



ANNUAL REPORT 2018-19



Southern
Rural Water

About this report

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Annual Report 2018-19

Southern Rural Water

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Annual Report Highlights

Message from the Chairman and the Managing Director

With pleasure, we present this Annual Report of the activities and performance of Southern Rural Water in 2018-19. We acknowledge the Traditional Owners and custodians of the land and waters on which we operate across southern Victoria, and we pay our respects to their Elders, past, present and emerging.



Southern Rural Water services the needs of diverse customers across 88,000km², regulating access to surfacewater, groundwater and managing irrigation districts. Our services support food and fibre production that contributes more than \$14.2billion to the Victorian economy each year.

Our strategic focus

Our vision is “Excellence in rural water management, driving growth and customer productivity in southern Victoria.”

Our large geographic and operational spread means that our customers experience a wide variety of climate conditions and access to different water sources. Whether our customers are river diverters, groundwater extractors or entitlement holders in our irrigation districts, access to water affects their ability to meet their business objectives.

As we drive towards excellence in rural water management we must have a strong understanding of local conditions.

In 2018-19, most customers experienced a second consecutive year of drier than usual conditions. Two Gippsland municipalities were declared in drought. While other regions were not in drought, many customers still experienced the negative impacts of drier than average conditions.

Challenging seasons such as 2018-19 reinforce our focus on building resilience into our systems and services and on ensuring we get the best outcomes from our business decisions. These ultimately help drive our customers’ returns on the investment they make in their own business.

Our Corporate Plan puts our customers needs and long-term sustainability at the heart of our decisions. We have made significant progress and achieved major goals in 2018-19, a year of high demand for water, and record activity on our major capital projects.

We continued to make our business future-ready at all levels. We invested in our people with new processes to support training and development, safety and wellbeing. We invested in our water systems and our services to further unlock the value in our regions. And we invested in strategic asset management to better protect our critical assets.

A key achievement was our on-time delivery of our modernisation programs. The major projects in all three of our irrigation districts reached peak construction in the 2018-19 year, contributing most of the record \$46million spend on capital works delivered this year (up from our previous record \$31m in 2017-18). Their success has been due to cooperation and collaboration between our customers, contractors and project teams.

Water savings made possible through the improved efficiencies have been allocated to the environment, and also made available to increase water for high-value production in seasonal allocation auctions and permanent water share auctions.

The improvement in irrigation delivery in our upgraded networks is allowing customers to invest in their own infrastructure and expand their businesses in ways that were not possible with ageing channels and inefficient Dethridge wheels. The modernised areas are also attracting new customers seeking efficient infrastructure and reliable water supply.

Alongside our infrastructure investment, we have also made progress in transforming other aspects of our business. New technology projects, customer interfaces, business systems and processes are helping us to develop a future-ready organisation.

Our delivery

In 2018-19 we are proud to have delivered the following highlights:

- We met our delivery efficiency targets for all three irrigation districts, which included an improvement of almost 10% for the Werribee Irrigation District (WID).
- Water trading increased significantly. For example, in the Macalister Irrigation District (MID), trading between customers almost doubled to over 25,000ML. Our staff have been key in facilitating and processing trades.

- Applications across all regions and services were up by more than 23%, with staff processing almost 900 more applications than in 2017-18. These included a significant rise in information statements, water transfers (temporary and permanent), bore construction licence applications and applications for changes to farm dams.
- Our field staff recorded contacts with more than 1,000 customers during the season to discuss trading options.
- We found new ways of delivering value to customers in need, such as making temporary water from the Blue Rock drought reserve available to the Latrobe system.
- We developed and piloted the Sandbox program, fostering innovation and developing our people. Ideas explored included non-chemical methods for weed control, Artificial Intelligence for iterative engineering design, holistic modelling for facilities management, real-time visualisation of data for customers and operations and potential recreational use initiatives.

Our people

Our board has driven a renewed focus on culture and safety. This year, it established a People and Culture Committee, which gave the board oversight and the opportunity to shape the organisational culture of SRW. A key focus for the board was review of critical safety risks, the outcomes of which are translating into improved safety reporting and risk identification across the organisation.

Our continued focus on diversity and inclusion has seen a 10% increase in women in leadership positions, from 25% to 35%. The balance of women on the executive team has risen to 50% - a year earlier than our 2020 target. Our percentage of women in field positions has increased from 7% to 10%.

During 2018-19 we launched our HomeGrown program to provide traineeship opportunities for indigenous workers. We also introduced a transition to retirement program to provide greater flexibility in working arrangements for staff moving towards retirement.

Our customers

We continued to focus on keeping customer bills affordable. For most customers, our 2018-19 prices remained lower in real terms compared with 2013-14.

We met with customers at their properties, local events, field days and forums. We sponsored community events, especially those that supported farmer mental health in communities affected by drought.

In late 2018, we were delighted to present our four regional nominations to the Victorian Rural Water Awards and celebrated an unprecedented two state winners and two runners-up. Their stories of innovation and passion for their businesses, and their

care for the environment, continue to be an inspiration. They connect us to our purpose and our vision - to deliver excellence in rural water management, driving growth and customer productivity.

Our finances

We achieved an operating profit before statutory adjustments this year of \$11.1m. Excluding the receipt of \$7m government grant funding, this represents a \$4.3m improvement from our budgeted operating profit before statutory adjustments (\$0.18m loss). Our continued strong performance and projections in operating performance and cash position provide us with confidence in the financial sustainability of the corporation.

Acknowledgements

We value the support from customers, communities and the many stakeholders who work with us to enable us to provide great service, particularly the highly committed people on our customer committees.

Thank you to the Minister for Water for her continued interest in, and support for, the sector, and to the Department of Environment, Land, Water and Planning for its support and continuous focus on improvement for all water customers.

We'd also like to thank former board member and Deputy Chairman Kate Calvert, who resigned from the board in September 2018 after three years as a director. We thank her for her insights and strong support during that time. We also welcomed new board director, Michelle Murray.

We acknowledge and thank Clinton Rodda for his 13 years of dedicated service to SRW, the last nine as Managing Director until his resignation in December 2018. His energy and drive helped develop the vision, secure the funding and deliver the first phases of the modernisation program, leaving a strong and positive legacy for SRW and its customers.

In closing, we would like to thank our directors and staff for their excellent work over the course of the year in delivering these outcomes.



DIANE JAMES AM

Chairman



CAMERON FITZGERALD

Managing Director

Responsible Body Declaration

In accordance with the *Financial Management Act 1994*, I am pleased to present Southern Rural Water's Annual Report for the year ending 30 June 2019.



DIANE JAMES AM

Chairman

Gippsland and Southern Rural Water Corporation

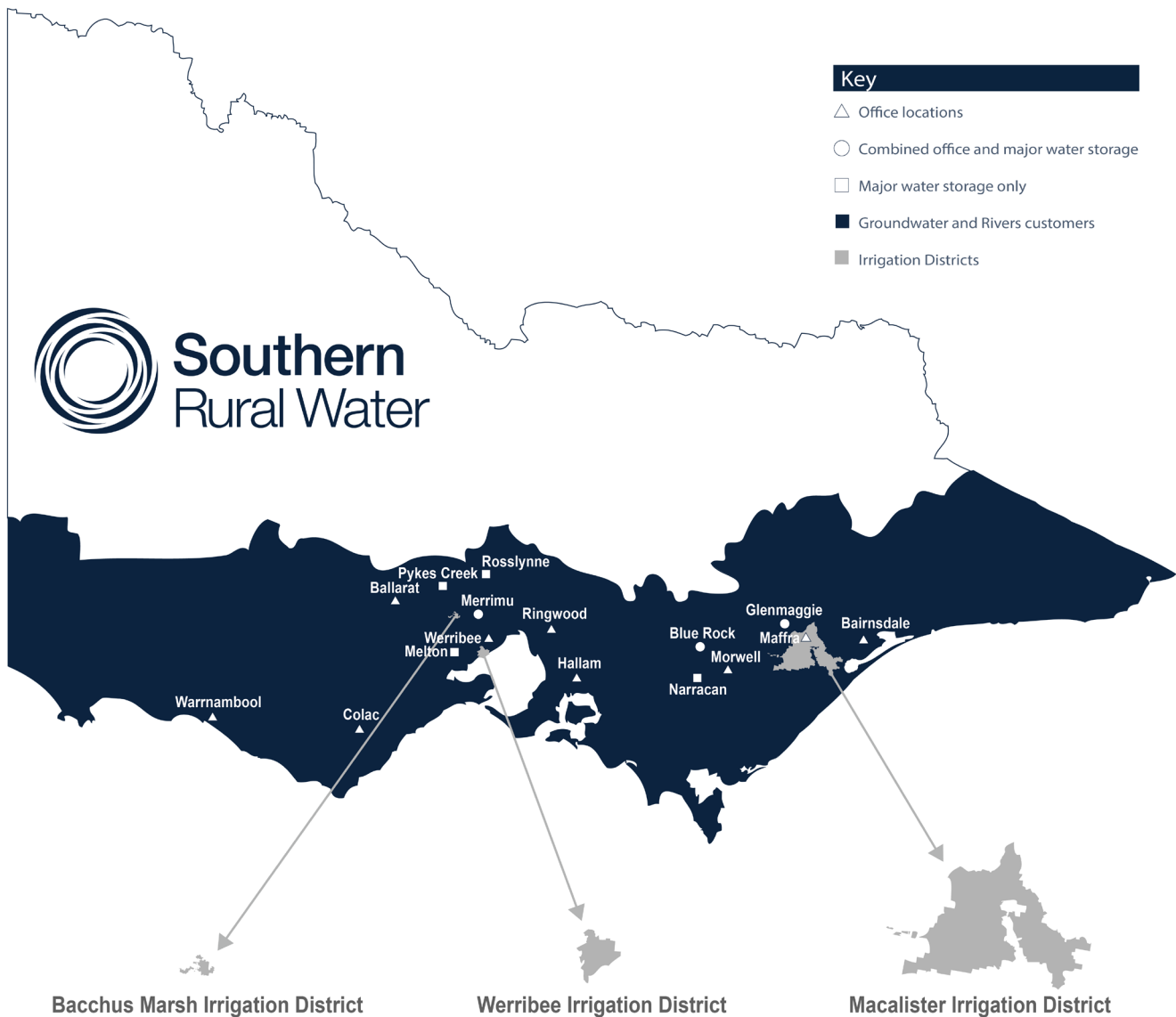
Dated on 27 August 2019.

Our trademark behaviours

We are:

- United
- Customer first
- Ambitious
- Results driven
- Innovative
- Respectful

Our operational area



About us

Introduction to Southern Rural Water

Gippsland and Southern Rural Water Corporation, trading as Southern Rural Water (SRW), is responsible for:

- managing the delivery of water to the Werribee, Bacchus Marsh and Macalister Irrigation Districts
- operating and maintaining seven dams to harvest water on behalf of irrigators and other Bulk Entitlement holders
- managing water use from southern Victoria's unregulated rivers and groundwater aquifers.

SRW's service area covers 88,000 square kilometres, or 37 per cent of the state, stretching from the South Australian border to the New South Wales border, and from the Great Dividing Range to the Victorian coast.

Within this wide geographic area, SRW operates irrigation districts and manages take and use licences from waterways, licences relating to catchment dams, farm dam registrations, the seven major dams and eight diversion weirs.

Water use is primarily for agricultural, urban and industrial purposes. Blue Rock Lake, Yallourn and Narracan (part of the Latrobe River system) play a major role in providing cooling water for Victoria's electricity generation sector.

These are bulk entitlements held by Gippsland Water and by the various companies which own and run the power stations.

Merrimu Reservoir, Blue Rock Lake and Lake Glenmaggie have environmental water entitlements that are managed on behalf of the Victorian Environmental Water Holder.

SRW manages Victoria's largest groundwater operation and second largest non-metropolitan headworks business.

SRW manages the Macalister Irrigation District (MID) in central Gippsland and the Werribee (WID) and Bacchus Marsh (BMID) irrigation districts west of Melbourne. The majority of the water used in the irrigation districts is for primary agricultural production, along with stock and domestic and minor industrial use. Water shares are held by individual customers within the districts, and transactions are recorded in the Victorian Water Register.

SRW is a statutory water corporation established under the *Water Act 1989*. The responsible department is the Department of Environment, Land, Water and Planning (DELWP). The responsible Minister during 2018-19 was the Hon Lisa Neville MP, Minister for Water.

The responsible minister appoints a skills-based board, which is responsible for setting SRW's strategic direction.

SRW employs 166 people and our main business centres are located in Maffra, Werribee, Ringwood and Warrnambool, with smaller offices scattered across our region. (See SRW's operational area map (p6).

Vision

Excellence in rural water management, driving growth and customer productivity in southern Victoria.

Our vision

Our vision is: excellence in rural water management, driving growth and customer productivity in southern Victoria

This vision recognises the important role we have in supporting Victoria's economy, which relies on secure and reliable water supplies. We have an opportunity to drive growth and productivity, particularly in regional areas, by:

- improving efficiency to make more water available
- giving water users more flexibility and control in the way that they access water
- providing sustainable access to water in ways that are more efficient
- demonstrating responsible stewardship of the environment in our decision-making.

Large dams

SRW harvests, stores and manages water in Glenmaggie, Narracan, Blue Rock, Melton, Merrimu, Pykes Creek and Rosslynne reservoirs. This water is then supplied to irrigators, urban water corporations and power generators, or retained for the government. SRW also manages recreational facilities at some water storages and weirs.

Groundwater and rivers

SRW implements government regulations and policy for groundwater and surface water management in accordance with delegated powers from the *Water Act 1989*. We assess licence applications, issue licences to construct new farm dams and bores (if approved) and manage new and existing groundwater and surface water licences.

SRW is also the appointed Resource Manager for a range of surface water catchments (mostly in Gippsland) and provides administrative support to the Drillers' Licensing Board Victoria.

Our strategy focuses on four outcomes for customers and other stakeholders:

Outcome	Strategic intent
Growth and customer productivity	<p>We enable customers to improve their productivity and/or production to strengthen local economies.</p> <p>We provide opportunities for business to enter our region by providing access to secure and reliable water supplies.</p>
Affordable prices	<p>By keeping prices affordable:</p> <ul style="list-style-type: none"> • input costs are lower for producers • southern Victoria's agricultural production can be competitive in national and international markets • customers have more money to invest on farm to boost their own productivity.
Financial sustainability	<p>We manage financial performance, debt and our \$1.4b of assets to ensure we are financially sustainable and support Victoria's strong financial position.</p>
Sustainable water resources	<p>We manage the water resources under our stewardship to ensure that they are sustainable in the long term.</p> <p>We recognise the potential environmental impacts of conducting our business and seek to reduce and/or offset these impacts, and to go beyond complying with our obligations in order to achieve real environmental improvements.</p>

About us (continued)

Our outcomes will be delivered through a range of objectives and initiatives, which we describe under four themes

Theme	Objective	Strategic intent
Customer value 	Modern assets	We enable customers to improve their productivity and/or production to strengthen local economies. We provide opportunities for business to enter our region by providing access to secure and reliable water supplies.
	Enhanced customer experience	Our customers have access to systems, processes and information that enable them to be more productive.
	Increased production	We provide the means for customers to increase production through the efficient and effective use of water.
Business growth and resilience 	Growth and new revenue	We generate additional one-off and recurrent unregulated revenue to offset the costs of investing in infrastructure modernisation and ensure our financial sustainability.
	Improved asset management	We manage our assets to meet obligations, provide agreed customer service levels, support strategy, to keep our long-term asset costs as low as possible and keep our prices affordable.
Resource stewardship 	Climate resilience	We will reduce carbon emissions and adapt to climate change.
	Environmental improvement	We will reduce adverse impact on the environment from our operations and deliver improved environmental outcomes.
Leadership and Culture 	A culture of excellence	<p>We create an environment where people:</p> <ul style="list-style-type: none"> • are committed to delivering SRW's vision, goals and objectives • show pride in their work and demonstrate accountability • consistently meet or exceed expectations • are encouraged to innovate and become leaders in our industry • are supported in their development • live our trademark behaviours.
	Safe, healthy, diverse and caring workplace	<p>We create a workplace where:</p> <ul style="list-style-type: none"> • everyone is responsible and accountable for health, safety and wellbeing • our people feel valued, included, respected and connected to reach their full potential • diversity is celebrated.

Irrigation districts

Water supply to irrigation districts is the largest component of operations, accounting for 65% of gross annual turnover. SRW operates the Macalister, Werribee and Bacchus Marsh irrigation districts, and is responsible for seven storages in its region, together with a number of smaller regulating structures.

From these storages, SRW harvests and stores water for irrigation customers, urban water corporations and the Latrobe Valley power generators in accordance with the provisions of Bulk Entitlement Orders.

Water Supply East

Water Supply East manages the delivery of water to customers in the MID and on the Macalister and Thomson rivers and Rainbow Creek. The main storage, Lake Glenmaggie, and diversion weirs on the Thomson and Macalister Rivers provide water to around 1,000 customers. The bulk of this water is delivered via gravity irrigation from 15 August to 15 May. River customers who pump direct from waterways can order water 365 days a year.

The 2018-19 irrigation season opened with an allocation on 1 July 2018 of 40% allocation high-reliability water shares (HRWS), which was increased to 65% HRWS by 31 July.

A dry start to the season saw usage well above the previous season and the five-year average. However, continued good inflows into Lake Glenmaggie saw the seasonal allocation increased to 100% of HRWS by 29 August, soon after the start of the season. With spring showers, demand remained steady

throughout September. Lake Glenmaggie reached its highest volume for the season on 1 October 2018, at 157,147ML or 88.5%.

Rainfall in November saw demand fluctuate, but overall low inflows meant that Lake Glenmaggie did not reach capacity and spill. With no spill entitlement, we announced a seasonal allocation of 35% of low reliability water shares (LRWS) on 17 December. We also held three seasonal online allocation auctions in November, December and January, and a permanent water share auction in February 2019.

A seasonal adjustment to Annual Use Limits in the Macalister Irrigation District was triggered on 5 February, which increased all MID customers' Annual Use Limits by 20%. The adjustment occurs in years of exceptionally low rainfall and high evapotranspiration.

Hot dry conditions through the summer period and no significant rain saw Glenmaggie volumes drop below 25% by mid-March. On 28 March, SRW began supplying the Nambrok area from the Thomson Dam Drought Reserve, to help manage remaining entitlement and ensure the remaining volume in Lake Glenmaggie was able to meet remaining customer entitlements in the district for the season.

Our share of the Thomson Dam Drought Reserve started with a volume of 32,748ML. We used 8,683ML in total for the season.

MID deliveries to customers this season totalled 176,925ML. Seasonal usage was 19,997ML above our five-year average. Lake Glenmaggie closed the season with a volume of 11,151ML or 6.3% storage capacity, of which 4,753ML was unused entitlement. Some rainfall in the upper catchment saw the storage recover quickly to 23.1% by 30 June.

Macalister Irrigation District performance against target 2018-19

	Macalister	
	Target %	Actual %
Channel performance (pool height consistency) ¹	78	69
Delivery reliability	99	100
Delivery efficiency	80	80
Customers with access to Demand Management System	40	61
Release of water savings ²	800ML	742ML

¹ Our target for channel pool performance is proving to be challenging. This is a new measure, and we set our targets without the benefit of historic performance information. The recent season produced perfect growing conditions for weeds, which impacted our ability to maintain channel pool heights within the tight tolerances that we defined for this measure. This is despite additional maintenance effort that we applied through the season. Importantly, customer orders were not delayed or reduced due to this result. We will continue to explore other options to better manage the consistency of pool levels.

² Our targets for release of additional water entitlements are based on capturing savings through our irrigation modernisation projects, and making these available to customers. During 2018-19, we have made all remaining previously validated water savings available to market in the Macalister Irrigation District, which amounted to 742ML. This total comprised 214ML sold as allocation for the season, and 528ML of validated savings sold as new high and low reliability water shares. We continue to work with DELWP to validate water savings arising from our ongoing modernisation upgrades, to make these available in future releases.

About us (continued)

Werribee and Bacchus Marsh Irrigation Districts' performance against target 2018-19

	Werribee		Bacchus Marsh	
	Target %	Actual %	Target %	Actual %
Delivery volume accuracy	98	98	98	97 ¹
Delivery reliability	99	99	99	100
Delivery efficiency	70	71	70	71
Recycled water salinity	<1800EC	<1800EC	NA ²	NA ²

¹ Commissioning of the new pipeline caused some minor delivery issues. We are pleased to have managed these impacts and finished within 1% of our target for delivery volume accuracy.

² Recycled water is not available in Bacchus Marsh.

Water Supply West

Water Supply West manages the delivery of river water to customers in the WID, the BMID, river diverters along the southern stretches of the Werribee River and recycled water to customers in the WID. The 2018-19 season was again quite dry overall. There was little inflow into the reservoirs over winter and well below average rainfall over the season.

There was 8GL of water carried over from the 2017-18 season and the allocation reached 45% of high reliability water shares.

The summer was again drier than usual, with the volume of water delivered:

Source	ML
Werribee Irrigation District (river water)	5,365
Werribee Irrigation District (recycled water)	4,990
Bacchus Marsh Irrigation District	2,122
River diverters	457

The Werribee season ended with the storages low and with less carryover than previous years, with approximately 5GL of water available for the 2019-20 season. However, higher than average rain over June has generated streamflows and the outlook for the 2019-20 season is for high allocations.

With continuing modernisation works, the water delivery efficiency figures improved significantly, particularly in the WID, which went from 62% to 71%. This improved efficiency was an important reason why the allocation reached 45%, even though there had been little rain and inflows into the reservoirs.

Headworks / Storage management

Water Supply East manages three large dams and three diversion weirs on the Latrobe, Tanjil, Thomson and Macalister rivers. These dams supply water to Victoria's power generators, the MID, Gippsland Water and the environment.

Water Supply West manages four large dams and five diversion weirs in the Werribee Basin and one in the Maribyrnong Basin.

Storage operations performance against target 2018-19

		Target %	Actual %
Blue Rock Lake	Releases within 10% of ordered flow	95	100
Pykes Creek and Merrimu Reservoirs	Water harvested at the maximum possible rate (when dam capacity is available)	95	97
Werribee system	Releases within 10% or 5ML of ordered flow	95	99
Maribyrnong system	Releases within 10% or 1ML of ordered flow	95	98

We met or exceeded all targets this year.

Groundwater and Rivers

The Groundwater and Rivers business manages SRW's delegated licensing and regulatory functions.

There were many highlights and challenges for our river diverters and groundwater users in 2018-19. In the dry conditions, there was a significant increase in applications across all services. We made improvements on our service targets both in the field and in administration functions, (see Performance Report, p103).

We are continuing to introduce opportunities to provide more customer control through the improved use of technology including:

- the development of an online customer portal to combine access to water usage information, as well as providing application and trade forms
- improved communication tools using modern mail-out services to tailor communication to individual preferences
- progression of automated restrictions and rosters, with the identification of trial catchments for implementation during the 2019-20 irrigation season.

These initiatives are dependent on SRW-wide projects to consolidate our data sources and processes to ensure a strong foundation for automated processes and direct access to information for our customers.

Balancing water for production and sustainability

SRW is working with customers and stakeholders to find ways to have more water available for production without compromising environmental health. This includes being more active in promoting opportunities for water trading and developing more flexible rules. This was particularly important in 2018-19, as dry conditions increased demand for water.

Water was made available for the first time from the Latrobe Bulk Entitlement Drought Reserve, which is held in Blue Rock Lake. This allowed us to facilitate three online auctions of a total of 2,085ML of 2018-19 seasonal water for Latrobe River system customers, who were in drought conditions and had exhausted

all trading opportunities. Customer feedback was positive, as being able to purchase temporary water allowed them to remain in operational in difficult conditions.

These auctions involved collaboration with other Bulk Entitlement customers, such as Gippsland Water and power generators.

In line with government policy, SRW has developed a process for selling unallocated water in unregulated systems. This resulted in permanent entitlements being sold in the Moorabbin aquifer (42.7ML) and Tarwin River winterfill (2,495ML) during 2018-19, and preliminary work being completed for the sale of water from the Lower Otway aquifer in early 2019-20.

Future water sales, in conjunction with ongoing work to expand water markets over the coming years, will help increase the water available for production across southern Victoria. Our objective of ensuring sustainable use of water resources will include measures to assist in making under-utilised entitlements available for productive use and moving water to its highest value to encourage economic benefits and employment.

These efforts will also be supported by ongoing work to improve water management arrangements through the development and review of local water management plans and identifying opportunities to streamline trading processes. In addition to this, SRW staff have actively supported broader drought response initiatives such as Victorian Government grants for on-farm infrastructure to improve reliability of critical water supplies and the provision of emergency water supplies for communities during dry conditions.

These activities are further supported by the appointment of a Drought Preparedness Manager to ensure our customers and communities are prepared for future dry conditions.

Automated meter reading

Automated meter reading technology is continuing to be implemented across the region, with the current stage of installations running through to 2019-2020. This will automate around 54%, with the ultimate aim being to reach 90% at the conclusion of the project.

Groundwater and Rivers performance against target 2018-19

Measure	Target %	Actual %
Applications processed within target timeframes ¹	90	88 ¹
Customer contacts to promote water trades	1,000	1,015

¹ This is a revised measure, being reported for the first time in 2018-19. Processing times have improved, especially in the context of a 23% uplift in overall applications, with more than 900 additional applications being received, particularly information statements, water share trades and transfers and bore construction licence applications. The KPIs for this area are included in the Performance Report on p103.

About us (continued)

Entitlements and usage: compliance

With the forecast dry conditions, SRW's compliance focus for 2018-19 was to proactively work with customers to manage the potential for unauthorised take through a cooperative approach. This involved:

- alerts for customers reaching a threshold close to their full entitlement
- working to identify other sources of water
- promotion of water trading between customers where possible.

SRW field staff took the lead in working with farmers to identify trades and opportunities to transfer allocations between licences to balance usage.

We engaged with customers through mechanisms including:

- customer consultative committees
- presence at field days, including the East Gippsland multi-agency drought hub
- District and (Groundwater and Rivers) Diversions newsletters
- media, website and social media targeting customer groups
- a successful pilot customer 'Meet a Trader' day to connect buyers and sellers face-to-face.

In addition, SRW has continued to undertake compliance activities including:

- inspection of constructed bores
- monitoring dam construction activities within the region
- continued maintenance and improvement of our water meter fleet.

Given the drought conditions across Wellington Shire and East Gippsland Shire covering a large area of our customer base, SRW staff took steps to encourage the most efficient use of water and to avoid and deter unauthorised take.

We contacted customers in both regulated and unregulated systems, through SMS and phone follow-up, advising them of their current usage status. We encouraged them to discuss their options and consider temporary trades. Benefits included:

- trading in the MID increased to 25,852ML with 72% being customer-to-customer trades, up from 16,417ML the previous year, when 56% were customer-to-customer trades
- our trading pilot event resulted in 180ML being traded between customers on the day.

We proactively communicated with customers to help them understand the allocation framework, and likely outcomes in continued dry conditions. We provided updates on the Thomson Drought Reserve policy and how it fits within the framework and the allocation model. This was done through:

- support from the Macalister Customer Consultative Committee
- articles in the District updates
- media, including radio and TV
- topics in irrigator discussion groups.

When modelling showed that there was unlikely to be any spill entitlement from Lake Glenmaggie this season, we worked collaboratively with Agriculture Victoria and communicated with customers through various channels, to inform them that, if there was no spill, we would allocate a 35% low reliability allocation on 15 December. This allowed customers to plan water use budgets in advance.

Culture of compliance

We have developed a number of initiatives over several years to improve compliance in Southern Victoria. These included:

- creating a compliance procedure that became a model adopted by other rural water corporations
- setting higher standards for metering than the state-required minimums and providing a continuous resource to the Australia Standards for Non-Potable Water Meters Committee
- providing annual compliance training to our field staff
- introducing remote reading technology across our meter fleet to provide near-time access to water extraction data
- being a long-time advocate for reforms to the *Water Act 1989* to strengthen enforcement provisions
- having a continued presence on the recent Compliance Compact Working Group, the Metering Standards Working Group and representation in DELWP's risk-based approach to compliance work
- increasing field resources to deal with compliance in our changing climate. We are about to employ a new resource dedicated to education and facilitation of trade to assist licencees avoid unauthorised take
- undertaking prosecutions for both unauthorised taking of water and unauthorised works matters.

Overall, we believe that our approach of education and enforcement has created a strong culture of compliance among licence-holders and contractors.

About us (continued)

Outcomes 2018-19

With significant demand for water from customers during the 2018-19 season, very high usage was recorded at the mid-year meter reads. This required active management by field staff through additional meter reads, monitoring of remote metering data (where installed) and working with customers to identify water trade opportunities.

The effectiveness of these efforts was demonstrated by a reduction in identified cases of unauthorised take from 110 in 2017-18 to 91 for 2018-19. Of the 91 cases of unauthorised take, 61 cases were assessed as either minor (less than 5%) or explained by other factors such as allowance for stock use through irrigation meters, and have been appropriately brought back into compliance.

The remaining 30 cases are subject to our compliance processes, beginning with warning letters and/or formal interviews. This includes an education process about how to stay aware of use and options.

Bulk entitlement compliance

SRW has not experienced any failure to comply with the provision of the bulk entitlements during 2018-19.

Environmental flow compliance

To minimise the potential for breaching compliance with environmental flows, we have developed a risk management strategy with alerts for customers reaching a threshold close to their full entitlement.

Barwon Water Ministerial Direction Notice

Barwon Water held a groundwater licence allowing extraction from the Gerangamete Groundwater Management Area, via a number of bores at Barwon Downs. The borefield was a critical source of drinking water for Geelong, particularly during the millennium drought. Technical studies have now shown that this historic extraction, along with climate change, caused a reduction of groundwater contribution to flows in Boundary Creek and Big Swamp. This, in turn, has caused the swamp to dry out, the activation of naturally occurring acid sulphate soils and the release of acidic water and heavy metals downstream of the swamp.

The licence was due for renewal in 2019. Barwon Water initially applied to renew the licence, however, that application was withdrawn and the licence expired on 30 June 2019, meaning no extraction can occur.

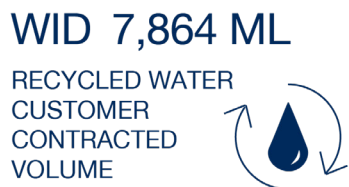
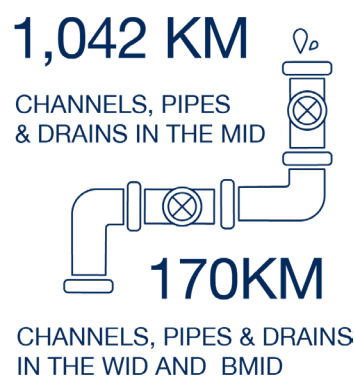
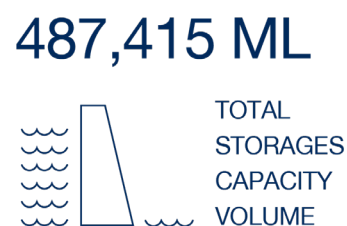
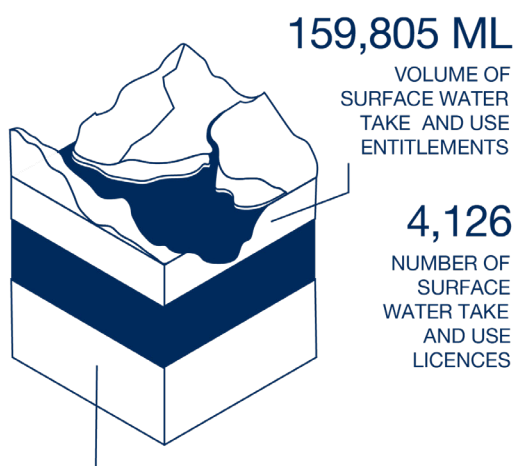
In parallel with the licence application, Barwon Water commenced a program to remediate the environmental impacts of the groundwater extraction. Following a request from the Minister for Water, on 11 September 2018, Southern Rural Water issued a Ministerial Direction under Section 78 (s78) of the *Water Act 1989* to Barwon Water, requiring it to submit and implement a remediation plan for Boundary Creek, Big Swamp and the surrounding environment impacted by groundwater pumping at Barwon Downs. This notice is legally enforceable and ensures the remediation is completed in a timely manner that is technically robust and meets community expectations.

Barwon Water submitted its remediation Scope of Works on 20 December 2018, as required under the direction. The next milestone is for it to submit the remediation plan by 20 December 2019.

SRW recruited a Community Reference Group, under independent chair, Mr Shaun Cox, to assist SRW with its consideration of the initial licence renewal application (now withdrawn) under Section 58 of the *Water Act 1989*. We also appointed a Technical Review Panel of experts to assist in the review of reports and documentation submitted. Both groups are now continuing to be engaged as we work through the s78 process with Barwon Water.

About us (continued)

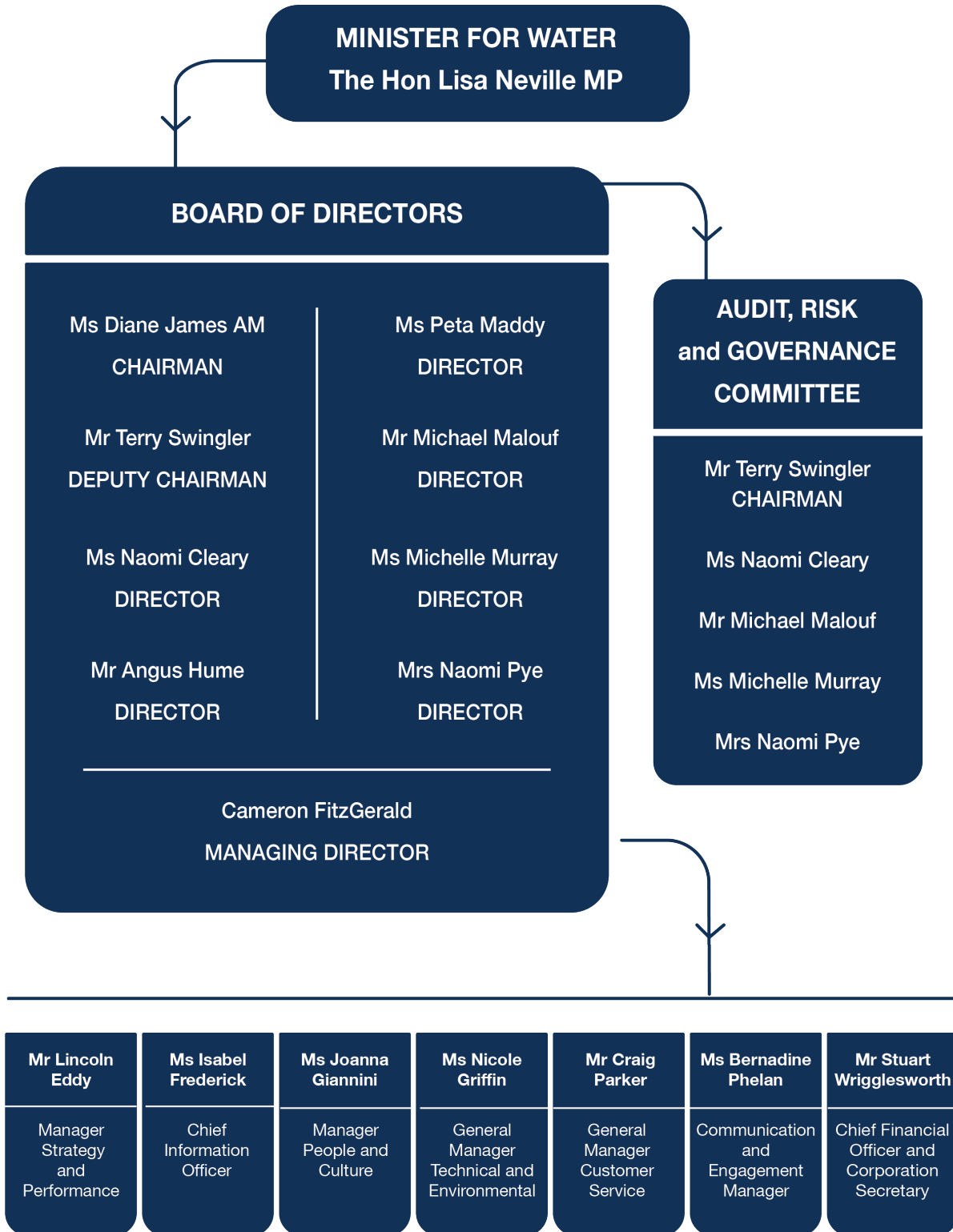
What do we do – at a glance



TOTAL HIGH RELIABILITY WATER SHARES



Organisational Structure



Director profiles

Ms Diane James AM

Chairman

Diane James AM is a business consultant and company director. Her career includes establishing two start-up businesses and serving on numerous State and National boards. She is also Chairman of Goulburn-Murray Water and a former director of Barwon Water. Diane was a founding director of GenU, a national disability, ageing and lifestyle services organisation and was Chairman of the Victorian Coastal Council for 12 years. She was also a member of the EPA of Victoria Advisory Board. In recognition of her contribution to the environment and natural resource management, Diane was awarded a Member of the Order of Australia (AM) in 2011. She is an accredited leadership coach, holds a Graduate Certificate in Innovation and Entrepreneurship and is a Fellow of the Australian Institute of Company Directors. She was appointed to the board on 1 October 2015.

Mrs Kate Calvert

Deputy Chairman to 5 September 2018

Ms Calvert has extensive experience in natural resource management and has previously held various roles in the sector. She and her family run a sheep and cropping enterprise in western Victoria. Ms Calvert has a Master of Science (Environmental Management) and a Graduate Diploma of Education. She is a graduate of the Australian Institute of Company Directors. Ms Calvert was appointed to the board on 1 October 2015 and resigned on 5 September 2018.

Mr Terry Swingler

Deputy Chairman

Mr Swingler has vast experience in the water industry having held senior roles as Yarra Valley Water's General Manager Finance and Company Secretary (1995-2012) and Corporate Secretary with Melbourne Water (1986-1995). He has also been a Director of Equipsuper Pty Ltd (2012-2016) and the Victorian Government's nominated Director on the Joint Government Enterprise Ltd (trading as Water for Rivers) (2012- 2015). Mr Swingler has a Diploma of Business (Accounting) and is a Fellow of CPA Australia, Governance Institute of Australia and the Australian Institute of Company Directors. Mr Swingler was appointed to the board on 1 October 2013.

Ms Naomi Cleary

Director

Ms Cleary has extensive experience in the property sector. She is the former Chief Financial Officer of the Elmstone Property Group, and a current director of SANB Valhalla, a property investment vehicle. Ms Cleary is a director of Sport Climbing Australia. She holds a Bachelor of Business Studies and is a graduate of the Australian Institute of Company Directors and CPA Australia. Ms Cleary was appointed to the board on 1 October 2015 and represents SRW on the VicWater board.

Mr Angus Hume

Director

Mr Hume holds qualifications in education and company directorship. He is the Chairman of the Victorian Catchment Management Council, and formerly Co-Chairman of the Gippsland Lakes Coordinating Committee, Chair of the West Gippsland Catchment Management Authority (WGCMA) and Chair of NRM Regions Australia. Mr Hume has a strong understanding of natural resource management through his South Gippsland dairy farming experience and Landcare membership, with the Department of Primary Industries, and as a past CEO of WGCMA. He is also a past board member of the East Gippsland Catchment Management Authority. He was appointed to the board on 1 October 2017.

Ms Peta Maddy

Director

Ms Maddy has a background in water engineering, strategy setting and management including her current role as a senior associate at the consulting firm Aither. She is a Commissioner and Deputy Chair of the Victorian Environmental Water Holder. Ms Maddy is also a past President of the Victorian branch of the Australian Water Association and was previously a director at Grampians Wimmera Mallee Water, where she chaired the Water Resources Committee. She also chaired the interdepartmental reference group for the Victorian Rural Drainage Strategy and was a member of the Victorian Catchment Management Council for six years. Ms Maddy has a Bachelor of Chemical Engineering (Honours), a Bachelor of Science (Pharmacology and Toxicology) and is a graduate of the Australian Institute of Company Directors. She was appointed to the board on 1 October 2017.

Mr Michael Malouf

Director

Mr Malouf is the director of Malouf Management Services Pty Ltd and is a Sessional Member at Planning Panels Victoria. He is also the chair of the Kardinia Park Stadium Trust and was a Director on the Western Victoria Primary Health Network. During his career, he has held CEO positions at Melbourne, Geelong and Wyndham City Councils, was the CEO of the Carlton Football Club, held executive roles for Pratt Holdings, was the Managing Director at Barwon Water and, more recently, was the CEO of VicRoads. He has a Master of Business Administration, Bachelor of Civil Engineering and is a Fellow of the Australian Institute of Company Directors, the Institution of Engineers and the IPAA. He was appointed to the board on 1 October 2015.

Ms Michelle Murray

Director

Ms Murray was appointed a director of the board on 30 April 2019 and brings extensive management consulting, leadership and project delivery experience to the SRW board. She is also a Director and Chairperson of the Board of Knox Basketball Inc. Ms Murray has held previous executive director and secretary roles at CBUS Industry Super and Hawthorn Citz Junior Football Club. She has a Bachelor of Science, Maths (Honours), from Oglethorpe University in Atlanta, Georgia USA, and is a graduate of the Australian Institute of Company Directors. She was appointed to the board on 30 April 2019.

Mrs Naomi Pye

Director

Ms Pye is a dairy farmer at Bessiebelle. She is a director of the Gardiner Dairy Foundation (appointed 2016) and was a director of the Glenelg Hopkins Catchment Management Authority (2006 – 2011) and has previously held board and committee roles with the Victorian Farmers Federation (1999 – 2007), WestVic Dairy Regional Development Program of Dairy Australia (2000 – 2006) and Australian Dairy Farmers (2005 – 2006). Before her appointment to the board of Southern Rural Water, she was a member of the Southern Groundwater and Rivers Forum, a customer consultative committee of SRW. Ms Pye has a Diploma of Teaching and an Advanced Diploma of Agriculture; she is a Graduate of the Australian Institute of Company Directors. Ms Pye was appointed to the board on 1 October 2011.

Mr Clinton Rodda

Managing Director to 14 December 2018¹

Mr Rodda joined SRW in 2005 after spending 17 years in the utility sector and ten years in management consulting. He has previously held senior management roles with Energy Brix and Eastern Area Power Grid and worked nationally and internationally as a consultant. He holds a Bachelor of Business, a Master of Business Administration, and a Diploma in Ontological Coaching and is a member of the Australian Institute of Company Directors. Mr Rodda was appointed Managing Director on 4 July 2009 and resigned on 14 December 2018.

¹ Ms Nicole Griffin was Acting MD from 15 December 2018 to 10 February 2019.

Mr Cameron FitzGerald

Managing Director

Mr FitzGerald has two decades of professional experience with 14 of these years in the water sector. Having successfully delivered high profile transformative programs across the sector, Mr FitzGerald is committed to driving outstanding outcomes for Southern Rural Water's customers and local communities. Mr FitzGerald has worked at EPA Victoria, KPMG, City West Water and Melbourne Water and holds a Bachelor of Engineering (Chemical) with Honours from the University of Melbourne. He is a graduate of the Australian Institute of Company Directors. Mr FitzGerald was appointed MD on 11 February 2019.

Role of the board

In accordance with the *Water Act 1989* the SRW board is responsible for:

- the strategic planning of the corporation
- the management of the affairs of the corporation.

In doing so, the board must be mindful of the sustainable management principles for water corporations; it must also act as efficiently as possible, consistent with commercial practice.

Membership of the board

- The responsible Minister appoints the Chairman in accordance with the *Water Act 1989*.
- The responsible Minister similarly appoints directors.
- The Deputy Chairman, one of the appointed directors, is appointed by the board.
- The board appoints the Managing Director.
- Directors are appointed by their qualifications and experience; they do not represent any particular constituency.
- The responsible Minister sets remuneration.

Governance (continued)

Board committees

Board committees are established by the board to assist in the detailed examination of matters and to make recommendations to the board.

Audit, Risk and Governance Committee

The Audit and Risk Policy Committee became the Audit, Risk and Governance Committee on 1 October by incorporating corporate governance responsibilities. The committee assists the board in discharging its responsibilities for:

- the integrity of the annual financial statements and financial reporting
- exposure to legal and business risk and associated risk management
- the effectiveness of the external and internal audit functions
- the adequacy and effectiveness of financial management, financial control systems, and other internal controls
- monitoring compliance with laws and regulations
- fostering excellence in corporate governance.

A key responsibility of the Audit, Risk and Governance Committee during 2018-19 was to ensure employee safety. The Committee:

- monitors compliance with laws and regulations relevant to SRW in relation to occupational health and safety.
- provides advice to the board on occupational health and safety compliance and practice.
- reviews management's approach to risks relating to people.

Committee members

Mr Swingler is Chairman of the committee. Committee members are Ms Cleary, Mr Malouf, Mrs Pye and Ms Murray (from 5 June 2019). Ms Calvert was also a member of the committee until she resigned from the board on 5 September 2018.

Asset Governance Committee

The Asset Governance Committee assists the board in discharging its responsibilities to support excellence in SRW's asset management and environmental stewardship. It ensures performance and governance is appropriate and aligned with corporate objectives.

The committee has an oversight of performance and governance and examines issues in detail to make recommendations to the board on matters including: capital

works, the strategic asset management plan, dam safety, headworks performance, irrigation district performance, aquifer condition, asset management policy, environmental strategy implementation.

Committee members

Mr Malouf was Chairman of the committee until his resignation from the position on 7 August 2018, at which time Ms Maddy was appointed Chairman. Members of the committee are Mr Hume, Ms James AM, and Mr Malouf and Ms Murray (both from 5 June 2019).

Remuneration Committee

The Remuneration Committee fosters excellence in remuneration practice, specifically to ensure that executive remuneration policies and procedures comply with government requirements and better practice.

Committee members

Ms James AM is Chairman of the committee. Committee members are Mr Malouf, Mr Swingler and Ms Maddy. Ms Calvert was also a member of the committee until she resigned from the board on 5 September 2018, at which time Ms Maddy was appointed a member.

People and Culture Committee

The People and Culture Committee was formed on 31 October 2018 to give the board oversight and the opportunity to shape the organisational culture of SRW to ensure:

- a commitment to a culture of excellence
- adherence to the agreed trademark behaviours
- the creation of a diverse and inclusive workplace
- the wellbeing of all employees
- compliance with the Victorian Public Sector Code of Conduct.

Committee members

Ms Cleary was appointed Chairman of the committee on 31 October 2018. Committee members are all non-executive directors.

Werribee Office Site Redevelopment Committee

The Werribee Office Site Redevelopment Committee oversaw the Werribee Office Redevelopment Project.

Committee members

Ms Cleary (Chairman), Mr Malouf and Mr Rodda were all members of the committee throughout the year until the committee was disbanded on 5 December 2018.

Customer Consultative Committees

Directors also attend the scheduled customer consultative committees throughout the year, with one regular attendee and a second director attending as available.

Macalister Customer Consultative Committee – Mr Hume.

Southern Groundwater and Rivers Forum – Mrs Pye.

Werribee Bacchus Marsh Customer Consultative Committee – Ms Cleary to 1 January 2019, Ms Maddy from 1 January 2019.

Board activities for the year

Development opportunities in the past year included:

- attendance at the VicWater annual conference, held on 13-14 September 2018
- participation in the launch of the Women in Water Directors' Network
- attendance at a Gippsland Region Water Alliance regional event
- attendance at various Treasury Corporation Victoria and CPA events and updates throughout the year
- attendance at various Australian Institute of Company Directors updates throughout the year.

Board meetings

Directors attended the following scheduled meetings.

Board and board committee meetings attendances 2018-19 summary

	Board meetings	Audit, Risk and Governance Committee	Asset Governance	People and Culture Committee	Remuneration Committee	Werribee Office Site Redevelopment Committee
Diane James AM	8 of 8		4 of 4	3 of 3	2 of 2	
Kate Calvert (to 5 September 2018)	1 of 1	0 of 2			1 of 1	
Naomi Cleary	8 of 8	6 of 6		3 of 3		1 of 1
Angus Hume	7 of 8		3 of 4	2 of 3		
Peta Maddy	8 of 8		4 of 4	3 of 3	1 of 1	
Michael Malouf	7 of 8	5 of 6	1 of 1	0 of 3	1 of 2	1 of 1
Michelle Murray (from 30 April 2019)	2 of 2		1 of 1	1 of 1		
Naomi Pye	8 of 8	5 of 6		3 of 3		
Terry Swingler	8 of 8	6 of 6		3 of 3	2 of 2	
Clinton Rodda (to 14 December 2018)	4 of 4					1 of 1
Cameron FitzGerald (from 11 February 2019)	3 of 3					
Nicole Griffin ¹	1 of 1					

¹ Acting Managing Director 15 December 2018 to 10 February 2019.

Board stakeholder engagement

Board members regularly represent SRW at a range of stakeholder meetings and events throughout the water sector and broader regional development industry.

Board meetings are held at strategic locations across southern Victoria, providing the opportunity for inspection tours and meetings with customers and stakeholders to further extend relationships and to gain exposure to customer priorities and industry trends in development.

In the past year, the board has had meetings with:

- local stakeholders and members of the Werribee Bacchus Marsh Customer Consultative Committee, a visit to Bacchus Marsh to view new infrastructure works and to farms in Werribee South to view modernisation and productivity improvement projects
- Southern Groundwater and Rivers Forum to discuss current initiatives and priorities in groundwater and surface water across southern Victoria
- local stakeholders including members of the Macalister Consultative Committee in Maffra and Sale, and a progress visit to the modernisation works in the MID
- Warrnambool and district stakeholders and customers.

Governance (continued)

Leadership team

The SRW leadership team includes the Managing Director and the following members:

Mr Lincoln Eddy

Manager Strategy and Performance

Mr Eddy joined SRW in 1997 as a Project Accountant and has held numerous positions.

He was appointed Manager People and Performance in late 2009 and most recently as Manager Strategy and Performance in 2014. He previously worked in the education sector and has experience running his own business. He has a Bachelor of Business.

Ms Isabel Frederick

Chief Information Officer (from 19 June 2019)

Ms Frederick has held leadership positions in technology and business, both locally and internationally before joining SRW in June 2019. Her career has seen her deliver excellence in consulting to executive management and boards, in several major Australian corporates, as well as senior management roles across all areas of large business/IT divisions. She has led both traditional and emerging transformation programs, most recently Lean Organisation Transformation and has held COO, CTO and CFO roles. Highly motivated, with a strong business and customer focus, she has succeeded in defence (logistics), finance and banking, insurance, superannuation, healthcare, and telecommunications.

Ms Joanna Giannini

Manager People and Culture

Ms Giannini joined SRW in January 2017 having held senior human resources positions with the Department of Health and Human Services. Before this, she worked with community service and private organisations providing human resources leadership and leading organisational reform. She brings a strong background in organisational development, employee relations and leadership and management coaching. She holds a Bachelor of Business (Human Resources).

Ms Nicole Griffin

General Manager Technical and Environmental

Ms Griffin joined SRW in May 2018 having spent five years at Gippsland Water as General Manager Assets and Commercial Business and, before that, General Manager of Business Development. Before joining the water industry, Ms Griffin spent some years in the Biotechnology sector working for Monsanto both in Australia and the Asia Pacific region. She worked in the cotton industry for some years and understands the important role that irrigation plays in the health of regional economies. Ms Griffin has a Bachelor Degree in Agricultural Science and Graduate Diploma in Environmental Management. Nicole is also a graduate of the Australian Institute of Company Directors and is currently completing an Executive MBA.

Mr Craig Parker

General Manager Customer Service

With extensive operational experience in the rural water sector, Mr Parker is committed to excellence at every point in the customer cycle. The constant focus is on accessible and efficient water trading, making transactions such as renewals cheaper and easier and facilitating customer access to their data to help run their business. Mr Parker also believes that sound asset management is vital in ensuring our new and existing assets provide maximum value to customers. He joined Southern Rural water as a field officer in 2000, has worked in most parts of the business, and undertook a secondment as Acting CEO at East Gippsland Catchment Management Authority. He is a member of the Australian Institute of Company Directors and has business qualifications from Mt Eliza Business School and the University of Queensland.

Ms Bernadine Phelan

Communications and Engagement Manager

Ms Phelan joined SRW in January 2017, bringing more than three decades of experience in media, communications, engagement and corporate development. She started her journalism career in Australia and held senior leadership roles for a global media group in the UK for 19 years. Since returning to Gippsland in 2007, Ms Phelan has worked across Australia as an integrated media and digital media consultant for clients in the private and public sector, including in national and state media, water, natural resources and education sectors and in support of Traditional Owners-State Government joint management planning. She is currently completing postgraduate qualifications in digital communications.

Mr Michael Piko

Chief Information Officer to 26 March 2019¹

Mr Piko has more than 30 years of experience in information technology and has led teams in a variety of government and private organisations, including water corporations in Victoria and New South Wales. He has also held executive roles in the higher education and health sectors. Mr Piko has a strong background in ICT strategies, service delivery and project management.

¹ Mr Jordan Hunt was Acting CIO 27 March to 18 June 2019.

Mr Stuart Wrigglesworth

Chief Financial Officer and Corporation Secretary

Having grown up on a family farm supplied from the Macalister system, Mr Wrigglesworth joined SRW as Finance Manager in late 2005 and was appointed Chief Financial Officer in March 2011. He has six years' experience working in professional practice for Price Waterhouse Coopers in Melbourne and South Africa, as well as having more than five years' experience in the United Kingdom, working in Finance and Accounting roles for commercial and public sector businesses. Mr Wrigglesworth holds a Bachelor of Commerce. He is a member of the Institute of Chartered Accountants and of the Governance Institute of Australia.

Letter of Expectations reporting

The following pages provide SRW's performance against the key performance indicators (KPIs) relevant to the priority areas as set out in Water for Victoria. Our Performance Report (pages 101-103) includes our performance against the measures specified in Ministerial Reporting Direction 01.

Climate Change

Provide services that minimise environmental impacts, mitigate climate change and put in place adaptation strategies and actions.

E2 Emission reductions

Corporate Plan commitment	Status
SRW is committed to a Zero 2025 strategy to reduce our carbon emissions by 100% from a baseline 1,559 tCO ₂ e by the year 2025. By implementing our Zero 2025 strategy, we will reduce carbon emissions by at least 45 tCO ₂ e in 2018-19.	At 1,383 tCO ₂ e our emissions for 2018-19 were well below our target for the year, largely due to better than expected results for the vehicle fleet.

E3 Climate adaptation

Corporate Plan commitment	Status
Review our allocation (available water) fortnightly and communicate allocation changes to our customers.	Completed for 2018-19.
Publish regular water supply outlooks on our website, which we also communicate through regular district updates.	Completed for 2018-19.
Encourage water trading between customers in surplus to those who need more water	We contacted more than 1,000 customers directly to raise awareness of, and encourage, water trading. We promoted trading through our Customer Consultative Committees, in social media and on our website. We also ran a successful trial Customer Trading Day, which brought together potential sellers and buyers face-to-face - 180ML was traded on that day. Trades between customers in the MID for 2018-19 rose to 25,852ML (72% of trades) from 16,417ML (56%) in 2017-18 (pa.
Make water savings available for allocation auctions each season.	We ran three online allocation (seasonal) auctions in the MID in November, December and January, selling more than 200ML (page 8).
Maintain drought contingency plans to assist with managing low allocations in any given season, helping customers to plan and manage dry periods.	<p>We continued to implement aspects of existing drought contingency plans as appropriate through 2018-19. In response to customer need in the Latrobe River system, when all trading had been exhausted and there was significant need in declared drought conditions, we activated the use of part of the Latrobe Drought Reserve, as per the Gippsland Sustainable Water Strategy. For the first time, we held three online allocation auctions over February, April and May, successfully making 2,085ML seasonal allocation available to customers in need.</p> <p>During 2018-19 we established a new position for a Manager Drought Preparedness to create a single drought response plan for how SRW prepares for and responds to drought. This work will take place during 2019-20.</p> <p>We also connected with other water corporations, local government and Catchment Management Authorities to coordinate drought response initiatives and communications. We co-hosted a Drought Hub at the East Gippsland Field Days and co-subsidised tickets for farming families to attend.</p>

Corporate Plan commitment	Status
<p>Our irrigation modernisation projects continue to save significant amounts of water. The projects also enable our customers to make long-awaited changes to their operations, installing best-practice irrigation to utilise their allocation. The savings are providing additional water for irrigators and the environment to build resilience to climate change.</p>	<p>Modernisation projects are continuing, creating new water savings through improved system efficiency and more accurate measurement. MID, BMID, WID delivery efficiencies have increased as pipeline sections have come online – the WID, for example, has risen from 59% two years ago to 71% in 2018-19.</p> <p>We are exceeding targets on reducing drainage outfalls: they have fallen from more than 25,000ML in 2013-14 to 7,785ML in 2018-19, which means less run-off nutrients flowing into the Gippsland Lakes.</p>
<p>Lead and participate in projects across the state to source alternative water supplies, particularly in the Werribee Basin, to assist customers with water security during dry periods irrigation</p>	<p>Relevant projects we have participated in during 2018-19 include:</p> <ul style="list-style-type: none"> • Sale of additional water shares in the Werribee system • Activation of Latrobe drought reserve • Lindenow Valley water security • Emergency water supply points • Moorabbin groundwater auction • Surveys of customer use and anticipated needs in Koo-Wee-Rup and in Yarram GMAs • Tarwin River winterfill water auction • Integrated Water Management Forums across the state
<p>Power generators and urban water corporations have access to our water allocation model, which provides them with real-time information on their water in our storages.</p>	<p>Implemented and ongoing.</p>
<p>Continue to review and enhance systems of rosters and restrictions under Local Management Plans to manage unregulated water systems in the light of climate change and increased variability.</p>	<p>During 2018-19 we commenced work with DELWP to:</p> <ul style="list-style-type: none"> • improve rosters and restrictions for the Mitchell River • improve trading rules for the South-West Limestone.

Customer and community outcomes

All aspects of service delivery will be customer and community centred.

C1 Customer Satisfaction

We are committed to the following customer outcomes, as outlined in our recent Price Submission:

- SRW provides great customer service.
- SRW's water supply system enables good practice irrigation.
- SRW manages water resources well; maintaining a good balance between our customers' needs as water users and the sustainability of the resource.
- SRW works with each user to manage their water needs and entitlements.
- SRW keeps prices as low as possible.

Each outcome is supported by measures and targets.

Letter of Expectations reporting (continued)

Our charges for the year were consistent with the prices proposed in our Corporate Plan. Indicative bills for customers in our three irrigation districts are as follows:

District	High reliability water share (ML)	Low reliability water share (ML)	Delivery share (ML/day)	Metered outlets (each)	Recycled water volume (ML)	Total bill \$
Macalister						
Small customer	5	2.5	0.0575	1		647.55
Medium customer	50	25	0.575	1		4,598.97
Large customer	250	125	2.875	3		22,577.83
Medium river customer	50	25	0	1		1,440.75
Werribee						
Small customer	5	2.5	0.0775	1		2,204.20
Medium customer	50	25	0.775	1		19,936.00
Large customer	100	50	1.55	2		39,872.00
Large recycled water customer	100	50	1.55	2	100	74,772.00
Bacchus Marsh						
Small customer	5	2.5	0.0925	1		2,003.23
Medium customer	25	12.5	0.4625	1		9,200.13
Large customer	100	50	1.85	2		36,392.50

C2 Customer and community engagement

See pages 26-29 for details on customer, stakeholder and community engagement, and page 38 for our Community Service Obligations.

Water for Aboriginal cultural, spiritual and economic values

In June 2019, our revised Traditional Owner Policy was endorsed by the board and adopted. The board was presented with progress reports on our Aboriginal engagement plan in December 2018, and in June 2019, which includes actions to support:

- including Aboriginal values in water planning (incorporates Water for Victoria Actions 6.1 and 6.2)
- generating economic development opportunities (incorporates Water for Victoria Actions 6.3 and 10.9)
- increasing Aboriginal engagement in water management (Water for Victoria Actions 6.4 and 10.8).

AC1 Engagement of Aboriginal communities for involvement in business opportunities and access to water for economic development

Corporate Plan commitment	Status
Support research to understand the barriers for Aboriginal enterprises to supply goods/services.	We have a Procurement Working Group reviewing this as part of the Social Procurement Framework and DELWP's Aboriginal Procurement commitment.
Explore opportunities for Aboriginal enterprises to manage native vegetation and/or carbon offset sites that we develop.	These opportunities are now part of wider discussions about using Traditional Owners' natural resource management services on our contractor panels wherever possible.
Launch a traineeship program targeting trainees from diverse backgrounds including Aboriginal and Torres Strait Islander peoples.	We introduced the HomeGrown trainee program and employed two new Aboriginal trainees in 2018-19.

Target 70% of our staff having undertaken cultural awareness training (100% over a 5yr period).

We are in the process of adopting for all staff the SBS Cultural Awareness program, and including it in our induction modules.

All project staff and contractors involved in construction works on our major projects have been inducted by the appropriate cultural heritage officers for their area.

Through the Gippsland Environmental Agencies (GEA)¹ partnership with the Gunaikurnai Land and Waters Aboriginal Corporation (GLaWAC), we are introducing a three-tier cultural competency program for all partners, which will allow deeper levels of training.

We continue to seek opportunities with other Traditional Owners to undertake appropriate cultural awareness training.

AC2 Effective engagement of Traditional Owners for inclusion of Aboriginal Values in water planning.

Aboriginal organisations are often resource-stretched by the increasing interest in engagement from agencies across many sectors. This is the strength of the multi-agency partnership model: it enables the Traditional Owners to run a joint process with all partner agencies and organisations, enabling faster implementation of agreed objectives with partner collaboration and shared learning. The multi-agency framework could be considered a model approach to engagement with other Aboriginal groups, government departments and agencies across the state.

¹ The Partnership Agreement between GLaWAC and 14 Gippsland Environmental Agencies (GEA), which include DELWP, Parks Victoria, West and East Gippsland CMAs, and the four Gippsland water corporations, is strong and active. GLaWAC hosts a bi-monthly working group, whose remit is to plan, agree and report on actions under each agreement objective, sharing knowledge between partners. Through the GLaWAC-GEA partnership, the Gunaikurnai people are more engaged in strategic planning of employment and economic opportunities and in water planning.

Corporate Plan commitment	Status
Refer significant surface and groundwater applications to Traditional Owner groups	We refer significant surface and groundwater applications to Traditional Owner groups. Our Barwon Downs Community Reference Group included a member from the Traditional Owner group. This group continues as a representative engagement for input into ongoing matters related to the Barwon Downs remediation process. We are in continuing discussions with GLaWAC on future project planning in irrigation districts, groundwater and surfacewater.
Advise Traditional Owner groups of opportunities to access water savings	This is part of our revised Traditional Owner policy.
Work with the relevant Registered Aboriginal Parties to build capacity on water-related matters.	(See above) This is included in our revised Traditional Owner Policy and in actions under our Partnership Agreement, including training and mentoring opportunities. We have also assisted GLaWAC in the recruitment process for key roles.

AC3 Aboriginal Inclusion Plan / Reconciliation Plan

Our focus in this area for 2018-19 has been in:

- building a strong multi-agency partnership model with evidence of achieving the agreed action plan goals
- renewing our Traditional Owner Policy to better reflect our corporate objectives and the Water for Victoria principles
- developing an Aboriginal engagement plan to deliver on the policy, which sits within the stakeholder strategy.

We face the challenge of a large region across the southern half of Victoria that intersects with 8 appointed Registered Aboriginal Parties and several Traditional Owner groups in areas not yet determined. We continue to build relationships with members from other Aboriginal groups, and attend agency/Traditional Owner group workshops and seek opportunities to engage across the state. We recognise that several other water corporations and Catchment Management Authorities are already well advanced with Reconciliation Action Plans in their own regions. We are seeking opportunities to learn from, and potentially partner with, those leading the way in Traditional Owner relationships across the state.

Letter of Expectations reporting (continued)

Resilient and liveable cities and towns

Contribute to healthy communities by supporting safe, affordable, high-quality services and resilient environments.

Our context

As a rural business, the measures under this priority area are not applicable to SRW.

Notwithstanding this, we sit on several of the project control groups, and support working groups with relevant surface and groundwater information strategies and projects where they intersect with our areas of responsibility. This can include groundwater supply or diversions from dams or unregulated rivers.

Our irrigation modernisation projects deliver investment and benefits to the local communities; both in the construction

period and, more significantly, through improved service and water savings by increasing production, regional economic activity, and environmental benefits.

We continue to be a funding partner and member of the Grow West initiative, which has delivered revegetation projects in the Werribee River catchment area (including council land) and annual community planting days.

Two of the local government areas in our region were declared in drought in 2018-19, and this has affected not only production on our customers' own farms and rural enterprises, but also the businesses and service suppliers in the regional economy. We have used our community sponsorship to support farmer mental health at various community events. We continue to make purchasing decisions which support local businesses wherever appropriate, in accordance with our procurement guidelines.

Recognising recreational values

Support the wellbeing of rural and regional communities by considering recreational values in water management.

Corporate Plan commitment	Status
Develop a land and recreation management plan for Lake Glenmaggie.	We are developing a land and recreation management plan to cover both Lake Glenmaggie and Blue Rock Lake.
Deliver projects to improve the recreational value of water at our storages, subject to funding.	<p>At Blue Rock Lake, we are completing a project that is replacing the existing jetty with two 48m long floating jetties either side of the boat ramp to improve access for all at low levels, and to relieve congestion at the ramp. The \$165,000 project has been co-funded with a \$132,000 grant from Maritime Safety Transport Victoria.</p> <p>We are nearing completion of repairs and improvements to the Melton Reservoir recreational area and access road.</p> <p>Planning stages are underway for the installation of an all-abilities playground at Blue Rock.</p>
Continue working with the Recreational Users Information Needs Assessment team to identify projects to close gaps in how we manage our storages for recreational use.	Ongoing

Leadership and Culture

Water corporations reflect the needs of our diverse communities.

G1 Gender and cultural diversity

See pages 30-32 People and Culture.

G3 Health and Safety

See page 32-33 for reporting in accordance with FRD22H.

Financial Sustainability

Delivering safe and cost-effective water services in a financially sustainable way.

Measures: F1 - F7, pages 101-102

Engaging with customers, stakeholders and community

Engagement objectives

Strong customer and stakeholder relationships underpin SRW's ability to achieve its strategic objectives and vision. These relationships have been developed over decades of customer and stakeholder engagement, building mutual trust and respect.

Our primary engagement objective is to ensure our customers, stakeholders and communities have a wide range of opportunities to engage with us. We want them to find it easy to raise issues and provide suggestions for improvement.

SRW's corporate strategic focus includes growth and customer productivity, affordable prices, sustainable water resources and financial sustainability. These require a close understanding of drivers that are external to SRW, and which impact on our stakeholders and customers.

We use the International Association for Public Participation Australasia (IAP2) engagement model, which is widely used in the public sector as part of best practice engagement. The engagement spectrum outlines the approach and outcomes expected at the different levels of engagement: Inform, Consult, Involve, Collaborate and Empower.

Customer engagement

Understanding our customers' priorities is critical to our success. They work with us to guide and inform our decision-making, and to help us shape future strategy and policy.

We engage with customers to seek their input regarding the services we offer, our capital projects including modernisation programs and new revenue projects, and other factors involved in the cost of water delivery. We want them to understand how their needs guide our priorities.

In addition to our offices providing frontline support and our field staff maintaining valuable on-farm relationships, our Business Services team provides phone support and live online chat, and we maintain active social media pages, groups and e-newsletters.

Consultative committees:

We meet regularly with our three Customer Consultative Committees to ensure we also provide a formal process for customer participation in operational, strategic and long-term planning.

They fulfil their duties responsibly, and are often called upon to help represent SRW's customers in media opportunities, or in engagement with Members of Parliament, and at other community and industry events.

- Macalister Customer Consultative Committee (MCCC)
- Werribee Bacchus Marsh Customer Consultative Committee (WBMCCC)
- Southern Groundwater and Rivers Forum (SGRF)

These committee members sometimes augment working groups and other committees as required. For instance, we have co-opted representatives from customer committees onto the Project Control Groups for major capital works, which supports the key role they play in the decision-making process.

The members on these groups are selected based on the knowledge they bring to the committee and their ability to reflect the diversity of the customer sector they represent. These committees are responsible for:

- helping shape future plans, prices, investments, budgets and performance indicators
- feedback on pricing and billing arrangements
- feedback on customer communication activities
- providing a customer's perspective on business issues, with input into problem-solving
- linking SRW to the customer communities it serves.

In the more intensive areas of groundwater and surface water use, SRW maintains connection with local area committees to review aquifer and river response. These meet annually, or as needed.

Further customer engagement:

In addition to routine core group meetings, we maintain regular contact with various industry and farmer groups. SRW staff are also frequently involved in individual on-farm communications.

Over the course of 2018-19, we have used:

- project update meetings for specific customer groups
- significant individual consultation on-farm
- field days and farmer group forums
- industry events, tours, workshops and group forums
- digital engagement tools, particularly in the use of online surveys and opt-in subscription to e-newsletters
- social media platforms, including use-specific groups

Our internal **Customer First team** provides a regular forum for staff from across the business to share their perspectives and promote ways to improve customer service. This team also visits a range of customer sites to better understand customer priorities and concerns.

Drought resilience and bushfire recovery

Two of our local government areas were drought declared in 2018-19 and the drier seasons continued across our region, resulting in high demand on water.

We collaborated with our customer committees, DELWP, the municipalities, Agriculture Victoria, other water corporations and catchment management authorities to plan strategies for practical assistance and support.

SRW Groundwater and Rivers staff have been involved in the DELWP planning of the rollout for the Emergency Water Standpipe Infrastructure program and will take the lead on this program.

Responding to customer need in the Latrobe River system, we also developed strategies to activate the drought reserve, held in Blue Rock. This was communicated and promoted as successful online (seasonal) allocation auctions in February, May and June.

In late February and March, large areas of Gippsland were burnt by bushfire. The towns of Bunyip and surrounds, Rosedale and Dargo were affected, with smaller towns in the Maffra area under warnings at various stages during the weeks the fires continued. We worked with other agencies to offer support for strategies around the issue of stock and domestic water in areas where customers could not use their usual water sources.

Stakeholder engagement

SRW's region includes Melbourne Water, three metropolitan urban water retailers, six regional urban water corporations, five catchment management authorities, more than 25 regional and rural municipalities and all urban municipalities.

SRW also works closely with State Government, chiefly DELWP in its delegated licensing functions, as well as the Environment Protection Authority, Department of Health and the Essential Services Commission.

We have regular scheduled meetings with the urban water businesses, power companies and government departments who hold bulk entitlements in the storages we manage. These meetings provide an opportunity to discuss strategic and operational matters, including: service expectations, pricing, planned works, environmental matters and policy.

Some of the many other stakeholders we engage with:

- the Minister for Water and her staff
- the Department of Treasury and Finance
- primary industry groups such as the Victorian Farmers Federation and relevant commodity groups, United Dairyfarmers of Victoria, along with peak horticultural industry bodies
- the Energy and Water Ombudsman of Victoria
- Victorian Environmental Water Holder
- Water industry groups
- Catchment Management Authorities across our region
- Environment Victoria



- Federal Government agencies such as the Bureau of Meteorology
- environmental and sustainability groups
- regional development organisations and community-based progress groups.
- Regional Development Victoria, including Great South Coast Food and Fibre Council and Food & Fibre Gippsland
- Victorian Farmers Federation
- Gippsland Regional Water Alliance
- Gippsland Environmental Agencies (GEA) – MDs forum and Women in Leadership Group and GLaWAC Working Group
- Integrated Water Management groups
- Department of Jobs, Precincts and Regions (DJPR) / Agriculture Victoria.

SRW has a close dialogue as need arises with other municipalities, water corporations and catchment management authorities across southern Victoria.

We developed and implemented Communications and Engagement Plans for all our major projects and initiatives, including water auctions and sales, the MID, WID and BMID modernisation programs, water trading and the Barwon Downs stakeholder and community group engagement.

We published a dedicated Barwon Downs micro-site and portal on our website, to give simple access to communications and information about the application and remediation notice processes.

Measurement

SRW measures the effectiveness of its service, communications, media and engagement activities and encourages feedback from its customers and stakeholders in several ways, including:

- customer committee feedback
- regular surveys of customers across all businesses

- biennial stakeholder surveys and 'pulse checks'
- feedback forms sent to all licence applicants
- regular stakeholder engagement at various levels throughout the organisation
- customer feedback via our website, including live online chat with Customer Service
- board meetings being conducted across the state, involving visits and meetings with customers and stakeholders
- social media pages - including specific groups for irrigation districts and storages information
- email, online and e-news responses.

Customers who feel that a complaint has not been satisfactorily resolved can contact the Energy and Water Ombudsman Victoria (EWOV) on 1300 500 509.

Indigenous engagement


SRW acknowledges and recognises Aboriginal people as the Traditional Owners and Custodians of the land and waters on which we work and live. We respect Aboriginal culture and the deep and ongoing connection Aboriginal people have to Country.

We commit to foster mutual understanding and respect, to build trust and develop meaningful working relationships with the Traditional Owner groups and Aboriginal communities across our region. We intend that these relationships will raise cultural awareness and deliver improved employment and economic benefits through participation in the water sector.

57  **8** 
 MEDIA RELEASES FIELD DAYS & FORUMS

149  **f**
 SOCIAL MEDIA POSTS

32 
 CUSTOMER GROUP MEETINGS

570 
 STUDENTS REACHED IN TOURS & EDUCATION PROGRAMS

In early June 2019, our revised Traditional Owner Policy was endorsed by the board. Progress reports on our Aboriginal engagement plan were presented to the board in December 2018, and in June 2019, which included actions to support:

- including Aboriginal values in water planning (incorporates Water for Victoria Actions 6.1 and 6.2)
- generating economic development opportunities (incorporates Water for Victoria Actions 6.3 and 10.9)
- increasing Aboriginal engagement in water management (Water for Victoria Actions 6.4 and 10.8)

We are working with Traditional Owners in our region to understand their priorities and objectives, and learn how we can help them to achieve their goals. In doing so, we aim to deliver on our corporate goals and the Water for Victoria priorities in relation to recognising and including Aboriginal values for water.

Other activities and engagement initiatives at SRW in 2018-19 have included:

- recruiting a Traditional Owner representative on the Barwon Downs Community Reference Group
- commissioning an indigenous artist to provide artwork for the new Werribee meeting room
- a joint DELWP, Parks Victoria, Agriculture Victoria and SRW NAIDOC Welcome to Country, Smoking Ceremony and lunch at Heyfield depot
- opening discussions with GLaWAC about ongoing modernisation, and future potential for access to water
- engagement to promote the Cultural Heritage Management Plan process, particularly in relation to the major projects
- exploring further opportunities to develop our relationships with other Registered Aboriginal Parties across our region.

Community engagement

SRW engages in a variety of ways with the wider communities (non-customers) across southern Victoria. These include residents within our region and visitors to the region.

The Broadening Horizons program is a significant commitment to developing relationships with our local secondary schools, and promoting pathways into careers associated with the water industry. SRW staff mentor groups of students who are undertaking scientific, data or environmental research to present at an annual expo for the school and wider community.

Our staff attend various community events to promote awareness of rural water management. During 2018-19, staff attended events such as Farm World at Lardner Park, Sheepvention Field Days, East Gippsland Field Days, Silvan-Wandin Field Day and Maffra and Sale Agricultural Shows.

Engaging with customers, stakeholders and community (continued)

In addition, SRW hosts numerous tours for local schools, community groups, universities and international aid groups, particularly in our irrigation districts and at our large storages.

We participate in Job Shadow day and other work experience programs, which promote diversity and inclusion in our employment campaigns.

During Water Week activities, we host children from local primary schools on specifically designed tours in our irrigation districts, and promote safe behaviours around our assets, such as our dams and irrigation channels.

Sponsorship

SRW is committed to building its relationship with the communities it serves in southern Victoria. One of the ways we do this is through sponsorship of community events and group activities.

Our sponsorship priorities target not-for-profit activities that:

- strengthen local communities
- promote sustainable environmental practice
- educate, particularly on water-related topics.

SRW provides sponsorship to community groups and organisations, industry events or activities and to staff involved in charitable events or extraordinary not-for-profit personal endeavours.



Recreational values

We acknowledge the strong association that leisure users have with our public storages, and we remain committed to developing plans for their ongoing use.

In May, we recognised 100 years since Gippsland farmers committed to the initial 10,000 acres needed to create the Macalister Irrigation scheme, paving the way for legislation and funding for the construction of the weir to begin. We will celebrate the centenary of work commencing with a community event at Lake Glenmaggie in December 2019.

Recreational use of Blue Rock Lake has grown significantly and it is considered a premier Australian bass fishing destination.

We completed a \$165,000 project, replacing the existing jetty with two 48m long floating jetties either side of the boat ramp to improve access for all at low levels, and to relieve congestion at the ramp. The project was co-funded by a \$132,000 grant from Maritime Safety Transport Victoria and SRW.

Design stages are underway for an all-abilities playground at Blue Rock.

Land and water management plans developed for Pykes Creek, Merrimu and Blue Rock have identified future aspirations for improved facilities. Further plans for other storages are being developed. We are nearing completion of repairs and improvements to the Melton Reservoir recreational area and access road.

Our staff attending public and community events, such as field days, agricultural shows and school tours, also promote safe recreational use of our public storages.

We maintain an active and responsive Pykes Creek Facebook page, which provides an immediate method for keeping in touch with recreational users who come from outside our usual customer communication channels. We have used it extensively to manage communications that relate to water levels, speed restrictions and any closure periods.

Our website is kept up-to-date with all relevant information about facilities, accessibility and any restrictions at our storages. The front page of the website also carries prominent warnings when there are any Blue-Green Algae bloom warnings.

Our people

SRW employs 166 staff across its 20 southern Victorian work sites. Employees work within irrigation, headworks, groundwater and rivers, engineering, technical and corporate functions.

We believe that a powerful way to effect a breakthrough in organisational effectiveness is to create a culture of excellence. A “culture of excellence” is, by definition, out of the ordinary.

We are committed to creating an environment where our people:

- are committed to delivering SRW’s vision, goals and objectives
- show pride in their work and demonstrate accountability
- consistently meet or exceed expectations
- are encouraged to innovate and become leaders in our industry
- are supported in their development
- live our trademark behaviours of United, Customer first, Ambitious, Results driven, Innovative and Respectful.

Our people are selected for positions throughout the organisation, on SRW’s principles of recruitment and selection:

- maintain open competition, on the basis of merit applying the principle of achievement relative to opportunity, to appoint the best candidates
- adhere to principles of equity and equal opportunity for all candidates
- treat all candidates equitably, with respect and courtesy
- ensure that selection procedures are efficient and effective and
- maintain applicant confidentiality.

Key Initiatives – Culture and Engagement

In 2018-2019 we continued to track our organisational culture through the Insync Alignment and Engagement Survey. In 2019 the results reported an improved response rate (13%) from staff and notable improvement across the organisation in our alignment and engagement scores. The results of the survey have been used to inform our People and Culture improvement plans for the coming year.

Key Initiatives – a new Enterprise Agreement

The SRW Enterprise Agreement (EA) is the main industrial agreement that regulates staff pay and conditions. The new EA was ratified in November 2018 and strengthened our commitment to diversity and inclusion, consultation, flexible work arrangements and support for staff experiencing family violence.

Key Initiatives – Learning and Development

Our induction and learning and development program includes:

- AQUA, a comprehensive induction program that includes training and information on the VPSC code of conduct, organisational policies, conflict of interest, gifts and benefits and SRW’s Trademark Behaviours
- regular updates of the above information are provided throughout the year
- a dedicated leadership program, focusing on our senior leadership team that is working with them to transform our organisation’s ability to lead innovation and strategy and enabling their teams to challenge the status quo.

Diversity and Inclusion

The economic, productivity and social benefits of diversity and inclusion in the workplace are well documented. We have formed a Diversity and Inclusion Committee to support the delivery of our Diversity and Inclusion Strategy.

The Committee supports the delivery of our diversity and inclusion vision “to ensure all our people feel respected, valued and included and have access to equal opportunity, which encourages them to contribute at their full potential.”

Diversity goals	Baseline 2013	Target 2020	June 2019
Overall women at Southern Rural Water	20%	>32%	30%
Women holding executive positions	0%	50%	50%
Women in SRW in the leadership group	NA	>35%	35%
Women in SRW holding degree-required positions (other than engineering)	NA	>40%	39%
Women in SRW holding STEM positions	NA	>40%	31%
Women in SRW holding field positions *includes storage operators, water service officers, field officers and compliance officers but not supervisors or managers	NA	>15%	10%
Under 25 years	4%	>8%	3%
Maintain or increase proportion of staff who identify as of ATSI descent	2%	>3%	2%

SRW celebrates Men's Health Week, International Women's Day, Harmony Day, International Men's Day, NAIDOC Week, International Day Against Homophobia, Biphobia Intersexism and Transphobia (IDAHOBIT), Wear it Purple Day and other significant cultural events.

We reviewed and updated our policies for the prevention of harassment and bullying and for equal employment. Our people have a right to work in an environment free from harassment, bullying and discrimination. Any behaviour to the contrary will result in disciplinary action up to, and including, dismissal. As part of this, all employees were trained in equal opportunity and bullying prevention.

Additional Employee Support Officers were engaged and trained to provide information to employees about rights and obligations in this area.

We implemented our HomeGrown traineeship program to encourage participation by Aboriginal and Torres Strait Islander peoples, employing two trainees in 2018-19.

Supporting staff experiencing family violence

During the year we conducted family violence training for all staff, better equipping them to recognise the signs of family violence and provide effective support. This builds on our work to improve customer support systems in this area.

Category Age Cohort	2018-19	
	Headcount	FTE
15 to 24	5	5
25 to 34	28	27.4
35 to 44	48	43.95
45 to 54	46	44.07
55 to 64	34	32.28
65+	5	4.47
Total	166	158

Other initiatives and actions:

SRW's commitment to diversity and inclusion is evident with a range of measures in place to ensure SRW provides equal employment opportunities, including policies and procedures, 10 trained internal Contact Officers and regular reviews of our compliance with legal and government obligations.

- SRW has been an active member of Pride in Diversity for a number of years and promotes LGBTI inclusion.
- Our Broadening Horizons Gippsland Program continues to support Year 8 students through an inquiry-based project and mentoring program to improve student educational aspirations and to increase their awareness of the diverse career opportunities in the Gippsland region.
- SRW also hosts work experience students from local secondary schools and offers placement opportunities for university students.
- We are members of the Victorian Water Industry Diversity and Inclusion Committee.

Employment and conduct principles

All SRW employees are required to meet the standards of the Victorian Public Sector Code of Conduct, SRW's trademark behaviours and other workplace legislation. Respect and collaboration are key drivers in the success of delivering SRW's services, and people are acknowledged for high performance.

Staff service in excess of 10 years	Male no.	Female no.
11-15 years	30	9
16-20 years	15	4
21-25 years	10	2
26-30 years	4	1
31-35 years	1	0
36-40 years	1	0
41-45 years	4	0
46-50 years	1	0

Reason for cessation of employment	2018-19
% turnover of total staff	12%
Resignation (number of staff)	18
Retirement (number of staff)	0
Dismissed (number of staff)	2

Breakdown of staff by function as at 30 June 2019

Category Functional role	2018-19			2017-18	
	Headcount	FTE	Percentage	Headcount	Percentage
Executive officers ¹	4	4	2.4%	7	4%
Senior leadership ²	3	3	1.8%	5	NA
Team management ²	19	19	11%	NA	NA
Administration staff ²	31	27	19%	28	16%
Finance staff ²	5	4	3%	8	4%
Operational staff ²	104	101	63%	127	73%
Total	166			171	

¹There has been a change to classifications, which includes a redefinition of Executive' - there is no change to the structure of the team.

²The remaining members of the executive team appear in the Senior leadership team category.

Similarly, the inclusion of a Team management classification has resulted in NA or variances across other categories from 2017-18 figures.

Note: there has been no significant change in the functional split or number of roles.

Category Gender	2018-19				2017-18	
	Headcount		FTE		Headcount	
	Male	Female	Male	Female	Male	Female
Executive officers	2	2	2	2	5	2
	50%	50%				

Category Classification	2018-19	
	Headcount	FTE
Band A	27	25
Band B	56	55
Band C	32	29.5
Band D	25	22
Band E	17	17
Band F	4	4
Senior Management	2	2
Executive	2	2
Total	166	158

Occupational Health and Safety

In 2018-2019 SRW launched its Health Safety and Wellbeing Strategy 2018-2021; this strategy is underpinned by our corporate objective of creating a 'healthy, safe, diverse and caring workplace'. The outcomes of our strategy will foster a culture that drives leadership commitment, greater accountability and values the health, safety and wellbeing of our employees, contractors, customers and the community.

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

Leadership and Capability:

- integrate safety considerations into business strategy, decisions and planning
- ensure our people are provided with the necessary skills, training and instruction to enable safe work
- promote, encourage and recognise positive behaviours
- visibly lead good practices and performance
- ensure the necessary resources, supervision and expertise

Accountability and Responsibility:

- take personal accountability for health and safety
- understand responsibilities, take action and contribute to a proactive safety environment

People and Culture (continued)

- meet or exceed legislation and regulatory requirements
- report on governance, risks and performance trends to key stakeholders.

Simplification:

- drive continual improvement of our health and safety management system
- design, adapt and improve technology to improve safety management outcomes.

Engagement:

- engage with people to encourage inclusion and diverse views
- empower people to make effective decisions, develop safe systems and practices of work
- engage with and support people in the communities in which we operate.

Demonstrating our strong commitment to safety, we:

- have enhanced our safety reporting, and increases in our near-miss and incident reporting are an indicator of that strong focus. In the long-term we consider it will drive improvement overall in our safety performance

- continued to offer and deliver a successful health and wellbeing program during July and August and had 53 staff participate, which involved a full blood test health assessment with a General Practitioner and a thorough skin check
- delivered a flu vaccination program to 80 staff across our four main sites in May of this year
- engaged Integrated Risk Management to conduct a controls assurance assessment on our maintenance activities and safety risks with critical consequences to validate the effectiveness and management of these risks. The audit covered both the health and safety of our people and extended to public risks around our storages and open supply channel network
- verified our compliance and continual improvement by engaging the consultancy services of HAZCON Pty Ltd and Integrated Risk Management to undertake auditing and spot reviews of our OH&S management system
- participated in the Victorian Water Industry OH&S Network and Gippsland Regional Water Alliance to collaborate on health, safety and wellbeing matters in the water sector.

Note re Safety Performance Indicators

¹ SRW has driven an active campaign to promote safety notification and encourage staff and managers to report all incidents and near-misses. This has seen all incident reporting increase by 64.9 per cent in 2018-19. This rise includes incidents causing injury as well as near-misses.

² In real terms, there was an additional 19 reported incidents and near-misses compared with 2017-18. Near-misses accounted for 16 of the 19 incidents.

OH&S indicators for 2018-19

Indicator	2018-19	2017-18	2016-17
Number of lost time injuries for the year	4	2	2
Lost time injury frequency rate (per million hours worked)	14.2	7.3	6.4
Number of days lost due to injuries incurred during the year	18	248	86
Number of medical treatment injuries for the year	6	4	4
Medical treatment frequency rate (per million hours worked)	22.7	14.5	12.7
Total number of incidents (excl. near-misses) ¹	24 ¹	15	12
Total number of incidents (excl. near-misses) per 100 FTE	15.0	8.9	7.2
Total number of near-misses reported ²	36 ²	20	17
Frequency rate of near-misses reported	137.7 ²	72.7	54.1
Number of first aid incidents	14	9	8
First aid treatment frequency rate	53.9	32.7	25.4
Standard lost claims exceeding employer liability (>10days)	0	1	2
Standard lost claims exceeding employer liability (>10days) per 100 FTE	0	0.59	1.2
Average cost per compensation claim	\$3,916	\$7,169	\$20,371
Number of reported hazards closed out	252	379	319
Number of reported hazards for the year per 100 FTE	158	226	192
Number of workplace inspections completed	52	50	52

Macalister Irrigation District (MID) modernisation

Phase 1B continues

Phase 1B of the MID2030 modernisation program is being delivered across four stages and will convert the northern half of the MID's Southern Tinamba supply zone from channels to gravity pipelines, in addition to upgrading and automating the channels in the southern half.

Over the life of the project, approximately 38km of new pipeline will be installed and approximately 33km of channel will be automated. The project is expected to gain water savings of at least 9,700ML which, added to the Phase 1A program, will further boost the MID's production capacity.

The project is jointly funded by the Victorian State Government, Federal Government and SRW MID customers. Stage 1: 1.55km of the pipeline along with the inlet structure, was completed and operational August 2017. Approximately 40% of the Stage 2 scope was delivered in 2018.

The remainder of Stage 2 works and Stage 4 are progressing well at the end of this financial year, with practical completion of the irrigation-critical components of both these stages expected in early August 2019 ready for the 2019-20 irrigation season.

Following last year's works, the project team in consultation with customers extended the construction season by commencing works in April 2019. Non-essential remediation and restoration works (channel decommissioning and structure removal, etc) will continue to at least October 2019.

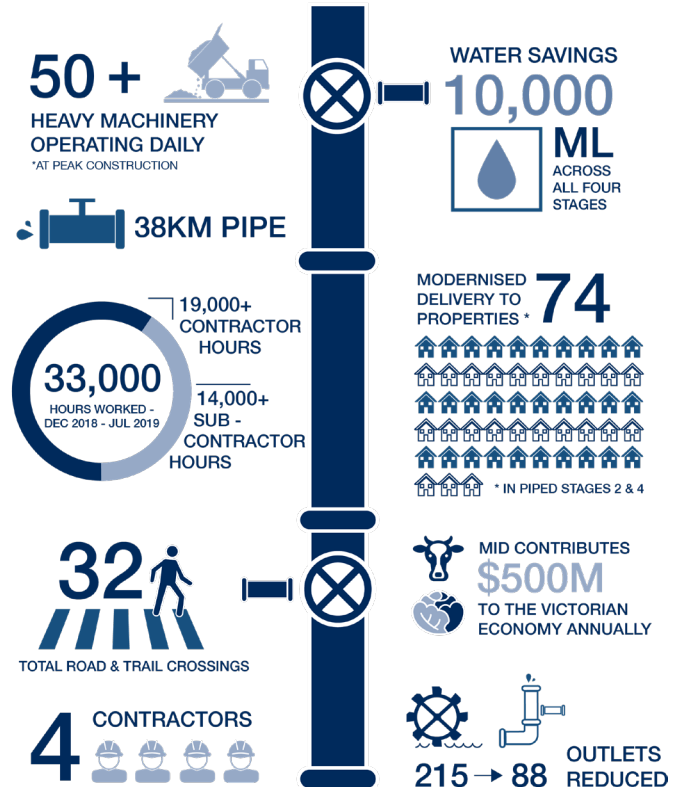
Planning for Stage 3 channel automation of the southern portion of Southern Tinamba has commenced with customer consultation and channel modelling already underway.

Following completion of 2017 and 2018 works, the project has witnessed private on-farm planning and development leveraged from the increased efficiencies delivered by this project. The Department of Jobs, Precincts and Regions (DJPR)/Agriculture Victoria and the West Gippsland Catchment Management Authority (WGCMA) have provided support for these activities. Ongoing discussions with customers indicate private investment for on-farm works is continuing.

Engagement methods

- Group meetings with customers, targeted at those involved in each stage, are held at key project stages
- weekly emailed construction updates
- e-newsletter and printed updates to all district customers
- individual on-farm consultations to help inform design development and resolve any issues arising during construction or reconnection and remediation.

MID2030 STAGES 2&4 PIPELINE SNAPSHOT



Werribee Irrigation District (WID) Modernisation

In April 2016, the Victorian Government committed \$10.44m towards the \$31.3m project to pipe the WID. The funding, matched by the same contribution from irrigators, ensured SRW secured two-thirds of the funding for the project. A submission was made in April 2019 to the Commonwealth National Water and Infrastructure Development Fund to fund the remainder of the project.

This project is helping to secure the future of the WID by installing 39km of new pipeline to replace the old channels over five years.

The Werribee modernisation works have five stages of which two are completed. One is nearing completion and the remaining two are still unfunded. Upon the completion of all five stages it is expected that there will be 5,000ML of water savings generated annually of which a portion will contribute to environmental flows in the Werribee river. Completion dates will be determined by future funding arrangements, which have not yet been determined.

The Werribee modernisation project also addresses Chapter 4 of the Central Region Sustainable Water Strategy which has a number of actions that improve water security across the central region.

Chapter 4; clause 4.28 directly relates to the Werribee modernisation project which states “increase environmental flows in the Werribee River by 6,000ML by 2015.”

The recent review from DELWP in May 2014 reported this action is partially complete.

Bacchus Marsh Irrigation District (BMID) Modernisation

In April 2016, the Victorian Government committed \$4.12m towards the \$12.4m project to modernise and pipe the BMID. The funding is matched by the same contribution from irrigators, ensuring two-thirds of the funding for the project. A submission was made in April 2019 to the Commonwealth National Water and Infrastructure Development Fund to fund the remainder of the project. Our plan includes a staged change of the supply system to remove the ageing main channel, which loses around 1,000ML of water a year.

The Maddingley pump station on the river was constructed and has been operational since 2016. The pump station feeds into the nearby storage constructed tank, which in turn supplies an existing piped network. Together with 8.5km of new pipeline upgrades, the system will be reconfigured to allow the main channel to be decommissioned and water savings returned to customers and the environment. The pipeline works will be completed in 2019.

Capital works and Headworks studies

The 2018-19 capital spend on Headworks projects is about \$4M and the more significant elements of the program are:

- \$0.4m project to replace the gate lifting ropes at Cowwarr Weir and Glenmaggie Dam was completed in September 2018.
- \$2.8m project to replace the operating gear and bridge at Maffra Weir is underway. The detailed design was completed in March 2019. Site work is expected to start in February 2020.
- \$0.45m project to repaint the operating deck at Cowwarr Weir is currently underway.
- \$0.43m project to upgrade the cone valve at Merrimu Dam was completed in June 2019. The project included new hydraulic controls for the valve to make its operation more reliable and also addressed a number of safety concerns. During the project it was discovered that the body of the valve had to be replaced due to significant corrosion.

- \$0.5m project has been completed in July 2018 to address leakage through the inlets of the three northern tower inlets at Glenmaggie to provide safe access and undertake inspections and repairs.
- \$0.4m project is underway to review and upgrade the measurement and operating strategy to deliver the water more efficiently and reliably to the main southern channel at Glenmaggie Dam. The new measurement equipment and automation updates are expected to be ready for testing in September 2019.
- \$0.5m project is underway to design a new personnel retrieval system for the tower at Rosslynne Dam. It is expected that the site work will be completed towards the end of the 2019-20 financial year. A similar project is also underway to address the same issue on the tower at Merrimu (also \$0.5m).
- \$0.5m project to install SCADA at Lerderderg Weir to enable remote operation and monitoring is underway. We are currently going through the process of obtaining permit approvals and expect to complete the work in 2019-20.
- \$0.3m project to improve road access to Merrimu Dam via the site compound has been completed.

Dam safety security and emergency management

SRW conducted its annual emergency exercise in Point Cook on 30 April 2019 to satisfy its obligations under the *Emergency Management Act 2013*. Feedback on the exercise from SRW and external participants was very favourable, including positive feedback from the Minister’s representative from DELWP, appointed to formally evaluate SRW against its legislative requirements.

All SRW reservoir operations staff underwent training and received an accreditation in Flood routing in September and October 2018.

A major update of the Eastern Storages Flood Plan was completed in January 2019 and the Corporate Incident Management Plan was also updated in January 2019.

External consulting projects

The SRW Headworks Assets team completed O&M Manuals for four storages in the Leongatha area for South Gippsland Water. The total value of the project was about \$60,000 and was completed in 2019.

Environmental and Social Sustainability

Environmental Strategy

The 2018-19 financial year marked the first year of implementation of SRW's Environmental Strategy. The Strategy sets objectives and targets under five key areas: Climate and Energy, Waste, Water Use, Waterway Health, and Biodiversity and the Land

SRW has made significant progress against the strategy objectives and targets in 2018-19. In particular, SRW has:

- installed rooftop solar PV systems at its Maffra Office, Maffra Depot and Merrimu Reservoir Office, helping to reduce GHG emissions
- undertaken a review of SRW's management of waste, and identified key opportunities for reducing waste throughout the organisation
- joined other Victorian water authorities in procuring renewable energy as part of the innovative Zero Emissions Water Ltd organisation
- established native vegetation offset sites at Merrimu Reservoir
- worked with the CMAs across SRW regions in developing plans for catchment improvement.

Regional Catchment Management Strategies

SRW has five catchment management partners across its region: Corangamite, East Gippsland, Glenelg Hopkins, Port Phillip and Westernport, and West Gippsland.

SRW continues to contribute broadly to strategy and biodiversity management across its region. During the reporting period we:

- continued to collaborate with stakeholders on catchment management issues. This included municipal councils, crown land managers, individual property owners and parties looking at undertaking use and development activity in catchments
- continued strengthening of the licensing of surface and groundwater
- produced local management rules for groundwater and rivers
- continued our program to meter all significant water users
- contributed to river monitoring through partnerships, such as the Gippsland Regional Water Monitoring Partnership
- contributed to the development, release and implementation of the Lake Wellington Land & Water Management Plan
- supported Victoria's Water Recycling Action Plan through the WID Recycled Water Scheme

- managed irrigation-induced salinity in the MID through the Salinity Management Plan and the maintenance and operation of groundwater control pumps
- participated in the consultation stage of crown land fire prevention for the regional Strategic Bushfire Management Plan.

Victorian Biodiversity Strategy

SRW recognises the ecological linkages between different parts of the environment (e.g. streams, streamside vegetation, and the biodiversity they support) and is aware that our actions and strategies influence biodiversity conservation.

SRW works with government departments, local government and CMAs to support biodiversity conservation and protection activities when undertaking works and projects.

SRW worked with Grow West and Port Phillip and Westernport Catchment Management Authority to facilitate and support revegetation of land in the Werribee River catchment area. SRW is continuing to pursue opportunities to establish facilitate and support revegetation of land in the Werribee River catchment area. SRW is continuing to pursue opportunities to establish more vegetation on its land.

Victorian Waterway Management Strategy

The Victorian River Health Strategy provides a framework to manage and restore our rivers over the long term.

Key elements of the strategy relevant to SRW are:

- facilitating the movement of water to its highest value use
- providing and managing water for the environment
- restoring flow-stressed river systems.

SRW supports the Victorian Waterway Management Strategy through:

- complying with environmental obligations in bulk entitlements
- operating the MID Nutrient Monitoring Program
- facilitating the delivery of environmental water
- responding to environmental incidents
- participating in the joint Gippsland Water and WGCMA forums, advising on environmental water from Blue Rock Lake and Lake Glenmaggie
- participating in the Lake Wellington Sustainability Group, including a recent review of the regional Land and Water Management Plan
- working with catchment partners such as Melbourne Water to achieve improvements in waterway condition near SRW assets.

SRW also carries out activities complementary to waterway health at its storages, such as erosion control works, the establishment of Native Vegetation Offset sites, and amenity upgrades.

Regional Waterway Strategies

Regional Waterway Strategies are required under the *Water Act 1989* and identify high-value waterways and priority management activities over an eight-year period.

SRW's management area falls across five catchment management regions, which have the following Regional Waterway Strategies:

- East Gippsland Waterway Strategy 2014–2022
- West Gippsland Waterway Strategy 2014-2022
- Port Phillip & Westernport Waterway Strategy 2014-2022
- Corangamite Waterway Strategy 2014-2022
- Glenelg Hopkins Waterway Strategy 2014-2022.

SRW continues to be involved in the review and implementation of various sub-strategies.

State Environmental Protection Policy (Waters) SEPP

The SEPP (Waters) sets the framework for monitoring Victoria's waterways and assessing their relative health. It also provides regulation and compliance in matters affecting water quality throughout the state.

Within the SEPP, the MID was identified as a source of nutrient pollution to the Gippsland Lakes. A specific requirement for SRW to monitor and reduce total phosphorous (TP) loads exiting the MID into the Gippsland Lakes was established in the previous SEPP.

The SEPP came into effect during the 2018-19 Financial Year, and included a new nutrient load reduction target of 15 tonnes (total) from the Lake Wellington catchment, including the MID.

SRW has operated a nutrient monitoring program since 2000. During that time, the program has been adjusted from a drain-based monitoring system to a river-based system. This has allowed more accurate estimates of the TP loads from the MID, and also takes into account upstream and non-irrigated sources of nutrients. Data from the monitoring program has helped to inform the new load reduction targets for the updated SEPP, and the monitoring program will continue to be implemented to track progress against the load reduction targets.

The reduction in outfalls from the modernised sections of the MID have also assisted in reducing the carriage of nutrients to the waterways and lakes system.

Native Vegetation Offset Credit Site

In 2016, SRW entered into a landowner agreement with DELWP for 23.09ha of land adjacent to Lake Glenmaggie to become a Native Vegetation Offset Credit Site.

As part of the landowner agreement, SRW committed to a 10 year management plan designed to improve the extent and quality of Native Vegetation on the site and to protect the site in perpetuity. Management actions on the site include the removal and minimisation of weed species and the restriction of public access to the site to eliminate rubbish dumping, firewood collection, disturbance of vegetation by 4WD vehicles and spread of weeds and pathogens.

In 2019 SRW established an offset site at Merrimu Reservoir, comprising of 46.6ha. The 10 year management plan includes removing and minimising weed species on site, the control of rabbits and monitoring for other pest species such as foxes and deer, and the restriction of public access to the site.

Greenhouse Gas Emissions and Net Energy Consumption

In 2016, the State Government announced a long-term target of zero net greenhouse gas emissions by 2050. As a result, the Victorian Water Sector submitted emissions reduction pledges for the period to 2025, and pathways to achieving net zero emissions by 2050. The water sector is also expected to source 25% of its power needs from renewables by 2020 and 40% by 2025.

SRW has made significant progress towards its pledge of achieving net zero emissions by 2025. In 2018-19, SRW:

- Installed rooftop solar PV systems at its Maffra Office, Maffra Depot and Merrimu Reservoir Office. The solar PV systems will supply ~50% of the energy requirements of each site with zero associated carbon emissions
- Along with other Victorian water authorities, procured cheaper long-term renewable energy through the innovative Zero Emissions Water Ltd organisation



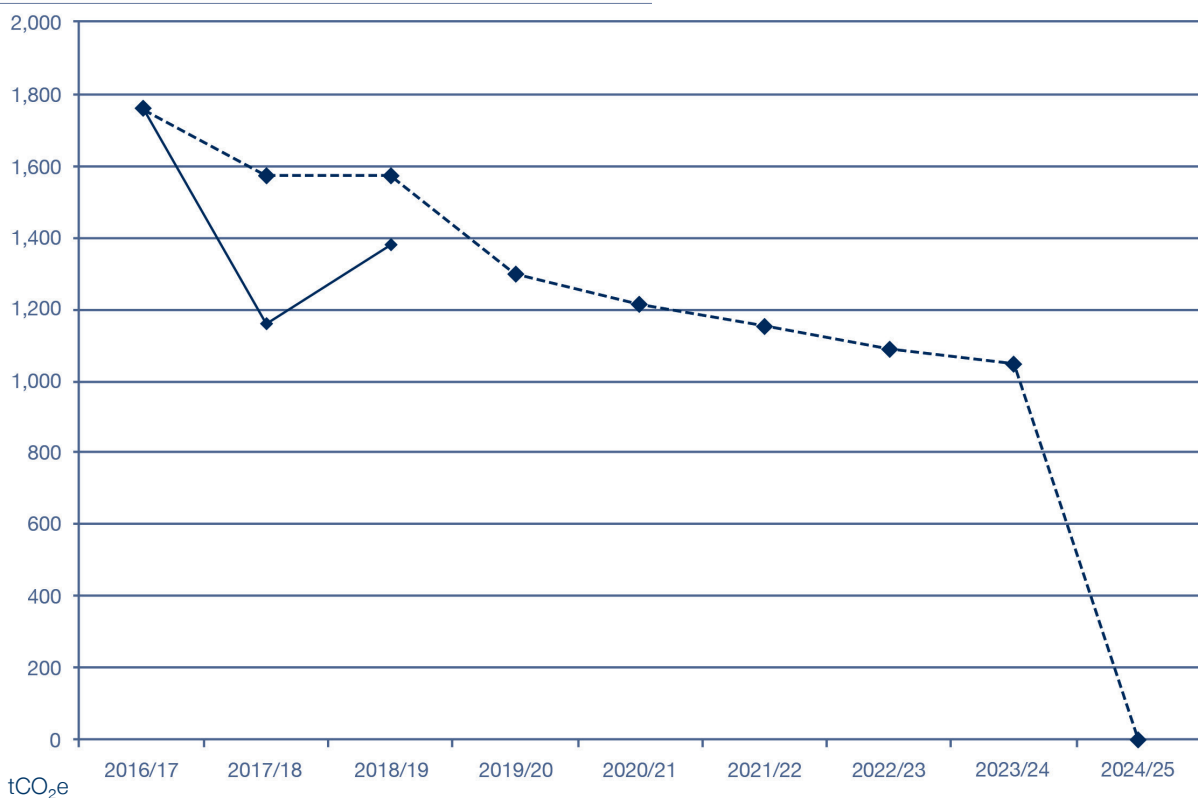
- Continued to utilise solar panels to power automated systems in SRW's irrigation districts
- Continued to purchase renewable energy (green power) for SRW sites
- Investigated opportunities to partner with CMA's and other water authorities to establish carbon offsets whilst achieving co-benefits such as revegetation and biodiverse plantings
- Identified a number of additional opportunities for solar PV systems, hydropower and improvements in vehicle fleet efficiency

In 2018-19 SRW has reported its emissions under the National Greenhouse and Energy Reporting Scheme (NGERS) framework. SRW's reporting under NGERS for the 2017-18 financial year was independently audited during the 2018-19 year. SRW's reporting was found to be consistent with the NGERS framework, with minor opportunities identified for improvement that have been incorporated into SRW's reporting processes.

Overall, SRW is on track to achieve its goal of net zero emissions by 2025.

Greenhouse Gas Emissions / target

- Net greenhouse gas emissions (tonnes of CO₂ equivalent)
- Projected net greenhouse gas emissions (tonnes of CO₂ equivalent)



Social Sustainability

Community Service Obligations

Concessions are available on domestic water charges for holders of valid concession cards. Irrigation water charges are not eligible. Groundwater licences are also not eligible, as we do not charge for domestic groundwater use.

Value of Community Service Obligation provided	2018-19	2017-18
Pensioner concessions	\$13,155	\$12,125

Hardship

We know that a range of personal and external issues – including continuing dry seasons, drought, market fluctuations and personal hardship – affect many of our customers' businesses. Our Debt Management Procedure is published on our website under the Customer Assistance options.

Customers in financial difficulty may ask for a payment extension, a negotiated payment plan or request individual assistance under financial hardship.

Where customers experience hardship, we seek to understand their situation and find solutions that are mutually acceptable.

As of 30 June 2019	No of accounts	Value
Payment plans	110	\$1,133,630

Environmental and Social Sustainability (continued)

Greenhouse Gas Emissions

Performance Indicator	Tonnes of CO ₂ e		Variance (%)	Commentary
	2018-19 Target	2018-19 Result		
Water Supply ¹	278	549	98%	Variance is due to Scope 2 emissions from Maddingley Pump Station. The IWN Large-Scale Renewable Project will be commissioned in 2019-20 and will remove Scope 2 emissions at the pump station and salinity pumps.
Vehicle Fleet ²	1291	832	-36%	Variance is primarily due to the transition to improved accounting and transition to NGERS methodology, as well as minor efficiencies in the fleet.
Other ³	3	2.60	-67%	Variance is due to the demolition and rebuild of the Werribee office during 2018-19. Previously the Werribee office used gas for heating.
TOTAL	1,514	1,383	-8.7%	

¹ Water supply includes Scope 2 emissions generated from irrigation pumping stations, groundwater pumps and irrigation channel infrastructure

² Vehicle fleet includes Scope 1 emissions generated from pool cars, machinery and fleet used for work purposes

³ Other includes Scope 2 emissions from all other sites not included in water supply (offices, depots, recreation facilities etc.)

Electricity consumption

Performance Indicator	2017-2018 result (MWh)	2018-2019 result (MWh)	Commentary
Water supply	467	515	Increased energy consumption due to significant demand on the Maddingley Pump Station.
Other	375	324	Reduction in energy consumption primarily due to more efficient offices (Maffra) and rooftop solar installations reducing consumption from the grid.
TOTAL	841	839	

Renewable Energy Consumption

Performance Indicator	2017-2018 Renewable electricity used (MWh)	2018-2019 Renewable electricity used (MWh)	Commentary
Solar	80	109	SRW installed solar at its Maffra office and two depots during 2018-19. A further 13.6MWh was exported to the grid. Includes estimated 80 MWh produced by solar panels in the MID.
Greenpower	384	331	The installation of behind-the-meter solar at Maffra office, Maffra depot and Merrimu depot reduced grid consumption and therefore the need to purchase Greenpower
TOTAL	384	360	Totals do not include estimated renewable energy use in the MID (80MWh).
% renewable energy	46%	41%	The volume of renewable energy consumption decreased in 2018-19 due to lower overall consumption at other sites. The percentage of renewable energy also decreased due to relative increases in consumption at the Maddingley Pump Station, which does not currently run on renewable energy.

Financial Management Compliance Attestation Statement

I, Diane James, on behalf of the board, certify that the Gippsland and Southern Rural Water Corporation has complied with the applicable Standing Directions of the Minister for Finance under the *Financial Management Act 1994* and Instructions.



Diane James AM
Chairman
Gippsland and Southern Rural Water Corporation

Dated 27 August 2019

Building Act 1993

SRW complies with the building maintenance provisions of the *Building Act 1993*. The buildings it owns or leases comply with these requirements.

Water Act 1989

There are no additional disclosures required to be made in the annual report under the *Water Act 1989*.

Local Jobs First Act 2003

The Local Jobs First Act 2003, amended in August 2018, brings together the Victorian Industry Participation Policy (VIPP) and Major Project Skills Guarantee (MPSG) Policy, which were previously administered separately.

Departments and public sector bodies are required to apply the Local Job First Policy in all projects valued at \$3m or more in Metropolitan Melbourne or for statewide projects, or \$1m or more for projects in regional Victoria.

MPSG applies to all construction projects valued at \$20m or more.

The MPSG guidelines and VIPP guidelines will continue to apply to MPSG applicable and VIPP applicable projects respectively where contracts have been entered prior to 15 August 2018. During this reporting period Southern Rural Water had one ongoing Strategic Project – MID2030 PH1B Southern Tinamba Modernisation, which commenced in 2017. Under this project in 2018-19 six (6) small to medium enterprises prepared Local Industry Development Plan (LIDP) for contracts, successfully appointed as Principal Contractor. During 2018-19, 296 small-to medium-sized business were anticipated to be engaged in the supply chain by these projects.

Compliance with the Carers Recognition Act 2012

The *Carers Recognition Act 2012* formally recognises and values the role of carers and the importance of care relationships in the Victorian community. SRW supports staff with caring responsibilities through flexible work arrangements and access to carers and other leave.

Compliance with the Protected Disclosure Act 2012

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

What is a protected disclosure?

A protected disclosure is a complaint of corrupt or improper conduct by a public officer or a public body.

SRW is a public body for the purposes of the Act.

What is improper or corrupt conduct?

Improper or corrupt conduct involves substantial:

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

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

How do I make a Protected Disclosure?

You can make a protected disclosure about SRW or its board members, officers or employees by contacting IBAC on the contact details provided below.

Please note that SRW is not able to receive protected disclosures.

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

SRW has established procedures for the protection of persons from detrimental action in reprisal for making a protected disclosure about SRW or its employees. You can access SRW's procedures on the website at: www.srw.com.au/about-us/our-procedures/.

Contacts

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

Address: Level 1, North Tower, 459 Collins Street, Melbourne
Victoria 3000.

Mail: IBAC, GPO Box 24234, Melbourne Victoria 3001

Internet: www.ibac.vic.gov.au

Phone: 1300 735 135

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

Information and Communication Technology (ICT) expenditure

For the 2018-19 reporting period, SRW had a total ICT expenditure of \$5.288m, with the details shown below.

BAU ICT expenditure	Non-BAU ICT expenditure	Operational expenditure	Capital expenditure
<i>Total</i>	<i>Total = A+ B</i>	<i>A</i>	<i>B</i>
\$3.588m	\$1.700m	\$0.000m	\$1.700m

Government advertisement expenditure

SRW's expenditure in the 2018-19 reporting period on government campaign expenditure did not exceed \$100,000.

Competitive Neutrality Policy

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

SRW continues to comply with the requirements of the Competitive Neutrality Policy.

Corporate water consumption

SRW's corporate water consumption for 2018-19 was 2,011 kilolitres. Total consumption for the year per full-time equivalent employee was 14.8 kilolitres. SRW uses water for amenities, lawns, gardens, vehicle washing and miscellaneous uses as well as for capital projects and construction.

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

- details of publications produced by SRW about itself, and how these can be obtained
- details of any major external reviews carried out on SRW
- details of major research and development activities undertaken by SRW
- details of major promotional, public relations and marketing activities undertaken by SRW to develop community awareness of the entity and its services
- details of changes in prices, fees, charges, rates and levies charged
- a statement of completion of declarations of pecuniary interests by relevant officers.

Additional information included in annual report

Details in respect of the following items have been included in SRW's annual report, on the pages indicated below:

- assessments and measures undertaken to improve the occupational health and safety of employees (on page 33)
- a list of SRW's major committees, the purposes of each committee, and the extent to which the purposes have been achieved (on page 17-18).

Information that is not applicable to SRW

The following information is not relevant to SRW for the reasons set out below:

- a declaration of shares held by senior officers (no shares have been issued in SRW's name)
- details of overseas visits undertaken (no board members or senior executives took overseas work-related trips)
- a statement on industrial relations within SRW (there were no industrial relations actions for the 2018-19 financial year).

To request information contact:

SRW
Freedom of Information Officer
PO Box 153,
Maffra, Victoria, 3860

Freedom of information

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

An applicant has a right to apply for access to documents held by SRW. This comprises documents both created by SRW or supplied to SRW by an external organisation or individual, and may also include maps, films, microfiche, photographs, computer printouts, computer discs, tape recordings and videotapes. Information about the type of material produced by SRW is available on SRW's website under its Part II Information Statement.

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

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

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

Making a request

Fol requests can be lodged online at www.foi.vic.gov.au. An application fee of \$29.60 applies. Access charges may also be payable if the document pool is large, and the search for material, time consuming.

Access to documents can also be obtained through a written request to SRW's Freedom of Information team, as detailed in s17 of the *Freedom of Information Act 1982*.

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

Requests for documents in the possession of SRW should be addressed to:

The Freedom of Information Officer, Hayley Johnson,
SRW
PO Box 153
Maffra Vic 3860

Fol statistics/timeliness

During 2018-19, SRW received four applications. Of these requests:

- nil were from Members of Parliament
- nil from the media
- the remainder were from the general public.

SRW made five Fol decisions during the 12 months ended 30 June 2019, four of those decisions had been received within the 2017-18 year with decisions made in the 2018-19 year.

- 0 decision was made within the statutory 30-day time period
- 1 decision was made within an extended statutory 30-45 day time period
- 2 decisions was made within 46-90 days
- 2 decisions were made in greater than 90 days

During 2018-19, 0 requests were subject to VCAT.

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

Bulk Entitlements

A Bulk Entitlement Order is a set of operating rules for a reservoir.

At SRW we deal with the following Bulk Entitlement Orders:

- Latrobe
- Maribyrnong
- Tarago
- Yallourn Energy
- Werribee
- Thomson/Macalister.

Because more than one organisation or group can have shares (or entitlement) in the water being held in a reservoir, each shareholder must follow rules about:

- the volumes that can be taken from the reservoir, system or waterway
- costs of managing the system, and how they are shared.

At a number of reservoirs, SRW acts as the storage manager on behalf of all shareholders. As a storage manager, we:

- allocate water (both increases and decreases) according to the inflow and capacity shares held by shareholders
- ensure that we meet the rules for passing flows downstream for environmental purposes
- release water to meet a shareholder's request.

Passing flows are a vital part of our Bulk Entitlement Orders and are met before allocation requests are supplied.

Diversion Limit Report

The Five-Yearly Diversion Limit Report was commissioned and delivered in 2018-19, reporting on the previous five years up to June 30 2018.

The cumulative departure (percentage of estimated long-term average diversion) of measured diversions from the modelled diversion target did not exceed the compliance trigger of 45,572ML in the 2018-19 reporting period.

As the cumulative departure did not exceed the 20% compliance trigger, reporting to the Minister is not required (see tables below).

Compliance Trigger (ML)	+45,572
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Compliance Trigger (percentage of estimated long-term average diversion)	+20%
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Diversion Limit Report 2013-2018		2017-18	2016-17	2015-16	2014-15	2013-15
Annual Departure of measured diversions (ML)		17,838	-19,094	-39,094	-44,485	-40,360
Cumulative Departure to 30 June 2013 (ML)	-179,565					
Cumulative Departure to 30 June 2018 (ML)	-304,796					
Cumulative Departure (%) (percentage of estimated long-term average diversion)	-134%					

Bulk Entitlement (Thomson/Macalister - Southern Rural Water) Conversion Order 2001

The following information is provided in accordance with Section 20.1 of the Thomson/Macalister Bulk Entitlement Order.

		Volume (ML)
At 1 July 2018	Volume of water held at Lake Glenmaggie ¹	42,936
	Share of Thomson Reservoir storage capacity (under Clause 9)	32,748
Annual 2018-19		
a(i)	Releases from the Thomson Reservoir to supply primary entitlements	8,683
a(ii)	Share of Thomson Reservoir storage capacity (under clause 9)	33,405
a(iii)	Inflows attributed (under clause 10.1 and 10.2)	9,050
At 30 June 2019		
Annual 2018-19	Taken from waterway: (Note 1)	
e(i)	• Northern Channel ¹	48,466
e(ii)	• Southern Channel ¹	100,078
e(iii)	• Eastern Channel ¹	32,351
e(iv)	• Cowwarr Channel ¹	13,745
e(v)	• Southern Channel to Thomson Channel	3,583
(i)	Water taken by the primary entitlement holders	176,925
Annual 2018-19	Water pumped to supply primary entitlement holders	
g(i)	• Lake Glenmaggie	0
g(ii)	• Thomson Reservoir	0
g(iii)	• Macalister River	5,915
g(iv)	• Thomson River	13,750
g(v)	• Rainbow Creek	5,138
(h)	Volume of water held at Lake Glenmaggie	41,454
	Environmental allocation (2017-18 season)	14641
	Environmental carryover (2016-17 season)	7773
	Total available to environment (2017-18 season)	22414
	Environmental release (including carryover)	15,124
	Write off unused carryover (due to storage spilling)	0
	Environmental carryover available (2018-19 season)	7,290
(j)	Credits granted (under clause 17)	Nil
(k)	Temporary or permanent transfers of a bulk entitlement or any other entitlement to SRW	Nil
(l)	Alteration made to Schedules 1 or 2 under sub-clause 8.1	Nil
(n)	Amendments	Nil
(o)	New bulk entitlements granted	Nil
(p)	Programs approved to date under sub-clause 18.2	Programs being implemented
(q)	Programs approved to date under sub-clause 19.3	Programs being implemented

Note 1. 20.1 (c), (d) and (e). Daily volumes have been recorded at Lake Glenmaggie, Cowwarr Weir, Wandocka (environmental flow), Maffra Weir (environmental flow), Main Northern Channel, Main Eastern Channel, Main Southern Channel and Cowwarr Channel and can be provided upon request.

Note 2. 20.1 (r) and (s) There was no failure to comply with the provision of the bulk entitlement in 2018-19. To minimise the potential for breaching compliance with environmental flows, we have developed a Risk Management Strategy and action plans. SRW has not experienced any difficulty in complying with the bulk entitlement; therefore no remedial action has been necessary.

Bulk Entitlements (continued)

Bulk Entitlement (Latrobe Reserve) Order 2013

The following information is provided in accordance with Section 15.1 of the Bulk Entitlement (Latrobe Reserve) Order 2013:

Annual 2018-19		Volume (ML)
(b)	Volume of water taken by Reserve Holder from Blue Rock Reservoir under this entitlement	Nil
(c)	The amount of water in the Reserve Holder's share of Blue Rock Reservoir under this entitlement 1 July 2018 30 June 2019	37,415 34,951
(d)	The amount of annual losses debited to the Reserve Holder's share of Blue Rock	1,673
(e)	The annual amount of any internal spill of water from or to the Reserve Holder's share of storage in Blue Rock	75 to reserve Nil from reserve
(f)	The implementation of a metering program:	.Note 2
(g)	Any assignment of all or part of a water allocation available under this entitlement	Nil
(h)	Any transfer of all or part of this bulk entitlement to any person	Nil
(i)	Any amendment to this bulk entitlement.	Nil
(j)	Any failure by the Reserve Holder to comply with any provision of this bulk entitlement	Nil
(k)	Any existing or anticipated difficulties experienced by the Reserve Holder in complying with this bulk entitlement	Nil

Note 2. 15.1 (f) The metering program used for the Reserve Holder is that used by SRW for its bulk entitlement metering requirements

Bulk Entitlement (Latrobe - Southern Rural Water) Conversion Order 1996

The following information is provided in accordance with Section 16.1 of the Bulk Entitlement Order 1996.

Annual 2018-19		Volume (ML)
(e)	The amount of water in Blue Rock Reservoir <ul style="list-style-type: none"> 1 July 2018 30 June 2019 	168,277 152,128
	The amount of water in Lake Narracan <ul style="list-style-type: none"> 1 July 2018 30 June 2018 	6,168 6,348
(f)	The amount of water in the Entitlement Holder's share of Blue Rock Reservoir - 2.10%, as at 30 June 2019	3816
(g)	The annual amount of water taken by the Entitlement Holder <ul style="list-style-type: none"> Upstream of Yallourn Weir Downstream of Yallourn Weir 	12.1 8,478
(h)	The amount of annual losses debited to the Entitlement Holder's share of Blue Rock Reservoir (due to evaporation)	167
(i)	The annual amount of any internal spill of water to the Entitlement Holder's share of storage in Blue Rock Reservoir.	70.6
(j)	Any periods of rationing and the degree of rationing of licence holders listed under Schedule 1	Nil
(l)	Implementation of programs approved under sub-clauses 14.2 and 15.1. <ul style="list-style-type: none"> Environmental Management Plan A metering program in line with the bulk entitlement guidelines. 	Note 2 Program being implemented Program being implemented
(m)	Temporary or permanent transfers of a bulk entitlement of all or part of the bulk entitlement	Nil
(mA)	Temporary or permanent transfer of all or part of this bulk entitlement or assignment of all or part of a water allocation available under a bulk entitlement to an entitlement holder	Nil
(o)	Amendments to this bulk entitlement	Nil
(p)	The annual amount supplied to any group of licence holders specified by the Minister: <ul style="list-style-type: none"> Drought Reserve: Gippsland Water Loy Yang A Loy Yang B SECV SRW Tru Energy Victorian Environmental Water Holder 	Note 4 2,085 1,401 3,927 3,042 0 403 3,533 11,224
(q)	Failures in complying with this bulk entitlement	Nil
(r)	Existing or anticipated difficulties by the Entitlement Holder in complying with the Bulk Entitlement	Nil

Note 1. 16.1 (a), (b), (c), (d) Daily volumes have been recorded and can be provided upon request.

Note 2. 16.1 (l) Approval by DELWP of an Environmental Management Plan SRW had previously submitted. Approval by DELWP of an SRW has submitted a metering plan for this system in line with the bulk entitlement guidelines.

Note 3. The following information is provided in accordance with Clause 11.4 of the Bulk Entitlement Order 1996.

The Entitlement Holder has a network of meters installed within its low-quality water system that enables it to determine the low-quality water usage by both the Loy Yang A and Loy Yang B power stations. This equipment is checked monthly for validity and annually for signal integrity.

Note 4: The Blue Rock Drought Reserve was activated and 2,085 ML was made available to entitlement holders on the Latrobe system via online auctions.

Bulk Entitlements (continued)

Bulk Entitlement (Werribee System - Irrigation) Conversion Order 1997

The following information is provided in accordance with Section 18.1 of the Werribee Bulk Entitlement Order.

Annual 2018-19		Volume (ML)
(g)	Releases necessary to supply transfers of primary entitlements	0
(h)	Water taken from the waterway for the year at each of the diversion weirs and pumps specified in clause 10:	
	• Bacchus Marsh Diversion Weir	293
	• Werribee Diversion Weir	7,818
	• Maddingley pumps	2,708
	Water taken by SRW from the system waterway at each of the diversion weirs:	
	• Lerderderg Weir to Goodmans Creek	1,844 (SRW's share 184)
	• Goodmans Creek to Merrimu Reservoir	3,550 (SRW's share 350)
	• Werribee Upper Diversion Weir to Pykes Creek	3,786.8 ML
(i)	Volume of water taken by primary entitlement holders:	
	• High and low reliability water shares	8,007 ML
	• Myrniong	56.3
	Volume of water taken by primary entitlement holders including outfalls:	
	• Bacchus Marsh	2,122
	• River diverters	458
	• Myrniong	56.3
	• Werribee	5,365
(k)	Credits granted (under clause 15)	Nil
(l)	Temporary or permanent transfer of the bulk entitlement	Nil
(m)	Bulk entitlement or licence transferred to the Authority	Nil
(n)	SRW applied the following restrictions to primary entitlement holders in the Werribee and Bacchus Marsh irrigation districts and licensed diverters on the Werribee River:	45% of High Reliability Water Shares
(p)	Trades of primary entitlement ⁹	569.2
(r)	Changes to this bulk entitlement	Nil
(s)	New bulk entitlements granted	Nil
(t)	Environmental management program approved to date under sub-clause 16.3	Note 3. Program being implemented
(t)	Metering program approved to date under sub-clause 17.3	Note 4. Program being implemented
(u)	Any failure by the authority to comply with provisions of the bulk entitlement	Nil
(v)	Compliance: difficulty in complying with the bulk entitlement and any remedial action taken	Nil

Note 1. 18.1 (a) (i) and (ii), (b), (c), (d) and (f) Daily volumes have been recorded and can be provided upon request. These include the daily flow passing each of the storages including Pykes Creek Reservoir, Melton Reservoir and Lake Merrimu. If required, SRW will also report on the daily passing flow on each of the following diversion structures: Upper Werribee Diversion Weir, Bacchus Marsh Diversion Weir, Lerderderg Diversion Weir, Goodmans Creek Diversion Weir and Werribee Diversion Weir.

Note 2. 18.1 (e) Releases made under flood management are available on request.

Note 3. 18.1 (p) Further details including number, places of origin and destination can be provided on request.

Note 4. 18.1 (t) SRW has previously submitted an Environmental Management Plan to the Department of Environment, Land, Water and Planning.

Note 5. 18.1 (t) SRW has submitted a metering plan for the Werribee system in line with the bulk entitlement guidelines.

Bulk Entitlement (Tarago River - Southern Rural Water) Conversion Order 2009

The following information is provided in accordance with Section 15.1 of the Tarago Bulk Entitlement Order 2009.

Annual 2018-19		Volume (ML)
(b)	Annual releases made from the Tarago Reservoir to supply primary entitlements	2,149
(c)	SRW's Bulk Entitlement Metering Program was approved by the responsible Minister in April 2012. No amendments were made in 2018-19.	Program being implemented

Note 1. 15.1 (a) Daily amounts can be provided on request

Note 2. 15.1 (d) and (e) SRW has complied with the provisions of the bulk entitlement.

Note 3. 15.1 (f) There have not been any failures in complying with the provisions of the bulk entitlement in this financial year.

Bulk Entitlement (Latrobe - Loy Yang B) Conversion Order 1996

The following information is provided in accordance with Section 12.1 of the Bulk Entitlement Order 1996.

		Volume (ML)
(c)	Water taken by SRW at its pumping station	11,012
(d)	Works undertaken as part of the metering program (Note 2)	Program being implemented
(e)	Temporary or permanent transfers of all or part of the bulk entitlement	Nil
(f)	Temporary or permanent transfers of licences to this bulk entitlement	Nil
(g)	Amendments	Nil

Note 1. 12.1 (a), (b) Daily volumes have been recorded and can be provided upon request.

Note 2. 12.1 (d) In accordance with Clause 11.4, the Entitlement Holder has a network of meters installed within its low quality water system that enables it to determine the low quality water usage by both the Loy Yang A and Loy Yang B power stations. This equipment is checked monthly for validity and annually for signal integrity.

Note 3: 12.1 (h) and (i) There have been no failures in complying with the provisions of the bulk entitlement in this financial year. There are no existing or anticipated difficulties in complying with the Bulk Entitlement.

Bulk Entitlements (continued)

Bulk Entitlement (Maribyrnong - Southern Rural Water) Conversion Order 2000

The following information is provided in accordance with Section 19.1 of the Maribyrnong Bulk Entitlement Order.

		Volume (ML)
Annual 2018-19		
a (i)	Water released to supply licence entitlements	7
a (ii)	SRW's share of Rosslynne Reservoir at 30 June 2019	395
a (iii)	Inflows, taking into account evaporation and measurement discrepancies	-288
a (iv)	Allowances for transfer and operating losses	0
a (v)	Water deducted for passing flow requirements	72
(b)	SRW achieved full compliance with the passing flows	Yes
(c)	Water taken from the waterway by primary entitlement holders	7
Annual 2018-19		
(d)	Temporary or permanent transfers from this bulk entitlement	Nil
(e)	Temporary or permanent transfer to SRW	Nil
(f)	Alterations to Schedule 1 or 2	Nil
(g)	Temporary transfers within the system	Nil
(h)	Amendments to this bulk entitlement	Nil
(i)	New bulk entitlements granted	Nil

Note 1. 19.1 (j) SRW has previously submitted an Environmental Management Plan to the Department of Environment, Land, Water and Planning and the program is being implemented.

Note 2. 19.1 (k) SRW has complied with all provisions of this bulk entitlement.

Note 3. 19.1 (l) SRW again experienced difficulties in complying with the bulk entitlement passing flow requirement at the Sunbury gauging station due to the distance between the release point and the gauging site and the varying system losses during summer.

Economic regulation

Economic regulation of SRW is guided by a range of legislation, including the *Essential Services Commission Act 2001*, the *Water Industry Act 1994* as amended by the *Water Legislation (Essential Services Commission and other Amendments Act 2003)* and other water industry legislation (including the *Water Act 1989*, and the *Environment Protection Act 1970*). More information on the regulatory framework is set out within the *Water Industry Regulatory Order (WIRO)* made by the Governor-in-Council.

Pricing principles

SRW operates on a full cost-recovery basis, ensuring pricing is sufficient to cover annual costs and to provide for future investment needs. Pricing is founded upon the following principles:

- SRW prices shall accord with Government and COAG policies, with particular reference to National Competition Policy
- Pricing shall meet the full cost of operation
- SRW shall set separate prices for each specific service supplied
- SRW prices shall be equitable and avoid cross subsidy
- SRW will engage with customer committees on pricing and take into account their recommendations in making pricing decisions
- SRW prices shall be set so as to contribute to the investment needs of the business concerned.
- Our prices are submitted to the Essential Services Commission (ESC) for determination on an annual basis. On completion of the ESC's determination, SRW publishes prices in *The Weekly Times*, and communicates directly to customers through newsletters and fact sheets.

Financial management

Long term financial viability is the pillar of our financial management. Finances are managed so that the organisation as a whole is economically sustainable and that each business unit fully recovers its own costs. Our operations are separated into four discrete business units:

- Eastern Irrigation
- Western Irrigation
- Headworks
- Groundwater and Rivers.

Each business unit maintains its own financial records with an expectation that revenues are sufficient to cover direct costs and an equitable share of corporate and other shared costs.

This information is provided in an open and transparent manner to our customer committees for consultation, along with being available to the broader customer base.

Performance 2018-19

Our operating loss before tax was \$3.83m compared to a budgeted loss of \$10.77m.

SRW prices are approved by the ESC to recover the full cost of operation. While the full cost of operation includes funding for the future investment needs of the business, our pricing is designed to reimburse depreciation and capital charges associated with regulatory assets only.

Regulatory assets exclude acquisitions and construction prior to 1 July 2004, or assets funded directly by customer or government contribution. As reported by the Comprehensive Operating Statement, depreciation expense is largely associated with non-regulatory assets. For the 2018-19 financial year, the Corporation recorded \$12.05m of non-recoverable depreciation.

The following table describes our financial position once these non-regulatory charges are excluded, which reports a \$11.10m surplus for the year 2018-19 financial year compared to a Corporate Plan budget of \$0.18m loss.

The improvement in our result compared to Corporate Plan is reflected by:

- more government grants and contributions
- more revenue from service and usage charges
- more revenue from the sale of water and water entitlements
- less expenditure on interest
- more expenditure on grant funded projects
- additional expenditure on major channel repairs
- more expenditure on information technology expenses.

From the perspective of our main operating business units, our financial results were an improvement on our Corporate Plan, and prior year results, as discussed above. We expect this outcome given stable, predominantly entitlement based revenue streams, additional revenue from water sales and an expenditure base that was not subject to any significant unplanned cost pressures.

Significant changes in financial position

Expenditure on capital projects reached \$45.95m for the financial year (2017-18 \$30.82m).

The cash operating surplus of the corporation is insufficient to fund our capital expenditure program, and it is necessary for us to utilise debt facilities to fund our capital expenditure program. The corporation increased debt facilities for the 2018-19 financial year consistent with Corporate Plan assumptions.

Total Interest Bearing Liabilities increased by \$20.57m in the 2018-19 year, and our cash balances increased by \$0.36m. Together our net debt position moved from \$21.94m to \$42.15m.

Our net debt position is expected to increase to \$63.5m over the next two years (until the end of the 2020-21 financial year) as our capital works program continues.

Capital Plan Expenditure 2018-19

Business	2018-19 Expenditure \$ '000s
Eastern Irrigation	
Glenmaggie measurement upgrade	152
MID Modernisation Phase 1B	30,790
Newry River Channel Offtake	470
General projects	906
Western Irrigation	
WID Modernisation	5,335
BMID Modernisation	2,883
General projects	138
Headworks	
Cowwarr Weir spillway gates hoist ropes	177
Cowwarr Weir - Repaint operating deck	371
Glenmaggie northern inlets works	316
Maffr Weir operating gear refurbishment	280
Merrimu access road	228
Merrimu cone valve upgrade	335
General projects	396
Groundwater & Rivers	
Metering	113
Other	
Werribee office redevelopment	2,071
ICT projects	659
General projects	327
	45,947

Consultancies

Each year we engage consultants to provide expert analysis and advice, to facilitate decision-making, and provide skills not currently available within our organisation.

Greater than \$10,000

During 2018-19 we contracted 18 consulting firms for operating contracts greater than \$10,000 to provide advice, skills and services. The total cost of these consultancies in 2018-19 was \$1,172,899. Please refer to the table below for greater detail.

For comparison, during 2017-18 we engaged 11 consulting firms at a total cost of \$1,058,167.

Less than \$10,000

During 2018-19 we contracted seven consulting firms for operating contracts less than \$10,000 to provide advice, skills and services. The total cost of these consultancies in 2018-19 was \$63,885.

For comparison, during 2017-18 we engaged three consulting firms at a total cost of \$22,677.

Major changes or factors affecting performance

There were no major factors affecting performance other than those discussed in this report.

Subsequent events which will affect operations in future years

There were no subsequent events that will affect operations in future years, other than those already discussed in this report.

Disclosure of Major Contracts

No major contracts were entered into for the 2018-19 year.

Consultant	Purpose of consultancy	Start date	End date	Total approved project fee	Expenditure 2018-19	Future expenditure
ADRA GROUP PTY LTD	Melton Reservoir Outlet Design	Jan-18	Sep-19	30,000	10,502	19,498
ADRA GROUP PTY LTD	Rosslynne Dam Design	Jan-19	Sep-19	31,000	14,655	16,345
AECOM AUSTRALIA PTY LTD	Assets management improvement consultants	Dec-18	Sep-19	105,050	50,085	54,965
AFS PROJECTS PTY LTD	WID Modernisation Design - Peer review	Jan-17	Sep-18	11,135	11,135	0
BEVERIDGE WILLIAMS	WID Stage 4 & 5 detail survey	Jan-19	Jun-19	39,700	39,700	0
BEVERIDGE WILLIAMS	Merrimu vegetation survey	Jul-18	Oct-18	13,000	12,400	0
CREST ENGINEERING CONSULTING	Cowwarr Weir risk assessment and design	Jul-18	Nov-18	21,055	21,055	0
EARTH SYSTEMS CONSULTING PTY LTD	Barwon Downs Independent Technical Review Panel	Dec-18	Jun-20	43,000	16,660	26,340
FIVE CONSULTING (VIC) PTY LTD	MID PH2 business case *	Jul-18	Aug-18	73,920	60,000	13,920
FIVE CONSULTING (VIC) PTY LTD	MID PH2 business case *	Jul-18	Dec-18	26,400	15,600	10,800
GHD PTY LTD	Rosslynne Dam Design Review	Aug-17	Aug-19	150,000	15,882	134,118
GHD PTY LTD	BMID Modernisation Design	Oct-16	Dec-19	531,888	51,363	480,525
GHD PTY LTD	Trash screen design and Recycled Water control valves, flowmeter and pipeline design	Feb-19	Aug-19	143,816	42,059	101,757
GHD PTY LTD	Option analysis of Debris Maintenance - MID	Jul-18	Aug-19	124,898	89,881	35,018
GLEN HOBBS & ASSOCIATES	Maffra Weir operating design review	Dec-17	Jun-20	20,000	13,118	6,883
GUNAIKURNAI LAND AND WATERS ABORIGINAL CORPORATION	MID PH1B assessment field work	Jul-18	Aug-18	11,147	11,147	0
HYDRO TASMANIA	Blue Rock Dam risk Assessment	Jul-18	Oct-19	25,000	19,258	5,742
HYDROGEOLOGIC PTY LTD	Barwon Downs Independent Technical Review Panel	Dec-18	Jun-20	50,000	28,354	21,646
KELLOGG BROWN & ROOT PTY LTD	WID Modernisation design	Jan-19	Dec-19	251,882	12,638	239,244
SCENIC SPECTRUMS PTY LTD	Lerderderg SCADA - Visual Impact Assessment	Apr-19	Oct-19	25,000	21,122	3,878
SHINEWING AUSTRALIA	Review procurement PH1B	Dec-18	Jan-19	13,830	13,830	0
SMEC AUSTRALIA PTY LTD	Glenmaggie Dam risk assessment	Aug-17	Sep-19	150,000	22,737	127,263
SMEC AUSTRALIA PTY LTD	Narracan Dam risk assessment	Aug-17	Sep-19	115,000	21,537	93,463
SMEC AUSTRALIA PTY LTD	Werribee headworks Annual dam safety inspection	Jan-19	Jun-19	23,703	23,703	0
SMEC AUSTRALIA PTY LTD	DAM surveillance - Annual	Jan-19	Jun-19	18,963	18,963	0
SMEC AUSTRALIA PTY LTD	Southern Channel replacement consulting	Nov-18	Aug-19	150,000	63,487	86,513
SMEC AUSTRALIA PTY LTD	MID PH1B Design Stages 2 & 4	Oct-17	Jul-19	773,218	354,184	419,035
SMEC AUSTRALIA PTY LTD	MID PH1B Design Stages 2 & 4	Oct-18	Jan-19	27,636	27,636	0
STANTEC AUSTRALIA PTY LTD	MID PH1B & PH2 consultant service *	Jul-18	Oct-18	59,100	59,100	0
UNIVERSITY OF NEW SOUTH WALES	Blue Rock Design Review	Feb-18	Sep-19	70,000	11,110	58,890

*These projects were externally funded

Financial sustainability (continued)

Five-year financial summary

Revenue	2018-19	2017-18	2016-17	2015-16	2014-15
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
Fees and charges	27,285	27,285	26,978	25,931	25,474
Storage operator charges	3,882	3,882	3,714	3,710	3,678
Government grants	7,525	886	1,354	265	780
Other	3,111	2,320	2,933	4,403	4,819
Total revenue	41,803	34,373	34,979	34,309	34,751
Expenditure					
Operations and maintenance	20,316	20,253	22,745	19,855	19,391
Other	8,904	8,603	8,570	7,850	7,748
Earnings before interest, taxation, impairment and depreciation	12,583	5,517	3,664	6,604	7,612
Depreciation	14,927	14,418	14,135	11,521	11,354
Finance cost	1,489	1,067	1,025	914	917
Total expenditure	45,636	44,341	46,475	40,140	39,410
Equity					
Net operating statutory loss	(3,833)	(9,968)	(11,496)	(5,831)	(4,659)
Movement in retained earnings	(3,833)	(9,968)	(11,496)	(5,831)	(4,659)
Balance Sheet					
Current assets	24,526	14,040	13,459	15,553	13,085
Non-current assets	1,439,758	1,254,011	1,240,229	1,273,315	1,236,808
Total assets	1,464,284	1,268,051	1,253,688	1,288,868	1,249,893
Current liabilities	17,871	17,890	15,738	13,844	9,605
Non-current liabilities	305,718	240,722	237,248	248,645	239,869
Total liabilities	323,589	258,612	252,986	262,489	249,474
Net cash inflow from operations	12,916	4,608	7,154	6,211	8,835
Payments for infrastructure, property, plant and equipment	46,659	28,951	19,280	13,646	13,127
Financial result reconciliation					
Net operating statutory loss	(3,833)	(9,968)	(11,496)	(5,831)	(4,659)
Add back non-regulatory depreciation and impairment	12,052	11,405	10,691	8,205	8,895
Less renewals charge	0	(1,109)	(1,061)	(969)	(901)
Add non-regulatory asset transfers and write-offs	0	98	4,061	1,362	1,409
Add major projects expensed	2,882	1,599	921	2,087	1,175
Operating profit before statutory adjustments	11,101	2,025	3,116	4,854	5,919

Five-year performance summary

Performance Indicator	2018-19	2017-18	2016-17	2015-16	2014-15
Internal Financing Ratio	27.93%	16.32%	37.11%	46.34%	67.28%
Gearing Ratio	3.35%	2.25%	1.75%	1.50%	1.34%
Interest Cover(Cash)	11.20	7.80	10.90	11.40	16.50
Return on Assets	-0.21%	-0.74%	-0.86%	-0.42%	-0.34%
Return on Equity	-0.08%	-0.69%	-0.79%	-0.40%	-0.32%

The Annual Report of Southern Rural Water is prepared in accordance with all relevant Victorian legislation. This index helps to identify our compliance with statutory disclosure requirements.

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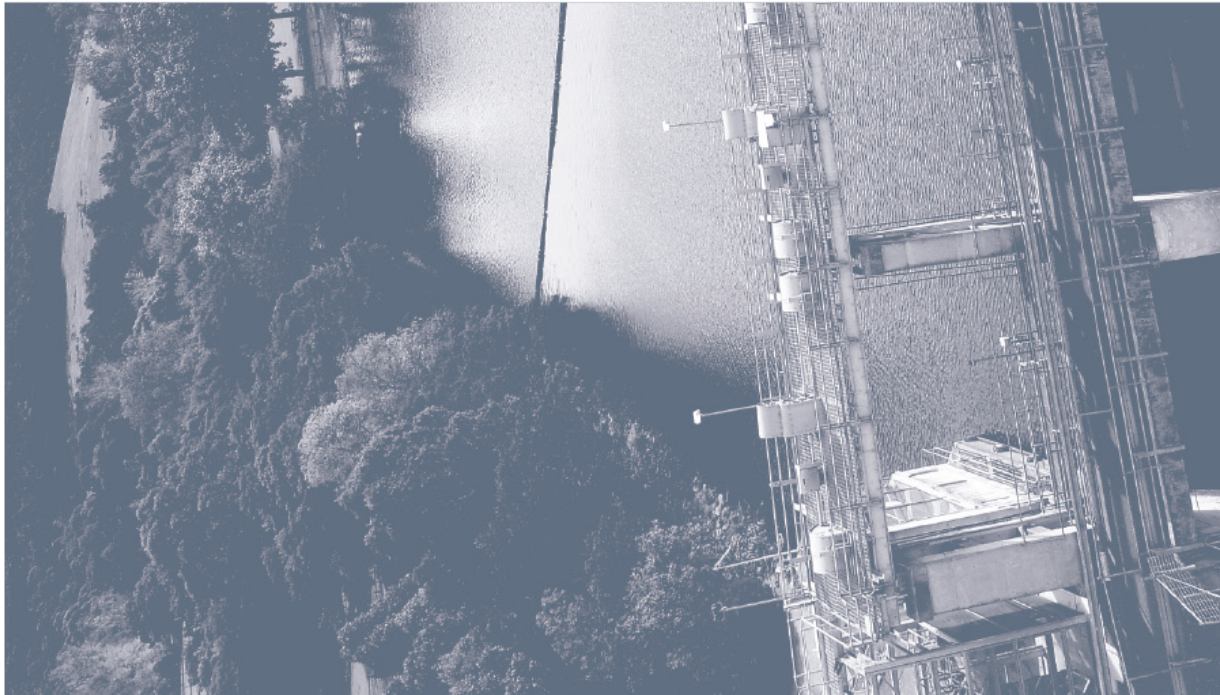
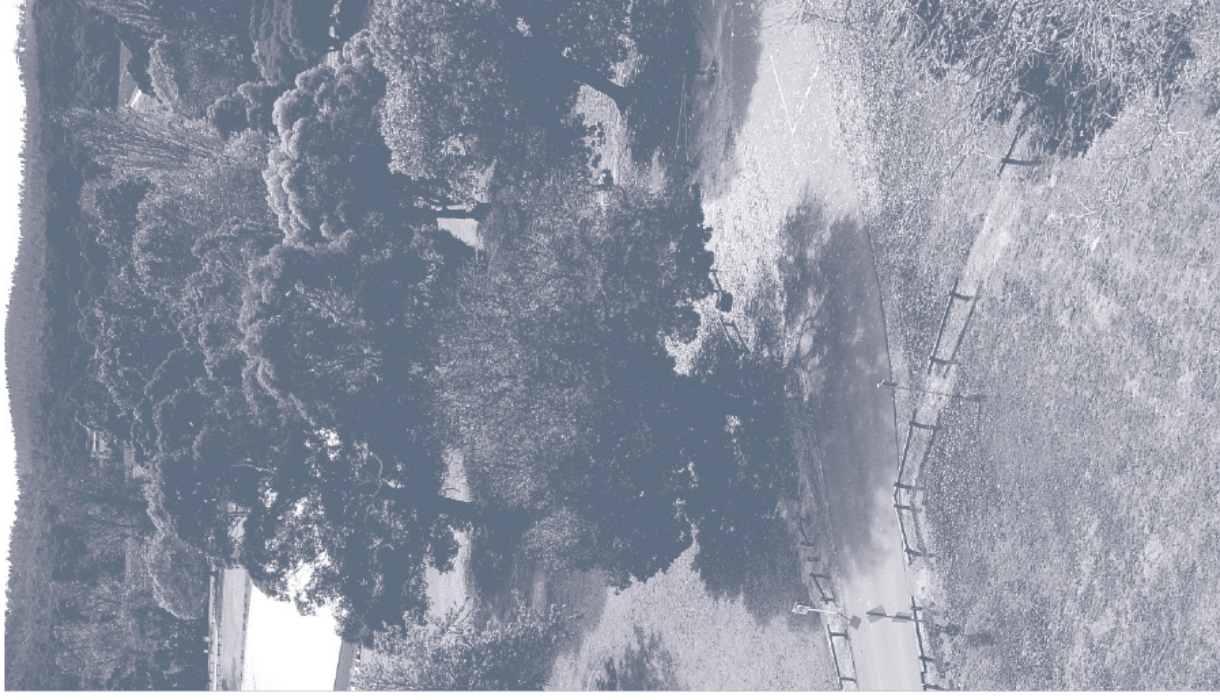
Financial Report

TBA

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* Nothing to report



How this report is structured

Gippsland and Southern Rural Water Corporation (the Corporation) has pleasure in presenting its audited general purpose financial statements for the financial year ended 30 June 2019. It is presented in the following structure:

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Comprehensive Operating Statement
For the financial year ended 30 June 2019

	2018-2019 \$'000	2017-2018 \$'000
Revenue		
<i>Revenue from operating activities</i>		
Service and usage charges	32,287	31,655
Chargeable works	185	405
Government grants and contributions	1,138	777
Interest income	37	71
Other income	556	396
<i>Revenue from non-operating activities</i>		
Government grants and contributions for capital purposes	6,183	109
Sale of water and entitlements	1,342	788
Net gain on disposal of non-current assets	75	172
Total revenue	41,803	34,373
Expenses		
Bulk water	1,289	1,364
Environmental contribution	556	424
Employee benefits	15,702	15,262
Interest	1,489	1,067
Chargeable works	185	405
Repairs and maintenance	1,621	1,413
Supplies and services	8,599	8,962
Other operating expenses	338	226
Depreciation of regulatory asset base	3,336	3,689
Depreciation of other assets	12,052	10,729
Asset write-offs	0	98
Intangible asset write-offs	7	26
Amortisation	462	676
Total expenses	45,636	44,341
Net result before tax	(3,833)	(9,968)
Income tax revenue	3,005	2,983
Net result for the period	(828)	(6,985)

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

Gippsland and Southern Rural Water Corporation

Comprehensive Operating Statement (continued)

For the financial year ended 30 June 2019

	2018-2019 \$'000	2017-2018 \$'000
Net result for the period	(828)	(6,985)
Other comprehensive income for the period		
<i>Items that will not be reclassified to net result</i>		
Net gain on revaluation of infrastructure, property, plant and equipment	160,855	0
Impairment of infrastructure, property, plant and equipment	(900)	(568)
Income tax relating to these items	(47,987)	170
	<u>111,968</u>	<u>(398)</u>
Other comprehensive income for the period, net of income tax		
	<u><u>111,140</u></u>	<u><u>(7,383)</u></u>
Comprehensive result		

Notes

4.1.1
4.1.1
8.1.1

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

Gippsland and Southern Rural Water Corporation

Balance Sheet
As at 30 June 2019

	Notes	2018-2019 \$ '000	2017-2018 \$ '000
Assets			
Current assets			
Cash and cash equivalents	6.2	6,890	6,531
Receivables	5.1	13,465	6,909
Other non-financial assets		418	469
Assets classified as held for sale	4.3	3,753	131
Total current assets		<u>24,526</u>	<u>14,040</u>
Non-current assets			
Infrastructure, property, plant and equipment	4.1.1	1,438,497	1,252,559
Intangible assets	4.2	1,261	1,452
Total non-current assets		<u>1,439,758</u>	<u>1,254,011</u>
Total assets		<u>1,464,284</u>	<u>1,268,051</u>
Liabilities			
Current liabilities			
Payables	5.2	8,545	9,158
Interest bearing liabilities	6.1	4,610	3,930
Employee benefits	3.1.2	4,716	4,802
Total current liabilities		<u>17,871</u>	<u>17,890</u>
Non-current liabilities			
Payables	6.1	44,430	24,540
Interest bearing liabilities	3.1.2	443	317
Employee benefits	8.1.2	260,838	215,857
Deferred tax liabilities		305,718	240,722
Total non-current liabilities		<u>323,569</u>	<u>258,612</u>
Total liabilities		<u>1,140,695</u>	<u>1,009,439</u>
Net assets			
Equity			
Contributed capital	9.1.1	452,974	432,858
Asset revaluation reserve	9.1.2	669,267	557,299
Accumulated surplus	9.1.3	18,454	19,282
Total equity		<u>1,140,695</u>	<u>1,009,439</u>

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

Statement of Changes in Equity
For the financial year ended 30 June 2019

	Notes	Contributed Capital \$'000	Asset Revaluation Reserve \$'000	Accumulated Funds \$'000	Total \$'000
Balance at 1 July 2017		416,738	557,697	26,267	1,000,702
Net result for the period		0	0	(6,985)	(6,985)
Other comprehensive income		0	(398)	0	(398)
Total comprehensive income for the period		0	(398)	(6,985)	(7,383)
Transactions with the State Government in its capacity as owner	9.1.1	16,120	0	0	16,120
Balance as at 30 June 2018		432,858	557,299	19,282	1,009,439
Adoption of new accounting standards: AASB 9 Financial Instruments	9.8	0	0	0	0
Restated total equity as at 1 July 2018		432,858	557,299	19,282	1,009,439
Net result for the period		0	0	(828)	(828)
Other comprehensive income	9.1.2	0	111,968	0	111,968
Total comprehensive income for the period		0	111,968	(828)	111,140
Transfer to/from accumulated deficit		0	0	0	0
Transactions with the State Government in its capacity as owner	9.1.1	20,116	0	0	20,116
Balance as at 30 June 2019		452,974	669,267	18,454	1,140,695

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

Gippsland and Southern Rural Water Corporation

Cash Flow Statement
For the financial year ended 30 June 2019

	2018-2019 \$'000	2017-2018 \$'000
Cash flows from operating activities		
<i>Receipts</i>		
Receipts from service and usage charges	34,744	32,371
Receipts from State Government		886
-Operating	1,138	0
-Capital	6,183	70
Interest received	42	2,798
Goods and Services Tax received from the ATO	5,324	
<i>Payments</i>		
Payments to suppliers and employees	(33,149)	(30,518)
Interest paid	(1,306)	(960)
Goods and Services Tax paid to the ATO	(58)	(39)
Net cash inflow from operating activities	<u>12,916</u>	<u>4,608</u>
Cash flows from investing activities		
Payments for infrastructure, property, plant and equipment	(46,659)	(28,951)
Proceeds from sale of infrastructure, property, plant and equipment	694	805
Payments for intangible assets	(278)	(84)
Net cash outflow from investing activities	<u>(46,243)</u>	<u>(28,230)</u>
Cash flows from financing activities		
Proceeds from new borrowings (i)	24,500	10,500
Repayment of existing borrowings	(3,930)	(3,930)
Proceeds from contributions by State Government in its capacity as owner	13,116	16,120
Net cash inflow from financing activities	<u>33,686</u>	<u>22,690</u>
Net increase in cash and cash equivalents	<u>359</u>	<u>(832)</u>
Cash and cash equivalents at the beginning of the financial year	<u>6,531</u>	<u>7,463</u>
Cash and cash equivalents at the end of the financial year	<u>6,890</u>	<u>6,531</u>

Notes

2.3

6.2.1

4.1.5

4.2

9.1.1

6.2

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

(i) \$2.5m of the new borrowings was applied to repay a maturing loan of \$2.5m at 30 June 2019

1. About this report

Establishment of the Corporation

Gippsland and Southern Rural Water Authority (SRW or the Corporation) was established on 1 July 1995, by a Ministerial Order under section 98 of the *Water Act 1989*, dated 30 June 1995. The Authority's name was changed on 1 July 2007 to Gippsland and Southern Rural Water Corporation under Section 85(1) of the *Water Act 1989*, inserted by Section 54 of the *Water Governance Act 2006*. The business name of the Corporation is Southern Rural Water (SRW).

The Corporation is a not-for-profit entity owned by the State Government of Victoria, reported and domiciled in Victoria.

Basis of accounting

The financial report includes separate financial statements for Southern Rural Water (the Corporation) as an individual reporting entity. This financial report is a general purpose financial report that consists of a Comprehensive Operating Statement, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement, Statutory Certification and Notes accompanying these statements for the period ending 30 June 2019. The general purpose financial report has been prepared in accordance with Australian Accounting Standards (AAS), interpretations and other authoritative pronouncements of the Australian Accounting Standards Board, and the requirements of the *Financial Management Act 1994* and applicable Ministerial Directions. The Corporation is a not-for-profit entity for the purposes of preparing the financial statements.

Where appropriate, those AAS paragraphs applicable to not-for-profit entities have been applied.

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

The annual financial statements were authorised for issue by the Gippsland and Southern Rural Water Corporation Board of Directors on 27 August 2019.

The principal address is:

Gippsland and Southern Rural Water Corporation
88 Johnson Street
Maffra VIC 3860

Accounting policies

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

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

The following standard has been adopted by the Corporation:

- AASB 9 *Financial Instruments*, effective as of 1 January 2018 (and thus to the Corporation on 1 July 2018).

AASB 9 impact assessment

AASB 9 *Financial Instruments*, which replaces AASB 139 *Financial Instruments: Recognition and Measurement*, introduces new requirements for recognition, classification, and measurement, a new impairment model for financial assets based on expected credit losses, and simplified hedge accounting. The Corporation has adopted AASB 9 as at 1 July 2018 and has applied the new rules on a modified retrospective basis. As a result, comparatives for 2017-18 in our 30 June 2019 financial statements will not be restated. Further disclosures in relation to AASB 9 are in Note 9.8 of this report. There was no transitional adjustment upon adoption of AASB 9.

Functional and presentation currency

Items included in this financial report are measured using the currency of the primary economic environment in which the Corporation operates (the functional currency). The financial report is presented in Australian dollars, which is the Corporation's functional and presentation currency.

Classification between current and non-current

In the determination of whether an asset or liability is current or non-current, consideration is given to the time when each asset or liability is expected to be realised or paid. The asset or liability is classified as current if it is expected to be turned over within the next 12 months, being the Corporation's operational cycle.

Rounding

Unless otherwise stated, amounts in the report have been rounded to the nearest thousand dollars.

Historical cost convention

These financial statements have been prepared under the historical cost convention, except for the revaluation of financial assets, all classes of property, plant and equipment.

Accounting estimates

Judgements, estimates and assumptions are required to be made about financial information being presented. The significant judgements made in the preparation of these financial statements are disclosed in the notes where amounts affected by those judgements are disclosed. Estimates and associated assumptions are based on professional judgements derived from historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. Revisions to accounting estimates are made in the period in which the estimate is revised and also in future periods that are affected by the revision.

Judgements and assumptions made by management in applying Australian Accounting Standards that have significant effects on the financial statements and estimates relate to:

- estimation of useful lives (Note 4.1)
- the impairment of assets (Note 4.1)
- recognition of deferred tax assets and liabilities (Note 8.1)
- accrued income (Note 5.1)
- employee benefit provisions (Note 3.1)
- contingent assets and liabilities (Note 7.2)
- the fair value of assets (i.e. infrastructure assets) (Note 4.1.2)
- actuarial assumptions for employee benefit provisions based on likely tenure of existing staff, patterns of leave claims, future salary movements and future discount rates (Note 3)

2. Funding delivery of our services**Introduction**

This section provides additional information about how the Corporation is funded and the accounting policies that are relevant for an understanding of the items recognised in the financial statements. The Corporation harvests, stores and manages water in reservoirs. This water is then supplied to irrigators, urban water corporations and power generators, or retained for the government. The Corporation also implements government regulations and policy for groundwater and surfacewater management on accordance with delegated powers from the *Water Act 1989*. The Corporation derives the majority of its revenue from charges for water entitlements. The majority of these charges are a fixed amount per entitlement, however variable usage charges are applied in some areas.

Income is recognised to the extent it is probable the economic benefits will flow to the Corporation and the income can be reliably measured at fair value. Where applicable, amounts disclosed as income are net of returns, allowances, duties and taxes.

Structure

- 2.1 Service and usage charges
- 2.2 Chargeable works
- 2.3 Government grants and contributions
- 2.4 Sale of water and entitlements

Income from transactions**2.1 Service and usage charges****Service charges**

Fixed charges
 Water service charges
 Irrigation, diversion and groundwater
 Recycled water
 Storage operator charges
 Other charges
 Bore construction, application fees, transfer fees and information statements

	23,204	22,965
	1,369	1,259
	4,232	3,882
	1,202	1,135
	<u>30,007</u>	<u>29,241</u>

Water usage charges

Variable usage charges
 Irrigation, diversion and groundwater
 Recycled water

	1,807	1,926
	473	488
	2,280	2,414
	<u>32,287</u>	<u>31,655</u>

Total service and usage charges

Fixed water and service charges (including recycled water and storage operator charges) are recognised as revenue when levied.

Irrigation, diversion and groundwater charges are recognised as revenue when the meters are read. Meter readings are undertaken progressively during the year and at end of each respective season, which aligns with the end of the financial year as there are no further deliveries after the end of season meter read.

Other charges revenue is recognised as the work is performed by the Corporation, rather than on receipt of the bore construction, application, transfer or information statement fees.

2018-2019
\$'000

2017-2018
\$'000

2.2 Chargeable works

Chargeable works	185	405
Total chargeable works	<u>185</u>	<u>405</u>

The Corporation often undertakes capital works for its customers. The cost of these works is included as a separate line of expenditure and revenue in the Comprehensive Operating Statement, and are recognised as the work is performed.

2.3 Government grants and contributions

Operating		
State Government		
Macalister Irrigation District MID2030 phase 2 development	90	215
Lindelow Valley water security	0	177
Southern Victorian irrigation development	0	339
Review tenants in common water shares	0	6
Bore completion reports data entry	0	25
South West Limestone GMA customer survey	15	15
Stream frontage management program	3	0
Emergency water supply points improvement program	1,000	0
Non urban water compliance and enforcement strategy	30	0
Non-operating		
State Government		
Blue Rock jetty upgrade	0	10
Blue Rock floating boat ramp	33	99
MID2030 Phase 1B	6,150	0
Total government grants and contributions	<u>7,321</u>	<u>886</u>

Government grants and contributions are recognised as revenue when the Corporation obtains control of the contribution. Control is obtained when the Corporation receives the grant or contribution and they meet certain other criteria as outlined by AASB 1004 *Contributions*.

Grants and contributions received from the Victorian State Government are accounted for as Equity – Contributions by Owners in accordance with FRD 119A *Transfers through Contributed Capital* (Refer Note 9.1.1).

2.4 Sale of water and entitlements

Sale of created water shares (i)	1,081	567
Sale of water (ii)	204	106
Sale of surface and groundwater licences (iii)	57	115
Total sale of water and entitlements	<u>1,342</u>	<u>788</u>

(i) Where the responsible minister approves an amendment to a Bulk Entitlement Order, to issue new water shares, the Corporation recognises this revenue at the time these new water entitlements are sold. Total proceeds are recorded in the Comprehensive Operating Statement as revenue from non-operating activities.

- In 2013, the Corporation completed water saving projects from the MID2030 Phase 1A projects in the Macalister Irrigation District. Water saving studies confirmed that the project had saved 2,881 ML of water each year. In October 2014 the Minister for Water approved the amendment of the Thomson/Macalister bulk water entitlement and the creation of these new water entitlements. Part of the fifth tranche of these entitlements, 269 ML of high and low reliability shares, was sold by auction on 19 February 2019. The proceeds raised of \$0.546m have been recorded in the Comprehensive Operating Statement as revenue. During the financial year, further entitlements were placed on the market with a shelf price. The proceeds raised of \$0.306m have been recorded in the Comprehensive Operating Statement as revenue.

- In 2015 DELWP approved the issue of 230 high reliability water shares and 115 low reliability water shares to SRW in the Werribee water supply system. These shares result from an agreement with a customer to convert an historic 'supply by agreement' water supply arrangement to water shares. This agreement expired in 2018, which allowed SRW to sell its shares by auction. In May 2019 the auction resulted in the sale of 205ML of high reliability and 102.5ML of low reliability water shares. The proceeds raised of \$0.229m have been recorded in the Comprehensive Operating Statement as revenue.

(ii) During 2018-19, the Corporation conducted auctions selling seasonal allocations from water entitlements held in the Macalister, Werribee and Latrobe water supply systems. The proceeds raised of \$0.204m have been recorded in the Comprehensive Operating Statement as revenue.

(iii) During 2018-19, the Corporation conducted an auction of unregulated groundwater licences in the Moorabbin Groundwater Management Unit and sold 43 ML of groundwater licensed volume (via auction). The proceeds raised of \$0.057m have been recorded in the Comprehensive Operating Statement as revenue.

3. The cost of delivering services

Introduction

This section provides additional information about how the Corporation's funding is applied and the accounting policies that are relevant for an understanding of the items recognised in the financial statements.

Structure

- 3.1 Our people
 - 3.1.1 Employee benefits - Comprehensive Operating Statement
 - 3.1.2 Employee benefits - Balance Sheet
 - 3.1.3 Superannuation
- 3.2 Repairs and maintenance
- 3.3 Bulk water
- 3.4 Supplies and services
- 3.5 Other operating expenses

3.1 Our people

3.1.1 Employee benefits - Comprehensive Operating Statement

Employee benefits		
- salaries and wages	10,711	10,603
- annual leave	1,254	1,206
- long service leave	412	330
- employer superannuation contribution	1,475	1,437
- payroll tax	824	802
- termination benefit	66	48
- other	960	837
Total employee benefit costs	15,702	15,263

Employee expenses include all costs related to employment including wages and salaries, superannuation, fringe benefits tax, leave entitlements, redundancy payments and workcover premiums.

The amount charged to the Comprehensive Operating Statement in respect of superannuation represents contributions made or due by the Corporation to the relevant superannuation plans in respect to the services of the Corporation's staff (both past and present). Superannuation contributions are made to the plans based on the relevant rules of each plan and any relevant compulsory superannuation requirements that the Corporation is required to comply with.

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

3.1.2 Employee benefits - Balance Sheet

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

Current provisions:

<i>Annual leave</i>		
Unconditional and expected to settle within 12 months	953	935
Unconditional and expected to settle after 12 months	718	722
<i>Long service leave</i>		
Unconditional and expected to settle within 12 months	1,546	1,446
Unconditional and expected to settle after 12 months	775	962
<i>Provisions for on-costs</i>		
Unconditional and expected to settle within 12 months	453	432
Unconditional and expected to settle after 12 months	271	305
Total current provisions for employer benefits	<u>4,716</u>	<u>4,802</u>
Non-current provisions		
Long service leave	375	268
On-costs	68	49
Total non-current provisions for employee benefits	<u>443</u>	<u>317</u>
Total provisions for employee benefits	<u>5,159</u>	<u>5,119</u>

Reconciliation of movement in on-cost provision

Opening balance	786	791
Additional provisions recognised	6	(5)
Closing balance	<u>792</u>	<u>786</u>
Current	724	737
Non-current	68	49
	<u>792</u>	<u>786</u>

Liabilities for wages and salaries including non-monetary benefits, and annual leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

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

Liabilities for salaries and annual leave are all recognised in the provision for employee benefits as 'current liabilities' as per AASB 119 *Employee Benefits*, because the Corporation does not have an unconditional right to defer settlements of these liabilities.

On-costs

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

Long service leave

Long service leave (LSL) is recognised in the provision for employee benefits.

Unconditional LSL (representing seven or more years of continuous service) is disclosed as a current liability, even where the Corporation does not expect to settle the liability within 12 months. The Corporation does 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 – the component the Corporation expects to wholly settle within 12 months; or
- present value – the component the Corporation does not expect to wholly settle within 12 months.

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

Any gain or loss following revaluation of the present value of non-current LSL 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 in the Comprehensive Operating Statement.

3.1.3 Superannuation

The Corporation's obligations for contributions to the Fund are recognised as an expense in the Comprehensive Operating Statement when they are made or due. The Corporation makes the majority of its employee superannuation contributions in respect of its employees to the Local Authorities Superannuation Fund (Vision Super). The Fund has two categories of membership, accumulation and defined benefit, each of which is funded differently. Obligations for contributions to the fund are recognised as an expense in the Comprehensive Operating Statement when they are made or become due.

The Corporation contributes in respect of its employees to the following superannuation schemes. Contributions by the Corporation (excluding any unfunded liability payments) to the superannuation plans for the financial year ended 30 June 2019 are detailed below:

	2018-2019 Contribution rate	2017-2018 Contribution rate
Accumulation schemes:		
(a) Vision Super	855	905
(b) Other superannuation schemes	925	900
Defined benefit schemes:		
(c) Government Superannuation Office - New Scheme	60	85
(d) SAFE - State Employees Retirement Benefits Fund	0	5
	<u>1,840</u>	<u>1,895</u>

There were no contributions outstanding and no loans issued from or to the above schemes as at 30 June 2019.

Accumulation (Items a - b)

The fund's accumulation categories, Vision MySuper/Vision Super Saver, receives both employer and employee contributions on a progressive basis. Employer contributions are based on a fixed percentage of employee earnings (for the year ended 30 June 2019, this was 9.5% as required under Superannuation Guarantee (SG) legislation).

Defined benefit (Items c - d)

The Corporation does not use defined benefit accounting for its defined benefit obligations under the Fund's Defined Benefit category. This is because the Fund's Defined Benefit category is a pooled multi-employer sponsored plan. There is no proportional split of the defined benefit liabilities, assets or costs between the participating employers and the only time that the aggregate obligation is allocated to specific employers is when a call is made. As a result, the level of participation of the Corporation in the Fund cannot be measured as a percentage compared with other participating employers. Therefore, the Fund Actuary is unable to allocate benefit liabilities, assets and costs between employers for the purposes of AASB 119.

Funding arrangements

The Corporation makes employer contributions to the Defined Benefit category of the Fund at rates determined by the Trustee on the advice of the Fund Actuary. As at 30 June 2018, an interim actuarial investigation was held as the Fund provides lifetime pensions in the Defined Benefit category. The vested benefit index (VBI) of the Defined Benefit category of which the Corporation is a contributing employer was 106.0%.

The financial assumptions used to calculate the VBIs were:

- Net investment returns 6.0% pa
- Salary inflation 3.5% pa
- Price inflation (CPI) 2.0% pa

Vision Super has advised that the estimated VBI at 30 June 2019 was 107.1%.

The VBI is used as the primary funding indicator. Because the VBI was above 100%, the 30 June 2018 interim actuarial investigation determined the Defined Benefit category was in a satisfactory financial position and that no change was necessary to the Defined Benefit category's funding arrangements from prior years.

Employer contributions

Regular contributions

On the basis of the results of the 2018 interim actuarial investigation conducted by the Fund Actuary, the Corporation makes employer contributions to the Fund's Defined Benefit category at rates determined by the Fund's Trustee. For the year ended 30 June 2019, this rate was 9.5% of members' salaries (9.5% in 2017-18). This rate will increase in line with any increases in the SG contribution rate. In addition, the Corporation reimburses the Fund to cover the excess of the benefits paid as a consequence of retrenchment above the funded resignation of retirement benefit.

Funding Calls

If the Defined Benefit category is in an unsatisfactory financial position at an actuarial investigation or the Defined Benefit category's VBI is below its shortfall limit at any time other than the date of the actuarial investigation, the Defined Benefit category has a shortfall for the purposes of SPS 160 and the Fund is required to put a plan in place so that the shortfall is fully funded within three years of the shortfall occurring. The Fund monitors its VBI on a quarterly basis and the Fund has set its shortfall limit of 97%.

In the event that the Fund Actuary determines that there is a shortfall based on the above requirement, the Fund's participating employers (including the Corporation) are required to make an employer contribution to cover the shortfall.

Using the agreed methodology, the shortfall amount is apportioned between the participating employers based on the pre-1 July 1993 and post-30 June 1993 service liabilities of the Fund's Defined Benefit category, together with the employer's payroll at 30 June 1993 and at the date the shortfall has been calculated.

Due to the nature of the contractual obligations between the participating employers and the Fund, and that the Fund includes lifetime pensioners and their reversionary beneficiaries, it is unlikely that the Fund will be wound up.

If there is a surplus in the Fund, the surplus cannot be returned to the participating employers. In the event that a participating employer is wound-up, the defined benefit obligations of that employer will be transferred to that employer's successor.

The 2017 full triennial actuarial investigation

An actuarial investigation is conducted annually for the Defined Benefit category of which the Corporation is a contributing employer. Generally, a full actuarial investigation is conducted every three years and interim actuarial investigations are conducted for each intervening year. An interim investigation was conducted as at 30 June 2018 and a full actuarial investigation was conducted as at 30 June 2017.

The Fund's actuarial investigations identified the following for the Defined Benefit category of which the Corporation is a contributing employer:

	2018 \$m	2017 \$m
- A VBI surplus	\$131.9	\$69.8
- A total service liability surplus	\$218.3	\$193.5
- A discounted accrued benefits surplus	\$249.1	\$228.8

The VBI surplus means that the market value of the fund's assets supporting the defined benefit obligations exceed the vested benefits that the defined benefit members would have been entitled to if they had all exited on 30 June 2018.

The total service liability surplus means that the current value of the assets in the Fund's Defined Benefit category plus expected future contributions exceeds the value of expected future benefits and expenses as at 30 June 2018.

The discounted accrued benefit surplus means that the current value of the assets in the Fund's Defined Benefit category exceeds the value of benefits payable in the future but accrued in respect of service to 30 June 2018.

The Corporation was notified of the 30 June 2018 VBI during August 2018 (2017: August 2017).

The 2019 interim actuarial investigation

An interim actuarial investigation is being conducted for the Fund's position as at 30 June 2019 as the Fund provides lifetime pensions in the Defined Benefit category. It is anticipated that this actuarial investigation will be completed by October 2019.

3.2 Repairs and maintenance

Repairs and maintenance	1,621	1,413
Total repairs and maintenance	<u>1,621</u>	<u>1,413</u>

Routine maintenance, repair costs and minor renewal costs are expensed as incurred. Where the repair relates to the replacement of a component of an asset and the cost exceeds the capitalisation threshold, the cost is capitalised and depreciated.

3.3 Bulk water

Recycled water	1,289	1,364
Total bulk water	<u>1,289</u>	<u>1,364</u>

Recycled water is supplied by a contract between Melbourne Water and the Corporation for distribution to customers in the Werribee Irrigation District.

3.4 Supplies and services

<i>Supplies and services</i>		
- Insurance	446	391
- Motor vehicle operating costs	706	662
- Professional services	1,266	2,247
- Telecommunications	404	398
- Computer software maintenance	346	332
- Utilities	316	307
- Regulatory fees	242	188
- Training	242	443
- Project works not capitalised	2,142	1,248
- Other services	2,489	2,746
Total supplies and services	<u>8,599</u>	<u>8,962</u>

Supplies and services costs are recognised as an expense in the reporting period in which they are incurred. The carrying amounts of any inventories held for distribution are expensed when distributed.

3.5 Other operating expenses

Other expenses		
Operating lease rental expenses	338	226
- Lease payments		
Total operating lease rental expenses	<u>338</u>	<u>226</u>
Ex gratia expense (refer to Note 9.7)	0	0
Total other operating expenses	<u>338</u>	<u>226</u>

Other operating expenses generally represent the day-to-day running costs incurred in normal operations and are deemed relevant for the understanding of this financial report. They are expensed in the period in which they are incurred. The following specific accounting policies apply:

Operating lease payments (including contingent rentals) are recognised on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern of the benefits derived from the use of the leased asset.

4. Key assets available to support output delivery

The Corporation controls infrastructure and other assets that are utilised in fulfilling its objectives and conducting its activities. They represent the key resources that have been entrusted to the Corporation to be utilised for delivery of those outputs.

Structure

Infrastructure, property, plant and equipment

Infrastructure, property, plant and equipment

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

4.1.2 Fair value determination: Non-financial physical assets

4.1.3 Depreciation

4.1.4 Asset write-offs

4.1.5 Net gain on disposal of non-current assets

4.2 Intangible assets

4.2.1 Intangible asset write-offs

4.3 Assets classified as held for sale

4.1 Infrastructure, property, plant and equipment

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

Year ended 30 June 2019

	Land	Water infrastructure	Machinery, fittings and equipment	Plant	Motor vehicles	Buildings	Capital works in progress	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 July 2018	29,879	1,192,488	1,814	513	2,510	22,101	22,101	1,252,559
Additions - new assets	0	0	0	0	1,341	0	36,807	38,148
Additions - asset renewal	0	0	0	0	0	0	7,464	7,464
Transfers	0	23,359	377	157	0	94	(23,987)	0
Revaluation	7,718	152,857	0	0	0	280	0	160,855
Impairment	0	(900)	0	0	0	0	0	(900)
Transfers to held for sale	(3,621)	0	0	0	0	0	0	(3,621)
Disposals	0	0	(34)	0	(585)	0	0	(619)
Depreciation of regulatory asset base	0	(2,118)	(408)	(96)	(585)	(129)	0	(3,336)
Depreciation of other assets	0	(11,921)	0	0	0	(132)	0	(12,053)
At 30 June 2019	33,976	1,353,765	1,749	574	2,681	3,367	42,385	1,438,497

At 1 July 2018

Gross carrying amount	29,879	1,218,261	5,383	1,445	4,313	3,717	22,101	1,285,099
Accumulated depreciation	0	(25,773)	(3,569)	(932)	(1,803)	(463)	0	(32,540)
Net carrying amount	29,879	1,192,488	1,814	513	2,510	3,254	22,101	1,252,559

At 30 June 2019

Gross carrying amount	33,976	1,393,576	5,491	1,602	4,380	4,091	42,385	1,485,501
Accumulated depreciation	0	(39,811)	(3,742)	(1,028)	(1,699)	(724)	0	(47,004)
Net carrying amount	33,976	1,353,765	1,749	574	2,681	3,367	42,385	1,438,497

Year ended 30 June 2018

	Land	Water infrastructure	Machinery, fittings and equipment	Plant	Motor vehicles	Buildings	Capital works in progress	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 July 2017	29,879	1,185,835	1,524	549	2,462	3,553	14,357	1,238,159
Additions - new assets	0	0	0	0	1,102	0	24,730	25,832
Additions - asset renewal	0	0	0	0	0	0	4,076	4,076
Transfers	0	20,249	730	116	0	(33)	(21,062)	0
Impairment	0	(568)	0	0	0	0	0	(568)
Assets written off	0	(98)	0	0	0	0	0	(98)
Disposals	0	0	0	(11)	(422)	0	0	(433)
Depreciation of regulatory asset base	0	(2,328)	(440)	(141)	(632)	(148)	0	(3,689)
Depreciation of other assets	0	(10,602)	0	0	0	(118)	0	(10,720)
At 30 June 2018	29,879	1,192,488	1,814	513	2,510	3,254	22,101	1,252,559

At 1 July 2017

Gross carrying amount	29,879	1,198,678	4,596	1,377	4,317	3,750	14,357	1,256,954
Accumulated depreciation	0	(12,843)	(3,072)	(828)	(1,855)	(197)	0	(18,795)
Net carrying amount	29,879	1,185,835	1,524	549	2,462	3,553	14,357	1,238,159

At 30 June 2018

Gross carrying amount	29,879	1,218,261	5,383	1,445	4,313	3,717	22,101	1,285,099
Accumulated depreciation	0	(25,773)	(3,569)	(932)	(1,803)	(463)	0	(32,540)
Net carrying amount	29,879	1,192,488	1,814	513	2,510	3,254	22,101	1,252,559

Initial recognition

Infrastructure, property, plant and equipment represent non-current physical assets comprising land, buildings, water and drainage infrastructure, plant, equipment and motor vehicles, used by the Corporation in its operations. Items with a cost or value in excess of \$10,000 (2018: \$2,000) and a useful life of more than one year are recognised as an asset. All other assets acquired are expensed, with the exception of those assets under the threshold that are considered as attractive assets. Items of infrastructure, property, plant and equipment, are measured initially at cost and subsequently revalued at fair value less accumulated depreciation and impairment. Where an asset is acquired for no or nominal cost, the cost is its fair value at the date of acquisition. Assets transferred as part of a machinery of government change are transferred at their carrying amount.

The cost of constructed non-financial physical assets includes the cost of all materials used in construction and direct labour on the project.

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

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 assets 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). Refer to Note 4.1.2 for fair value disclosures.

Revaluation of non-current physical assets

Revaluations are conducted in accordance with FRD 103G. Scheduled revaluation is undertaken every five years with an annual assessment of fair value to determine if it is materially different to carrying value. If the difference to carrying value is greater than 10 per cent, a management revaluation is undertaken while a movement greater than 40 per cent will normally involve an approved valuer (usually the Valuer-General Victoria) to perform a detailed assessment of the fair value. If the movement in fair value since the last revaluation is less than or equal to 10 per cent, then no change is made to carrying amounts.

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

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

Revaluation increases and revaluation decreases relating to individual assets within a class of infrastructure, property, plant and equipment are offset against one another within that class but are not offset in respect of assets in different classes.

Asset revaluation reserves are not transferred to accumulated surplus/(deficit) on derecognition of the relevant asset.

4.1.2 Fair value determination: Non-financial physical assets

Significant judgment: Fair value measurements of assets and liabilities

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 Corporation.

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.

Consistent with AASB 13 *Fair Value Measurement*, the Corporation determines the policies and procedures for both recurring fair value measurements such as infrastructure, property, plant and equipment, financial instruments and for non recurring fair value measurements such as assets held for sale, in accordance with the requirements of AASB 13 and the relevant Financial Reporting Directions.

Fair value hierarchy

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

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For the purpose of fair value disclosures, the Corporation has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

	Fair value measurement hierarchy for assets as at 30 June 2019			
	Carrying amount as at 30 June 2019 \$'000	Level 1 (i) \$'000	Level 2 (ii) \$'000	Level 3 (iii) \$'000
Land at fair value				
Non-specialised land	2,871	0	2,871	0
Specialised land	31,105	0	0	31,105
Total of land at fair value	33,976	0	2,871	31,105
Buildings at fair value				
Non-specialised buildings	3,367	0	0	3,367
Total of buildings at fair value	3,367	0	0	3,367
Water infrastructure at fair value				
Reservoirs and weirs	796,971	0	0	796,971
Tunnels	62,138	0	0	62,138
Irrigation channels and pipes	221,218	0	0	221,218
Irrigation drains	52,513	0	0	52,513
Irrigation structures, meters and pumps	220,926	0	0	220,926
Total of water infrastructure at fair value	1,353,766	0	0	1,353,766
Machinery, fittings and equipment at fair value				
Machinery and tools	390	0	0	390
Computer equipment	978	0	0	978
Furniture and fittings	381	0	0	381
Total of machinery, fittings and equipment at fair value	1,749	0	0	1,749
Motor vehicles and plant at fair value				
Motor vehicles	2,680	0	0	2,680
Plant	571	0	0	571
Total of motor vehicles and plant at fair value	3,251	0	0	3,251
Fair value measurement hierarchy for assets as at 30 June 2018				
	Carrying amount as at 30 June 2018 \$'000	Level 1 (i) \$'000	Level 2 (ii) \$'000	Level 3 (iii) \$'000
Land at fair value				
Non-specialised land	5,459	0	5,459	0
Specialised land	24,420	0	0	24,420
Total of land at fair value	29,879	0	5,459	24,420
Buildings at fair value				
Non-specialised buildings	3,254	0	0	3,254
Total of buildings at fair value	3,254	0	0	3,254
Water infrastructure at fair value				
Reservoirs and weirs	698,072	0	0	698,072
Tunnels	54,228	0	0	54,228
Irrigation channels and pipes	184,404	0	0	184,404
Irrigation drains	45,993	0	0	45,993
Irrigation structures, meters and pumps	209,791	0	0	209,791
Total of water infrastructure at fair value	1,192,488	0	0	1,192,488
Machinery, fittings and equipment at fair value				
Machinery and tools	424	0	0	424
Computer equipment	922	0	0	922
Furniture and fittings	469	0	0	469
Total of machinery, fittings and equipment at fair value	1,814	0	0	1,814
Motor vehicles and plant at fair value				
Motor vehicles	2,510	0	0	2,510
Plant	513	0	0	513
Total of motor vehicles and plant at fair value	3,023	0	0	3,023

Notes:

(i) Classified in accordance with the fair value hierarchy, see Note 4.1.2

There have been no transfers between levels during the period.

The Valuer General Victoria (VGV) is the Corporation's independent valuation agency in relation to valuation of property, plant and equipment and infrastructure. The Corporation, in conjunction with VGV, monitors changes in the fair value of property, plant and equipment and infrastructure through relevant data sources to determine whether revaluation is required.

Non-specialised land

For non specialised land, an independent valuation was performed by the Valuer-General Victoria (VGV) to determine the fair value using the market approach. 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 or per hectare has been applied to the subject asset. The effective date of the valuation is 30 June 2016.

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

Non-specialised buildings

An independent valuation of non-specialised buildings was performed by VGV and used depreciated replacement cost to estimate fair value. The effective date of the valuation is 30 June 2016.

As depreciation adjustments are considered as significant, unobservable inputs in nature, the buildings are classified as Level 3 fair value measurements.

Specialised land

The market approach is also used for specialised land, although 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 of CSO are considered as significant unobservable inputs, specialised land is classified as Level 3 assets.

CSO adjustments to land values have taken into account the planning restrictions applying to their use, as well as the restrictions and impacts of the existence of water infrastructure assets (drains, channels and reservoirs), but not the value of those assets (which are separately recorded as infrastructure assets). In the case of land used for reservoirs, the valuation performed by VGV recognises an associated CSO by valuing land above the full supply level at 80% of surrounding land values, and below the full supply level at 8% of adjacent land value.

An independent valuation of the Corporation's specialised land was performed by VGV. The valuation was performed using the market approach adjusted for CSO. The effective date of the valuation is 30 June 2016.

Water infrastructure

Water infrastructure is valued using the depreciated replacement cost method. This cost represents the replacement cost of the asset/component after applying depreciation rates on a useful life basis. Replacement costs relate to costs to replace the current service capacity of the asset. Economic obsolescence has also been factored into the depreciated replacement cost calculation.

Where it has not been possible to examine hidden works such as structural frames and floors, the use of reasonable materials and methods of construction have been assumed bearing in mind the age and nature of the building. The estimated cost of reconstruction includes structure services and finishes as applicable.

An independent valuation of the Corporation's water infrastructure was performed by VGV. Water Infrastructure assets are valued by VGV at fair value. As the Corporation is categorised as not-for-profit, fair value is assessed as depreciated replacement cost. The effective date of the valuation is 30 June 2016. Important aspects to this valuation approach were:

- Replacement cost is determined on an 'Optimum Modern Equivalent' basis. This assessment calculates replacement cost by reference to the lowest cost at which the gross future economic benefits of that asset could currently be obtained. In this way, value is not attributed to excess capacity, over design or redundancy.
- Depreciation is calculated using a straight line methodology, and in order to determine the depreciated value, condition assessments are used to calculate the remaining useful life

As depreciation adjustments are considered as significant, unobservable inputs in nature, water infrastructure is classified as Level 3 fair value measurements.

Machinery, fittings and equipment

Machinery, fittings and equipment is held at fair value. When machinery, fittings and equipment is specialised in use, such that it is rarely sold other than as part of a going concern, fair value is determined using the depreciated replacement cost method.

As depreciation adjustments are considered as significant, unobservable inputs in nature, machinery, fittings and equipment are classified as Level 3 fair value measurements.

Motor vehicles and plant

Vehicles are valued using the depreciated replacement cost method. The Corporation acquires new vehicles and usually disposes of them before the end of their economic life. The process of acquisition, use and disposal in the market is managed by experienced fleet managers in the Corporation who set relevant depreciation rates during use to reflect the utilisation of the vehicles.

Plant is held at fair value. When plant is specialised in use, such that it is rarely sold other than as part of a going concern, fair value is determined using the depreciated replacement cost method.

As depreciation adjustments are considered as significant, unobservable inputs in nature, motor vehicles and plant are classified as Level 3 fair value measurements.

There were no changes in valuation techniques throughout the period to 30 June 2019.

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

Fair value assessments

The Corporation conducted fair value assessments at 30 June 2019 of all asset classes, with material movements identified since the 2016 valuations and a managerial revaluation undertaken as 30 June 2019 for the following categories:

	Indices	Revaluation \$'M	Source	Index
Land	25.8%	7.72	Valuer General Victoria	Vacant land indexation
Buildings	10.5%	0.28	Valuer General Victoria	Building indices
Infrastructure	13.2%	152.90	Australian Bureau of Statistics	Producer price index

Consistent with FRD103G, the managerial revaluation was calculated using indices recommended by Valuer General Victoria.

Reconciliation of Level 3 fair value measurements

A reconciliation from the opening balances to the closing balances for fair value measurements categorised within Level 3 of the fair value hierarchy, disclosing separately changes during the period.

Reconciliation of Level 3 fair value (\$'000) at 30 June 2019									
Asset type	Opening balance	Additions	Transfers	Disposals and write-off	Depreciation	Impairment	Revaluation	Unrealised gains/(losses) on non-financial assets	Closing balance
Specialised land	24,420	0	0	0	0	0	0	6,685	31,105
Non-specialised buildings	3,254	0	94	0	(261)	0	280	0	3,367
Reservoirs and weirs	698,072	0	2,076	0	(3,838)	0	100,660	0	796,970
Tunnels	54,228	0	9	0	(83)	0	7,984	0	62,138
Irrigation channels and pipes	184,404	0	16,363	0	(3,711)	(635)	24,798	0	221,219
Irrigation drains	45,993	0	35	0	(261)	0	6,745	0	52,512
Irrigation structures, meters and pumps	209,791	0	4,876	0	(6,146)	(265)	12,670	0	220,926
Machinery and tools	424	0	67	0	(101)	0	0	0	390
Computer equipment	922	0	294	0	(239)	0	0	0	978
Furniture and fittings	469	0	15	(34)	(69)	0	0	0	381
Motor vehicles	2,510	0	1,341	(585)	(585)	0	0	0	2,681
Plant	513	0	157	0	(96)	0	0	0	574

Reconciliation of Level 3 fair value (\$'000) at 30 June 2018

Asset type	Opening balance	Additions	Transfers	Disposals and write-off	Depreciation	Impairment	Revaluation	Unrealised gains/(losses) on non-financial assets	Closing balance
Specialised land	24,420	0	0	0	0	0	0	0	24,420
Non-specialised buildings	3,553	0	(33)	0	(266)	0	0	0	3,254
Reservoirs and weirs	696,748	0	4,945	0	(3,621)	0	0	0	698,072
Tunnels	54,301	0	8	0	(61)	0	0	0	54,228
Irrigation channels and pipes	177,758	0	10,393	0	(3,295)	(452)	0	0	184,404
Irrigation drains	46,345	0	0	(99)	(254)	0	0	0	45,993
Irrigation structures, meters and pumps	210,683	0	4,903	0	(5,679)	(116)	0	0	209,791
Machinery and tools	495	0	33	0	(104)	0	0	0	424
Computer equipment	514	0	647	0	(239)	0	0	0	922
Furniture and fittings	516	0	50	0	(97)	0	0	0	469
Motor vehicles	2,462	1,102	0	(422)	(632)	0	0	0	2,510
Plant	549	0	116	(11)	(141)	0	0	0	513

Notes:

Description of significant unobservable inputs to Level 3 valuations (i) Asset class	Fair value at		Valuation technique (ii)	Significant unobservable inputs (ii) Community Service Obligation (CSO) adjustment to market value
	30 June 2018 (\$'000)	30 June 2019 (\$'000)		
Specialised land	24,420	31,105	Market / Adjusted	
Non-specialised buildings (52)	3,254	3,367	Depreciated replacement cost	Building cost, cost approach using best available evidence from recognised building cost indicators and or quantity surveyors and examples of current cost
Reservoirs (7)	651,269	750,226	Depreciated replacement cost	Cost per reservoir Useful life of reservoirs
Weirs (6)	46,803	46,744	Depreciated replacement cost	Cost per weir Useful life of weirs
Tunnels (3)	54,228	62,138	Depreciated replacement cost	Cost per tunnel Useful life of tunnels
Irrigation channels	149,846	171,306	Depreciated replacement cost	Cost per metre of channel Useful life of irrigation channels
Irrigation pipes	34,558	49,913	Depreciated replacement cost	Cost per metre of pipeline Useful life of irrigation pipes

Description of significant unobservable inputs to level 3 valuations (i) Asset class	Fair value at		Valuation technique (ii)	Significant unobservable inputs (ii) Cost per metre
	30 June 2018 (\$'000)	30 June 2019 (\$'000)		
Irrigation drains	45,993	52,512	Depreciated replacement cost	Useful life of irrigation drains Cost per unit
Irrigation structures, meters and pumps	209,791	220,926	Depreciated replacement cost	Useful life of irrigation structures Cost per unit
Machinery and tools	424	390	Depreciated replacement cost	Useful life of machinery and tools Cost per unit
Computer equipment	922	978	Depreciated replacement cost	Useful life of computer equipment Cost per unit
Furniture and fittings	469	381	Depreciated replacement cost	Useful life of furniture and fittings Cost per unit
Motor vehicles	2,510	2,681	Depreciated replacement cost	Useful life of motor vehicles Cost per unit
Plant	513	574	Depreciated replacement cost	Useful life of plant Cost per unit

Notes:

(i) These significant unobservable inputs remain unchanged from 30 June 2018.

(ii) Illustrations on the valuation techniques, significant unobservable inputs and the related quantitative range of those inputs are indicative and should not be directly used without consultation with YGV.

4.1.3 Depreciation

Depreciation is distinguished by:

- regulated asset base: expenditure that is recoverable from customers within prices authorised by the Water Industry Regulatory Order; and
- other assets: depreciation of assets acquired or constructed prior to 1 July 2004, or assets funded directly by customers or government contribution.

All non-current physical assets that have a finite useful life are depreciated. Where assets have separate identifiable components that have distinct useful lives and/or residual values, a separate depreciation rate is determined for each component.

Physical assets with indefinite useful lives are not depreciated, and this includes:

- earthen storage embankments;
- tunnels and other excavations;
- irrigation channel excavation and base material; and
- drain excavations.

Land is not depreciated.

Motor vehicles are depreciated on a diminishing balance basis, over their estimated useful life, commencing from the time the asset is held ready for use.

Depreciation of other assets is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their remaining estimated useful lives, commencing from the time the asset is held ready for use.

The assets residual values and useful lives are reviewed and adjusted if appropriate, at each balance date.

Useful lives within each asset class are consistent with the previous year and fall within the following ranges:

Class of Asset	Periods
Buildings	10 to 50 Years
Water Infrastructure	
Storage embankments	350 years
Storage spillways	100 years
Storage discharge control structures	80 years
Storage civil works	50 years
Storage mechanical and electrical	25 years
Irrigation pipes	50 to 90 years
Irrigation structures, meters and pumps	25 to 75 years
Irrigation channels	100 years
Irrigation channel excavation and base material	Indefinite
Earthen storage embankments	Indefinite
Tunnel and other excavations	Indefinite
Drain excavations	Indefinite
Plant, equipment and other	
Machinery and tools	2 to 33 years
Computer equipment	4 to 10 years
Furniture and fittings	2 to 25 years
Motor vehicles	2 to 4 years
Plant	5 to 20 years

The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, and adjustments made where appropriate. Leasehold improvements are depreciated over the shorter of the lease term and their useful lives.

Impairment

Non-financial assets, including items of Property, Plant and Equipment, are tested for impairment whenever there is an indication that the asset may be impaired.

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, 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 should 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. The recoverable amount for assets held primarily to generate net cash inflows is measured at the higher of the present value of future cash flows expected to be obtained from the asset and fair value less costs to sell.

2018-2019
\$'000

2017-2018
\$'000

4.1.4 Asset write-offs

Assets transferred/written off

Written down value of transferred assets

Written down value of transferred assets represents the transfer of ownership of irrigation drains to landholders as part of the Corporation's nutrient reduction activities. Drains were transferred at no cost to landholders under this program.

Total asset write-offs

4.1.5 Net gain on disposal of non-current assets

The net gain on disposal of assets includes the following specific net gains and expenses:

Proceeds from sale of infrastructure, property, plant and equipment

Written down value of disposed infrastructure, property, plant and equipment

Net gain on disposal of assets

98

0

98

0

805

(633)

172

694

(619)

75

4.2 Intangible assets

	Software \$'000	Water allocation \$'000	Implementation in progress \$'000	Total \$'000
Year ended 30 June 2019				
At 1 July 2018	1,050	229	173	1,452
Additions	0	0	278	278
Transfer	54	0	(54)	0
Assets written off	0	(7)	0	(7)
Amortisation	(462)	0	0	(462)
At 30 June 2019	642	222	397	1,261
At 1 July 2018				
Cost (gross carrying amount)	8,246	229	173	8,648
Accumulated amortisation	(7,196)	0	0	(7,196)
Net carrying amount	1,050	229	173	1,452
At 30 June 2019				
Cost (gross carrying amount)	8,300	222	397	8,919
Accumulated amortisation	(7,658)	0	0	(7,658)
Net carrying amount	642	222	397	1,261
Year ended 30 June 2018				
At 1 July 2017	1,602	255	213	2,070
Additions	0	0	84	84
Transfer	124	0	(124)	0
Assets written off	0	(26)	0	(26)
Amortisation	(676)	0	0	(676)
At 30 June 2018	1,050	229	173	1,452
At 1 July 2017				
Cost (gross carrying amount)	8,122	255	213	8,590
Accumulated amortisation	(6,520)	0	0	(6,520)
Net carrying amount	1,602	255	213	2,070
At 30 June 2018				
Cost (gross carrying amount)	8,246	229	173	8,648
Accumulated amortisation	(7,196)	0	0	(7,196)
Net carrying amount	1,050	229	173	1,452

Recognition

Intangible assets represent identifiable non-monetary assets without physical substance.

Purchased intangible assets are initially recognised at cost. When the recognition criteria in AASB 138 *Intangible Assets* is met, internally generated intangible assets are recognised at cost. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. Depreciation and amortisation begins when the asset is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. [AASB 138.74-75; FRD 109A]

An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following are demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- an intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development. [AASB 138.57]

A summary of the policies applied to the Corporation's intangible assets is as follows:

	Software	Water allocation
Useful lives	Finite	Indefinite
Amortisation method used	3 to 10 years straight-line	Not amortised or revalued
Internally generated / acquired	Acquired	Acquired
Impairment assessment / Recoverable amount testing	Annually and where an indicator of impairment exists	Annually and where an indicator of impairment exists

Water allocation

The Corporation holds a water allocation within the Thomson Reservoir. This follows the purchase of 3,000ML of water allocation from Macalister Irrigation District water share owners in June 2016. The Minister for Water assigned this water allocation of 3,000ML to City West Water and Western Water for storage until the Corporation directs the delivery of the water. The water allocation was acquired by the Corporation to enable the sale of new water allocations to Werribee and Bacchus Marsh Irrigators.

Amortisation

Charge for the period

- Software	462	676
Total amortisation	462	676

Intangible assets with finite useful lives are amortised as an expense on a systematic basis (typically straight-line), commencing from the time the asset is available for use. The amortisation periods are reviewed and adjusted if appropriate at each balance date. Intangible assets with indefinite useful lives are not amortised. However, all intangible assets are assessed for impairment annually as outlined below.

Impairment of intangible assets

Intangible assets with indefinite useful lives (and intangible assets not yet available for use) are tested annually for impairment and whenever there is an indication that the asset may be impaired. Intangible assets with finite useful lives are tested for impairment whenever an indication of impairment is identified.

The policy in connection with testing for impairment is outlined in section 4.1.3.

4.2.1 Intangible asset write-offs

Written down value of intangible assets written off

	7	26
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The Corporation holds a water allocation within the Thomson Reservoir. This water allocation was assigned to City West Water and Western Water in June 2016.

The Corporation has assessed the current holding of this allocation, and has written down the value of water allocation lost.

Total intangible asset write-offs

	7	26
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4.3 Assets classified as held for sale

Freehold land held for sale

	3,753	131
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Assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell, as their carrying amount will be recovered principally through a sale transaction, rather than through continuing use. The Corporation considers that the sale is highly probable, the asset is available for immediate sale in its present condition and the sale is expected to be completed within 12 months from the date of classification. Assets are not depreciated or amortised while they are classified as held for sale. Assets classified as held for sale are classified as current assets.

5. Other assets and liabilities

This section sets out those assets and liabilities that arose from the Corporation's operations and the delivery of services.

Structure		
5.1 Receivables	3,416	
5.2 Payables	(95)	
5.2.1 Ageing analysis of contractual payables	2,342	
5.1 Receivables	7,000	
Contractual		
Service and usage charges		3,416
Allowance for expected credit losses		(95)
Accrued income		2,514
Contributed Capital		0
Statutory		
GST input tax credit receivables	1,107	1,062
Total current receivables	13,465	6,909
Total receivables	13,465	6,909

Receivables consist of contractual receivables, such as debtors in relation to goods and services, and accrued service and usage charges. They 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 receivables are due for settlement no more than 28 days from the date of recognition for water utility debtors, and no more than 28 days for other debtors. Contractual receivables are classified as financial instruments and categorised as loans and receivables.

Accrued income consists of revenue earned during the financial year in relation to variable usage charges in the Corporation's irrigation districts. This revenue is billed early in the next financial year.

Impairment of contractual receivables

The Corporation applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for contractual receivables.

To measure the expected credit losses, receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 12 months before 30 June 2019 or 1 July 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. On that basis, the loss allowance as at 30 June 2019 and 1 July 2018 (on adoption of AASB 9) was determined as follows for both trade receivables:

	Current	More than 30 days past due	More than 60 days past due	More than 120 days past due	Total
30 June 2019					
Expected loss rate	0%	0%	4%	3%	
Gross Carrying Amount-service and usage charges (\$'000)	285	631	31	2,164	3,111
Loss allowance (\$'000)	0	0	0	95	95
1 July 2018					
Expected loss rate	0%	0%	4%	2%	
Gross Carrying Amount-service and usage charges (\$'000)	1,155	97	49	2,115	3,416
Loss allowance (\$'000)	0	0	0	83	83

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan, and a failure to make contractual payments for a period of greater than 120 days past due. Impairment losses on receivables are presented in other expenses within the Comprehensive Operating Statement.

The ageing of these receivables is as follows:

	Carrying amount \$'000	Not past due and not impaired \$'000	Past due but not impaired			
			Less than 1 month \$'000	1-3 months \$'000	3 months - 1 year \$'000	1-5 years \$'000
2019						
Sale of goods and services	10,392	7,258	258	658	1,819	399
Other receivables	0	0	0	0	0	0
Total	10,392	7,258	258	658	1,819	399
2018						
Sale of goods and services	3,423	881	281	136	1,699	426
Other receivables	0	0	0	0	0	0
Total	3,423	881	281	136	1,699	426

No interest is charged for the first 28 days from the invoice date. Thereafter, interest is charged at 5.0 per cent on the outstanding balance. The average credit period for sales of goods / services and for other receivables is 28 days. There are no material financial assets that are individually determined to be impaired.

Past due but not impaired trade receivables relate to a number of independent customers for whom there is no recent history of default. Excluding a small number of recycled water charges, the Corporation's credit risk for water customers is mitigated by the *Water Act 1999*, where outstanding trade receivables are secured by a charge against the associated land or water share. The Corporation considers that underlying land and water share assets within each irrigation district provide adequate market value to support our trade receivable balance. The other amounts within receivables do not contain impaired assets and are not past due. Based on credit history, it is expected that these amounts will be received when due. There are no financial assets that have had their terms renegotiated so as to prevent them from being past due or impaired, and they are stated at the carrying amounts as indicated.

2018-2019 \$'000

2017-2018 \$'000

5.2 Payables

Contractual		
Trade creditors	8,253	8,691
Deferred revenue *	66	240
Advances for capital and other works	130	132
Statutory		
Fringe Benefits Tax payable	96	95
Total current payables	8,545	9,158
Total payables	8,545	9,158

* Deferred revenue balance represents our estimate of unearned income from our Licensing Applications business, which will be recognised as income as applications are completed.

Payables consist of:

- contractual payables, classified as financial instruments and measured at amortised cost. Trade creditors represent liabilities for goods and services provided to the Corporation prior to the end of the financial year that are unpaid, and
- statutory payables, that are recognised and measured similarly to contractual payables, but are not classified as financial instruments and not included in the category of financial liabilities at amortised cost, because payables for supplies and services have an average credit period of 30 days. No interest is charged on the 'other payables' for the first 30 days from the date of the invoice. Thereafter, interest is charged dependent upon the terms and conditions of the supplier's contract.

5.2.1 Ageing analysis of contractual payables

	Carrying amount \$'000	Nominal amount \$'000	Maturity dates					
			Less than 1 month \$'000	1-3 months \$'000	3 months - 1 year \$'000	1 - 5 years \$'000	5+ years \$'000	
2019								
Supplies and services	8,449	8,449	8,437	12	0	0	0	0
Total	8,449	8,449	8,437	12	0	0	0	0
2018								
Supplies and services	9,063	9,063	9,043	20	0	0	0	0
Total	9,063	9,063	9,043	20	0	0	0	0

6. How we financed our operations

Introduction

This section provides information on the sources of finance utilised by the Corporation during its operations, along with interest expenses (the cost of borrowings) and other information related to financing activities of the Corporation. This section includes disclosures of balances that are financial instruments (such as borrowings and cash balances). Note 7.1 provide additional, specific financial instrument disclosures.

Structure

6.1	Interest bearing liabilities		
6.1.1	Maturity analysis of interest bearing liabilities	4,610	3,930
6.1.2	Interest expense	4,610	3,930
6.2	Cash flow information		
6.2.1	Reconciling of net result to cash flow from operating activities		
6.2.2	Financing facilities		
6.3	Commitments for expenditure		
6.3.1	Total commitments payable	44,430	24,540
6.3.2	Capital commitments	44,430	24,540
6.1	Interest bearing liabilities		
	Current interest bearing liabilities		
	Treasury Corporation of Victoria (TCV) - Unsecured	4,610	3,930
	Total current interest bearing liabilities	4,610	3,930
	Non-current		
	Treasury Corporation of Victoria (TCV) - Unsecured	44,430	24,540
	Total non-current interest bearing liabilities	44,430	24,540
	Total interest bearing liabilities	49,040	28,470

Interest bearing liabilities are initially recognised at the fair value of the consideration received less directly attributable transaction costs. Interest bearing liabilities are subsequently measured at amortised cost.

Any difference between the initial amount recognised (net of transaction costs) and the redemption amount is recognised in the Comprehensive Operating Statement over the period of the interest bearing liabilities, using the effective interest method. Interest bearing liabilities are classified as current liabilities unless the Corporation has an unconditional right to defer settlement of the liability for at least 12 months after the balance date.

The Corporation has classified borrowings which mature within 12 months as non-current liabilities on the basis that the Corporation will and has 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.

Current interest bearing liabilities are all held with TCV, either as:

- An '11am' at call debt facility which has no fixed term to maturity

- Fixed - Semi Annual Credit Foncier facilities with repayments of interest and principal twice annually

Non-current interest bearing liabilities are all held with TCV, either as:

- Fixed - Semi Annual Credit Foncier facility with repayments of interest and principal (\$130k) twice annually and a final \$3.18m maturity in June 2020
- Fixed - Rate facility with repayments of interest twice annually and a final \$2.14m maturity in June 2021
- Fixed - Rate facility with repayments of interest twice annually and a final \$1.25m maturity in June 2021
- Fixed - Semi Annual Credit Foncier facility with repayments of interest and principal (\$50k) twice annually and a final \$2.60m maturity in June 2022
- Fixed - Rate facility with repayments of interest twice annually and a final \$1.75m maturity in June 2022
- Fixed - Semi Annual Credit Foncier facility with repayments of interest and principal (\$75k) twice annually and a final \$2.5m maturity in June 2023
- Fixed - Rate facility with repayments of interest twice annually and a final \$1.75m maturity in June 2023
- Fixed - Semi Annual Credit Foncier facility with repayments of interest and principal (\$25k) twice annually and a final \$0.83m maturity in June 2024
- Fixed - Rate facility with repayments of interest twice annually and a final \$3.75m maturity in June 2024
- Fixed - Semi Annual Credit Foncier facility with repayments of interest and principal (\$50k) twice annually and a final \$0.44m maturity in June 2025
- Fixed - Rate facility with repayments of interest twice annually and a final \$1.5m maturity in June 2025
- Fixed - Rate facility with repayments of interest twice annually and a final \$2.5m maturity in June 2025
- Fixed - Rate facility with repayments of interest twice annually and a final \$2.5m maturity in June 2025
- Fixed - Semi Annual Credit Foncier facility with repayments of interest and principal (\$50k) twice annually and a final \$2.20m maturity in June 2026
- Fixed - Rate facility with repayments of interest twice annually and a final \$3.25m maturity in June 2026
- Fixed - Semi Annual Credit Foncier facility with repayments of interest and principal (\$75k) twice annually and a final \$1.50m maturity in June 2027
- Fixed - Rate facility with repayments of interest twice annually and a final \$2.75m maturity in June 2027
- Fixed - Rate facility with repayments of interest twice annually and a final \$5.0m maturity in June 2028
- Fixed - Semi Annual Credit Foncier facility with repayments of interest and principal (\$50k) twice annually and a final \$2.00m maturity in June 2028

These debt facilities are provided by TCV consistent with the Financial Accommodation issued by the Treasurer of Victoria to the Corporation, in accordance with section 8 of the *Borrowing and Investment Powers Act 1987*.

The borrowings are not directly secured by assets of the Corporation but have the benefit of the Treasurer's guarantee to TCV dated 25 April 2002.

The borrowings are in Australian dollars and accordingly the Corporation does not face a foreign exchange risk in relation to these balances.

6.1.1 Maturity analysis of interest bearing liabilities

	Carrying amount \$'000	Nominal amount \$'000	Maturity dates				
			1-3 months \$'000	3 months - 1 year \$'000	1 - 5 years \$'000	5+ years \$'000	
2019 Treasury Corporation of Victoria (TCV)	49,040	50,964	715	3,895	19,640	24,790	
2018 Treasury Corporation of Victoria (TCV)	28,470	29,226	715	3,215	14,420	10,120	

2017-2018
\$'000

2018-2019
\$'000

6.1.2 Interest expense

Other interest expense	770
Financial accommodation levy	297
Total interest expense	1,067

Interest expense includes costs incurred in connection with the borrowing of funds. Interest costs include interest on bank overdrafts, short term and long term borrowings, amortisation of discounts or premiums relating to borrowings, financial accommodation levy and finance lease charges.

Interest expense is recognised in the period in which it is incurred.

Borrowing costs include interest on short-term and long-term borrowings held with the Treasury Corporation of Victoria (TCV) and costs relating to the Financial Accommodation Levy (FAL) set by the Treasurer of the State of Victoria under section 40N(2) of the *Financial Management Act 1994*. The FAL is in place to remove the financial benefit obtained by the Corporation in securing lower than market interest rates as a result of being guaranteed by the State of Victoria.

6.2 Cash flow information

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

For cash flow statement presentation purposes, cash and cash equivalents include bank overdrafts, which are included as current borrowings on the balance sheet, as indicated in the reconciliation below.

Cash on hand	3
Cash at bank	2,265
Deposits at call	4,622
Balance as per cash flow statement	6,890

6.2.1 Reconciliation of net result to cash flow from operating activities

Net loss for the period before income tax (3,833) (9,968)

Non-cash movements:

Depreciation and amortisation	15,850	15,094
Impairment	0	0
Gain on sale of fixed assets	(75)	(172)
Written down value of transferred assets	0	0
Written down value of destroyed, lost or de-commissioned assets	960	124

Movements in assets and liabilities:

Increase in inventories	(13)	(11)
Decrease/(Increase) in current receivables	506	(943)
Increase/(Decrease) in other current assets	(107)	125
Decrease/(Increase) in provision for employee benefits	(366)	179
Decrease/(Increase) in payables	(6)	180

Net cash flows from operating activities

12,916 **4,608**

6.2.2 Financing facilities		2018-2019 \$'000	2017-2018 \$'000
Unsecured bank overdraft facility, reviewed annually and payable at call			
Amount used		0	0
Amount unused		0	0
Total		0	0
Unsecured loan facilities with various maturity dates through to 2018-19 and which may be extended by mutual agreement			
Amount used		49,040	28,470
Amount unused		4,500	8,230
Total		53,540	36,700

6.3 Commitments for expenditure

Commitments for future expenditure include Operating and Capital commitments arising from contracts. Notes 6.3.2 and 8.2.1 provide details on Capital and Environmental commitments, respectively.

These commitments are recorded below at their nominal value and inclusive of GST. These future expenditures cease to be disclosed as commitments once the related liabilities are recognised in the Balance Sheet.

6.3.1 Total commitments payable

Nominal Amounts: 2019

	Less than 1 year \$'000	1 to 5 years \$'000	Over 5 years \$'000	Total \$'000
Operating and lease commitments payable	2,265	6,926	7,638	16,829
Total commitments (inclusive of GST)	2,265	6,926	7,638	16,829
Less GST recoverable	206	630	694	1,530
Total commitments (exclusive of GST)	2,059	6,296	6,944	15,299

Nominal Amounts: 2018

	Less than 1 year \$'000	1 to 5 years \$'000	Over 5 years \$'000	Total \$'000
Operating and lease commitments payable	2,389	4,898	8,109	15,396
Total commitments (inclusive of GST)	2,389	4,898	8,109	15,396
Less GST recoverable	217	445	737	1,400
Total commitments (exclusive of GST)	2,172	4,453	7,372	13,996

6.3.2 Capital commitments

Capital commitments arising from contracts. These commitments are recorded below at their nominal value and inclusive of GST. These future expenditures ceased to be disclosed as commitments once the related liabilities are recognised in the Balance Sheet.

2019

	Less than 1 year \$'000	1 to 5 years \$'000	Over 5 years \$'000	Total \$'000
Capital expenditure commitments payable	15,633	62	0	15,695
Total commitments (inclusive of GST)	15,633	62	0	15,695
Less GST recoverable	1,421	6	0	1,427
Total commitments (exclusive of GST)	14,212	56	0	14,268

2018

	Less than 1 year \$'000	1 to 5 years \$'000	Over 5 years \$'000	Total \$'000
Capital expenditure commitments payable	16,043	3,622	0	19,665
Total commitments (inclusive of GST)	16,043	3,622	0	19,665
Less GST recoverable	1,458	329	0	1,788
Total commitments (exclusive of GST)	14,585	3,293	0	17,877

Risks, contingencies and valuation judgements

The Corporation is exposed to risk from its activities and outside factors. In addition, it is often necessary to make judgements and estimates associated with recognition and measurement of items in the financial statements. This section sets out financial instrument specific information, (including exposures to financial risks) as well as those items that are contingent in nature or require a high level of judgement to be applied, which the Corporation related mainly for fair value determination.

Structure

- 7.1 Financial instruments specific disclosures
 - 7.1.1 Financial instruments: Categorisation
 - 7.1.2 Financial risk management objectives and policies
- 7.2 Contingent assets and contingent liabilities
- 7.3 Power purchase agreement
- 7.4 **Financial instruments specific disclosures**

Introduction

Financial instruments arise out of contractual agreements that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

These financial instruments include:

Financial assets	Financial liabilities
Cash and deposits	Payables:
Receivables:	- For supplies and services
Sale of goods and services	- Amounts payable to government and agencies
Other receivables	- Other payables
Term deposits	- Interest-bearing liabilities:
	- Bank overdraft

Due to the short-term nature of the financial assets and liabilities held by the Corporation, their carrying value is assumed to approximate their fair value.

The Corporation's financial assets and liabilities are classified as Level 1 under the fair value hierarchy, apart from receivables and payables, which are classified as Level 2 under the fair value hierarchy.

Classification 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. Financial assets are initially measured at fair value plus or minus any direct transaction costs. Subsequent to initial measurement, loans and receivables are measured at amortised cost only if both of the following criteria are met:

- the asset is held within a business model whose objective is to collect the contractual cash flows, and
- the contractual terms give rise to cash flows that are solely payments of principal and interest.

The following assets are held with the objective to collect the contractual cash flows:

- cash and deposits
- receivables (excluding statutory receivables); and
- term deposits.

Financial liabilities initially recognised at fair value, plus or minus any direct 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 Corporation recognises the following liabilities:

- payables (excluding statutory payables); and
- borrowings (including finance lease liabilities).

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

Impairment of financial assets

At the end of each reporting period, the Corporation 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 and 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 Comprehensive Operating Statement. Impairment losses recognised in the Comprehensive Operating Statement on equity instruments classified as available for sale are not reversed through the Comprehensive Operating Statement.

7.1.1 Financial Instruments: Categorisation

All financial assets and financial liabilities of the Corporation are measured at amortised cost in line with AASB 9 *Financial Instruments*.

7.1.2 Financial risk management objectives and policies

The Corporation's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. This note presents information about the Corporation's exposure to each of these risks, and the objectives, policies and processes for measuring and managing risk.

The Corporation's Board of Directors has the overall responsibility for the establishment and oversight of the Corporation's risk management framework. The Corporation's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Corporation. The Corporation uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, and other price risks and ageing analysis for credit risk.

Risk management is monitored by the Audit, Risk and Governance Committee under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as credit risk, use of financial instruments, and investment of excess liquidity.

Specifically, the Corporation manages financial risk by adoption of a Treasury Management Policy that is consistent with State Government Treasury Management Guidelines. The Treasury Management Guidelines conform with the *Borrowing and Investment Powers Act (BIP Act)*, which provides statutory corporations their authority to borrow and invest.

Department of Treasury and Finance requirements dictate that all new borrowings must be approved by the Treasurer of Victoria. Annually, a Financial Accommodation approval is provided by the Treasurer which is consistent with the Corporation's budget planning, and cash requirements. At 1 July 2018, the Corporation held a Financial Accommodation approval for \$64.59m of borrowings (1 July 2017: \$45.70m of borrowings).

In accordance with DTF guidance, in order to minimise credit risk exposure to the Corporation, the Treasury Management Policy limits investment of surplus funds to financial institutions approved by DTF. During the 2018-19 financial year surplus funds were invested with the National Australia Bank, Westpac and the Treasury Corporation of Victoria only.

Credit risk

Credit risk is the risk of financial loss to the Corporation as a result of a customer or counterparty to a financial instrument failing to meet its contractual obligations. Credit risk arises principally from the Corporation's receivables.

The Corporation's exposure to credit risk is influenced by the individual characteristics of each customer. The receivable balance consists principally of irrigation customers, large commercial and public sector enterprises supplied under a bulk entitlement order, as well as State Government departments. Notwithstanding the ongoing monitoring of these debts, the Corporation considers recoverability as virtually certain given covenants established by the *Water Act 1989*, and the credit worthiness of the State Government.

The Corporation applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all receivables. Refer to Note 5.1

Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation's policy is to settle financial obligations within 30 days and in the event of dispute make payments within 30 days from the date of resolution.

The Corporation manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities and by continuously monitoring forecasts and actual cash flows, and matching the maturity profiles of financial assets and financial liabilities. Annually, the Corporation completes a Corporate Plan which includes financial estimates for a five year period. This plan incorporates a cashflow forecast that then facilitates application to DTF for any necessary Financial Accommodation. Financial Accommodation establishes the Corporation's approval to establish borrowing facilities. At 30 June 2019, the Corporation had not accessed \$4.50m (2018: \$8.23m) of this Financial Accommodation.

In light of the Corporation's planned Capital expenditure program, and our ongoing need for debt funding to support this program, the Corporation's ability to meet liabilities as they fall due is reliant upon the issue of a suitable Annual Borrowing Approval by the Treasurer.

The Corporation's financial liability maturities have been disclosed in Note 6.1.

Market risk

Market risk is the risk that changes in market prices will affect the fair value or future cash flows of the Corporation's financial instruments. Market risk comprises of foreign exchange risk, interest rate risk and other price risk. The Corporation's exposure to market risk is primarily through interest rate risk. There is no exposure to foreign exchange risk and insignificant level of exposure to other price risks. Objectives, policies and processes used to manage these risks are disclosed in the paragraphs below:

a. Interest rate risk

The Corporation's exposure to market interest rates relates primarily to the Corporation's funds invested, and borrowed, with the Treasury Corporation of Victoria. Both investment of funds and short-term borrowings are held at variable market rates. The Corporation's non-current borrowings are at fixed interest rates.

The Corporation has minimal exposure to interest rate risk through its holding of cash assets and other financial assets. The Corporation manages this risk by maintaining a conservative investment portfolio whereby investment of surplus funds is restricted to DTF approved financial instruments that offer fixed or floating interest rates tied to prevailing market rates.

Interest rate risk on borrowed funds is managed by entering into debt facilities with a balanced term profile to avoid a concentration of maturities. In this way, the Corporation's aggregate interest rate is an average of recent market rates, which limits exposure to interest re-pricing in any one period.

b. Foreign exchange risk

The Corporation has no exposure to changes in the foreign exchange rate.

c. Other price risk

The Corporation has no significant exposure to other price risk.

Market risk sensitivity analysis

The sensitivity analysis below has taken into consideration past performance, future expectations, economic forecasts and management's knowledge and experience of the financial markets. The Corporation believes that a movement of 1% in interest rates is reasonable over the next 12 months.

Interest rate exposure on financial instruments

Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates. The Corporation does not hold any interest bearing financial instruments that are measured at fair value, and therefore has no exposure to fair value interest rate risk. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Corporation has minimal exposure to cash flow interest rate risks through cash and deposits. The carrying amounts of financial assets and financial liabilities that are exposed to interest rates and the Corporation's sensitivity to interest rate risk are set out in the table that follows.

	Interest rate exposure						Interest rate risk sensitivity															
	Carrying amount			Weighted average interest rate %			Floating interest rate			Fixed interest rate			Non-interest bearing			+1%			-1%			
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
30 June 2019																						
Contractual Financial Assets																						
Cash assets and deposits at call	6,890	0.54%	6,887	0	0	3	0	0	0	0	0	0	0	0	0	0	69	69	0	0	0	(69)
Receivables	12,358		0	0	0	12,358	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	19,248		6,887	0	0	12,361	0	0	0	0	0	0	0	0	0	0	69	69	0	0	0	(69)
Contractual Financial Liabilities																						
Payables and accruals	8,319	3.04%	0	0	0	8,319	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Interest bearing liabilities	49,040		0	0	0	49,040	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Advances for capital and other works	130		0	0	0	130	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	57,489		0	0	0	49,040	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	(38,241)		6,887	(49,040)	3,912	69	69	0	0	0	0	0	0	0	0	0	69	69	0	0	0	(69)
30 June 2018																						
Contractual Financial Assets																						
Cash assets and deposits at call	6,531	2.51%	6,529	0	0	2	0	0	0	0	0	0	0	0	0	0	65	65	0	0	0	(65)
Receivables	5,847		0	0	0	5,847	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	12,378		6,529	0	0	5,849	0	0	0	0	0	0	0	0	0	0	65	65	0	0	0	(65)
Contractual Financial Liabilities																						
Payables and accruals	8,931	3.75%	0	0	0	8,931	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Interest bearing liabilities	28,470		0	0	0	28,470	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Advances for capital and other works	132		0	0	0	132	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	37,533		0	0	0	28,470	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	(25,155)		6,529	(28,470)	(3,214)	65	65	0	0	0	0	0	0	0	0	0	65	65	0	0	0	(65)

7.2 Contingent assets and contingent liabilities

Contingent assets and contingent liabilities are not recognised in the Balance Sheet, but are disclosed by way of a note and, if quantifiable, are measured at nominal value. Contingent assets and liabilities are presented inclusive of GST receivable or payable respectively. Contingent assets are possible assets that arise from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

The Corporation has no contingent assets at 30 June 2019 (2018: nil)

Contingent liabilities

Contingent liabilities are:

- possible obligations that arise from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- present obligations that arise from past events but are not recognised because:

- It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligations; or

- the amount of the obligations cannot be measured with sufficient reliability.

The Corporation has no contingent liabilities at 30 June 2019 (2018: nil)

7.3 Power purchase agreement

The Corporation is one of 13 water corporation Members of Zero Emissions Water (ZEW) Limited, a public company limited by guarantee. ZEW's substantial objective is to acquire electricity, contracts for difference and other derivative products in relation to electricity, and/or green products from an energy and emissions reduction facility(ies) in Victoria and in turn supply these products to its Members. This vehicle provides the opportunity for water corporation members to collaboratively promote energy and emissions reduction initiatives in Victoria and to reduce emissions.

On 30 October 2018, a Members' Agreement was entered into between the water corporations and ZEW in order to regulate their rights and obligations as members of ZEW and as participants in the project.

The Members' Agreement establishes the operating activities of ZEW and the decision-making responsibilities of the ZEW Directors. Under the Members' Agreement the Corporation's liability as a member is limited to \$10 in the event of a winding up. As required by Australian accounting standards, the Corporation has assessed the nature of its relationship with ZEW, and has concluded that it does not have control, joint control or significant influence over ZEW. The Corporation will account for its investment in ZEW as a financial instrument within the scope of AASB 9 Financial Instruments. ZEW is a related party of the Corporation.

On 30 October 2018, ZEW entered into an 11-year Power Purchasing Agreement (PPA) with a solar farm energy generator. In relation to the PPA, ZEW will act as a central intermediary between the energy generator and the water corporations. The PPA contains a contract for difference (CFD) payment mechanism in respect of electricity generated by the facility and the sale and supply of large-scale generation certificates (LGCs) from the facility. The PPA contains certain conditions precedent with the target commercial operation date of 1 October 2019. At 30 June 2019, the conditions precedent in the PPA are not completed, and ZEW does not have a contractual obligation for the CFD derivative. Therefore, there are no transactions to recognise as at 30 June 2019.

Upon satisfaction of the conditions precedent, the CFD derivative will be recognised as a financial liability and will be measured at its fair value. Subsequent changes in the fair value of the derivative will be recognised in profit and loss.

The Members' Agreement specifies that the Corporation must make a loan available to the Special Purpose Vehicle (SPV) amounting to \$8,570,48. The loan provided to ZEW meets the definition of a financial asset as it gives rise to a contractual right for the Corporation to receive cash from ZEW at the end of the loan term.

Once the facility is operational, the financial impact of the members' agreement with ZEW is expected to be an increase in revenue, expenses, and recognition of LCCs as intangible assets or asset held for sale (asset).

8. Statutory obligations

Introduction

The section included disclosures in relation to the Corporation's statutory obligations.

Structure

8.1	Tax
8.1.1	Income tax
8.1.2	Deferred tax assets and liabilities
8.2	Environmental contribution
8.2.1	Environmental commitment
8.3	Dividends
8.1	Tax
8.1.1	Income tax

The Corporation is subject to the National Tax Equivalent Regime (NTER), which is administered by the Australian Taxation Office.

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

Income statement

Current tax	0
Movement in deferred tax	(3,005)
	<u>(3,005)</u>
	0
	<u>(2,983)</u>

Tax reconciliation

Net result before income tax	(3,833)
Tax at the Australian tax rate of 30% (2018: 30%)	(1,150)
Tax effect of amounts which are not assessable/deductible (taxable) in calculating taxable income	7
Sponsorships and entertainment	(11)
Adjustment in respect of income tax of previous year	0
Non-reciprocal capital grant	(1,845)
	<u>(3,005)</u>

Income tax revenue

Income tax recognised in Other Comprehensive Income	
Net gain on revaluation of infrastructure, property, plant and equipment	0
Impairment of infrastructure, property, plant and equipment	(900)
Income tax revenue (expense) recognised in Other Comprehensive Income at the Australian tax rate of 30% (2018: 30%)	<u>(170)</u>

8.1.2 Deferred tax assets and liabilities

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantially enacted. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arise in a transaction that at the time of the transaction did not affect either accounting profit or taxable profit or loss. Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The Corporation's deferred tax liabilities exceed the level of deferred tax assets and therefore a net deferred tax liability has been disclosed in the Balance Sheet.

Deferred tax assets

The balance comprises temporary differences attributable to:

Employee entitlement provision
Benefit of carry forward tax losses

	1,547	1,535
	115,797	116,106
	117,344	117,641
	(117,344)	(117,641)
	<u>0</u>	<u>0</u>

Offset against deferred tax liabilities

Deferred tax liabilities

The balance comprises temporary differences attributable to:

Cumulative depreciation and amortisation
Revenue in advance
Net gain on revaluation of infrastructure, property, plant and equipment
Offset from deferred tax assets

	90,658	93,961
	0	0
	287,524	239,537
	(117,344)	(117,641)
	<u>260,838</u>	<u>215,857</u>

Movement in deferred tax liabilities

Carrying amount 1 July
Debited to other comprehensive income
Debited to the net result

	215,857	219,010
	47,987	(170)
	(3,005)	(2,983)
	<u>260,838</u>	<u>215,857</u>

8.2 Environmental contribution**Environmental contribution levy**

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 into a consolidated fund annual contributions for the first period, from 1 October 2004 to 30 June 2008 in accordance with the pre-established schedule of payments, which sets out the amounts payable by each Corporation. The contribution period has 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 Corporation has a statutory obligation to pay an environmental contribution to the Department of Environment, Land, Water and Planning. This contribution is recognised as an expense during the reporting period as incurred.

8.2.1 Environmental commitment

At 30 June 2019, the Corporation had an outstanding environmental contribution commitment, to be paid as follows:

2019	Less than 1 year \$'000	1 to 5 years \$'000	Over 5 years \$'000	Total \$'000
Environmental contribution levy	541	0	0	541
Total commitments (inclusive of GST)	541	0	0	541
Less GST recoverable	0	0	0	0
Total commitments (exclusive of GST)	541	0	0	541

8.3 Dividends

An obligation to pay a dividend only arises after consultation with the portfolio Minister and the Treasurer and a formal determination is made by the Treasurer. At the date of this report, the Corporation does not expect to pay a dividend in respect of the 2018-19 financial year.

2018-2019
\$'000

2017-2018
\$'000

9. Other disclosures

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

Structure

9.1	Equity				
	9.1.1 Contributed capital				
	9.1.2 Asset revaluation reserve				
	9.1.3 Accumulated surplus				
9.2	Events occurring after the balance date				
9.3	Responsible persons				
9.4	Related parties				
9.5	Remuneration of executives				
9.6	Remuneration of auditors				
9.7	Ex-gratia expense				
9.8	Changes in accounting policies				
9.9	Australian Accounting Standards issued that are not yet effective				
9.1	Equity				
9.1.1	Contributed capital				
	Contributed Capital	432,858	416,738		
	Balance at 1 July				
	Capital transactions with the State Government in its capacity as owner arising from:				
	Contribution - Macalister Irrigation System (MID2030 Phase 1B project)	16,500	12,750		
	Contribution - Werribee Irrigation System (Modernisation project)	3,616	2,000		
	Contribution - Bacchus Marsh Irrigation System (Modernisation project)	0	1,370		
	Balance 30 June	<u>452,974</u>	<u>432,858</u>		

Additions to net assets that have been designated as contributions by owners are recognised as contributions to equity. Other transfers that are in the nature of contributions or distributions (capital repatriation) have been recognised as contributed equity.

9.1.2 Asset revaluation reserve

	2018-19			2017-18			Total \$'000
	Land \$'000	Buildings \$'000	Water Infrastructure \$'000	Land \$'000	Buildings \$'000	Water Infrastructure \$'000	
Asset revaluation reserve	14,764	1,721	540,814	14,764	1,721	541,212	557,697
Asset impairment	0	0	(900)	0	0	(568)	(568)
Asset impairment and write-off - tax (at 30%)	0	0	270	0	0	170	170
Revaluation increment on non-current assets	7,718	280	152,857	0	0	0	0
Revaluation increment - tax (at 30%)	(2,315)	(84)	(45,858)	0	0	0	0
Closing balance	<u>20,167</u>	<u>1,917</u>	<u>647,183</u>	<u>14,764</u>	<u>1,721</u>	<u>540,814</u>	<u>557,299</u>

9.1.3 Accumulated surplus

Accumulated surplus at beginning of reporting period		
Net result for the period	19,282	26,267
Accumulated surplus at end of reporting period	<u>(628)</u>	<u>(6,985)</u>
	<u>18,454</u>	<u>19,282</u>

9.2 Events occurring after the balance date

No matters or circumstances have arisen since the end of the reporting period which significantly affected or may significantly affect the operations of the Corporation, the results of those operations, or the state of affairs of the Corporation in future financial years.

9.3 Responsible persons

In accordance with the Ministerial Directions issued by the Minister for Finance under the *Financial Management Act 1994*, the following disclosures are made regarding responsible persons for the reporting period, as required by AASB 124 *Related Party Disclosures*. The responsible Minister during the 2018-19 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 Gippsland and Southern Rural Water Corporation at any time during the financial year are as follows:

Period of appointment during the 2018-19 reporting period

Name	Title	Period of appointment during the 2018-19 reporting period
Members of Corporation Board:		
Ms D James AM	Chairman	1 July 2018 to 30 June 2019
Mrs K Calvert	Deputy Chairman	1 July 2018 to 5 September 2018
Mr T Swingler	Deputy Chairman	5 September 2018 to 30 June 2019
Mr T Swingler	Director	1 July 2018 to 4 September 2018
Ms N Cleary	Director	1 July 2018 to 30 June 2019
Mr M Malouf	Director	1 July 2018 to 30 June 2019
Mrs N Pye	Director	1 July 2018 to 30 June 2019
Mr A Hume	Director	1 July 2018 to 30 June 2019
Ms P Maddy	Director	1 July 2018 to 30 June 2019
Ms M Murray	Director	30 April 2018 to 30 June 2019
Mr C Rooda	Managing Director and Accountable Officer	1 July 2018 to 14 December 2018
Mr C FitzGerald	Managing Director and Accountable Officer	11 February 2019 to 30 June 2019
Ms N Griffin (General Manager Technical and Environment)	acted in the position of Managing Director and Accountable Officer from 15 December 2018 - 10 February 2019.	

Remuneration received or receivable by the responsible persons in connection with the management of the Corporation during the reporting period was in the range: \$640,000–\$649,999 (\$600,000 – \$609,999 in 2017-18).

9.4 Related parties

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

Related parties of the Corporation 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.

Key management personnel (KMP)

Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the Corporation, directly or indirectly, this comprises Independent Directors and the Managing Director. Key management personnel (as defined in AASB 124 *Related Party Disclosures*) includes the Portfolio Minister and all Directors listed under responsible persons in Note 9.3 who have the authority and responsibility for planning, directing and controlling the activities of the Corporation directly or indirectly, during the financial year. The compensation detailed below excludes the salaries and benefits the Portfolio Minister receives. The Minister's remuneration and allowances is set by the *Parliamentary Salaries and Superannuation Act 1968* and is reported within the Department of Parliamentary Services' Financial Report.

Compensation of KMPs

Short-term employee benefits	598	555
Post-employment benefits	42	44
Other long-term benefits	7	8
Total	647	607

Notes: Note that KMPs are also reported in the disclosure of remuneration of executive officers (Note 9.5).

Significant transactions with government-related entities

During the year, the Corporation received funding of \$51.94 million (2018: \$27.51 million) and made payments of \$4.99 million (2018: \$4.70 million) with the following government-related entities:

Government-related entity receipts

Entity name	Brief description of main activity	2018-2019	2017-2018
Department of Environment, Land, Water and Planning	Contributed capital funding in relation to modernisation of irrigation districts (refer Notes 9.1.1 and 2.3)	27,404	16,900

Treasury Corporation of Victoria	Loan accommodation funding in relation to the Corporation's capital expenditure requirements (refer Note 6.1)	24,500	10,500
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Department of Economic Development, Jobs, Transport and Resources	Contributed capital funding in relation to improving boating facilities	33	110
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Total		51,937	27,510
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Government-related entity payments

Entity name	Brief description of main activity	2018-2019	2017-2018
Treasury Corporation of Victoria	Repayments of loan accommodation in relation to the Corporation's capital expenditure	3,930	3,930
Treasury Corporation of Victoria	Payments of interest on loan accommodation funding (refer Note 6.1.2)	1,060	770

Department of Environment, Land, Water and Planning	Payments of environmental contribution (refer Note 8.2)	556	424
Department of Treasury and Finance	Payments of financial accommodation levy (refer Note 6.1.2)	429	297

Total		5,975	5,421
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Transactions with key management personnel and other related parties

Given the breadth and depth of Corporation activities, related parties transact with the Victorian public sector in a manner consistent with other members of the public e.g. stamp duty and other government fees and charges. Further employment of processes within the Victorian public sector occur on terms and conditions consistent with the *Public Administration Act 2004* and Codes of Conduct and Standards issued by the Victorian Public Sector Commission. Procurement processes occur on terms and conditions consistent with the Victorian Government Procurement Board requirements. Outside of normal citizen type transactions with the Corporation, there were no related party transactions that involved key management personnel and their close family members. No provision has been required, nor any expense recognised, for impairment of receivables from related parties.

9.5 Remuneration of executives

The number of executive officers, other than the Minister 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 (as defined in AASB 119 *Employee Benefits*) in all forms of consideration paid, payable or provided by the entity, or on behalf of the entity, in exchange for services rendered. Accordingly, remuneration is determined on an accrual basis, 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 benefit or deferred compensation.

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

	Total remuneration
Remuneration	
Short-term employee benefits	1,089
Post-employment benefits	83
Other long-term benefits	29
Total remuneration	1,211
Total number of executives	5
Total annualised employee equivalents	4.6

Notes:

(i) The total number of executive officers includes persons who meet the definition of Key Management Personnel (KMP) of the entity under AASB 124 *Related Party Disclosures* and are also reported within the related parties note disclosure (Note 9.4)

(ii) Annualised employee equivalent is based on the time fraction worked over the reporting period.

9.6 Remuneration of auditors

Victorian Auditor-General's Office

Audit of the financial statements	47
Total remuneration of auditors	47

9.7 Ex-gratia expense

Property damage expense (i)	0
Total ex gratia expense	0

(i) Payments for water damage to properties due to pipeline leaks (not being in settlement of a legal liability).

9.8 Changes in accounting policies

This note explains the impact of the adoption of AASB 9 *Financial Instruments* on the Corporation's financial statements.

AASB 9 replaces the provisions of AASB 139 that relate to the recognition, classification and measurement of financial assets and financial liabilities, de-recognition of financial instruments, impairment of financial assets and hedge accounting, as reflected in Note 7.1.

The adoption of AASB 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in Note 9.9 below. In accordance with the transitional provisions in AASB 9(7.2.15) and (7.2.26), comparative figures have not been restated.

(i) Classification and measurement under AASB 9

On 1 January 2018 (the date of initial application of AASB 9), the Corporation's management has assessed which business models apply to the financial assets held by the Corporation and has classified its financial instruments into the appropriate AASB 9 categories.

On the date of the initial application, 1 January 2018, the financial instruments of the Corporation were as follows, with any reclassifications noted:

	Measurement Category		Carrying amount	
	Original (AASB 139) Carrying value	New (AASB 9) Amortised Cost	Original \$'000	New \$'000
Non-current financial assets				
Other receivables			0	0
Current financial assets				
Trade receivables		Amortised Cost	12,358	12,358
Cash and cash equivalents		Amortised Cost	6,890	6,890
Other receivables		Amortised Cost	1,107	1,107
Current financial liabilities		Amortised Cost	4,610	4,610

*The difference noted in this column is the result of the new expected credit loss model. Refer to Note 5.1 for the application of the Expected Credit Loss model. The reclassifications of the financial instruments on adoption of AASB 9 did not result in any changes to measurements.

9.9 Australian Accounting Standards issued that are not yet effective

The following AASs become effective for reporting periods commencing after the operative dates stated:

Certain new Australian Accounting Standards (AAS) have been published that are not mandatory for the 30 June 2019 reporting period. DTF assesses the impact of all these new standards and advises the Corporation of their applicability and early adoption where applicable.

Topic	Key requirements	Effective date	Estimated Impact
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. Note that amending standard AASB 2015-8 Amendments to Australian Accounting Standards - Effective Date of AASB 15 has deferred the effective date of AASB 15 to annual reporting periods beginning on or after 1 January 2018, instead of 1 January 2017 for Not-for-Profit entities.	1 January 2019	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. Revenue from grants that are provided under an enforceable agreement that have sufficiently specific obligations, will now be deferred and recognised as the performance obligations attached to the grant are satisfied. The Corporation does not expect any change to the revenue recorded in the financial statements for service and usage charges as the Corporation has already been recording unearned revenue in the Balance Sheet prior to the implementation of this new standard. Refer commentary against AASB 1058 in relation to grant revenue and expected impacts.
AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities	AASB 2016-8 inserts Australian requirements and authoritative implementation guidance for not-for-profit-entities into AASB 9 and AASB 15. This Standard amends AASB 9 and AASB 15 to include requirements to assist not-for-profit entities in applying the respective standards to particular transactions and events.	1 January 2019	This standard clarifies the application of AASB 15 and AASB 9 in a not-for-profit context. The areas within these standards that are amended for not-for-profit application include: AASB 9 <ul style="list-style-type: none"> Statutory receivables are recognised and measured similarly to financial assets. AASB 15 <ul style="list-style-type: none"> The 'customer' does not need to be the recipient of goods and/or services; The 'contract' could include an arrangement entered into under the direction of another party; Contracts are enforceable if they are enforceable by legal or 'equivalent means'; Contracts do not have to have commercial substance, only economic substance; and Performance obligations need to be 'sufficiently specific' to be able to apply AASB 15 to these transactions.
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 most operating leases, with the exception of short term and low value leases will come on to the balance sheet and will be recognised as right of use assets with a corresponding lease liability. In the operating statement, the operating lease expense will be replaced by depreciation expense of the asset and an interest charge. At 1 July 2019, the Corporation expects to recognise right of use assets to the value of \$1.7m, with a corresponding lease liability of \$1.7m. The Corporation also expects to process depreciation expense of \$0.22m, and an interest charge of \$0.06m. There will be no change for lessors as the classification of operating and finance leases remains unchanged.
AASB 1058 Income of Not-for-Profit Entities	AASB 1058 will replace the majority of income recognition in relation to government grants and other types of contributions requirements relating to public sector not-for-profit entities, previously in AASB 1004 Contributions. The restructure of administrative arrangement will remain under AASB 1004 and will be restricted to government entities and contributions by owners in a public sector context. AASB 1058 establishes principles for transactions that are not within the scope of AASB 15, where the consideration to acquire an asset is significantly less than fair value to enable not-for-profit entities to further their objective.	1 January 2019	Grant revenue is currently recognised up front upon receipt of the funds under AASB 1004 Contributions. The timing of the revenue recognition for grant agreements that fall under the scope of AASB 1058 may be deferred. For example, revenue from capital grants for the construction of assets will need to be deferred and recognised progressively as the asset is being constructed. The impact on current revenue recognition is the changes in the potential phasing and deferral of revenue recorded in the operating statement.
AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material	This Standard principally amends AASB 101 Presentation of Financial Statements and AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors. The amendments refine and clarify the definition of material in AASB 101 and its application by improving the wording and aligning the definition across AASB Standards and other publications. The amendments also include some supporting requirements in AASB 101 in the definition to give it more prominence and clarify the explanation accompanying the definition of material.	1 January 2020	The standard is not expected to have a significant impact on the Corporation.

Topic	Key requirements	Effective date	Estimated Impact
AASB 1059 Service Concession Arrangements: Grantors	This standard applies to arrangements that involve an operator providing a public service on behalf of a public sector grantor. It involves the use of a service concession asset and where the operator manages at least some of the public service at its own direction. An arrangement within the scope of this standard typically involves an operator constructing the asset used to provide the public service or upgrading the assets and operating and maintaining the assets for a specified period of time.	1 January 2020 (The State is intending to early adopt AASB 1059 for annual reporting periods beginning on or after 1 January 2019)	For an arrangement to be in scope of AASB 1059 all of the following requirements are to be satisfied: <ul style="list-style-type: none"> • Operator is providing public services using a service concession asset; • Operator manages at 'least some' of public services under its own discretion; • The State controls / regulates: <ul style="list-style-type: none"> – what services are to be provided; – to whom; and – at what price • State controls any significant residual interest in the asset. <p>If the arrangement does not satisfy all the above requirements the recognition will fall under the requirements of another applicable accounting standard.</p>
AASB 2018-5 Amendments to Australian Accounting Standards - Deferral of AASB 1059	This standard defers the mandatory effective date of AASB 1059 from 1 January 2019 to 1 January 2020.	1 January 2020 (The State is intending to early adopt AASB 1059 for annual reporting periods beginning on or after 1 January 2019)	This standard defers the mandatory effective date of AASB 1059 for periods beginning on or after 1 January 2019 to 1 January 2020. As the State has elected to early adopt AASB 1059, the financial impact will be reported in the financial year ending 30 June 2019, rather than the following year.

In addition to the new standards and amendments above, the AASB has issued a list of other amending standards that are not effective for the 2018-19 reporting period (as listed below). In general, these amending standards include editorial and references changes that are expected to have insignificant impacts on public sector reporting.

Standard
AASB 2017-1 Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014-16 Cycle and Other Amendments
AASB 2017-4 Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments
AASB 2017-6 Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation
AASB 2017-7 Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures
AASB 2018-1 Amendments to Australian Accounting Standards – Annual Improvements 2015 – 2017 Cycle
AASB 2018-2 Amendments to Australian Accounting Standards – Plan Amendments, Curtailment or Settlement
AASB 2018-3 Amendments to Australian Accounting Standards – Reduced Disclosure Requirements
AASB 2018-6 Amendments to Australian Accounting Standards – Definition of a Business

**GIPPSLAND AND SOUTHERN RURAL WATER CORPORATION
Statutory Certification**

The attached financial statements for Gippsland and Southern Rural Water Corporation have been prepared in accordance with Standing Directions 5.2 of 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 Comprehensive Operating Statement, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement and accompanying notes, presents fairly the financial transactions during the year ended 30 June 2019 and the financial position of the Corporation as at 30 June 2019.

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

We authorise the attached financial statements for issue on 27 August 2019.



Ms Diane James AM
Chairman
Gippsland and Southern Rural Water Corporation
Dated on 27 August 2019.



Mr Stuart Wigglesworth
Chief Financial Officer
Gippsland and Southern Rural Water Corporation
Dated on 27 August 2019.



Mr Cameron FitzGerald
Managing Director
Gippsland and Southern Rural Water Corporation
Dated on 27 August 2019.

Independent Auditor's Report

To the Board of the Gippsland and Southern Rural Water Corporation

Opinion I have audited the financial report of the Gippsland and Southern Rural Water Corporation (the corporation) which comprises the:

- balance sheet as at 30 June 2019
- comprehensive operating statement for the year then ended
- statement of changes in equity for the year then ended
- cash flow statement for the year then ended
- notes to the financial statements, including significant accounting policies
- statutory certification.

In my opinion, the financial report presents fairly, in all material respects, the financial position of the corporation as at 30 June 2019 and their financial performance and cash flows for the year then ended in accordance with the financial reporting requirements of Part 7 of the *Financial Management Act 1994* and applicable Australian Accounting Standards.

Basis for Opinion

I have conducted my audit in accordance with the *Audit Act 1994* which incorporates the Australian Auditing Standards. 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 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 corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is inappropriate to do so.

Auditor's

**responsibilities
for the audit
of the financial
report**

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

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

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

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

MELBOURNE
29 August 2019



Paul Martin
as delegate for the Auditor-General of Victoria

PERFORMANCE REPORT

KPI Number	Key Performance Indicator	2017-18 Result	2018-19 Result	2018-19 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	7.8	11.2	3.7	43.6%	1	202.7%	8
F2	Gearing Ratio Total Debt (including Finance Leases) Total assets	x 100 2.25%	x 100 3.35%	3.80%	48.8%	2	-11.9%	9
F3	Internal Financing Ratio Net operating cash flow Net capital expenditure	x 100 16.32%	x 100 27.93%	11.10%	71.1%	3	151.6%	10
F4	Current Ratio Current assets Current liabilities (excluding long-term employee provisions and revenue in advance)	times 0.90	times 1.53	0.48	70.0%	4	222.1%	11
F5	Return on Assets Earnings before net interest and tax Average assets	x 100 -0.74%	x 100 -0.21%	-0.40%	72.3%	5	48.6%	12
F6	Return on Equity Net profit after tax Average total equity	x 100 -0.69%	x 100 -0.08%	-0.70%	88.9%	6	89.0%	13
F7	EBITDA Margin Earnings Before Interest, Tax, Depreciation and Amortisation Total revenue	x 100 16.66%	x 100 31.19%	20.70%	87.1%	7	50.7%	14

Notes:

Significant variances to prior year

- Cash Interest Cover**
An improvement of 43.6% has resulted from higher 2018-19 net operating cashflows before net interest and tax of \$8.7m from:
• \$6.1m MID2030 Phase 1B Modernisation contribution treated as government grants (capital contribution in 2017-18)
• more receipts from GST received from the ATO as a result of the large capital expenditure program (\$2.6m).
- Gearing Ratio**
A deterioration of 48.8% has resulted from an increase in debt due to 2018-19 capital expenditure being \$20.6m in excess of operating and government contribution cash flow.
Remedial action for the deterioration to the Gearing Ratio:
The change to the Gearing Ratio since 2017-18 is due to the increase in debt. This increase in debt from ongoing capital expenditure in excess of the operating cash surplus was identified within the 2018-19 Corporate Plan.
As the change is fully consistent with the SRW strategy and the existing pricing path set by the 2018-23 determination by the Essential Services Commission, no remedial action is proposed by SRW.
- Internal Financing Ratio**
An improvement of 71.1% has resulted from an increase in capital grants, in particular proceeds of \$6.1m for MID2030 Phase 1B treated as a capital grant.
An improvement of 70.0% has resulted from a \$10.5m increase in Current assets from:
• modernisation funding of \$7.0m recorded as a 30 June 2019 receivable (funds received 3 July 2019)
• assets classified as held for sale (\$3.6m).
- Return on Assets**
An improvement of 48.6% has resulted from an increase in Earnings before net interest and tax of \$6.6m, resulting from improvements since 2017-18 including:
• government grants and contributions (\$0.4m) due to drought relief project funding
• government grants and contributions for capital purposes (\$6.1m) due to a capital grant for MID2030 Phase 1B project funding
• service and usage charges (\$0.6m) due to increased water usage
• sale of water and entitlements (\$0.6m) due to additional water entitlement auctions.
These improvements were offset by an increase in expenditure including:
• operating expenses (\$0.4m) due to major channel repairs and information technology costs
• expenditure on depreciation (\$0.8m) due to additional assets owned as a result of the capital expenditure program.
- Return on Equity**
An improvement of 88.9% has resulted from an increase in Net result after tax of \$6.2m, resulting from improvements since 2017-18 including:
• government grants and contributions (\$0.4m)
• government grants and contributions for capital purposes (\$6.1m)
• service and usage charges (\$0.6m)
• sale of water and entitlements (\$0.6m).
These improvements were offset by an increase in expenditure including:
• operating expenses (\$0.4m)
• expenditure on depreciation (\$0.8m)
• expenditure on interest (\$0.4m) due to the increase in the capital expenditure program, funded by additional debt instruments.

Significant variances to prior year (continued)

7. EBITDA Margin is higher due to an increase in Earnings Before Interest, Tax, Depreciation and Amortisation of \$7.3m, resulting from improvements since 2017-18 including:

- government grants and contributions (\$0.4m)
- government grants and contributions for capital purposes (\$6.1m)
- service and usage charges (\$0.6m)
- sale of water and entitlements (\$0.6m).

These improvements were offset by an increase in operating expenses (\$0.4m).

Significant variances to target

The 2018-19 target is derived from the 2018-19 Corporate Plan of the Corporation.

8. Cash Interest Cover
9. Gearing Ratio
10. Internal Financing Ratio
11. Current Ratio

An improvement of 151.6% has resulted from higher Net operating cash flow of \$7.4m (see Note 8).

An improvement of 202.7% is due to higher Net operating cash flows before net interest and tax of \$7.4m, primarily resulting from the management revaluation of fixed assets (\$161m).

An improvement of 11.9% has resulted from an increase in Total assets by \$169m, primarily resulting from the management revaluation of fixed assets (\$161m).

An improvement of 222.1% to target has resulted from an increase in Current assets including:

- modernisation funding of \$7.0m, recorded as a 30 June 2019 receivable
- advanced funds for modernisation works on deposit at 30 June 2019 (\$1.8m)
- assets classified as held for sale (\$3.6m).
- 12. Return on Assets is higher due to an improvement in Earnings before Net Interest and Tax of \$6.3m from target, including:
 - government grants and contributions (\$1.1m) due to drought relief project funding
 - government grants and contributions for capital purposes (\$6.1m) due to a capital grant for MID2030 Phase 1B project funding
 - service and usage charges (\$1.8m) due to increased water usage

These improvements were offset by an increase in operating expenses (\$3.3m) due to additional water entitlement auctions.

13. Return on Equity is higher due to an improvement in Net profit after tax by \$6.7m, resulting from improved results including:

- government grants and contributions (\$1.1m)
- government grants and contributions for capital purposes (\$6.1m)
- service and usage charges (\$1.8m)
- sale of water and entitlements (\$0.8m)
- decreased expenditure on interest (\$0.6m) as a result of lower interest rates and less average debt.

These improvements were offset by a deterioration in results, including:

- income tax revenue (\$0.2m) lower as a result of a better before tax result
- operating expenses (\$3.3m).

14. EBITDA Margin is higher due to an improvement in Earnings Before Interest, Tax, Depreciation and Amortisation of \$6.5m, resulting from:

- government grants and contributions (\$1.1m)
- government grants and contributions for capital purposes (\$6.1m)
- service and usage charges (\$1.8m)
- sale of water and entitlements (\$0.8m).

These improvements were offset by increased operating expenses (\$3.3m).

PERFORMANCE REPORT

WATER SERVICE PERFORMANCE INDICATORS		2017-18 Result	2018-19 Result	2018-19 Target	% Variance to year	Notes	% Variance to target	Notes
KPI Number	Key Performance Indicator							
WSR1/ C1.4	Rural water supply deliveries Number of orders delivered x 100	90.3%	89.1%	95.0%	-1.3%		-6.2%	1b
C1.5	Applications completed within agreed timeframes Total number of orders x 100		88.1%	90.0%	N/A	2a	-2.1%	
WSR2	Unavailability of Domestic and Stock supply Duration that domestic and stock service is unavailable in excess of on-property storage requirement/length of water season	N/A	N/A	N/A	N/A	3a	N/A	3b
WSR3	Groundwater supply Number of transfers processed within target period Total number of transfers processed	89.9%	93.8%	90.0%	4.3%	4a	4.2%	4b
Notes:								
1b.	The difference between orders placed and orders delivered is due to orders being cancelled by customers. In 2018-19, around 6% of orders were subsequently cancelled by customers. This is outside our control, and will typically occur in response to rainfall. More importantly, all orders that were not cancelled were delivered to customers.							
2a.	This is a new indicator. We do not have comparative data for 2017-18.							
3a. & 3b.	This indicator is not applicable.							
4a. & 4b.	Groundwater transfers are a reasonably minor category of applications, representing less than 3% of the applications that we processed during 2018-19. During 2018-19 we processed 65 groundwater transfers, and so the variance of 4% from our target, and from our 2017-18 result, reflects only two additional applications being completed within our target timeframes.							
CUSTOMER RESPONSIVENESS PERFORMANCE INDICATORS								
KPI Number	Key Performance Indicator							
CRR4	Billing Complaints Number of complaints per 1,000 customers number	0.1	0.0	1.0	-100.0%	1a	-100.0%	1b
Notes:								
1a. & 1b.	We had no billing complaints from during 2018-19, compared with 1 complaint in 2017-18, and an ongoing target of less than 1 complaint per 1,000 customers.							
ENVIRONMENTAL PERFORMANCE INDICATORS								
KPI Number	Key Performance Indicator							
E2	Total net CO2 emissions Net tonnes CO2 equivalent tonnes	1,159.0	1,383.0	1,514.0	19.3%	1a	-8.7%	1b
Notes:								
1a.	Our CO2 emissions increased since 2017-18, primarily due to this being the first full year of operation of the Maddingley pump station at Bacchus Marsh. In the future, these emissions at the pump station will be removed by our participation in the Intelligent Water Networks Large Scale Renewable Project.							
1b.	Greenhouse gas emissions were well below our target for the year, largely due to better than expected results for the vehicle fleet.							

**GIPPSLAND AND SOUTHERN RURAL WATER CORPORATION
Statutory Certification**

We certify that the accompanying Performance Report of Gippsland and Southern Rural Water Corporation, in respect of the 2018-19 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 2018-19 Corporate Plan, the actual and comparative results achieved for the financial year against predetermined performance targets for these indicators, and an explanation of any significant variance between the actual result and the 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.



Ms Diane James AM
Chairman
Gippsland and Southern Rural Water Corporation
Dated on 27 August 2019.



Mr Cameron FitzGerald
Managing Director
Gippsland and Southern Rural Water Corporation
Dated on 27 August 2019.



Mr Stuart Wrigglesworth
Chief Financial Officer
Gippsland and Southern Rural Water Corporation
Dated on 27 August 2019.

Independent Auditor's Report

To the Board of the Gippsland and Southern Rural Water Corporation

Opinion

I have audited the accompanying performance report of the Gippsland and Southern Rural Water Corporation (the corporation) for the year ended 30 June 2019, which comprises the:

- financial performance indicators
- water service performance indicators
- customer responsiveness performance indicators
- environmental performance indicators
- certification of performance report.

In my opinion, the performance report of the Gippsland and Southern Rural Water Corporation in respect of the year ended 30 June 2019 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*. My staff and I are independent of the corporation in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *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 performance report 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. 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
29 August 2019



Paul Martin
as delegate for the Auditor-General of Victoria

Commonly used acronyms

BMID	Bacchus Marsh Irrigation District
Capex	Capital Expenditure
CCC	Customer Consultative Committee
CIMP	Corporate Incident Management Plan
CMA	Catchment Management Authority
DELWP	Department of Environment Land Water and Planning
DS	Domestic and Stock
DSEP	Dam Safety Emergency Plan
EIB	Eastern Irrigation Business
EMS	Environmental Management System
EPA	Environment Protection Authority
ESC	Essential Services Commission
EWOV	Energy and Water Ombudsman of Victoria
FOI	Freedom of Information
GMA	Groundwater Management Area
GMP	Groundwater Management Plan
LoE	Letter of Expectations
MCCC	Macalister Customer Consultative Committee
MD	Managing Director
MIA	Macalister Irrigation Area
MID	Macalister Irrigation District
ML	Megalitre
NEIP	Neighbourhood Environment Improvement Plan
NRP	Nutrient Reduction Plan
O&M	Operations and Maintenance
OH&S	Occupational Health and Safety
PAV	Permissible Annual Volume
PROV	Public Record Office Victoria
ROR	Rate of Return
SFMP	Streamflow Management Plan
SoO	Statement of Obligations
SRMP	Security Risk Management Plan
SW	Surfacewater
TCV	Treasury Corporation of Victoria
VAGO	Victorian Auditor General's Office
VEWH	Victorian Environmental Water Holder
VicWater	Victorian Water Industry Association
VIR	Visual Inspection Report
WID	Werribee Irrigation District
WIRO	Water Industry Regulatory Order
WMP	Water Management Plan
WSPA	Water Supply Protection Area
WUL	Water Use Licence

