated water was delivered to support Melbourne's water supplies.

Open space management

We recognise the significant value parks and playing fields contribute to the liveability of our community, and our Drought Preparedness Plan outlines the process for ensuring these spaces stay watered even in times of water shortages.

Environmental flow

Environmental flow refers to water released from a dam to maintain river health downstream. We have water management strategies in place, including with the other metropolitan water utilities and Melbourne Water, to ensure we meet all our obligations in this area for the Melbourne water supply system.

Trade waste management

To prevent harmful waste entering our sewer, we work with business customers to help them manage their trade waste and meet acceptance criteria, through pricing incentives and a technical appraisal process.

Key strategies and policies

Urban Water Strategy

Our Urban Water Strategy sets outs six key actions to allow for adaptation to a warmer, drier climate in accordance with Guidelines for Assessing the Impact of Climate Change on Water Supplies in Victoria. Our actions which aim to enhance water availability and create more liveable communities are:

- creating water efficient communities, through campaigns and education
- rolling out infrastructure, and ensuring supply of recycled water to designated areas
- working with open space managers to identify priority assets to be supported in drought situations
- progressing key projects such as Fishermans Bend, Aquarevo and water recycling for the Casey Clyde area
- collaborating with stakeholders through the IWM forum process
- empowering and engaging customers.

These strategies are being delivered and supported by our Drought Preparedness Plan.

Catchment Management Strategy

We're a founding stakeholder of the Port Phillip and Westernport Catchment Management Authority Living Links catchment program. This is a large-scale collaborative environmental and social program to create a web of green spaces in Melbourne's south east, underpinning the Regional Catchment Strategy that we contribute to. During 2017-18, Living Links:

- continued to deliver the 'Transforming the Dandenong Creek corridor into a world-class urban Living Link' project with Victorian government funding
- delivered pest plant control and revegetation across 56 hectares at 24 priority sites, as well as installing nesting hollows; fencing sensitive areas; and hosting 22 community events
- increased participation in citizen science monitoring of frog populations along the Dandenong Creek, from 80 census reports it received in 20 years to 197 reports received in 12 months.

Victorian Biodiversity Strategy

Our Biodiversity Master Plan is a holistic plan we've created for key sites where biodiversity values have been identified. During 2017-18, we:

- completed our ongoing annual pest and noxious weed control program

- continued to improve the habitat for the Southern Brown Bandicoot at our Koo Wee Rup and Blind Bight Water Recycling Plants
- partnered with Melbourne Water to remove weeds and plant indigenous species along Deep Creek, Pakenham and Balcombe Creek, Mt Martha, and to help rehabilitate the Tootgarook Wetlands.

Victorian Waterway Management Strategy

As well as playing an active role with Melbourne Water to help revise its Healthy Waterways Strategy, we continued to actively work to improve the health of local waterways in the south-east region. We've done this through investments to ensure our sewer system capacity can handle population growth and the upkeep of existing pipes to reduce spills; an ongoing backlog program (to switch properties from septic tanks and onto mains sewer); and a pilot program to improve septic tank management.

State Environmental Protection Policy (Waters of Victoria)

We actively contributed to DELWP's review of the State Environmental Protection Policy (Waters of Victoria). This involved working with the other four metropolitan water corporations to develop a joint submission to further improve the policy. We also trialled 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.

Victorian Water Efficiency Strategy

We partnered with DELWP and Victorian water corporations to develop a consolidated state-wide water efficiency strategy, which was launched in 2017-18. We also initiated development of water efficiency content and a resource set, developed by Smart Approved WaterMark, aimed at promoting consistent messaging across the industry.

Research

Our strategic research program allows us to collaborate on research where there's common interest. For example, we subscribe to Water Research Australia's research program, a not-for-profit organisation funded by its members to undertake national collaborative research on issues relevant to urban, regional and rural water utilities.

Here's a summary of other research projects we've undertaken during the past 12 months.

Helping to quantify the health benefits of liveability

We've substantially completed a collaborative research project with WSAA, to help quantify the liveability-associated health benefits of water industry investment. For example, that providing green space leads to benefits of active recreation and therefore community health benefits. To help measure these benefits, we've developed a tool to assess integrated water solution business cases so that they include non-monetary benefits that have previously been difficult to include.

Supporting water-sensitive infill development

According to Plan Melbourne, 70 per cent of Melbourne's future growth will be infill development, which presents greater complexity than greenfield development to incorporate IWM. So to ensure that we achieve water sensitive outcomes for future infill development, we kicked off a collaborative project with the Cooperative Research Centre for Water Sensitive Cities in March. It's about identifying ways to design and implement future infill developments so they're better places to live (i.e. not too hot) and reduce potential impact on other areas (i.e. through less flooding).

Bathing under hot rainwater

Homes in our new Aquarevo estate in Lyndhurst, which we're developing in partnership with Villawood Properties, will be fitted out with our latest water-efficient technology to show there's a better way to use water at home – without losing the health and liveability that water offers us.

We've been working with Monash University to challenge and test our new rain-to-hot-water system, which will allow residents to shower and bathe under hot rainwater. We've also been working with Holmesglen TAFE in Chadstone, where we set up Aquarevo's entire system of water technology in a controlled setting, to simulate various scenarios such as how different numbers in a household may impact the system.

Effective engagement of Aboriginal communities

We conducted over 20 engagements with Traditional Owners during the year. Achievements included:

- board endorsement of our Aboriginal Engagement Strategy
- coordination of support letter for Bunurong's application for an Aboriginal Water Officer
- financial contribution by all metropolitan retailers to the establishment of an industry-wide Senior Project Manager for Aboriginal Values of Water
- leading a round of extensive engagement with Traditional Owners as part of our involvement in the Melbourne Sewerage Strategy (see page 32, **Learning from Traditional Owners**).

Other statutory obligations

Greenhouse gas emissions and energy consumption

Table 10. Greenhouse gas

	Tonnes CO2-e			Variance %	Commentary
Performance indicator	Baseline	2017-18 target	2017-18 result		
Water treatment and supply	5,607	N/A	5,597	-0.2	
Sewage treatment and management	32,259	N/A	39,029	21.0	Management of sludge fluctuates year-to-year due to a difference in sludge harvesting. It's seasonal in nature and doesn't impact on our long-term commitment.
Transport	1,448	N/A	1,492	3.0	
Other	2,430	N/A	1,516	-37.6	~27% reduction in electricity with new office at Frankston compared to Heatherton and Lynbrook combined in 2014–15.
Offsets	0	N/A	0		Mini-hydro offsets (1,216 tonnes) were not included as the associated Large Generation Certificates were not surrendered.
Total	**41,744**	**0**	**47,634**	**14.1**	Primarily due to accounting for sludge management.

Explanatory notes

The increase in emissions associated with the treatment and management of sewage resulted in increases in Scope 1 emissions at two water recycling plants, in particular the management of sludge. Somers Water Recycling Plant had an increase in emissions due to no desludging this year and harvesting a much larger volume of sludge from the drying pan compared to the amount reused. These fluctuations occur year-to-year due to the nature of sludge holding times, sludge holding capacity and weather conditions.

WatersEdge shows major improvement. A full years benefit of the solar photovoltaic installation has now been realised, along with the installation of a revolving door in reception to improve heating control – and hence a reduction in gas usage.

Table 11. Energy consumption

		Renewable energy use (MWh)							(h) Renewable energy use (%) ((h)/(a))*100	Renewable Energy Generated for Export (MWh)	Renewable energy use target (%)	Commentary
Performance indicator	(a) Total energy use (MWh)	(b) solar panels	(c) hydro	(d) wind power	(e) biogas	(f) green power	(g) other	(h) total				
Water treatment and supply	5,098	32.2	0	0	0	0	0	32.2	0.6%	1,036.6	N/A	20kW and 12kW (plus battery installation), mini hydro
Sewage treatment and management	22,388	0	0	0	0	0	0	0	0%	0	N/A	
Other (office, workshops, depots, etc)	1,813	131.7	0	0	0	0	0	131.7	7%	0	N/A	99kW
Total	**29,299**	**163.9**	**0**	**0**	**0**	**0**	**0**	**163.9**	**1%**	**1,036.6**	**N/A**	

Explanatory notes

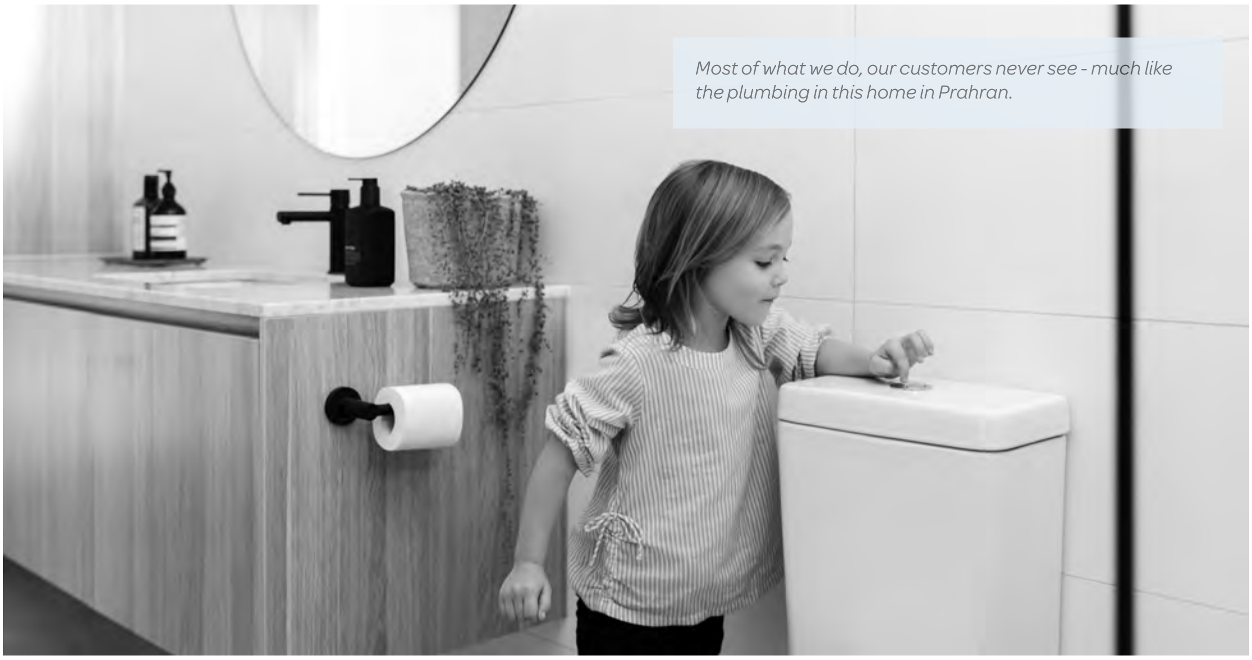
Planned 750 kilowatts of solar photovoltaic installations for our Somers and Pakenham Water Recycling Plants were delayed, resulting in full reliance from the electricity grid and hence delaying the opportunity to offset grid-based electricity with emission-free solar power generated onsite.

We also own and operate a mini hydro facility at Hallam. The power generated feeds directly to the electricity grid. We held Large Generations Certificates (LGCs) in 2017–18 (no other LGCs are being generated by our organisation).

Our performance

A safe and reliable water and sewerage service

We're committed to supplying a reliable water and sewerage service now and into the future and will be responsive to the needs of our customers in the unlikely event of an interruption to service.



Most of what we do, our customers never see - much like the plumbing in this home in Prahran.

Over the past 12 months we've:

- Looked to the future to support a high rate of population growth in our region, by upgrading and maintaining key existing infrastructure to ensure it's safe and sustainable, and building new infrastructure to cater for more customers in the future.
- Taken steps to further strengthen the performance of our assets, and reduce their associated costs, by assessing how our systems, practices and processes align to best practice.
- Continued to minimise the impacts of service disruptions by using digital technologies to detect failures, responding to what our customers told us they wanted during engagement for our *2018 Price Submission*.
- Harnessed smart technologies to develop our own products where we identify a need.
- Overseen the manufacture and installation of our first smart Advanced BlokAid® devices which prevent spills, overflows and floods, monitors sewer level, flow and H2S gas in real time, activates a rapid response to fix blockages, and prevents damage to the environment.

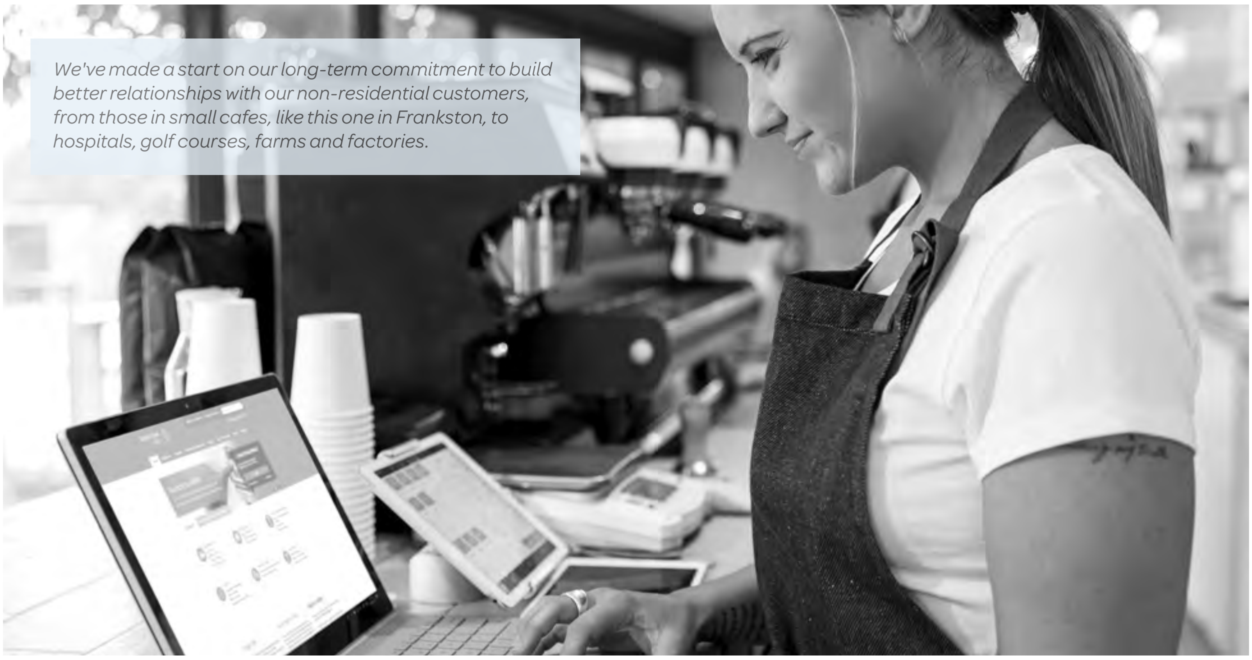
Learning from Traditional Owners

As part of the working group to help develop the Melbourne Metropolitan Sewerage Strategy, we recognised the importance of working in partnership with Indigenous communities to ensure that the strategy is respectful of the land on which we operate and allows Traditional Owners to maintain their personal and spiritual connection with land, water and culture. We led a round of community engagement to help inform the strategy that included all Traditional Owners of the Kulin Nation and Aboriginal leads for all metropolitan water retailers and Melbourne Water – which was so successful that we plan to extend this engagement to future projects.

Key initiatives	Our progress in 2017–18
Assess effectiveness and cost of solutions to safely replace or rehabilitate 1,600 kilometres of asbestos cement piping in our network.	→ Successfully installed new resin pipe liner technology into first 1.2 km of abandoned asbestos cement piping, with another pipe liner solution to be installed in September 2018 (pending Australian certification of the equipment), to test if they can extend the life of our pipes. → Patent and registered design for the tool we invented to extract pipes were successfully filed, however delays in the procurement of materials from overseas means production is now set to start in July 2018.
Complete a review of our asset management system	→ Completed a review of our asset management system in June 2018 which allowed us to identify a number of opportunities to realise additional value and identify system improvements.
Influence development of the Melbourne Metropolitan Sewerage Strategy	→ Led the strategy's overall engagement approach, which included a round of extensive engagement with Traditional Owners, insights from which directly informed the strategy. → Led development of a framework which aims to encourage more informed debate around the resource value of Melbourne's waste, including food waste.
Progress the land purchase and undertake the necessary ecological investigations for the water recycling plant that will underpin the integrated water management servicing for the growing Casey Clyde area	→ Progressed activities and investigations to support the water recycling plant, which will underpin wider plans for the growing Casey Clyde area. → Findings will also inform the proposed Casey–Cardinia regional scheme, supporting local employment and ecological outcomes for the Westernport catchment.
Start preparatory work for integrated water management infrastructure at the Fishermans Bend precinct.	→ Progressed work, including extensive consultation on the draft framework plan and on management of flooding and drainage, and how smart tanks can help. → Finalised collaborative draft guidelines for developers, plumbers and councils on recycled water and rainwater. → Progressed the feasibility of a combined sustainability hub.
Start a low-carbon treatment process to upgrade the Boneo Water Recycling Plant	→ Completed the bulk of an extensive procurement phase for the Boneo Water Recycling Plant upgrade, with the design and construction phase due to start in August 2018.
Strengthen digital network monitoring and tools to explore early detection and mitigation of network faults, minimising customer disruption	→ Put in place a solid technology platform on which we can start to implement real-time monitoring of our network and oversaw the development of software that will allow us to connect devices with our networks. → Procured and tested digital meters to support upcoming trials. → Oversaw the manufacture and installation of first smart Advanced BlokAid® devices to support sewer monitoring trials.

A positive customer experience

Creating more value for our customers by making it easier for them to engage with us and by providing more ways for them to better manage and control their water use and bills.



We've made a start on our long-term commitment to build better relationships with our non-residential customers, from those in small cafes, like this one in Frankston, to hospitals, golf courses, farms and factories.

Over the past 12 months we've:

- Started to rethink how we do business and engage with our customers, further to the extensive customer engagement required to develop our *2018 Price Submission* which helped us to establish and test what matters most to them.
- Strengthened our relationships, such as with Bunurong Land Council in regards to cultural heritage management.
- Grown our understanding around family violence and how we can help our customers and employees.
- Reshaped our existing customer strategies and plans and put in place new engagement frameworks to help us prioritise improvements so we can reduce customer pain points.
- Focused on tools and messages that allow our customers to become more aware of the services we offer and the value we provide, and to encourage and empower them to be more efficient with water.

Bringing the outside in – our Customer Engagement Council

Getting an outside in perspective while developing our *2018 Price Submission* was crucial to getting to the heart of what mattered most to our customers. We brought together opinion leaders and influencers from a variety of industry and advocacy groups and the Victorian Multicultural Commission to form a Customer Engagement Council that could act as a 'critical friend' – allowing us to test and challenge our responses to customer views that emerged throughout the engagement process. Feedback from the council also significantly enhanced our approach to engaging with customers and how we translated customer feedback to develop our submission. Building on the success of the council, we're planning to expand its scope to establish a more strategic Customer and Community Advisory Council.

For more about what we're doing in this area, check out **southeastwater.com.au**

Key initiatives	Our progress in 2017–18
Reshape our Customer Experience Strategy and roadmap based on customer insights	→ Reshaped our Customer Experience Strategy and developed a detailed five-year plan to detail how we'll deliver improvements, including addressing specific pain points our customers have experienced at different stages of their interactions with us. → Established online research to track and monitor how our customers perceive our organisation so we can use it to build their trust.
Refine our Customer and Community Engagement Framework to increase participation of cultural and linguistically diverse and Aboriginal communities	→ Reviewed our Customer and Community Engagement Framework to better understand and reflect the diverse communities in our service area and developed engagement plans to start addressing the specific needs of each community. → Developed an Aboriginal Engagement Strategy in consultation with Traditional Owners, which will help plan for the development of our first Reconciliation Action Plan in 2018–19. → Provided additional support to culturally and linguistically diverse customers by promoting our bills in different languages on our website.
Refine and deliver customer and community education initiatives to increase knowledge about the water cycle and support behaviour change	→ Launched our new education website (part of our schools education program) which has seen an increase in the use of our online resources both nationally and internationally. → Maintained a strong presence via our hydration stations at key community events to provided water and healthy hydration options for large groups of customers. → Designed new community and stakeholder engagement plans to ensure initiatives and focus areas are community-led.
Develop a program to promote the value-for-money services we provide	→ Co-created a high-level narrative with our customers that will help all our customers better understand the services and value we provide. We'll incorporate this narrative across all our customer communications. → Introduced a new online survey that, after each interaction with our customers, explores their perceptions of the value we offer to help us drive improvements in this area.
Develop additional customer tools to provide certainty and control to meet customer expectations and drive water efficiency behaviour to avoid bill shock and support affordability	→ Partnered with the University of Melbourne on a research project to explore how water use information can improve household water efficiency. → Implemented a summer social media campaign to help customers use water efficiently, and therefore keep their water bills on track, during a traditionally high water use season. → Continued work on an online hub for future residents of the Aquarevo development at Lyndhurst, which will allow them to view real-time data about their water usage, helping them to easily visualise and adjust their use.
Explore opportunities to provide customers with greater control/ choice through an alternative tariff structure	→ Simplified our tariff structure and billing payment options based on customer engagement undertaken for the *2018 Price Submission*. → Confirmed customers' preferences for bill smoothing (making regular payments through an ongoing payment plan). → Continue to promote eBilling to our customers and achieved a 34 per cent increase in uptake following a series of engagement campaigns.

Supporting a sustainable and resilient community

Supporting community liveability through integrated water management solutions, mitigating our impact on the environment, and ensuring long-term water security.

We're always looking for more ways to connect our customers to recycled water, and relieve pressure on our precious drinking water supplies, as our population grows and demand for water increases.

Over the past 12 months we've:

- Continued to look to the future by focusing on solutions that will allow us to service more customers with less environmental impact – based on an understanding of the challenges that the impacts of population growth and climate change will bring to ongoing liveability.
- Focused on establishing the infrastructure and approaches to achieve net zero carbon emissions by 2030.
- Played a leading role in the new IWM forums, allowing us to set the vision and priorities for each of our catchments.
- Focused on collaborative approaches and building relationships with our customers, partners and community so we can all work together to achieve ambitious goals.

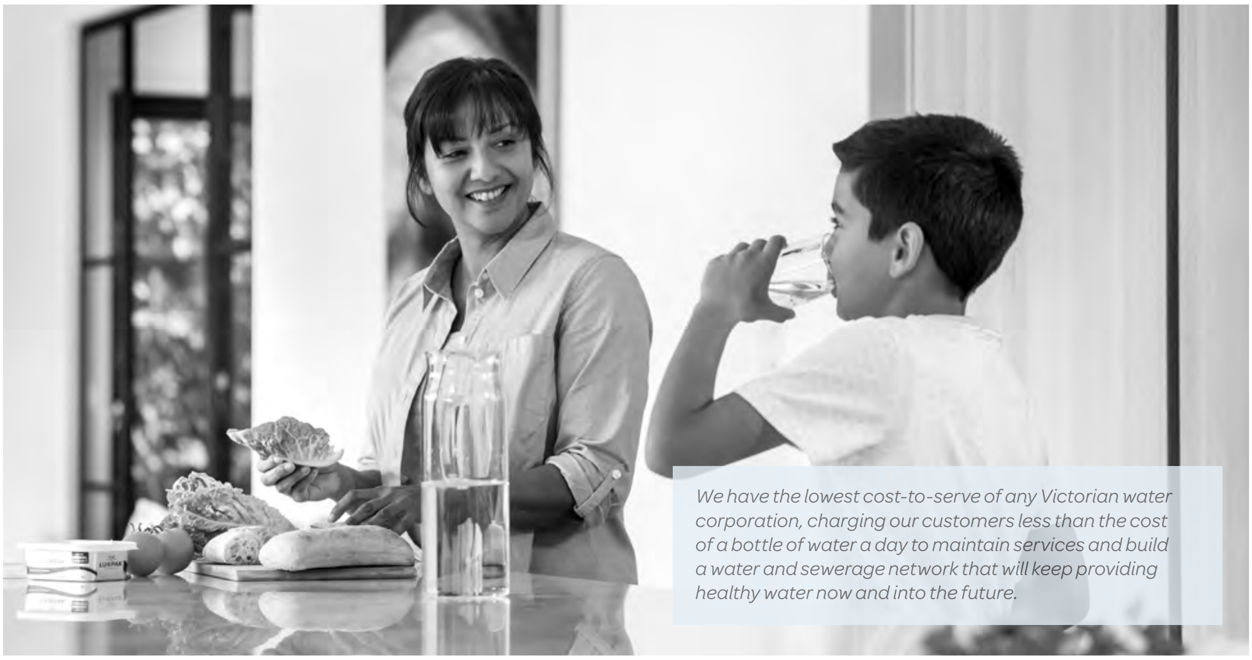
Solar-powering our sewer systems

In partnership with Parks Victoria, we're connecting sites along the Mornington Peninsula National Park to a new solar-powered pressure sewer system, providing environmentally-friendly toilet facilities run on 100 per cent sustainable energy. The new system, which has an increased capacity to deal with the growing number of visitors to the area, uses iota Services' OneBox® technology, and solar system and batteries developed by local supplier Magefekt.

Key initiatives	Our progress in 2017–18
Develop a fit-for-purpose water strategy to maximise recycled water use in our region	→ Continued to engage with Mornington Peninsula Shire Council, City of Kingston and Cardinia Shire Council on how we provide more recycled water for agriculture and green spaces in our service region.
Deliver the first two stages of the Aquarevo development and finalise integrated water solution initiatives	→ Work progressed well despite a wet winter in 2017, with some lot settlements expected by October 2018. → Successfully completed work on our unique rain-to-hot water system, which is now ready to install in Aquarevo homes over the coming year.
Identify new integrated water solution opportunities for the region through collaborative forums	→ Played a leading role in a series of IWM forums and working groups for our three catchments (Westernport, Dandenong and Yarra), involving DELWP, the Victorian Planning Authority, local councils and other water businesses. → Developed draft strategic direction statements, and confirmed priorities for each catchment area.
Identify priority open spaces to be supported in severe drought situations together with our partners	→ Engaged with public open space managers across our service region to prepare a consolidated report that documents high-priority public open spaces that require additional support to secure their long-term use when water storages are low.
Implement climate change mitigation activities to support our net-zero emissions pledge	→ Launched our Emissions Reduction Pledge to our employees, inviting them to commit to our journey. → Developed tools to help our employees evaluate the impact of new projects on our Emissions Reduction Pledge. → Commissioned construction of two solar generation plants at our Pakenham and Somers Water Treatment Plants for August 2018 (projects were delayed).
Encourage our customers to manage their septic tanks using best practice or connect to the sewer network	→ Worked with Mornington Peninsula Shire Council on the 2018–23 Wastewater Management Plan, which will have an ongoing focus on effective septic tank management to protect public health and environmental outcomes.
Contribute to and provide leadership in the development of a state-wide water efficiency strategy	→ Partnered with DELWP and Victorian water corporations to develop a consolidated state-wide water efficiency strategy. → Initiated development of water efficiency content and resource set, developed by Smart Approved WaterMark, aimed at promoting consistent messaging across the industry.

Efficient and affordable services

Committed to delivering efficient and affordable services, while maintaining safety and service and supporting customers in need.



We have the lowest cost-to-serve of any Victorian water corporation, charging our customers less than the cost of a bottle of water a day to maintain services and build a water and sewerage network that will keep providing healthy water now and into the future.

Over the past 12 months we've:

- Set up our organisation to most effectively support our customers and employees impacted by family violence.
- Adopted a more holistic approach to operating and capital expenditure and making it easier to plan and make decisions.
- Focused on driving efficiencies and reducing our cost-to-serve – so we can support our customers with stable pricing and services into the future.
- Continued to focus on opportunities associated with the digital transformation of our organisation so we can deliver innovative solutions that our customers value most.

Responding to family violence

Impacts of family violence resonate across our entire community and it's an issue we know a number of our customers and employees have sadly experienced first-hand. An insightful and moving panel session at WatersEdge in May, with a family violence survivor and guests from the ESC, started important conversations about how we can detect family violence and support both our customers and team members who may be impacted. We've now expanded our Family Violence Policy to support our customers as well as our people, provided our employees with training in how to help detect and support those affected, and we're enhancing our processes to better protect customer data in cases of family violence.

Key initiatives	Our progress in 2017–18
Streamline processes and develop more innovative approaches for supporting vulnerable customers	→ Completed work to define and identify vulnerable customers, as well as benchmark ourselves, so we can identify areas for further improvement. → Engaged a new mediation and counselling community partner to support our customers and employees in need. → Introduced a combined and revised Family Violence Employee and Customer Support Policy. → Started a review of our existing Vulnerable Customer and Hardship Policy.
Undertake a digital water metering trial as part of collaborative program with metropolitan Melbourne water corporations	→ Collaborated with others in the Melbourne water sector to share our experiences and to explore together how digital technologies can help our customers, and us as water providers, to manage our water even more sustainably.
Reduce our cost-to-serve by encouraging customers to take up digital services	→ Exceeded conversion target for the 12-month period with 35 per cent of our customers choosing to receive their bills electronically → Achieved strong results from a targeted campaign to encourage customers to sign up to our Digital Notification Program, so we can message them when we're working on their water supply (74% mobile and 60% email sign up rates achieved).
Complete rollout of a new capital delivery management system	→ Delivered our new forecast and project register system, Anaplan, which links planning and delivery projects to improve our capital forecasting. This will support our new delivery management system when implemented in the future.
Review business processes and make the most of emerging technologies so we can improve the efficiency of our organisation	→ Implemented a range of initiatives that make it easier for our customers to do business with us digitally: - enhanced digital channels to increase the range of ways customers have to our services. - streamlined business processes so the experience our customers have online is more targeted to who they are and what they need to do on our platform.

Business enablers

Positioning our business to deliver on our customer outcomes in the changing environment in which we operate.

Key initiatives	Our progress in 2017–18
People	
Bring to life our culture roadmap so we can drive cultural change across our organisation	→ Started our five-year cultural roadmap, which outlines key elements required to drive cultural change across our organisation: - refreshed our corporate values - launched our Living Safely Rules, the rules and behaviours for our employees, contractors and stakeholders that represent our commitment to a safe workplace, and planning undertaken on their next iteration - launched our 'liv well' program, campaigns and initiatives that promote physical, mental and healthy lifestyle choices to employees - developed safety cases for high-risk operations at our Mount Martha Water Recycling Plant and for Contact Centre staff - integrated the work previously done to enhance and embed safety (named 'hearts and minds') into our culture roadmap.
Implement different and flexible ways of working	→ Our commitment to provide flexible work options that support all our people to achieve balance in their work life, was reflected in numerous initiatives on both a formal and informal basis: - part-time hours - job sharing - purchased leave arrangements - flexible and varied work hours - working remotely - rostered days off - short and medium-term secondments and deployments. → At 30 June 2018, 10 per cent of our employees were on secondments.
Ensure workforce capabilities needed now and in the future are identified and mapped against our learning framework	→ Finalised the first stage of our technical competency framework, focussing on science, technology, engineering and mathematics (STEM) competencies. → Expanded our leadership competency framework to support our leaders to thrive.
Implement our Safety and Wellbeing Strategy	→ Reviewed chemicals management to support compliance and demonstrate best practice. → Reviewed and refined procedures for entry into confined spaces in consultation with contractors and industry. → Piloted CodeSafe technology with our field employees, designed to deliver engaging mobile safety and induction content. → Initiated an industry-wide online safety forum which gained momentum during the year.
Implement second-year actions of our Diversity and Inclusion Framework	→ Undertook work associated with the second year of our Diversity and Inclusion Framework, with the majority of actions completed. (Some will carry over to 2018–19, when the three-year framework will be completed.) → Started planning our first Reconciliation Action Plan.

Key initiatives	Our progress in 2017–18
Technology	
Review processes to improve development industry customers' ease of doing business with us	→ Improved the experience for developers, plumbers, builders and councils doing business with us, by enhancing our dedicated property and development industry hub PropertyConnect and improving its related processes. As a result we're able to offer increased self-service with the ability to lodge previously paper-based forms and applications online.
Invest and develop IT platforms to maintain and improve the services we deliver and be at the forefront of emerging technologies	→ Started implementing the core IT building blocks to support our transition to a digital utility. → Undertook extensive work to redevelop our customer account management hub mySouthEastWater so it better suits the needs of our organisation and residential customers, to launch in July 2018. → Delivered the Manage developer works system (delivered via PropertyConnect), making it easier for customers and employees to manage the quality assurance process for the construction of new water and sewerage assets.
Financial capability	
Invest in emerging opportunities to enhance the service we provide in the most efficient and affordable way	→ Kept our operating expenditure below budget with savings in labour achieved due to vacancies in the first half of the year. → Delivered savings by procuring new contracts for electricity, collection services and recruitment costs, committed to in our *2018 Price Submission*. Our business expenditure budget for 2018–19 captures these efficiency commitments.
Completion of the *2018 Price Submission* incorporating outcomes that reflect what customers value most	→ Submitted our *2018 Price Submission* to the ESC, outlining five key customer outcomes that'll be the focus of what we deliver to customers over the next five years. → Achieved a 'fast-tracked' status from the ESC for our submission (one of four Victorian water corporations to achieve this) allowing us to get a head start on delivering our five-year plan.
Governance and strategy	
Develop an integrated planning and reporting framework	→ Implemented an integrated planning and reporting system which allows streamlined reporting against our corporate plan and the Ministerial Reporting Framework.
Review our policies and business processes, and make the most of emerging technologies so we can achieve best-practice in our governance	→ Reviewed relevant policies and business processes and identified a number of areas for improvement.

Our year ahead – *Corporate Plan 2018–23*

Our corporate plan guides us every day in line with short-term (annual) and long-term (five-year) initiatives – ensuring that we all work towards achieving common outcomes. It's our blueprint for how we move forward together over the next financial year and beyond.

Our focus for the year ahead

So we can keep delivering healthy water for life and realise our vision, we distilled five customer outcomes from our engagement with customers to create our *2018 Price Submission*. These outcomes will provide strategic direction for everything that we do over the next five years. They also support the priority policy areas of *Water for Victoria* and ensure our organisation can operate in a changing environment.

These outcomes reflect what our customers told us matters most to them and we've promised to deliver on them over the next five years.

To bring these outcomes to life, we plan to harness our people, technology, financial capability, and governance.

Our *Corporate Plan 2018–23* sets out how we'll deliver on our customer commitments over the next financial year.

It puts our customers and long-term sustainability at centre of all we do and every decision we make.

- Our customers includes all relevant parties who come into contact with us, from connected customers to stakeholders.
- Long-term sustainability includes financial, regulatory and environmental health.

In person and online, our customers told us:

Get the basics right, always

They want safe and reliable services, now and always. At its essence, this means clean and high quality drinking water, and the safe disposal of wastewater.

Fair and affordable for all

They told us that because water is the most essential of services, it must be fair and affordable for everyone.

Make my experience better

They told us that they want a better experience with us, every time they talk to us, see us out and about or visit us online.

Support my community, protect our environment

They want us to support their community and protect our environment – delivering long-term water security in a way that honours the environment and ongoing liveability.

Warn me, inform me

They want to be warned, and kept updated, about disruptions – both planned and emergency.

Our people

About our people

Working behind the scenes we have a full-time equivalent workforce of 571 engineers, scientists, analysts, emergency technicians, information technology and customer support people.

Most of us work in WatersEdge, Frankston, in the heart of our service area.

Our workforce is supported by a range of highly-skilled contractual partners. They're contractors, consultants, property developers, plumbers, builders, real estate agents, council workers as well as counsellors and mediation specialists. While they may not all wear the South East Water 'badge', we consider them to be our own people and they're very much part of how we meet the needs of our customers.

We've maintained a strong focus on creating a positive safety culture. We believe that this underpins absolutely every element of our organisation and supports each and every employee (including our contractual partners) in having a safer workplace – from how we design and plan, issue and monitor work, to looking out for one another each day.

We're proud that our contractual partners align to this commitment, as they're a crucial part of our team. This was highlighted in December, when 50 representatives from our major contractual partners joined us for a day at WatersEdge to openly share safety experiences, identify collaborative opportunities to further enhance safety outcomes, and share our passion and focus on best-practice safety.

In 2017–18 we rolled out the second year of our Diversity and Inclusion Framework, with training for all employees and a series of 'Lived Experience' sessions aimed at broadening employees' understanding of family violence; challenges faced by lesbian, gay, bisexual, transgender and intersex (LGBTI) people; and Traditional Owner engagement.

Diversity profile*

27%

born overseas

21%

speak a non-English language at home

1 employee

Identified as Aboriginal or Torres Strait Islander

5%

identified as having a disability

*Based on our People Matters Survey 2018 which had a 52% response rate.

Total Recordable Injury Frequency Rate (TRIFR)

24%

fewer injuries recorded compared to 2016-17

Workforce catchment (top five)

- Frankston
- Frankston South
- Berwick
- Langwarrin
- Pakenham

Coming together to reshape our values

Our values are designed to authentically reflect who we are and guide how we interact with our customers, community and each other. This year our employees reshaped our values to align with the current spirit of our organisation and our new vision to *'help create a better world for our customers through forward-thinking water solutions, now and always, that won't cost the earth'*. The process involved a series of 'values cafe' workshops, providing employees across the organisation with the opportunity to reshape and recommit to our values. The result is six new values our employees feel passionate about and that authentically reflect who we are.

Our new values

Safety and wellbeing

Occupational Health and Safety (OHS)

We continued our commitment to a safe and healthy workplace with a clear aspiration to achieve a workplace that is free from harm to people. Our Safety and Wellbeing Strategy focuses on operational risk, industry collaboration and growth of a resilient safety culture. Here we've increasingly put the spotlight on the importance of mental, as well as physical, wellbeing and this is reflected in our achievements for the year.

Our Living Safely Rules are a key element of our Safety and Wellbeing Strategy, highlighting the 10 highest risk work activities conducted by our employees and contractors. They describe the behavioural standards expected of all who work for us.

We successfully delivered a number of key initiatives in 2017-18, contributing to the continual improvement of safety and wellbeing and achievement of its strategic objectives in the Safety and Wellbeing Strategy.
This includes:

- a water industry first by developing an office-based safety case focusing on the health and safety risks associated with our call centre operations. The safety case is a risk management document that is used to facilitate continuous improvement and develop annual risk management action plans for key office based risks including mental health and musculoskeletal injuries.
- completing our confined space entry improvement project to reduce our operational risk. This project reviewed and refined the end-to-end procedure of entry into confined spaces in collaboration with our contractors and the water industry. We were pleased to share the outcomes with the water industry through the Urban Water Authority (UWA). The UWA is a new collaborative forum that we initiated for the improvement of safety across the water industry. It continues to gain momentum by collaborating on specific safety and wellbeing subject matter.
- launching of our new 'Liv well' wellbeing program to support our objectives towards enhancing the wellbeing of our employees and driving our cultural evolution. The various campaigns and programs rolled out by the program assisted in the promotion of physical, mental and healthy lifestyle choices.

Table 12. Performance against our OHS indicators (based on our employee data only)

Measure	KPI	2015–16	2016–17	2017–18
Incidents*	Number of reported incidents	15	5	4
	Rate per 100 FTE	2.51	0.81	0.75
Hazards	Number of reported hazards	497	360	178
	Rate per 100 FTE	83.32	58.57	33.49
Claims (WorkCover)	Number of standard claims	1	4	3
	Rate per 100 FTE	0.19	0.65	0.56
	Number of lost time claims	4	3	3
	Rate per 100 FTE	0.76	0.49	0.56
Fatalities	Fatality claims	nil	nil	nil
Claim costs	Average cost per standard claim	$8,071	$53,216	$29,929
Management commitment	Management participation in planned safety observations	59	199	173 a
Consultation and participation	OHS committee meetings including employee elected and management representatives	12	12	24 b
Risk management	Safety management system audit actions closed	100%	100%	100%
Training	Safety compliance training completed within 10 days of commencement	96%	100%	100%

Note: * Incidents include the sum of Lost Time Injury (LTI), Medical Treatment Injury (MTI) and Restricted Work Injury (RWI) for the year for our employee data only.

a. Decrease in management participation in planned safety observations is due to an organisation realignment where there was a shift in roles and responsibilities with some management positions.

b. Increase in OHS committee meetings is due to the addition of 'liv it' committee meetings focused on our operations.

We've achieved a remarkable result with the end of year Total Recordable Injury Frequency coming in below the 2017–18 target. Our safety performance continues to improve with 24 per cent fewer injuries recorded compared to 2016–17.

A focus on reporting of hazards and close calls continued throughout the year. While there was 27 per cent less hazard and close calls reported in 2017–18 compared to the previous year, this demonstrates an increased employee focus on reporting quality and the movement towards the aspiration of creating a workplace that is free from harm.

Four lost time injuries (LTIs) were recorded for the year (a combination of South East Water and our contractors) compared to five in the previous year. The lost time injury frequency was 2.02 injuries per million work hours. We set a target of zero lost time injuries for the year.

There were three accepted WorkCover claims in the year with average costs of $29,929 compared with four claims last year with average costs of $53,216.

Diversity and inclusion in our workplace

The second year implementation of our Diversity and Inclusion Framework has supported moves towards gender parity, raising awareness of Aboriginal culture, enhancing employee awareness of positive workplace behaviours and a focus on understanding and managing psychological wellbeing.

A comprehensive training program was implemented to increase employee awareness and understanding in these key areas, along with interactive 'lived experience' information sessions, including presentations on family violence, LGBTI awareness and Aboriginal Traditional Owner engagement.

A key highlight was receiving an Australian LGBTI Inclusion Award from Pride in Diversity in acknowledgement of our commitment and support of the LGBTI community.

We continue to be committed to providing flexible work options that support all of our employees in achieving work life balance including part-time hours (19%), job sharing, purchased leave arrangements (1.4%), flexible and varied work hours, working remotely, rostered days off (24%) and short- and medium-term secondments and deployments.

Right now we don't have any employees identifying as Aboriginal in relevant study and training courses, however we're focused on developing long-term relationships with Aboriginal communities based on mutual respect and trust. We have offered in-kind support to Bunurong Land Council, including:

- website development advice
- assessment of an IT equipment quote advice
- advice on training content
- how to build the education arm of its business.

We've undertaken a number of steps internally to raise awareness of Aboriginal communities and culture, including an internal workshop with members of the Aboriginal community and a smoking ceremony, which more than 90 employees attended.

Other activities have included a cultural heritage site tour across our service area with Bunurong Land Council for 17 Board and Executive Team members.

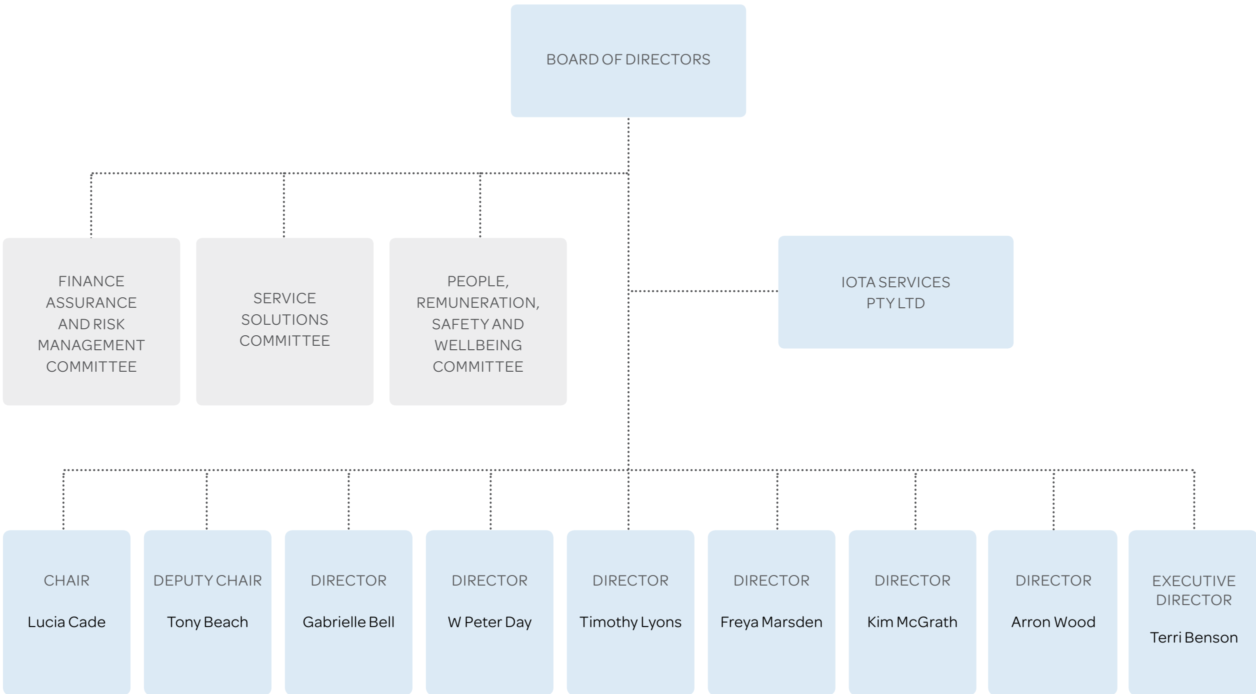
We've recently (as of June 2018) entered into a commercial arrangement with Bunurong Land Council Aboriginal Corporation, where we can engage their Water Strategy and Water Projects Facilitator on an as-needs based to develop shared benefit projects/initiatives.

In 2018–19, we'll implement third year actions from our Diversity and Inclusion Framework and develop our first Reconciliation Action Plan. We'll also adopt a one per cent target for Aboriginal people in our organisation.

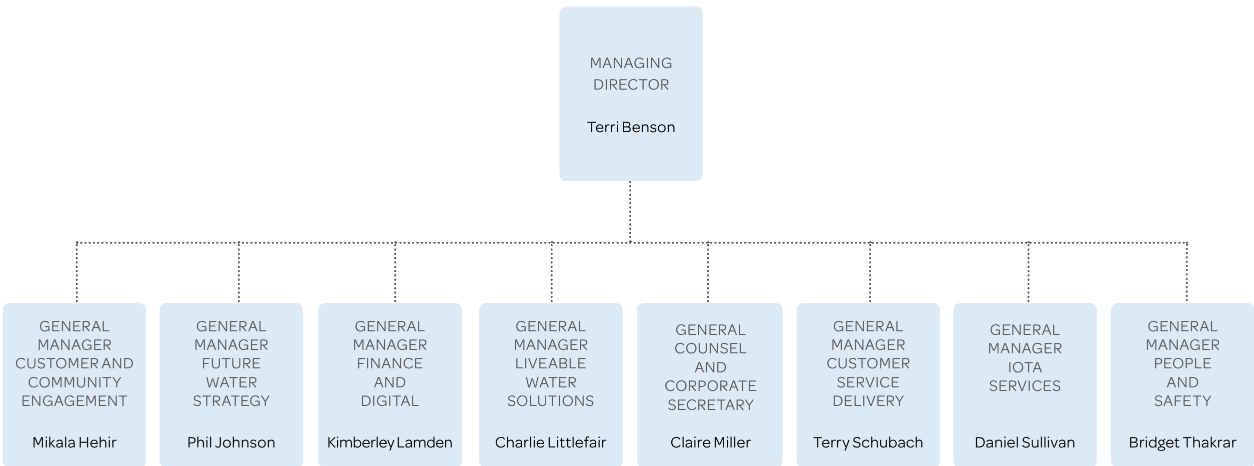
We're increasingly publishing information and documents on these topics at **southeastwater.com.au**.

Organisation chart

Governance structure as at 30 June 2018



Organisational structure as at 30 June 2018



Our Board of Directors

At June 2018, our board comprised of eight non-executive directors (including the chair), and a managing director. They represent a diverse mix of skills, experience and backgrounds. The Board of Directors is appointed by the Minister for Water, in consultation with the Treasurer.

The main role of our board is to preside over all significant strategic, commercial, regulatory, financial and risk-focused business decisions as well as safety, people and customer matters.

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

The board annually reviews its performance and effectiveness 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 is 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 certain aspects of the board's activities and assist in the continuous improvement process and the results are compiled and a written report provided to the chair.

Lucia Cade – Chair

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

Ms Cade was appointed Chair of South East Water in October 2015 and is a director of iota Services Pty Ltd, a wholly owned-subsidiary of South East Water. 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 an independent director of the Energy Pipelines Co-operative Research Centre, a director of Engineers Australia, where she also chairs the Audit and Risk Committee and director of Regional Investment Corporation. 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.

Committees

→ Finance Assurance and Risk Management Committee

→ Service Solutions Committee

→ People Remuneration Safety and Wellbeing Committee

Tony Beach – Deputy Chair

MAICD, MIE Aust, BEng (Civil)

Mr Beach was appointed as a Director of South East Water in October 2013 and is a Director of iota Services Pty Ltd, a wholly owned-subsidiary of South East Water. His executive career includes 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.

Committees

→ Service Solutions Committee (Chair until December 2017)

→ People Remuneration Safety and Wellbeing Committee

Gabrielle Bell – Director

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

Ms Bell was appointed as a Director of South East Water in October 2015 and is Chair of iota Services Pty Ltd, a wholly-owned subsidiary of South East Water from December 2017. Ms Bell is a corporate lawyer with broad experience working in Australia and South East Asia. She specialises in corporate advisory (including corporate governance), mergers and acquisitions and capital markets. She is also a Director of V/Line Corporation, InLife Independent Living Ltd and Vic Super Pty Ltd. Ms Bell has been newly appointed as a board member of Vic Water Industry Association Inc in June 2018. Ms Bell was a Director of Southern Rural Water from October 2012 to September 2015.

Committees

- Finance Assurance and Risk Management Committee (from December 2017)
- People Remuneration Safety and Wellbeing Committee (Chair until December 2017)

W Peter Day – Director

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

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, and Australian Unity Office Fund. Mr Day is also a Director with Multiple Sclerosis, Australian Home Care Services and Authorities Online. He is also a member of the Takeovers Panel and Accounting Financial Advisory Committee. Mr Day is Honorary Fellow of Faculty of Business and Economics at Monash University. 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.

Committees

- Finance Assurance and Risk Management Committee
- Service Solutions Committee (from December 2017)
- People Remuneration Safety and Wellbeing Committee

Timothy Lyons – Director

BA, DipFinSvcs, GAICD

Mr Lyons was appointed as a Director of South East Water in October 2015 and is Chair of South East Water's People, Remuneration, Safety and Wellbeing Committee. 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 Director at Host Plus and member of Victoria Government Purchasing Board and Shareholder Advisory Board, ME Bank. 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.

Committees

- Service Solutions Committee
- People Remuneration Safety and Wellbeing Committee (Chair from December 2017)

Freya Marsden – Director

MComm, BAgResEc, GAICD

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 and Brotherhood of St Laurence.

Committees

- Finance Assurance and Risk Management Committee (Chair)
- People Remuneration Safety and Wellbeing Committee

Kim McGrath – Director

BLaws, BA, GAICD

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. Ms McGrath is a director of FilmFest and also newly appointed to the VicForests Board in June 2018. She is currently a doctoral candidate at Monash University. Ms McGrath has previously served on the board of South Gippsland Water.

Committees

- Finance Assurance and Risk Management Committee
- Service Solutions Committee

Arron Wood – Director

BForSc, GAICD

Mr Wood was appointed as Director of South East Water in October 2017 and a director of iota Services Pty Ltd, a wholly-owned subsidiary of South East Water. He is also Chair of South East Water's Service Solutions Committee. He is Deputy Lord Mayor of the City of Melbourne and is a member of the council's Audit and Risk Committee, Chair of the Melbourne Sustainability Society Institute, panel member of Birrarung Council and Director of Firestarter Pty Ltd, an environmental communication and education consultancy business he founded in 2001. He is a former board member of the Port Phillip and Westernport Catchment Management Authority and Sustainability Victoria and has previously held water and environment management roles in state and local government entities. Mr Wood holds a Bachelor of Forest Science and is a graduate of the Australian Institute of Company Directors.

Committees

- Service Solutions Committee (Chair from December 2017)

Terri Benson – Managing Director

BBus (Act), CPA, GAICD

Ms Benson was appointed Managing Director of South East Water on 29 May, 2017 and is a director of iota Services Pty Ltd, a wholly-owned subsidiary of South East Water. Ms Benson is a Director of the Cooperative Research Centre for Water Sensitive Cities. 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 a former CEO of Seqwater, a wholesale water utility in south-east Queensland, a former Managing Director of Essential Energy and a former Chair of the Energy and Water Ombudsman NSW. Ms Benson 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.

Committees

- Finance Assurance and Risk Management Committee (attendee only)
- Service Solutions Committee (attendee only)
- People Remuneration Safety and Wellbeing Committee (attendee only)

Board committees

The board has three committees to provide strategic guidance and help in the discharge of its responsibilities.

- Finance Assurance and Risk Management Committee
- Service Solutions Committee
- People Remuneration Safety and Wellbeing Committee

Membership is determined by the board and reviewed at least every two years. Each committee 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. Their performance is discussed and reviewed as part of the board's annual assessment.

iota Services Pty Ltd, a wholly-owned subsidiary of South East Water, has a board which includes non-executive director members.

Finance Assurance and Risk Management Committee

This committee assists the board discharge its duties regarding the corporation's financial management, risk and control framework.

Four meetings were held during the financial year and were regularly attended by the Victorian Auditor-General's Office and the internal auditor.

Service Solutions Committee

This committee develops, reviews and monitors our strategies, frameworks, plans and processes for the delivery of services to our customers, community and stakeholders. It provides direction and oversight of strategic planning and sustainable delivery of services, to make sure that performance is delivered in an effective, efficient, affordable and environmentally sustainable manner.

The Service Delivery Committee changed its name to the Service Solutions Committee in March 2018.

People Remuneration Safety and Wellbeing Committee

This committee helps the board to drive sustainable business performance by ensuring we provide a safe, constructive and rewarding employment environment.

It reviews, monitors and recommends to the board for approval relevant policies and strategies particularly in relation to our executive remuneration, employer brand and reputation, strategic workforce planning, wellbeing and safety and delivery of our organisational cultural objectives.

The People Remuneration and Safety Committee changed its name to the People Remuneration Safety and Wellbeing Committee in December 2017.

iota Services Pty Ltd.

iota Services plays an integral role in achieving our vision by taking new innovations developed at South East Water and commercialising them for use beyond our borders.

This not only helps to share what we know works with others in the region, and across the world, but delivers economic and social benefit for South East Water, our customers and for Victoria.

The iota Services board is responsible for steering iota Services in a way that ensures it fulfils its functions effectively and complies with its governance framework. This board is accountable to South East Water and presides over all significant strategic, commercial, regulatory, financial and risk focused elements of iota Services. Its board comprises a majority of independent directors: four non-executive directors from South East Water's board, the managing director and an executive director from South East Water.

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

iota Services board members

Lucia Cade (Chair until December 2017) *Independent*

Gabrielle Bell *Independent* (Chair from December 2017)

Tony Beach *Independent*

Timothy Lyons *Independent* (until December 2017)

Arron Wood *Independent* (December 2017)

Terri Benson

Phil Johnson

Table 13. Attendance at Board and committee meetings 2017–18

	Board of Directors meetings		iota Services Pty Ltd board meetings		Finance Assurance and Risk Management Committee		Service Solutions Committee		People Remuneration Safety and Wellbeing Committee	
	Eligible attendance	Attended	Eligible attendance	Attended	Eligible attendance	Attended	Eligible attendance	Attended	Eligible attendance	Attended
Lucia Cade	12	11	6	6	4	3	4	2	4	3
Tony Beach	12	11	6	5	–	–	4	4	4	4
Gabrielle Bell	12	12	6	6	2	2	–	–	4	4
W Peter Day	12	11	–	-	4	4	2	2	4	4
Timothy Lyons	12	10	3	3	-	-	4	4	2	2
Freya Marsden	12	9	–	–	4	4	–	–	4	4
Kim McGrath	12	11	–	–	4	4	4	4	–	–
Arron Wood	8	8	4	4	–	-	2	1	–	–
Terri Benson*	12	12	6	6	4	4	4	4	4	4
Phil Johnson	–	–	6	6	–	–	–	–	–	–

Note: *Terri Benson was an 'attendee only' at the Finance Assurance and Risk Management Committee, Service Solutions Committee, and People Remuneration Safety and Wellbeing Committee meetings.

Our executive team

Terri Benson – Managing Director

BBus (Act), CPA, GAICD

Please refer to Terri's biography on page 51.

Mikala Hehir – General Manager Customer and Community Engagement

Mikala was appointed General Manager, Customer and Community Engagement in January 2018. She leads the group responsible for customer, community and stakeholder engagement and strategy, customer complaints, media, communications, design, campaigns, and reporting and insights. Mikala brings a wealth of experience to this position from roles at Australia Post, Medibank, NAB, Sensis, Ansett and Myer. Her functions have spanned external communications, public relations and promotions, strategic reputation management, media, government and stakeholder relations, internal communications and change and project management.

Phil Johnson – General Manager Future Water Strategy

BBus (Acc), CPA, GAICD

Phil leads the Future Water Strategy group, which oversees the strategy, planning, regulation, integrated water management and innovation functions. Oversight of the organisation's Digital Utility / Internet of Things (IoT) program is also within the Future Water Strategy group. Phil is also a director of iota Services Pty Ltd, a wholly-owned subsidiary of South East Water. Previous roles include Chief Financial Officer and General Manager of Corporate and Commercial, Group Manager Commercial and Technical Services for Utility Services (an alliance formed between South East Water, Thiess and Siemens) and other senior commercial positions within the utilities industry. Phil joined South East Water in 1995.

Kimberley Lamden – General Manager Finance and Digital, Chief Financial Officer

BBus (Acc), CPA, MBA

Kimberley leads the Finance and Digital group which oversees the finance, business improvement and business technology services functions of our corporation. Kimberley has extensive experience in finance and has worked across a number of industries. She has previously held senior financial management roles in the energy sector at Jemena, Zinfra and United Energy and Multinet Gas as well as financial management roles for organisations such as Johnson & Johnson and RACV. Kimberley joined South East Water in 2016.

Charlie Littlefair – General Manager Liveable Water Solutions

BEng (Civil), FIEAust, CPEng, EngExec, NER, APEC Engineer, IntPE(NZ), CMEngNZ, GAICD

Charlie leads the Liveable Water Solutions group, which manages the land development, resource recovery, liveability, connections, reliability, growth and strategic asset management functions of our corporation. He was previously General Manager Asset Investment and prior to that General Manager Operations for Metrowater in Auckland. Charlie has more than 30 years of international experience in the water and sewerage industry, having worked for both private and public water utility organisations including Opus International Consultants, Acer Engineering (a subsidiary of Severn Trent Water) and NZ Forest Products across New Zealand, Australia and the United Kingdom. Charlie joined South East Water in 2008.

Claire Miller – General Counsel and Corporate Secretary

BA, LLB, MAICD, AGIA, ACIS

Claire was appointed General Counsel and Corporate Secretary at South East Water in 2017. She leads the Governance and Legal group which is responsible for our corporation's legal, compliance risk, audit and corporate secretarial functions. Claire has extensive executive experience and has held the roles 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.

Terry Schubach – General Manager Customer Service Delivery

Terry was appointed General Manager, Customer Service Delivery in January 2018. Terry leads the Customer Service Delivery group which oversees our customer service contact centres, water and sewerage network and water recycling plants. This group incorporates network delivery, product quality, operational technology, accounts, metering, faults and connections, and business support functional areas. Terry is a senior executive manager having held various senior roles in major corporations and government departments. He has more than 27 years' experience in the planning and development, construction, operation and maintenance of infrastructure assets, projects and programs throughout Australia and internationally. Over the course of his career, Terry has worked in the water, energy, rail and gas sectors and is experienced in corporate business leadership and governance. He has a passion for leading people, safety and developing teams.

Daniel Sullivan – General Manager iota Services Pty Ltd.

BBus, MBA, MAICD

Daniel was appointed General Manager iota Services, South East Water's commercial arm, in August 2017. He has 20 years' experience in senior management across a variety of sectors, holding senior roles in technology and consulting organisations. Daniel also has 12 years of international experience working with Austrade as a diplomatically-posted senior trade official. He has worked out of Australian embassies in Washington, DC and Latin America where he developed a sectoral focus on water resource management.

Bridget Thakrar – General Manager People and Safety

BCom, GAICD

Bridget leads our People and Safety group, which is responsible for overseeing our corporation's key people functions of human resources, payroll, employee engagement, and safety and wellbeing. She brings a wealth of experience in the people field, gained across various industries including construction and manufacturing at Grocon and Fonterra respectively. She currently sits on the board of Dress for Success Mornington Peninsula and is an active committee member of Communities for Children. Bridget joined South East Water in 2012.

Workforce data

Application of employment conduct principles

We have a comprehensive employment and conduct policy framework, established to provide clarity of expectations to employees and which operates in alignment with public sector values. Our obligation is 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 refresher sessions as required.

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.

Table 14. Full time equivalents (FTE) staffing trends at 2016, 2017 and 2018

2018	2017	2016
571.4	567.0	560.8

Table 15. Employment levels at June 2017 and June 2018

	Ongoing employees				Fixed-term and casual
	Total	Full-time	Part-time	FTE	FTE
June 2018	585	474	111	550.4	21
June 2017	569	469	100	536.9	30.1
June 2016	569	483	86	538.4	22.4

Across our organisation our employees are dedicated to putting safety first to protect each other, our communities and our contractual partners - whether they're in the community, at one of our plants or in our Frankston headquarters.

Aims for gender parity

Our Diversity and Inclusion Framework supports moves towards gender parity.

We have a shortlisting process that sets the expectation that all positions have a balanced shortlist consisting of 50 per cent female and 50 per cent male applicants. Diverse interview panels consisting of both female and male representatives is now an expected practice.

We also have an aspirational measure of 50 per cent representation of women in leadership positions by 2021.

Table 16. Details of gender distribution in management positions in June 2017 and 2018

June 2018						
Classification	Total	Female	Male	Self-described	Female %	Male %
Executive	9	5	4	0	55.6	44.4
Group managers	18	3	15	0	16.7	83.3
Senior officers	129	33	96	0	25.6	74.4
June 2017						
Classification	Total	Female	Male	Self-described	Female %	Male %
Executive	7	3	4	–	43	57
Group managers	16	2	14	–	12	88
Senior officers	123	30	93	–	24	76

Table 17. Details of employment levels at June 2018

	All employees		Ongoing			Fixed term and casual	
	Number	FTE	Full-time	Part-time	FTE	Number	FTE
Gender							
Male	322	318.5	297	14	307.5	11	11
Female	284	252.9	177	97	242.9	10	10
Self-described	0	0.0	0	0	0.0	0	0
Age							
15-24	13	12.8	10	1	10.8	2	2
25 – 34	134	124.1	94	30	114.1	10	10
35 – 44	167	156.1	128	32	149.1	7	7
45 – 54	180	171.8	149	29	169.8	2	2
55 – 64	103	97.6	84	19	97.6	0	0
65+	9	9.0	9	0	9.0	0	0
Classification							
Executive	9	8.9	8	1	8.9	0	0
Group managers	18	17.6	16	2	17.6	0	0
Senior officers	129	126.1	115	14	126.1	0	0
Officers	450	418.8	335	94	397.8	21	21
Total	**606**	**571.4**	**474**	**111**	**550.4**	**21**	**21**

Table 18. Details of employment levels at June 2017

	All employees		Ongoing			Fixed term and casual	
	Number	FTE	Full-time	Part-time	FTE	Number	FTE
Gender							
Male	325	321.6	294	13	303.6	18	18.0
Female	275	245.5	175	87	233.4	13	12.1
Self-described							
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
Total	**600**	**567.1**	**468**	**101**	**536.8**	**31**	**30.1**

Executive officer disclosure

Annualised total salary, by $20,000 bands, for executives and other senior non-executive staff who have a total salary of $159,501 or more.

Table 19. Annualised total salary for senior employees

Income band (salary)	Executives	Senior non-executive staff
<$160,000	-	1
$160,000 – 179,999	-	19
180,000 – 199,999	-	9
200,000 – 219,999	1	-
220,000 – 239,999	1	-
240,000 – 259,999	2	-
260,000 – 279,999	1	-
280,000 – 299,999	3	1
300,000 – 319,999	-	-
320,000 – 339,999	-	-
340,000 – 359,999	-	-
360,000 – 379,999	1	-
Total	9	30

Notes: the numbers reported above are as at 30 June 2018 and based on headcount, not FTE, and the salaries are based on actual $, not FTE $.

Total remuneration package reported, inclusive of superannuation

^ Three individuals were employed on a part-time basis; one executive at 0.9 FTE; two group managers at 0.8 FTE; and one senior officer at 0.84 FTE.

Governance practices and risks

We maintain a comprehensive framework of governance practices designed to provide appropriate levels of review and oversight. These mainly come from statutory requirements and good governance guidelines and are embedded throughout our corporation.

Our management systems underpin our performance. These 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.

We also apply ISO 31000 (Risk Management), ISO 19600 (Compliance Management System) and have committed to close alignment to ISO 55001 (Asset Management) and ISO 27001 (Information Security Management)/(Victorian Protective Data).

Our systems are important in 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.

Material risks

Managing risk is central to our ability to remain a reliable and successful essential services provider for our customers, today and tomorrow.

It's for this reason that risk management is embedded across all of our management systems and processes and that we have taken steps to clearly articulate our risk appetite.

We maintain an enterprise risk management framework consistent with the requirements of the Victorian Government Risk Management Framework 2015.

Our risk framework is built on implementing a consistent, forward-looking approach to identifying and assessing uncertainty that may positively or negatively impact our ability to achieve our corporation's purpose and ambition.

We reflect this mindset in the following key elements of our framework:

- a board approved risk management policy and framework
- active management and review of the key strategic risks that may impact the achievement of our objectives through our board and board committees (including the Finance Assurance and Risk Management Committee)
- an internal attestation over the management of our material risks at both board and executive level to ensure an appropriate level of risk governance
- continuity and emergency management plans to guide our business in case of disruption or to manage incidents and emergencies when they occur
- assurance over key controls through a risk-based audit plan
- a comprehensive insurance program.

The following table describes, at a whole of entity level, our material risk areas (in no particular order) and how we seek to manage them.

Risk area	Description	Plans to manage
Safety and wellbeing	To reduce serious workplace injury which may be physical, mental, health or wellbeing related	We believe safety and wellbeing are not just important, they are absolutely essential. We're always improving our certified safety management system and have 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	Our purpose is to provide healthy water for life. This underpins everything we do so our 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.
Customers and our communities	To better understand our customers and the communities we serve (and for them to better understand our services) and to provide them with a positive experience that meets their expectations	Our customer engagement and research program focuses on how to improve the services that matter most to our customers. It has in place a number of key programs that strive to constantly deliver value for money and enhanced outcomes for our entire customer base.
People	To attract, recruit and retain the right people for the right role to take us forward and help achieve our strategic goals	As the needs of our organisation evolve, we've committed to initiatives that continually improve culture, capability and diversity and inclusion practices so that we develop our people and attract high calibre talent.
IT/OT and data security	To effectively manage our information technology and operational technology (IT/OT) assets that underpin 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. We align our data security to the Victorian Protective Data Security Standards and already have in place mandatory data security awareness training and network controls to protect the data we store.
Asset management	To plan, build, operate and maintain assets reliably and efficiently to meet the service expectations of customers	We have comprehensive asset management plans and constantly monitor asset condition. We're driving further improvement in this area by aligning our 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	We've fostered and continue to develop strong relationships with key stakeholders, built on a platform of transparency and trust. Our underlying approach is to engage in a constructive and collaborative manner to achieve positive solutions for our 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 already having tangible impacts on our world and we've developed adaptation and mitigation plans for its assets and business operations. We're committed to carbon reduction and in 2018 formalised our pledge on reducing carbon emissions.
Disruption and non-traditional markets	To be able to adapt our organisation and positively respond to major changes in industry composition, technology or consumer behaviours	We have a long and proud history of innovation and continue to monitor shifts inside (and outside of) our industry and trial emerging technologies. Our Aquarevo development and establishing iota Services are just two examples of how we challenge 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	We have a comprehensive continuity framework in place that comprises 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 occur.

Financials

Contents

Directors’ and Chief Financial Officer’s declaration

We certify that, in our opinion, the attached Consolidated 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 2018 and the financial position of the Group as at 30 June 2018.

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 20th day of August 2018.

Lucia Cade
Chair

Terri Benson
Managing Director

Kimberley Lamden
Chief Financial Officer

Independent Auditor's report

VAGO
Victorian Auditor-General's Office

Independent Auditor's Report

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 consolidated entity), which comprises the:

- consolidated balance sheet as at 30 June 2018
- 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, including significant accounting policies
- 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 consolidated entity as at 30 June 2018 and its 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. I further describe my responsibilities under that Act and those standards 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 corporation and the consolidated entity 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 financial report in Victoria. My staff and I have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Board's responsibilities for the financial report

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

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

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T 03 8601 7000 enquiries@audit.vic.gov.au www.audit.vic.gov.au

Independent Auditor's report

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

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

- identify and assess the risks of material misstatement of the 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 my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the consolidated entity'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 consolidated entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the consolidated entity 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 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 corporation and consolidated entity to express an opinion on the financial report. I remain responsible for the direction, supervision and performance of the audit of the corporation and the consolidated entity. 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
23 August 2018

Paul Martin
as delegate for the Auditor-General of Victoria

Consolidated statement of comprehensive income for the year ended 30 June 2018

Consolidated entity	Note	2018 $'000	2017 $'000
Revenue from usage and service charges	2.1	900,684	852,874
Revenue from developer contributions	2.2	135,526	125,169
Other income	2.3	54,706	51,364
Total revenue		**1,090,916**	**1,029,407**
Operating expenses	3.1	(598,915)	(586,921)
Employee benefits	3.2.1	(56,371)	(51,819)
Depreciation and amortisation	4.2, 4.3	(91,810)	(89,797)
Finance costs	6.2	(82,773)	(81,045)
Environmental contribution	7.3	(27,860)	(27,860)
Total expenses		**(857,729)**	**(837,442)**
Net result before income tax		**233,187**	**191,965**
Income tax expense	7.1	(70,109)	(57,706)
Net result after income tax		**163,078**	**134,259**
Other economic flows included in net result			
Net gain on revaluation of non-financial assets		2,019	-
Deferred income tax relating to other economic flows	7.1	(85)	-
Total other economic flows included in net result		**1,934**	**-**
Net result after income tax		**165,012**	**134,259**
Other comprehensive income			
Items that will not be reclassified to net result			
Change in asset revaluation surplus - infrastructure assets	4.2	21,572	(58,148)
Change in asset revaluation surplus - land assets	4.2	37,908	9,200
Actuarial gains/(losses) on defined benefit fund		4,775	8,048
Deferred income tax relating to other comprehensive income	7.1	(9,830)	15,030
Other comprehensive income		**54,425**	**(25,870)**
Total comprehensive income		**219,437**	**108,389**

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated balance sheet as at 30 June 2018

Consolidated entity	Note	2018	2017
		$'000	$'000
Current assets			
Cash assets		2,209	1,835
Receivables	5.1	170,618	150,662
Inventories		5,884	4,907
Prepayments		7,869	6,907
Assets classified as held for sale	4.4	15,580	11,920
Total current assets		**202,160**	**176,231**
Non-current assets			
Infrastructure, property, plant and equipment	4.1	3,884,379	3,688,520
Intangible assets	4.3	128,393	122,872
Defined benefit superannuation asset	9.3	9,507	6,007
Total non-current assets		**4,022,279**	**3,817,399**
Total assets		**4,224,439**	**3,993,630**
Current liabilities			
Payables	5.2	91,807	86,044
Borrowings	6.1	46,300	45,200
Employee benefits provision	3.2.2	16,515	16,259
Income tax payable	7.1	17,744	21,814
Deposits and advances	5.3	9,887	9,795
Other provisions		633	490
Total current liabilities		**182,886**	**179,602**
Non-current liabilities			
Borrowings	6.1	1,540,000	1,415,000
Deferred tax liabilities	7.1	517,042	504,873
Employee benefits provision	3.2.2	2,038	1,839
Total non-current liabilities		**2,059,080**	**1,921,712**
Total liabilities		**2,241,966**	**2,101,314**
Net assets		**1,982,473**	**1,892,316**
Equity			
Contributed equity		408,328	430,508
Reserves		850,872	799,875
Retained profits		723,273	661,933
Total equity		**1,982,473**	**1,892,316**

Contingent assets and contingent liabilities – Note 8.3
Commitments – Notes 2.4, 3.3, 4.5, 7.3

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 2018

Consolidated entity		Contributed equity	Asset revaluation surplus: land and buildings	Asset revaluation surplus: infrastructure assets	Retained profits	Total equity
		$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2016		430,508	164,704	666,675	569,040	1,830,927
Total comprehensive income for the year						
Net result after income tax		-	-	-	134,259	134,259
Other comprehensive income		-	9,200	(40,704)	5,634	(25,870)
Total comprehensive income		-	9,200	(40,704)	139,893	108,389
Transactions with owners in their capacity as equity holders						
Dividends paid	7.2	-	-	-	(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	173,904	625,971	661,933	1,892,316
Total comprehensive income for the year						
Net result after income tax		-	-	-	165,012	165,012
Other comprehensive income		-	35,897	15,100	3,428	54,425
Total comprehensive income		-	35,897	15,100	168,440	219,437
Transactions with owners in their capacity as equity holders						
Dividends paid	7.2	-	-	-	(107,100)	(107,100)
Return of capital to owners		(22,180)	-	-	-	(22,180)
Total transactions with owners in their capacity as equity holders		(22,180)	-	-	(107,100)	(129,280)
Balance at 30 June 2018		408,328	209,801	641,071	723,273	1,982,473

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 2018

Consolidated entity	Note	2018 $'000	2017 $'000
Cash flows from operating activities			
Receipts from customers		982,010	942,225
Interest received		334	362
GST refunded from the ATO [a]		18,364	20,669
Payments to suppliers and employees		(697,989)	(693,037)
Interest and other costs of finance paid		(81,927)	(80,859)
Income tax paid		(69,914)	(53,011)
Net cash inflow from operating activities	6.3.1	**150,878**	**136,349**
Cash flows from investing activities			
Proceeds from sale of infrastructure, property, plant and equipment		2,092	1,833
Payments for infrastructure, property, plant and equipment, and intangibles		(149,416)	(165,568)
Proceeds for water entitlements		-	1,069
Net cash (outflow) from investing activities		**(147,324)**	**(162,666)**
Cash flows from financing activities			
Proceeds from borrowings [b]		266,100	205,275
Repayment of borrowings [c]		(140,000)	(131,575)
Capital repatriation		(22,180)	-
Dividends paid		(107,100)	(47,000)
Net cash inflow/(outflow) from financing activities		**(3,180)**	**26,700**
Net increase/(decrease) in cash held		**374**	**383**
Cash at the beginning of the financial year		1,835	1,452
Cash at the end of the financial year		**2,209**	**1,835**

(a) GST refunded from the Australian Taxation Office (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

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, directors' and CFO declaration and notes accompanying these statements for the year ending 30 June 2018. 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. South East Water Corporation is a state government owned corporation which has been classified as a for-profit entity for the purposes of reporting.

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

The Consolidated Financial Report has been prepared on an accrual and going concern basis and under the historical cost convention, 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 and all amounts have been rounded to the nearest $1,000 unless otherwise stated.

The Consolidated Financial Report of South East Water Corporation (the Corporation) for the year ended 30 June 2018 was authorised for issue in accordance with a resolution of the directors on 20 August 2018.

Principles of consolidation

The Group consists of South East Water Corporation (Parent entity) and its controlled entity, iota Services Pty Ltd. Information relating to the Parent entity is disclosed in Note 9.6. In preparing the consolidated financial statements, all intercompany balances 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 financial information presented. Estimates and associated assumptions are based on professional judgements derived from historical knowledge and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. Key areas involving a high degree of estimates and assumptions that can materially impact the financial statements include:

	Note(s)
→ employee benefits provision	3.2.2
→ fair value of infrastructure, property, plant and equipment	4.1, 8.2
→ estimated useful lives of assets	4.1
→ impairment of assets	4.1
→ accrued revenue	5.1
→ income tax and deferred tax recognition	7.1
→ contingent assets and liabilities	8.3
→ actuarial assumptions on defined benefit superannuation	9.3

Accounting policies

All accounting policies applied are consistent with those of the prior year, unless otherwise stated.

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 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) is in place which:

1. 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; and

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.

As the land associated with the arrangement is subdivided and made available for sale the value is transferred from non-current assets to current assets held for sale, refer to note 4.4.

Notes to the financial statements

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

Structure:

2.1 Revenue from service and usage charges
2.2 Revenue from developer contributions
2.3 Other revenue
2.4 Commitments for lease receivables

2.1. Revenue from service and usage charges

Consolidated entity	2018 $'000	2017 $'000
Service charges:		
Water service charges	87,866	85,870
Sewerage service charges	271,074	260,165
Trade waste service charges	5,546	5,420
Recycled water service charges	3,040	2,858
Usage charges:		
Water usage charges	405,374	375,581
Sewage disposal charges	174,073	170,364
Trade waste disposal charges	18,862	17,476
Recycled water usage charges	4,034	2,949
Government Water Rebate	(69,185)	(67,809)
Total service and usage charges	**900,684**	**852,874**

Service charges are billed quarterly in advance and recognised evenly throughout the financial year to reflect the pattern of service provided. Service charges are based on a fixed fee and represent charges for access to water and sewerage services. The payment in advance by customers of accounts which at reporting date were unbilled is classified as unearned income (refer to note 5.3).

Usage charges are brought to account as revenue in the financial year as the water is consumed and sewage or trade waste is 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. This is the final year of the rebate, since it was first issued in 2014–15. The Government Water Rebate is recognised as a rebate against revenue when the associated revenue is billed.

2.2. Revenue from developer contributions

Consolidated entity	2018 $'000	2017 $'000
New customer contributions	44,864	46,751
Developer contributed assets	90,662	78,418
Total developer contributions	**135,526**	**125,169**

New customer contributions represent charges applicable when a customer builds or develops a property and connects to the Group's water supply and sewerage infrastructure network. The contributions are recognised as income upon receipt and contributes to the cost of augmenting the Group's water supply distribution systems and sewerage disposal systems.

The rates applied to calculate the new customer contributions are regulated by the Essential Services Commission.

Developer contributed assets arises where developers pay for the cost of construction of new infrastructure assets and subsequently gift these assets to the Group, which maintains them in perpetuity. In accordance with the requirements of Interpretation 18 *Transfers of Assets from Customers*, and AASB 118 *Revenue*, recognition of income occurs when the risks and rewards of ownership have been transferred to the Group. These gifted assets are recognised at their fair value when the Group obtains control over them, irrespective of whether restriction or conditions are imposed over the use of the contributions.

2.3. Other revenue

Consolidated entity	2018 $'000	2017 $'000
Sale of goods and services - iota	10,754	8,114
Other services rendered	32,856	29,302
Rent revenue	2,664	2,111
Interest revenue	334	362
Net gain on sale of non-current physical assets	169	1,378
Miscellaneous income	7,929	10,097
Total other revenue	**54,706**	**51,364**

Sale of goods and services relate to the sale of iota's products, such as pumps, tanks, pipes and fittings and the provision of services, such as plumbing solutions and field services. Revenue from the sale of goods and services is recognised when the transfer of the significant risks and rewards of ownership have transferred to the buyer or following the completion of the services being performed.

Revenue from other services rendered are recognised following completion of services being performed and certified, relating to various plumbing services, installation and meter connection fees.

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.

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

Miscellaneous income mainly consists of charges for services to third parties such as administration fees for the collection of drainage and parks rates on behalf of Melbourne Water and the Department of Environment, Land, Water and Planning and is recognised when the service has been provided.

2.4. Commitments for lease receivables

Revenue for operating leases, where substantially all the risks and benefits remain with the lessor, are recognised as revenue in the periods in which they are incurred. These commitments recorded below are at their nominal value and inclusive of GST. These commitments primarily represent mobile telephone tower rental income on the Group's land and infrastructure, sublease of the depot office area and leases for shop space at Frankston office. The following table represent non-cancellable operating leases, contracted for at balance date but not provided in the financial statements, receivable:

Consolidated entity	2018 $'000	2017 $'000
Not later than 1 year	2,323	2,288
Later than 1 year and not later than 5 years	3,967	4,506
Later than 5 years	2,885	3,147
Total lease receivables (inclusive of GST)	**9,175**	**9,941**
Less GST payable to Australian Taxation Office	(834)	(904)
Total lease receivables (exclusive of GST)	**8,341**	**9,037**

Notes to the financial statements

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. Operating expenses

Consolidated entity	2018 $'000	2017 $'000
Bulk water and sewerage charges	497,253	487,312
Operating contracts	66,539	66,142
Taxes, fees and charges	6,961	7,355
Bad and doubtful debts	1,769	2,037
Asset write offs	3,917	2,940
Other expenses	22,476	21,135
Total operating expenses	**598,915**	**586,921**

Bulk water and sewerage charges, comprising of fixed and variable 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. Fixed charges are levied once a month, and are recognised on receipt of an invoice from Melbourne Water. 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.

Operating contracts relate mainly to costs incurred for maintenance services and are expensed in the reporting period in which they are incurred.

Taxes, fees and charges are made up of land tax, fringe benefits tax, council valuation charges and commercial expenses. They are expensed in the period in which they are incurred.

Other expenses comprise of materials, insurance, IT costs, rental and lease expenses, which are all recognised as an expense in the reporting period in which they are incurred.

3.2. Our people

3.2.1. Employee benefits cost

Consolidated entity	2018 $'000	2017 $'000
Salaries and wages, annual leave and long service leave	50,040	45,170
Superannuation expense	6,331	6,649
Total employee benefits cost	**56,371**	**51,819**

Salaries and wages, annual leave and long service leave

Employee 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. The Group's defined benefit superannuation is further disclosed in Note 9.3.

3.2.2. Employee benefits provision

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	2018 $'000	2017 $'000
Current		
Annual leave:		
Unconditional and expected to settle within 12 months	3,986	3,735
Long service leave:		
Unconditional and expected to settle within 12 months	1,205	1,057
Unconditional and expected to settle after 12 months	8,667	8,724
Provisions for on-costs:		
Unconditional and expected to settle within 12 months	976	952
Unconditional and expected to settle after 12 months	1,681	1,791
Total current employee benefits provision	**16,515**	**16,259**
Non current		
Long service leave - conditional	1,707	1,526
On-costs	331	313
Total non-current employee benefits provision	**2,038**	**1,839**
Total employee benefits provision	**18,553**	**18,098**

Salaries and wages, annual leave and sick leave

Liabilities for salaries and wages (including non-monetary benefits, annual leave and on-costs) are recognised as part of the employee benefits provision as current liabilities because the Group does not have an unconditional right to defer settlements of these liabilities. The liabilities are measured using remuneration rates which are current at the reporting date.

As the Group expects the liabilities for salaries and annual leave to be wholly settled within 12 months of reporting date, they are measured at an undiscounted amount.

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.

On-costs including payroll tax, workers' compensation premiums and superannuation are not employee benefits. They are disclosed separately as a component of provision for employee benefits when the employment to which they relate has occurred.

Long service leave (LSL)

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 should an employee take leave within 12 months.

The components of this current LSL liability are measured at:

→ undiscounted value – if the Group expects to wholly settle within 12 months, or

→ present value – if the Group does not expect to wholly settle within 12 months.

Notes to the financial statements

Conditional long service leave is disclosed as a non-current liability and measured at present value. In this case there is an unconditional right to defer the settlement of the entitlement until the employee has completed the requisite years of service.

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.

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.

3.3. Commitments for operating expenditure

Commitments for operating expenditure arise from operating leases and contracts entered into prior to balance date. Payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred. These commitments disclosed below are at their nominal value and inclusive of GST.

Refer to note 4.5 and note 7.3 for details on capital and environmental commitments, respectively.

Lease commitments

The Group leases property, motor vehicles and office equipment, which have an average lease term of 6 years. The following table represent non-cancellable operating leases, contracted for at balance date but not provided in the financial statements, payable:

Consolidated entity	2018 $'000	2017 $'000
Not later than 1 year	1,487	1,412
Later than 1 year and not later than 5 years	3,211	4,085
Later than 5 years	574	627
Total lease expenditure (inclusive of GST)	**5,272**	**6,124**
Less GST recoverable from Australian Taxation Office	(479)	(557)
Total lease expenditure (exclusive of GST)	**4,793**	**5,567**

Other expenditure commitments

Total other operating expenditure (excluding leases) contracted for at balance date but not provided in the financial statements, are payable:

Consolidated entity	2018 $'000	2017 $'000
Not later than one year	3,601	1,377
Later than 1 year and not later than 5 years	7,583	383
Total expenditure (inclusive of GST)	**11,184**	**1,760**
Less GST recoverable from Australian Taxation Office	(1,017)	(160)
Total expenditure (exclusive of GST)	**10,167**	**1,600**

4. 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:

4.1. Infrastructure, property, plant and equipment

Consolidated entity	Gross carrying amount		Accumulated depreciation		Net carrying amount	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Infrastructure assets at fair value	3,490,469	3,324,880	-	-	**3,490,469**	**3,324,880**
Land at fair value	218,382	181,402	-	-	**218,382**	**181,402**
Buildings at fair value	85,337	87,156	(6,219)	(3,864)	**79,118**	**83,292**
Plant and equipment at fair value	43,636	40,230	(26,605)	(22,881)	**17,031**	**17,349**
Leasehold improvements at fair value	2,143	2,072	(1,609)	(1,496)	**534**	**576**
Capital works in progress at cost	78,845	81,021	-	-	**78,845**	**81,021**
Total	**3,918,812**	**3,716,761**	**(34,433)**	**(28,241)**	**3,884,379**	**3,688,520**

Initial recognition

Items of infrastructure, property, plant and equipment are recognised initially at cost. Where an asset is acquired for no or nominal cost, the cost is its fair value at the date of acquisition, being the actual or estimated cost of construction.

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.

In accordance with the Group's land development policy, the Group will reimburse developers, subject to the nature of additional 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 contingent liability is recognised (Note 8.3). 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).

Revaluations

Revaluations are performed annually for infrastructure assets and for all other assets on a cyclical basis in accordance with FRD 103G *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, but may occur more frequently if fair value assessments indicate material changes in values. Independent valuers are used to conduct these scheduled revaluations.

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

If land and buildings were measured at historical cost, the carrying amount would be $103.4 million. The carrying amount for infrastructure assets would be $2,726 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.

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.

Gains or losses on the sale of infrastructure, property, plant and equipment are calculated in accordance with AASB 116. This is the gross sale proceeds less the book value of the asset less selling expenses (refer to note 2.3). This is written off as an expense in the Consolidated Statement of Comprehensive Income.

Depreciation

All infrastructure, property, plant and equipment and other non-financial physical assets that have finite useful lives are depreciated. The exceptions to this rule include 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 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
Infrastructure assets	Straight line	2 – 99 years
Plant and equipment	Reducing balance	5% – 70%
Plant and equipment (iota)	Straight line	3 - 20 years

Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be less than its recoverable amount. 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 value in use and fair value less costs to sell.

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

2018	Infrastructure assets $'000	Land $'000	Buildings $'000	Plant and equipment $'000	Leasehold improvements $'000	Capital works in progress $'000	Total $'000
Consolidated entity							
Opening balance	3,324,880	181,402	83,292	17,349	576	81,021	3,688,520
Additions	-	653	450	7,124	71	217,063	225,361
Fair value of assets received from developers	90,662	-	-	-	-	(90,662)	-
Transfers	128,577	-	-	-	-	(128,577)	-
Disposals	(1,962)	-	(2,142)	(1,678)	-	-	(5,782)
Revaluations	21,572	38,199	-	-	-	-	59,771
Depreciation expense	(73,260)	-	(2,482)	(5,764)	(113)	-	(81,619)
Transfer to disposal group held for sale	-	(1,872)	-	-	-	-	(1,872)
Closing balance	**3,490,469**	**218,382**	**79,118**	**17,031**	**534**	**78,845**	**3,884,379**

4.2. Reconciliation of movements in carrying values of infrastructure, property, plant and equipment *(cont.)*

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

4.3. Intangible assets

2018	IT software $'000	Works in progress $'000	Water entitlements $'000	Other $'000	Total $'000
Consolidated entity					
Gross carrying amount					
Opening balance as at 1 July 2017	88,420	5,781	96,916	373	191,490
Additions	280	15,431	-	-	15,711
Transfers	14,538	(14,538)	-	-	-
Disposals	-	-	-	-	-
Closing balance as at 30 June 2018	**103,238**	**6,674**	**96,916**	**373**	**207,201**
Accumulated amortisation					
Opening balance as at 1 July 2017	(68,384)	-	-	(233)	(68,617)
Amortisation	(10,144)	-	-	(47)	(10,191)
Closing balance as at 30 June 2018	**(78,528)**	**-**	**-**	**(280)**	**(78,808)**
Net book value as at 30 June 2018	**24,710**	**6,674**	**96,916**	**93**	**128,393**

4.3. Intangible assets *(cont.)*

2017	IT software $'000	Works in progress $'000	Water entitlements $'000	Other $'000	Total $'000
Consolidated entity					
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**

Intangible assets comprise 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. Subsequent to initial recognition, 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 (excluding water entitlements) 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

4.4. Assets classified as held for sale

Consolidated entity	2018 $'000	2017 $'000
Freehold land held for sale	15,580	11,920
Total assets classified as held for sale	**15,580**	**11,920**

The land held for sale balance of $15.6 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 2018 and will remain in land held for sale until settlement. The total book value of the land to be sold under the joint arrangement is currently valued at $39.6 million and the remaining $24.0 million balance is accounted for as a non-current asset at 30 June 2018 as it is not expected to be sold until the 2019–20 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; and
- 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 of disposal. Refer to Note 8.2 for the valuation technique applied to non-specialised land.

4.5. Capital commitments

Capital commitments arise from contracts for costs associated with growth and renewal works for water and sewer assets. These commitments are recorded at their nominal value and inclusive of GST.

Total capital expenditure, contracted for at balance date but not provided in the financial statements, payable:

Consolidated Entity	2018 $'000	2017 $'000
Not later than one year	29,991	12,139
Total capital expenditure (inclusive of GST)	**29,991**	**12,139**
Less GST recoverable from the Australian Taxation Office	(2,726)	(1,104)
Total capital expenditure (exclusive of GST)	**27,265**	**11,035**

5. Other assets and liabilities

Introduction:

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

Structure:

5.1. Receivables

Consolidated entity	2018 $'000	2017 $'000
Contractual		
Trade debtors	72,909	65,820
Less: Provision for doubtful debts	(2,576)	(2,870)
Accrued revenue	89,171	82,420
Other debtors	99	57
	159,603	145,427
Statutory		
GST input tax credits receivable	11,015	5,235
Total receivables	**170,618**	**150,662**

Contractual receivables, such as debtors and accrued revenue in relation to goods and services, 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. Trade debtors are required to be settled within 14 days.

Statutory receivables, such as Goods and Services Tax (GST) input tax credit recoverable are not classified as financial instruments as they do not arise from contracts. They are recognised and measured similarly to contractual receivables (except for impairment).

Accrued revenue is recognised for water and sewage usage as well as other works and services that have been rendered to balance date but not yet invoiced. Usage charges are all recognised as income when the service has been provided. An accrual is done to account for water and sewage services not billed at the end of the period. This is calculated using the volume of water purchased from Melbourne Water to the end of the period less the estimated non-revenue water. Non-revenue water relates to water that is unaccounted for, leak adjustments in the water distribution network before reaching customers or authorised unmetered consumption (such as usage for firefighting and other fire service activities).

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

5.1.1. Ageing analysis of contractual receivables

Consolidated entity	2018 $'000	2017 $'000
Receivables not past due and not impaired	133,352	119,787
Receivables past due and not impaired	26,251	25,640
Receivables past due and impaired	-	-
	159,603	**145,427**
The ageing of receivables past due and not impaired is as follows:		
Less than 30 days	11,497	12,967
30 to 90 days	6,200	4,841
Greater than 90 days	8,554	7,832
	26,251	**25,640**

5.1.2. Movement in the provision for doubtful debts

Consolidated entity	2018 $'000	2017 $'000
Balance at the beginning of the year	**(2,870)**	**(2,850)**
Amounts written off during the year	2,096	2,060
Amounts recovered during the year	(33)	(43)
(Increase)/decrease in provision	(1,769)	(2,037)
Balance at the end of the year	**(2,576)**	**(2,870)**

5.2. Payables

Consolidated entity	2018 $'000	2017 $'000
Contractual		
Trade creditors	5,601	6,749
Accruals	82,676	75,456
	88,277	**82,206**
Statutory		
Taxes payable	3,530	3,839
Total payables	**91,807**	**86,044**

Payables consists of:

- contractual payables, classified as financial instruments and measured at amortised cost. Trade creditors and accruals represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid.
- statutory payables, that are recognised and measured similarly to contractual payables, but are not classified as financial instruments, because they do not arise from a contract.

Payables for supplies and services have an average credit period of 30 days. All payables are due and payable within 12 months.

5.3. Deposits and advances

Consolidated entity	2018 $'000	2017 $'000
Unearned revenue	1,085	2,063
Advances	8,802	7,732
Total deposits and advances	**9,887**	**9,795**

Unearned revenue represents income received in advance of the Group performing service obligations required to recognise the income.

Advances consists mainly of monies held by the Group as security deposits from developers for capital works.

Notes to the financial statements

6. 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.

Structure:

6.1. Borrowings

Consolidated entity	2018 $'000	2017 $'000
Current		
11am borrowings	46,300	45,200
Non-current		
Fixed rate borrowings	1,540,000	1,415,000
Total borrowings	**1,586,300**	**1,460,200**

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 borrowings.

6.1.1. Maturity analysis of borrowings

Consolidated entity	Less than 1 year	1 to 5 years	More than 5 years	Total
	$'000	$'000	$'000	$'000
30 June 2018				
Borrowings – floating interest rate	46,300	–	–	46,300
Borrowings – fixed interest rate	–	592,650	947,350	1,540,000
Total	**46,300**	**592,650**	**947,350**	**1,586,300**
30 June 2017				
Borrowings – floating interest rate	45,200	–	–	45,200
Borrowings – fixed interest rate	–	544,150	870,850	1,415,000
Total	**45,200**	**544,150**	**870,850**	**1,460,200**

6.2. Finance costs

Consolidated entity	2018 $'000	2017 $'000
Interest expense	61,243	61,343
Financial accommodation levy	21,513	19,667
Bank charges	17	35
Total finance costs	**82,773**	**81,045**

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

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.

Notes to the financial statements

6.3. Cash flow information

For the purposes of the Consolidated Cash Flow Statement, cash includes cash at bank and on hand, which are used in the cash management function on a daily basis.

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

Consolidated entity	2018 $'000	2017 $'000
Net Result after Income Tax	**163,078**	**134,259**
Depreciation	81,634	79,524
Write-off of non-current assets	3,917	2,940
Net (profit) / loss on sales of assets	(169)	(1,378)
Amortisation	10,176	10,273
Developer contributed assets	(90,662)	(78,418)
Defined benefit (income)/expenses	1,275	1,485
Changes in operating assets and liabilities		
(Increase) / decrease in receivables	(19,954)	(9,917)
(Increase) / decrease in inventories	(978)	296
(Increase) / decrease in prepayments	(961)	(5,269)
Increase / (decrease) in trade creditors	1,791	(4,033)
Increase / (decrease) in income tax payable	(4,070)	5,358
Increase / (decrease) in net deferred tax liabilities	4,265	(663)
Increase / (decrease) in provisions	598	(576)
Increase / (decrease) in revenue in advance	92	2,282
Increase / (decrease) in accrued interest payable	846	186
Net cash inflow from operating activities	**150,878**	**136,349**

7. Statutory obligations

Introduction:

This section provides information on the statutory financial obligations of the Group.

Structure:

7.1. Income tax

Consolidated entity	2018 $'000	2017 $'000
(a) Income tax expense		
The major components of income tax expense are:		
Current tax	67,976	58,369
Income tax under provided in prior year	(61)	-
Deferred tax expense/(income) relating to timing differences	2,194	(663)
	70,109	**57,706**
(b) Deferred income tax recognised in other comprehensive income		
Gain/(Loss) on revaluation of infrastructure assets	6,471	(17,445)
Gain on revaluation of land and buildings	2,011	-
Defined benefit superannuation plan actuarial gain/loss	1,433	2,414
	9,915	**(15,031)**
(c) Reconciliation of income tax expense to prima facie tax payable		
Accounting profit before tax	**235,206**	**191,964**
Income tax calculated @ 30%	70,562	57,589
Add		
Non-deductible depreciation	17	-
Non-deductible expenses	(546)	117
Non-deductible Gain Asset Revaluation	76	-
	70,109	**57,706**
(d) Income tax expense		
Current tax payable	**17,744**	**21,814**
(e) Deferred tax items		
Deferred tax liabilities		
Defined benefit superannuation asset	2,852	1,802
Prepayments	20	20
Land and buildings	6,000	3,927
Infrastructure assets(1)	516,547	506,760
Total deferred tax liabilities	**525,419**	**512,509**
Recognised directly in equity	354,312	344,397
Recognised directly in net profit	171,107	168,112
Total deferred tax liabilities	**525,419**	**512,509**

(1) The majority of South East Water's deferred tax liablity relates to infrastructure assets and the deferred tax payment will only be required if and when the Group is sold.

Deferred tax assets	2018 $'000	2017 $'000
Provisions	(963)	(1,008)
Employee benefits	(5,566)	(5,429)
Property, Plant and Equipment	(741)	(175)
Leasehold improvements future deductible amounts	(324)	(322)
Other	(783)	(702)
Total deferred tax assets	**(8,377)**	**(7,636)**
Recognised directly in equity	-	-
Recognised directly in net profit	(8,377)	(7,636)
Total deferred tax assets	**(8,377)**	**(7,636)**
Net deferred tax liabilities	517,042	504,873

Income tax

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 tax consolidated group.

7.2. Dividends and capital repatriation

7.2.1. Dividends

Consolidated entity	2018 $'000	2017 $'000
Final dividend paid during 2016-17 in respect of 2015-16	-	47,000
Final dividend paid during 2017-18 in respect of 2016-17	82,200	-
Interim dividend paid during 2017-18 in respect of 2017-18	24,900	-
Total dividends	**107,100**	**47,000**

Under the *Water Act 1989*, the Group is required to pay a dividend to the State of Victoria in accordance with a determination by the Treasurer of Victoria. An obligation to pay a dividend only arises after a formal determination is made by the Treasurer following consultation between the Board, the relevant portfolio Minister and the Treasurer.

7.2.2. Capital repatriation

Consolidated entity	2018 $'000	2017 $'000
Capital repatriation	22,180	-
Total capital repatriation	**22,180**	**-**

Pursuant to FRD 119A *Transfers through Contributed Capital* under the *Financial Management Act 1994*, the Minister for Water designated the Group to repatriate capital back to the state.

7.3. Environmental contributions

Consolidated entity	2018 $'000	2017 $'000
Environmental contribution levy	27,860	27,860
Total environmental contribution levy	**27,860**	**27,860**

The *Water Industry (Environmental Contributions) Act 2004* (the Act) amended the *Water Industry Act 1994* to make provision for environmental contributions to be paid by water authorities. The Act establishes an obligation for authorities to pay annual contributions into a consolidated fund in accordance with the pre-established schedule of levy payments, which sets out the amounts payable by water authority. The levy payments commenced on 1 October 2004 and has since been extended until 30 June 2020.

The purpose of the environmental contribution is set out in the Act and the funding may be used for financing initiatives that seek to promote the sustainable management of water or address water-related initiatives. The Group has a statutory obligation to pay the environmental contribution to the Department of Environment, Land, Water and Planning.

Environmental contribution levy commitment

The environmental contribution at balance date, committed to in the future:

Consolidated Entity	2018 $'000	2017 $'000
Not later than one year	40,693	27,860
Later than 1 year and not later than 5 years	40,693	81,386
Total environmental contribution levy commitment	**81,386**	**109,246**

Notes to the financial statements

8. Risk, valuation judgements and contingencies

Introduction:

The Group is exposed to financial 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

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 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; and
- Receivables (excluding statutory receivables)

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.

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); and
- Borrowings.

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.

Financial risk management objectives and policies

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.

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 are disclosed above.

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

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 5.1.

There has been no material change to the Group's credit risk profile in 2017–18. At 30 June 2018, the Group had no credit risk arising from investments.

Notes to the financial statements

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 2018 and 30 June 2017 are:

	2018	2017
Gearing - Net Debt/(Net Debt + Equity)	44.4%	43.5%
FFO net interest cover (times)	2.8	2.7

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

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.

2018	Weighted average interest rate	Carrying amount $'000	Fixed interest rate $'000	Variable interest Rate $'000	Non interest bearing $'000
Financial assets					
Cash	1.46%	2,209	-	2,209	-
Receivables		159,603	-	-	159,603
Total financial assets		**161,812**	**-**	**2,209**	**159,603**
Financial liabilities					
Payables		(88,277)	-	-	(88,277)
Deposits and advances		(9,887)	-	-	(9,887)
Borrowings - floating interest rate	1.67%	(46,300)	-	(46,300)	-
Borrowings - fixed interest rate	3.93%	(1,540,000)	(1,540,000)	-	-
Total financial liabilities		**(1,684,464)**	**(1,540,000)**	**(46,300)**	**(98,164)**

2017	Weighted average interest rate	Carrying amount $'000	Fixed interest rate $'000	Variable interest rate $'000	Non interest bearing $'000
Financial assets					
Cash	1.35%	1,835	-	1,835	-
Receivables		145,427	-	-	145,427
Total financial assets		**147,262**	**-**	**1,835**	**145,427**
Financial liabilities					
Payables		(86,046)	-	-	(86,046)
Deposits and advances		(9,795)	-	-	(9,795)
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		**(1,556,041)**	**(1,415,000)**	**(45,200)**	**(95,841)**

Interest rate risk sensitivity

As at 30 June 2018, 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 (2016–17: $0.9 million) as a result of higher / lower interest expense from variable interest rate borrowings.

Notes to the financial statements

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.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The 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; and

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.

	Carrying amount at 30 June 2018	Fair value at 30 June 2018	Carrying amount at 30 June 2017	Fair value at 30 June 2017
Financial liabilities				
Borrowings	1,586,300	1,642,376	1,460,200	1,529,822

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.

There have been no transfers between levels during the period.

8.2.2. Fair value determination of non-financial physical assets

In accordance with AASB *13 Fair Value Measurement*, the Group determines the policies and procedures for both recurring fair value measurements such as infrastructure, property, plant and equipment and for non-recurring fair value measurements such as assets held for sale.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

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

The Group's non-financial assets have been categorised into the three levels of the fair value hierarchy:

Fair value measurement hierarchy

	Carrying amount at 30 June 2018			Fair value measurement at end of reporting period using:
Consolidated entity		**Level 1**	**Level 2**	**Level 3**
	$'000	**$'000**	**$'000**	**$'000**
Infrastructure assets	3,490,469	-	-	3,490,469
Specialised land	185,934	-	-	185,934
Non-specialised land	32,448	-	32,448	-
Non-specialised buildings	79,118	-	79,118	-
Plant and equipment	17,031	-	-	17,031
Leasehold improvements	534	-	-	534
Freehold Land held for sale	15,580	-	15,580	-
Total	**3,821,114**	**-**	**127,146**	**3,693,968**

	Carrying amount at 30 June 2017			Fair value measurement at end of reporting period using:
Consolidated entity		**Level 1**	**Level 2**	**Level 3**
	$'000	**$'000**	**$'000**	**$'000**
Infrastructure assets	3,324,880	-	-	3,324,880
Specialised land	153,960	-	-	153,960
Non-specialised land	27,442	-	27,442	-
Non-specialised buildings	83,292	-	83,292	-
Plant and equipment	17,349	-	-	17,349
Leasehold improvements	576	-	-	576
Freehold Land held for sale	11,920	-	11,920	-
Total	**3,619,419**	**-**	**122,654**	**3,496,765**

Notes to the financial statements

Land and buildings were independently valued by the Valuer-General Victoria's Office at 30 June 2016, in accordance with FRD 103G.

Non-specialised land and buildings are valued using the market approach, being market value based on highest and best use permitted by relevant land planning provisions. 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. 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.

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

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

Infrastructure assets are measured using the income approach (i.e. discounted cash flows). 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's 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 valuation model includes:

- calculating the forecast cash flows to debt and equity investors over a 10 year forecast period. Cash flows to debt and equity investors are those cash flows available after all operating expenses (including taxes) have been paid and necessary investments in working and fixed capital have been made.
- calculating a terminal value at the end of the 10 year forecast period. The terminal value is calculated by adopting the Gordon Growth methodology by applying the mid-point of the WACC, terminal growth rate and terminal cash flows. A single terminal value has been adopted due to the sensitive nature of the terminal value in the model.
- discounting the cash flows to the valuation date using the selected high and low WACC to adopt a mid-point ($3.5 billion).
- deducting non-infrastructure related assets and liabilities to derive the implied water infrastructure assets valuation.
- calculating the tax amortisation benefit (TAB) on the water infrastructure assets, which is an estimate of the present value of future tax amortisation benefits that may be received by a hypothetical market participant.
- adding the TAB to the implied water infrastructure assets valuation to arrive at the total value of the water infrastructure assets.

The valuation resulted in a valuation increment of $21.6 million (2016–17: $58.1 million decrement). The effective date of the valuation is 30 June 2018.

The Group engaged KPMG to independently perform both the 30 June 2017 and 2018 infrastructure assets valuation. 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 little evidence of a reliable market-based fair value for plant and equipment (or any such evidence does not indicate a fair value significantly different from depreciated cost), depreciated cost is used to calculate the fair value for these types of assets. To the extent that the fair value estimate of plant and equipment is based on significant unobservable inputs, these assets are classified as Level 3 assets.

Leasehold improvements are held at fair value. 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. To the extent that leasehold improvements is based on significant unobservable inputs, these assets are classified as Level 3 assets.

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

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

Reconciliations of the carrying amounts of each class of infrastructure, property, plant and equipment between the beginning and the end of the current financial year are set out below:

2018	Infrastructure assets $'000	Specialised land $'000	Plant and equipment $'000	Leasehold improvements $'000	Total $'000
Consolidated entity					
Opening balance	3,324,880	153,960	17,349	576	**3,496,765**
Transfer into class from work in progress	219,239	-	7,124	71	**226,434**
Transfer in/(out) of Level 3	-	-	-	-	**-**
Disposals	(1,961)	-	(1,678)	-	**(3,639)**
Depreciation	(73,261)	-	(5,764)	(113)	**(79,138)**
Sub total	**3,468,897**	**153,960**	**17,031**	**534**	**3,640,422**
Revaluation gains/(losses)	21,572	31,974	-	-	53,546
Sub total	**21,572**	**31,974**	**-**	**-**	**53,546**
Closing balance	**3,490,469**	**185,934**	**17,031**	**534**	**3,693,968**

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

Notes to the financial statements

Description of significant unobservable inputs to Level 3 valuations for 2018 and 2017

Consolidated entity	Valuation technique	Significant unobservable inputs	2018 range (weighted average)	2017 range (weighted average)	Sensitivity of fair value measurement to changes in significant unobservable inputs
Infrastructure assets	Income approach (discounted cash flow)	Discount rates (WACC)	5.0% to 5.6% (5.3%)	5.4% to 6.0% (5.7%)	An increase/(decrease) of 25 bps in the discount rate would result in a decrease of ($627.4) million, or (18.0%) or an increase of $536.2 million, or 15.4% to the fair value.
		Terminal value growth rate	3.25%	3.25%	An increase/(decrease) of 25 bps in the terminal growth rate would result in an increase of $565.9 million, or 16.2% or a decrease of ($442.9) million, or (12.7%) to the fair value.
		Terminal value capital expenditure	$171.3 million	$159.7 million	An increase/(decrease) in the terminal value capital expenditure of 10% would result in an increase/(decrease) of $447.2 million to the fair value.
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	$600 – $193,000 ($44,500)	$1,000 – $220,000 ($64,000)	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)	4 – 10 years (7 years)	2 – 10 years (8 years)	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	$1 – $2,700,000 ($6,300)	$1 – $3,150,000 ($7,300)	A significant increase/(decrease) in cost per unit would result in a significantly higher or lower fair value.
		Useful life of plant and equipment	3 – 20 years (5 years)	1 – 20 years (6 years)	A significant increase/(decrease) in the estimated useful life would result in a significantly higher or lower valuation.

8.3. Contingent assets and contingent liabilities

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

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 2018, various developers have agreed to construct assets to the value of $77.3 million (2016–17 $56.7 million). This value relates to $56.9 million of assets which are under construction (2016–17 $46.6 million) and $20.5 million of assets which have not commenced construction (2016–17 $10.1 million).

Contingent liabilities

Contingent on the construction of assets, the Group is liable to reimburse developers a total amount of $16.2 million (2016–17 $8.9 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 2018 (for the 2018–19 year).

Notes to the financial statements

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

9.1.1. 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 2017–18 reporting period was the Hon Lisa Neville MP, Minister for Water. Remuneration paid to the responsible 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	1/07/2017 – 30/06/2018	Chair
Mr T Beach	1/07/2017 – 30/06/2018	Director
Ms G Bell	1/07/2017 – 30/06/2018	Director
Mr P Day	1/07/2017 – 30/06/2018	Director
Mr T Lyons	1/07/2017 – 30/06/2018	Director
Ms F Marsden	1/07/2017 – 30/06/2018	Director
Ms K McGrath	1/07/2017 – 30/06/2018	Director
Mr A Wood	1/10/2017 – 30/06/2018	Director
Ms T Benson	1/07/2017 – 30/06/2018	Managing Director and Accountable Officer

The number of directors who received remuneration from the Group within the specified bands as follows:

			2018 No	2017 No
$30,000	–	$39,999	1	2
$40,000	–	$49,999	0	1
$50,000	–	$59,999	6	5
$80,000	–	$89,999	0	1
$90,000	–	$99,999	1	1
$390,000	–	$399,999	1	0
$690,000	–	$699,999(i)	0	1
Total			9	11

(i) This amount includes the payout of accrued leave entitlements.

9.1.2. 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.

	2018 $'000	2017 $'000
Short-term employee benefits	2,184	1,945
Post-employment benefits	193	238
Other long-term benefits	43	42
Termination benefits	-	90
Total remuneration	**2,420**	**2,315**
Total number of executives	**13**	**12**
Total annualised employee equivalents [(a)]	**7.5**	**8.0**

(a) 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; and
- 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.

Notes to the financial statements

9.2.1 Key management personnel

Key management personnel (as defined in AASB 124 *Related Party Disclosures*) includes the responsible Minister, the Managing Director and all other directors listed under responsible persons in Note 9.1.1 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 responsible 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.

	2018 $'000	2017 $'000
Short-term employee benefits	762	782
Post-employment benefits	63	100
Other long-term benefits	9	2
Total remuneration	**834**	**884**

* There are also two executive officers who are deemed KMPs of iota Services Pty Ltd, subsidiary of South East Water Corporation. Their remuneration are disclosed under note 9.1.2 in discharging their responsibility as executive officers of the Group.

9.2.2. Significant transactions and balances with key management personnel and other related parties

Outside of normal citizen type transactions (such as water bills), there were no material related party transactions that involved key management personnel, their close family members and their personal business interests during the reporting period other than remuneration for employment. No provision has been required, nor any expense recognised, for impairment of receivables from related parties.

9.2.3. Significant transactions and balances with government-related parties

Department of Environment, Land, Water and Planning

The Department of Environment, Land, Water and Planning (DELWP) 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 DELWP. Due to the nature of the agency/principal relationship the Group does not recognise these amounts in its accounts. The Group recognises an administration fees for the collection of Parks Victoria charges as revenue.

The Group also receives and makes various other payments to and from DELWP which are recognised as revenue and expenses.

Consolidated entity	2018 $'000	2017 $'000
Payments		
Parks Charge collected on behalf of Parks Victoria	62,161	59,834
Environmental contribution	27,860	27,860
Receipts		
Administration fees for collection of Parks Victoria charges	2,333	2,567
Payable at 30 June		
Parks Charge collected on behalf of Parks Victoria	21	11
Receivable at 30 June		
Administration fees for collection of Parks Victoria charges	20	99

Department of Treasury and Finance

The Department of Treasury and Finance (DTF) administers the *Water Act 1989* and the *Financial Management Act 1994* with which the Group is required to comply. The Group is required to pay income taxes, the financial accommodation levy and dividends to DTF.

Consolidated entity	2018 $'000	2017 $'000
Payments		
Dividend payments	107,100	47,000
Capital repatriation	22,180	–
Taxes and levies	92,529	67,920
Payable at 30 June		
Taxes and levies	25,078	27,406

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 potable water and disposal of sewage.

The Group, under a normal commercial agency agreement, bills and collects drainage rates on behalf of Melbourne Water Corporation. Due to the nature of the agency/principal relationship the Group does not recognise these amounts in its accounts. The Group recognises an administration fees for the collection of Melbourne Water Corporation's charges as revenue.

Consolidated entity	2018 $'000	2017 $'000
Payments		
Bulk water and sewage charges	497,482	493,309
Drainage charges collected on behalf of Melbourne Water	91,109	90,705
Receipts		
Administration fees for collection of drainage and other charges	4,701	4,626
Payable at 30 June		
Bulk water and sewage charges and drainage charges	3,777	3,719

Notes to the financial statements

Treasury Corporation of Victoria

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

Consolidated entity	2018 $'000	2017 $'000
Payments		
Finance and interest costs	43,348	43,711
Receipts		
Interest revenue received	1	–
Proceeds from borrowings	126,100	73,700
Payable at 30 June		
Total borrowings and accrued interest expense	1,604,225	1,477,867

Department of Health and Human Services

The Department of Health and Human Services (DHHS) 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 DHHS which are recognised as revenue and expenses.

Consolidated entity	2018 $'000	2017 $'000
Receipts		
Customer rebate reimbursements	46,154	45,763
Administration expenses	262	257
Receivable at 30 June		
Customer rebate reimbursements	2,066	2,293

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 2018, South East Water Corporation purchased goods and services and provided accounting and administrative assistance to iota Services Pty Ltd. All loans are unsecured and the interest rate on the loan is based on the prevailing Treasury Corporation of Victoria's floating interest rate applied to South East Water Corporation, which is directly on passed to iota Services Pty Ltd. 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.

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

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.

A liability or asset in respect of defined benefits superannuation is recognised and measured as the difference between the present value of employees' accrued benefits at reporting date and the net market value of the superannuation plan's assets at that date.

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

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

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.
- **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 defined benefit assets are invested in the Equipsuper Defined Benefit and Cash investment options, with part of the assets transferred from the Defined Benefit to the Cash investment options in December 2017. The assets are diversified within these investment options and therefore the Plan has no significant concentration of investment risk.

Description of significant events

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

Movement reconciliation

2018	Fair value of plan assets	Defined benefit obligation	Net defined benefit asset/ (liability)
	$'000	$'000	$'000
Opening balance at 1 July 2017	**66,505**	**60,498**	**6,007**
Current service cost	-	1,401	(1,401)
Interest income	1,488	-	1,488
Interest expense	-	1,362	(1,362)
Actual return on plan assets less interest income	3,599	-	3,599
Contributions by plan participants	518	518	-
Actuarial gains/(losses) arising from changes in demographic assumptions	-	-	-
Actuarial gains/(losses) arising from changes in financial assumptions	-	59	(59)
Actuarial gains/(losses) arising from liability experience	-	(1,235)	1,235
Benefits paid	(3,167)	(3,167)	-
Taxes, premiums & expenses paid	(234)	(234)	-
Closing balance at 30 June 2018	**68,709**	**59,202**	**9,507**

2017	Fair value of plan assets	Defined benefit obligation	Net defined benefit asset/ (liability)
	$'000	$'000	$'000
Opening balance at 1 July 2016	**62,323**	**62,879**	**(556)**
Current service cost	-	1,478	(1,478)
Interest income	1,280	-	1,280
Interest expense	-	1,287	(1,287)
Actual return on plan assets less interest income	5,868	-	5,868
Contributions by plan participants	540	540	-
Actuarial gains/(losses) arising from changes in demographic assumptions	-	18	(18)
Actuarial gains/(losses) arising from changes in financial assumptions	-	(1,227)	1,227
Actuarial gains/(losses) arising from liability experience	-	(971)	971
Benefits paid	(3,195)	(3,195)	-
Taxes, premiums & expenses paid	(311)	(311)	-
Closing balance at 30 June 2017	**66,505**	**60,498**	**6,007**

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 - Level 1	Significant observable inputs - Level 2	Unobservable inputs - Level 3
30 June 2018	$'000	$'000	$'000	$'000
Asset category				
Investment funds	68,709	-	68,709	-
Total	**68,709**	**-**	**68,709**	**-**

The percentage invested in each asset class at the reporting date is:		
As at	30 June 2018*	30 June 2017
Australian equity	10%	24%
International equity	11%	19%
Fixed income	13%	11%
Property	5%	9%
Growth alternatives	10%	15%
Defensive alternatives	5%	11%
Cash	46%	11%

* Asset allocation as at 30 June 2018 was unavailable at the time of preparing the report, therefore asset allocation at 31 May 2018 has been used.

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 reporting date	Assumptions to determine defined benefit cost for the year ending:		Assumptions to determine defined benefit obligation as at:	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017
Discount rate	2.40%	2.20%	2.70%	2.40%
Expected salary increase rate	3.00%	3.00%	3.50%	3.00%
Expected pension increase rate	2.50%	2.50%	2.50%	2.50%

Sensitivity analysis

The defined benefit obligation as at 30 June 2018 under several scenarios is presented below.

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	2.7% p.a.	2.2% p.a.	3.2% p.a.	2.7% p.a.	2.7% p.a.	2.7% p.a.	2.7% p.a.
Salary increase rate	3.5% p.a.	3.5% p.a.	3.5% p.a.	3.0% p.a.	4.0% p.a.	3.5% p.a.	3.5% 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)	59,202	62,183	56,433	57,437	61,051	58,250	60,245

* includes contributions tax provision

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

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 104%.

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 2017 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 2018.

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 2019 is nil.

Maturity profile of defined benefit obligation

The weighted average duration of the defined benefit obligation as at 30 June 2018 is 8 years (2016–17: 8 years).

Expected benefit payments for the financial year ending on:	$'000
30 June 2019	4,576
30 June 2020	4,710
30 June 2021	4,348
30 June 2022	5,008
30 June 2023	4,743
Following 5 years	24,239

9.4. Ex-gratia expenses

Consolidated entity	2018 $'000	2017 $'000
Forgiveness or waiver of debt (i)	119	161
Termination payments (ii)	23	-
Closing balance	**142**	**161**

(i) Forgiveness or waiver of customer debt due to financial hardship or not economical to pursue. These ex-gratia expenses are recognised as part of bad and doubtful debts in Note 3.1.

(ii) Termination payments relate to additional amounts provided in excess of the employees' entitlements. These ex-gratia expenses are recognised as part of employee benefit costs in Note 3.2.1.

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

9.5. Auditor remuneration

Consolidated entity	2018 $'000	2017 $'000
Victorian Auditor-General's Office - audit of the group's financial statements	152	149

9.6. Controlled entities

The consolidated financial statements at 30 June 2018 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	
		2018	2017	2018	2017	2018	2017
iota Services Pty Ltd	Australia	$1	$1	100	100	791	430

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.

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.

Other than the loan advanced to iota Services Pty Ltd, which provides a financial accommodation facility up to a maximum of $5.0 million, South East Water is not contractually required to provide any other financial support to iota Services Pty Ltd.

Notes to the financial statements

9.6.1. Parent entity information – South East Water Corporation

Information relating to South East Water Corporation	2018 $'000	2017 $'000
Current assets	198,016	172,793
Non-current assets	4,025,663	3,820,487
Total assets	**4,223,679**	**3,993,280**
Current liabilities	184,392	180,729
Non-current liabilities	2,059,080	1,921,712
Total liabilities	**2,243,472**	**2,102,441**
Contributed equity	408,328	430,508
Reserves	850,872	799,875
Retained earnings	721,006	660,456
Total equity	**1,980,207**	**1,890,839**
Profit or loss of the parent entity	162,289	133,828
Total comprehensive income of the parent entity	218,648	107,958

9.7. Subsequent events

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

9.8. 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 2018:

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 review its existing revenue contracts. Potential revenue contracts that may be affected include telco tower rentals, land sales, and commercial retail leases related to the Frankston office complex. As a result of our preliminary assessment there is no material impact on key revenue streams.
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.

Financial management compliance attestation statement

I, Lucia Cade, on behalf of the South East Water board, certify that South East Water Corporation has complied with the applicable Standing Directions of the Minister for Finance under the *Financial Management Act 1994* and Instructions.

Lucia Cade
Chair, South East Water Corporation
20 August 2018

Appendices

Appendix 1 - Performance reporting

Financial performance indicators

KPI number	Key performance indicator	2016–17 result	2017–18 result	2017–18 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	3.4	3.7	3.4	8.8%		8.8%	
F2	**Gearing Ratio** Total debt including finance leases / total assets X 100	36.6%	37.6%	38.9%	2.7%		(3.3%)	
F3	**Internal Financing Ratio** Net operating cash flow less dividends / net capital expenditure X 100	54.0%	29.7%	22.7%	(45.0%)	1a	30.8%	1b
F4	**Current Ratio** Current assets / current liabilities excluding long-term employee provisions and revenue in advance (times)	1.1	1.2	1.2	9.1%		0.0%	
F5	**Return on Assets** Earnings before net interest and tax / average assets X 100	6.9%	7.7%	6.0%	11.6%	2a	28.3%	2b
F6	**Return on Equity** Net profit after tax/average total equity X 100	7.2%	8.5%	6.2%	18.1%	3a	37.1%	3b
F7	**EBITDA Margin** Earnings before interest, tax, depreciation and amortisation/total revenue X 100	35.2%	37.4%	34.0%	6.3%		10.0%	4b

Notes:

1a. The unfavourable variance to prior year is attributable to higher dividend payments in 2017–18 of $107.1 million compared with $47.0 million in 2016–17. The increase in dividend payment back to the state is due to a better profit result reported in 2016–17 and during the first half of the 2017–18 financial year, largely driven by non-cash developer related revenue.

1b. The favourable variance against target is largely due to lower than expected capital expenditure compared to forecast by 21%, caused by minor delays in growth programs, such as the land acquisition within the Fishermans Bend development precinct and treatment plant work programs transferred into 2018–19. Also, dividend payment in 2017–18 of $107.1 million was higher than initial projections of $97.5 million.

2a, b. The favourable result compared to prior year and target is largely due to an increase in EBIT result of $316.0 million, an increase of 16% from prior year and 28% against forecast. This is predominately caused by the strong land development activity and high water sales during the year.

3a, b. The favourable result compared to prior year is largely due to an increase in net profit after tax of 24% on the prior year and 40% against forecast, caused by higher land development activity and service and usage charges. This was slightly offset by higher equity balances as a result of revaluation increments to both land and infrastructure assets during 2017–18.

4b. The 2017–18 result is favourable against target mainly due to higher than expected land development activity of $135.5 million compared to the forecast of $90.8 million.

Water and sewerage service performance indicators

KPI number	Key performance indicator	2016–17 result	2017–18 result	2017–18 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 X 100	0.063%	0.035%	0.065%	-44.4%	5a	-46.2%	5b
WS 2	**Interruption time** Average duration of unplanned water supply interruptions (minutes)	83.0	87.4	87.7	5.3%	6a	-0.3%	
WS 3	**Restoration of unplanned water supply** Unplanned water supply interruptions restored within 5 hours / total unplanned water supply interruptions X 100	98.5%	98.0%	99.0%	-0.5%		-1.0%	
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 X 100	99.9%	100.0%	100.0%	0.1%		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 X 100	98.9%	99.3%	98.6%	0.4%		0.7%	

* The 2016–17 result of 100% was published in error. The error was identified as part of an internal review process in preparation for the Essential Services Commission (ESC) reporting requirement. The correct result for 2016–17 of 99.9% was reported to the ESC and thus amended accordingly in this performance report.

Notes:

5a, b. The favourable result against target and prior year is supported by the ongoing targeted renewals program. Whilst performance is subject to variance due to the often unpredictable nature of water mains failures, a positive performance outcome has been achieved in 2017-18.

6a. The unfavourable variance against the prior year results is due to an increase in the number of jobs requiring specialist services on site prior to repairs starting such as electricity pole holders and traffic management. Average repair times were also extended due to the close proximity of high risk assets such as high voltage electricity cables, high pressure gas and the WAG oil pipelines. Despite these delays, the result against the annual target was favourable.

Customer responsiveness performance indicators

KPI number	Key performance indicator (**)	2016–17 result	2017–18 result	2017–18 target	Variance to prior year	Notes	Variance to target	Notes
CR 1	**Water quality complaints** No. of water quality complaints per 1000 customers	1.45	1.03	1.80	-29.0%	7a	-42.8%	7b
CR 2	**Sewerage service quality and reliability** No. of complaints per 1000 customers	0.01	0.01	0.01	0.0%		0.0%	
CR 3	**Sewerage odour complaints** No. of complaints per 1000 customers	0.06	0.08	0.05	33.3%	8a	60.0%	8b
CR 4	**Billing and account complaints** No. of complaints per 1000 customers	0.48	0.53	0.50	10.4%	9a	6.0%	9b

** The 2017–18 target reported in our corporate plan and the 2016–17 results previously reported in our 2016-17 performance report have been updated to present the unit of measurement as per 1000 customers, which is consistent with the updated Ministerial Reporting Direction 01. There were no changes to the actual results.

Notes:

7a, b. The favourable result to target and prior year is due to the ongoing contractor training by the business to ensure efficient water main shut downs and recharges. There have also been less unplanned incidents during peak usage throughout 2017–18 that would normally result in multiple complaints.

8a, b. The unfavourable variance against target and prior year is due to an increase in complaints associated with reticulation pipe network, such as odours emanating from the sewer through maintenance hole covers. Investigations into future system monitoring technologies are in progress which could help identify odour sources prior to an odour complaint being received.

9a, b. The increase in billing complaints from prior year and against target was due to a rise in high usage enquiries. South East Water combatted this issue by providing a greater number of usage allowances to ease financial pressures for customers. In addition, as part of South East Water's five year customer commitment moving forward, various initiatives will assist in reducing complaints.

Environmental performance indicators

KPI number	Key performance indicator	2016–17 result	2017–18 result	2017–18 target	Variance to prior year	Notes	Variance to target	Notes
E1	**Effluent re-use volume (end use)** Volume of treated sewage effluent reused	23.7%	29.4%	22.0%	59.8%	10a	33.6%	10b
E2	**Total net CO_2 emissions (***)** Net tonnes CO_2 equivalent	42,097	46,418	40,410	10.3%	11a	14.9%	11b

*** The 2016–17 figure was estimated at 41,322 tonnes as the actual results are not finalised until October every year. The actual result for 2016–17 was 42,097 tonnes as reported to the Essential Services Commission in October 2017 and thus amended accordingly in this performance report.

Notes:

10a, b. The favourable result against target and prior year is due to the Boneo Class A treatment process being re-instated and therefore increasing the recycled volumes from the Boneo treatment plant.

11a, b. The unfavourable result against both target and prior year is caused by a timing difference on the availability of biosolids data. When this data is available, the 2017–18 result is expected to decrease and align to our 2017–18 target.

Certification of performance report 2017–18

Certification of performance report 2017–18

We certify that the accompanying performance report for the group in respect of the 2017–18 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 *2017–22 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 20th August 2018.

Lucia Cade
Chair

Terri Benson
Managing Director

Kimberley Lamden
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 of the South East Water Corporation (the corporation) for the year ended 30 June 2018, which comprises the: • financial performance indicators • water and sewage service performance indicators • customer responsiveness performance indicators • environmental performance indicators • certification of performance report. In my opinion, the performance report of the South East Water Corporation for the year ended 30 June 2018 presents fairly, in all material respects, in accordance with the performance reporting requirements of Part 7 of the *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. I further describe my responsibilities under that Act and those standards 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 corporation 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 Victoria and have also fulfilled our other ethical responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.
Board's 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 statement of performance that is free from material misstatement, whether due to fraud or error.
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.

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

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of this performance report.

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

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

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

MELBOURNE
23 August 2018

Paul Martin
as delegate for the Auditor-General of Victoria

Victorian Water Industry Performance Reporting Framework

All Victorian water corporations are required to report against the following measures set out in the Victorian Water Industry Performance Reporting Framework:

Priority area	KPI	Measure	Reference
Climate change Provide services that minimise environmental impacts, mitigate climate change and put in place adaptation strategies.	E2	→ Total net CO_2 emissions equivalent tonnes.	30
	E3	→ Adaption to climate change	26-28
Customer and community outcomes All aspects of service delivery will be customer and community-centered.	C3	→ A strategy that demonstrates approaches to community engagement that are open and honest and occur frequently.	34-35
	CR1	→ Number of water quality complaints per 1,000 customers.	122
	CR4	→ Number of billing / payment issue complaints per 1,000 customers.	122
Water for Aboriginal cultural, spiritual and economic values Recognise and support Aboriginal cultural values and economic inclusion in the water sector.	AC1	→ A strategy that demonstrates how the water corporation will build capability and understanding of procurement processes to address barriers for Aboriginal enterprises to supply goods/services to water corporations.	133
		→ Number of sponsorships of Aboriginal people in relevant study and training courses, including scholarships, vocational education and traineeships.	47
		→ Staff have undertaken a cross-cultural training course (by relevant Traditional Owner) in the last 5 years.	47
	AC2	→ Number of engagements with Traditional Owners in water planning and management and report on outcomes.	29 and 47
		→ Number of pilot programs to test different ways to achieve shared benefits.	47
Resilient and liveable cities and towns Contribute to healthy communities by supporting safe, affordable, high quality services and resilient environments.	L1	→ Engagement with local councils and sponsorships of integrated water management programs.	26-28
	L2	→ Number of engagements with local government, schools and community groups.	26-28
	L3	→ Total residential bill based on; a) average consumption, b) 200kl consumption	23
Recognising recreational values Support the wellbeing of rural and regional communities by considering the recreational values in water management.	R1	→ Inclusion of recreational values in planning and reporting activities	26-28
Leadership and culture Water corporations reflect the needs of our diverse communities.	G1	→ Delivery of the South East Water Diversity and Inclusion Framework	47
		→ Number of females occupying senior leadership positions over projected five-year period	56-57
		→ Percentage of Aboriginal people in the organisation (target 1 per cent with a stretch target of 3 per cent by 2020)	47
		→ Improving participation by Traditional Owners in board committees and other organisational committees	34
	G3	→ Safety and wellbeing performance measures	46-47
Financial sustainability Delivering safe and cost effective water and wastewater services in a financially sustainable way.	F1	→ Interest cover	120-122
	F2	→ Gearing ratio	120-122
	F3	→ Internal financing ratio	120-122
	F4	→ Current ratio	120-122
	F5	→ Return on assets	120-122
	F6	→ Return on equity	120-122
	F7	→ EBITA margin	120-122

Appendix 2 – Other disclosures

Consultancy expenditure

Details of consultancies (valued at $10,000 or greater)

We engaged consultants for six 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 $267,456 (GST exclusive).

Details of individual consultancies are outlined on our website: southeastwater.com.au

Details of consultancies (valued at less than $10,000)

We had one consultancy where total fees payable was less than $10,000 (GST exclusive). Total expenditure incurred for this consultancy during 2017–18 was $7,390 (GST exclusive).

Government advertising expenditure

Our expenditure in 2017–18 on government campaign expenditure didn't exceed $100,000.

Information Communications Technology (ICT) expenditure

ICT refers to our 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 our 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.

We had a total ICT expenditure of $23.5 million, with details shown below:

($'000s)			
BAU ICT expenditure (Total)	Non-BAU ICT expenditure (Total = Operational expenditure and Capital expenditure)	Non-BAU ICT expenditure	
		Operational expenditure	Capital expenditure
14,458	9,017	0	9,017

Disclosure of major contracts

We didn't award any major contracts (valued at $10 million or more) to report during 2017–18.

Application and operation of *Freedom of Information Act 1992*

The *Freedom of Information Act 1982* allows the public a right of access to documents that we hold. In 2017–18, we received 17 requests to access documents. Access was granted to 16 requests. The average time taken to finalise these requests was 26 days.

Of these requests:

- none were from Members of Parliament or the media
- the remainder were from the general public.

We made 17 Freedom of Information (FoI) decisions during 2017–18:

- nine were made within the statutory 30-day time period
- four were made within an extended statutory 30–45 day time period
- four decisions for applications received prior to 1 September 2017 were made within the then statutory 45-day time period
- no decisions within 46 to 90 days
- no decisions in greater than 90 days.

More regarding the operation and scope of FoI can be obtained from the Act; regulations made under the Act; and **foi.vic.gov.au**

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 our documents under the Freedom of Information Act 1982 may be made in writing to:

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

Each application must be accompanied by a $28.90 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. It aims to ensure openness and accountability by encouraging people to make disclosures and protecting them when they do.

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

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.

Making a 'protected disclosure'

Anyone can make a protected disclosure about us or our board members, officers or employees by contacting the Independent Broad-Based Anti-Corruption Commission on the contact details provided below. Please note that we're not able to receive protected disclosures.

Accessing our procedures for the protection of persons from detrimental action

We've established procedures for the protection of persons from detrimental action in reprisal for making a protected disclosure about us or our employees. You can access our procedures on our website **southeastwater.com.au**

Contact

Independent Broad-Based Anti-Corruption Commission (IBAC) Victoria
Level 1, North Tower,
459 Collins Street, Melbourne, Victoria

IBAC
GPO Box 24234, Melbourne Victoria 3001
ibac.vic.gov.au
1300 735 135

Compliance with the *Building Act 1993*

We own our headquarters in Frankston (WatersEdge) and operate warehousing facilities in Heatherton and Lynbrook and buildings associated with water recycling plants at Blind Blight, Boneo, Koo Wee Rup, Lang Lang, Longwarry, Mt Martha, Somers and Pakenham.

We comply with the *Building Act 1993*, the Building Regulations 2006 and associated statutory requirements and amendments. We maintain internal control systems to ensure compliance with our Certificate of Occupancy and engage the expertise of qualified service providers to conduct regular and annual building inspection routines to make sure the building's assets are efficiently maintained and to ensure the workplace is safe for our people. Service provider's compliance is closely monitored for compliance, inspections and maintenance reports and regular service provider meetings.

We completed three major projects in 2017–18 at our headquarters at a sum greater than $50,000:

- Installation of a revolving entry door
- Resurfacing internal hardwood flooring
- Variable speed drive on the air handling and fan units including emergency stairwell pressurisation.

There were three building permits processed at WatersEdge, including two relating to fire services alternations.

Competitive Neutrality 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. We continue to implement and apply this principle in our 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 Local Jobs First - Victorian Industry Participation Policy (Local Jobs First - VIPP). The Local Jobs First - VIPP aims to foster industry development by encouraging Victorian government departments and public bodies to genuinely consider Victorian, Australian and New Zealand supply.

During 2017–18, for metropolitan Melbourne, we:

- registered two Local Jobs First - VIPP applicable Strategic Projects (Boneo Water Recycling Plant Upgrade - $100 million and Reliability Program - $170 million, made up of numerous smaller programs of work) totalling $270 million
- started one Local Jobs First - VIPP procurement totalling $4 million.

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

- an estimated 100 per cent local content committed to the project
- a total of 15 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 collections and recoveries services in particular around compliance, client management, leadership development, and the use of technologies and systems
- development of in-house technologies around the Customer Relationship Management (CRM) platform.

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 our corporation 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 us and requests can be made in writing to the Governance and Legal Group, PO Box 2268, Seaford 3198.

Office based environmental reporting

The data below represents energy consumed for running and operating our WatersEdge headquarters. Data was collected through the building management system and retailer billing information.

Energy use

Indicator	2017–18			2016–17		
	Electricity kWh	Natural gas (GJ)	Green power	Electricity kWh	Natural gas (GJ)	Green power
Total energy usage segmented by primary source (MJ)	4,629,514	1,827,000	0	5,072,987	2,484,495	0
Greenhouse gas emissions associated with energy use, segmented by primary source and offsets (t CO2 e)	1,376	101	0	1,536	128	0
Units of energy used per FTE (MJ/FTE)	0	0	0	0	0	NA
Units of energy used per unit of office area (MJ/m2)	8,108	3,200	0	8,947	4,382	0
Units of energy used per FTE (MJ/FTE)	395	156	0	432	212	0

Actions undertaken

In 2017–18 electricity and gas consumption reduced significantly on the previous year. This was due to installing a revolving door at the main entry; reviewing and adjusting air volumes and associated reduced fan speeds, chiller and boiler loads; and continual review of site operational temperatures.

Targets

WatersEdge was designed and constructed to deliver a NABERS Rating (National Australian Built Environment Rating System) of 4.5 stars. WatersEdge was assessed by an accredited assessor and has met and surpassed the building design rating of 4.5 stars. The building is currently tracking at around 4.9 stars, with consumption reduction and energy efficiency measures continuing to be implemented.

Waste

The waste generated within WatersEdge is divided into three general classes: landfill, recycling and compost. The data presented below is derived from one waste audit done at WatersEdge.

Indicator	2017–18					2016–17				
	Landfill	Co-mingled recycling	Coffee capsule	Secure document	Compost	Landfill	Co-mingled recycling	Coffee capsule	Secure document	Compost
Total units of waste disposed of by destination (kg/yr)	10,835	4,875	987.5	3,134	1655	9,042.5	4,662.5	1,072.5	3,499.4	3,017.5
Units of waste disposed of per FTE by destinations (kg/FTE)	19	8.5	1.7	5.5	2.9	15.9	8.2	1.9	6.2	5.3
Recycling rate (percentage of total waste)	49.6					56.1				
Greenhouse gas emissions associated with wasted disposal (kg CO2 –e)	16,483					14,911				

Actions undertaken

Employee communications were delivered through staff inductions and renewed signage to improve the management of office waste. This is reflected in an increased recycling rate recorded for 2017–18.

Paper

Our paper use has reduced compared with 2016–17.

Indicator	2017-18	2016-17
Total units of copy paper used (reams)	3,982	4,051
Units of copy paper used per FTE (reams/FTE)	7.0	7.1
Percentage of 75 –100 per cent recycled content copy paper purchased	100	100
Percentage of 50–70 per cent recycled content copy paper purchased	0	0
Percentage of 0–50 per cent recycled content copy paper purchased	0	0

Actions undertaken

Employee communications were delivered through staff inductions and renewed signage to improve the management of office waste. This is reflected in an increased recycling rate recorded for 2017–18.

Transport

We operate 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.

	2017–18 diesel	2017–18 petrol	2016–17 diesel	2016–17 petrol
Total energy consumption by vehicles (MJ)	7,102,400	9,815,400	7,596,480	9,603,360
Total vehicle travel associated with entity operations (km)	2,652,131	3,662,467	2,376,210	2,993,581
Total greenhouse gas emissions from vehicle fleet (t CO_2 –e)	684	501	536	669
Greenhouse gas emissions from vehicle fleet per 1,000 km travelled (t CO_2 –e)	0.229	0.211	0.225	0.224

- T5 – Total distance travelled by air – 399.070 kilometres
- T6 – Employees regularly using public transport, cycling, walking or carpooling to and from work – 8 per cent (from Staff Culture Survey May 2018)

Greenhouse gas emissions

Indicator	2017-18	2016-17
Total greenhouse gas emissions associated with energy use (tonnes CO_2-e)	1,669	1,664
Total greenhouse gas emissions associated with vehicle fleet (tonnes CO_2-e)	1,185	1,205
Total greenhouse gas emissions associated with air travel (tonnes CO_2-e)	64	215
Greenhouse gas total greenhouse gas emissions associated with waste disposal (tonnes CO_2-e)	16.48	14.44
Greenhouse gas emissions offsets purchased (tonnes CO_2-e)	0	0

Procurement

Our main areas of procurement are construction (36 per cent), maintenance (35 per cent) and goods and services (29 per cent).

Examples of how we've 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 to the contract
- considering environmental impacts in the selection of goods/services procured
- training our procurement team on a new industry-wide procurement guideline to ensure Indigenous organisations are highlighted as preferred suppliers for cultural training and resources.

Tenders, contracts, or products for which we've developed or are using sustainability clauses or specifications include:

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

Progress in achieving any procurement related entity or whole of government targets:

In 2017–18, we:

- completed preliminary works to support the construction of the large-scale solar generation plants at Pakenham and Somers Water Recycling Plants, ready for commissioning. They will decrease our carbon footprint, and increase our renewable energy composition
- reduced air travel and utilised technology for meetings and discussions
- actively undertook initiatives to convert our customers to eBilling, saving on paper and postage.

Targets

The following targets have been set for 2018–19:

- always purchase printing paper containing at least 100 per cent recycled properties and/or FSC certified paper
- continuously improve the process of better segregating our waste streams
- continue to roll out more solar panels at our water recycling plants
- deploy carbon-based decision making tools to help our corporation determine the environmental impacts of our procurement, and to ensure environmental considerations are taken into account when developing specifications and requirements.

Procurement strategy

Our procurement strategy was updated in 2017–18 to reflect our commitment towards social procurement. This initiative also aligns with the Victorian Government's Social Procurement Framework. Some of the identified actions in the strategy include raising awareness and educating the business on social procurement, updating our policy, procedures, and documents, including our tender templates to reflect social considerations, and increasing our spend with Aboriginal businesses and social enterprises. One success story to date is our contract for stationery supply with Muru Office Supplies, a 51 per cent Aboriginal owned and Supply Nation certified business, where 15 per cent of their profits are utilised for Aboriginal community projects.

We're increasingly publishing information and documents on these topics at **southeastwater.com.au**.

Appendix 3 – Bulk entitlements

We hold 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 bulk entitlements reporting requirements

Our reporting requirements	Greater Yarra System – Thomson River Pool [1,2]	Desalinated water [6,7]	Goulburn System [10,12]	Murray River [14,16]
The annual volume of water taken	Clause 16.1 (a) 161,067 ML	Clause 13.1 (a) 5,345.4 [8] ML	N/A	N/A
The water allocation volume made available	Clause 16.1 (b) 122,522.4 [3] ML	N/A	Clause 14.1 (c) 5480.1 ML [13]	Clause 11.1(a) 4706.7 ML [17]
The volume of carry over	Clause 16.1 (b) 143,712.5 ML	N/A	N/A	N/A
Compliance with the entitlement volume	Clause 16.1 (c) Yes [4]	Clause 13.1(e) Yes [9]	N/A	N/A
Any temporary assignment or permanent transfer of all or part of entitlement	Clause 16.1(d) No	Clause 13.1(b) No	Clause 14.1(d) -7433.9 ML Clause 14.1(e) 0 ML	Clause 11.1(b) -6400.0 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) No	Clause 13.1(c) Yes [10]	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	N/A	N/A
Annual amount of water taken from the waterway	N/A	N/A	Clause 14.1(b) 0 ML [14]	N/A

Notes for compliance with bulk entitlements

Greater Yarra System - Thomson River Pool

1. We hold Bulk Entitlement (Greater Yarra System – Thomson River Pool – South East Water) Order 2014 – WSE000077.
2. We're the 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, we understand 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 us and Melbourne Water and System Management Rules established by Melbourne Water.

Victorian Desalination Project

6. We hold Bulk Entitlement (Desalinated Water – South East Water) Order 2014 – WSE000053.
7. We 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.
8. The Hon Lisa Neville MP, Minister for Water announced a 15 GL desalinated water order for the 2017-18 year, of which our share was 5,345 ML. We received 5,345 ML of this order in July and August 2017 which was delivered into the Melbourne water supply system. The Minister for Water has also announced a further water order of 15 GL to be delivered during 2018-19.
9. Compliance with the entitlement volumes is measured with respect to whether the annual volume taken exceeds the entitlement. This didn't occur this year.
10. There was the amendment in January 2018 to recognise the delivery points of other bulk entitlement holders along the transfer pipeline.

Goulburn System

11. We hold Bulk Entitlement (Goulburn System – South East Water) Conversation Order 2012 – WSE000009.
12. We're 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. Our 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. We hold Bulk Entitlement (Murray River – South East Water) Conversion Order 2012 – WSE000133.
16. We're 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; and
    - Trading zone 7.
17. Our 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.

We have water management strategies in place 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.

Appendix 4 – Disclosure index

This annual report is prepared in accordance with all relevant Victorian legislation and pronouncements. This index has been prepared to identify our 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 and *Public Administration Act 2004*.

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