

ANNUAL REPORT

2017-18



Southern
Rural Water

Annual Report 2017-18

Southern Rural Water

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About us

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 2017-18. We respectfully acknowledge the Traditional Owners and custodians of the land on which we operate across southern Victoria, and we pay our respects to their Elders, past, present and emerging.



Southern Rural Water (SRW) is experiencing a period of once-in-a-generation transformation, with the modernisation of major infrastructure and services, upgrading our irrigation districts and preparing them for a more climate resilient future.

The transformation does not stop in the field: new ICT projects, customer interfaces, business systems and people and culture processes are helping us to develop a future-ready organisation.

Our strategy

The board and executive have worked together to renew our vision: “Excellence in rural water management, driving growth and customer productivity in southern Victoria” and to develop a new corporate strategy to deliver that vision. We remain committed to our core strategic outcomes of affordable prices, customer growth and productivity, sustainable water resources and financial sustainability.

We are continuing our focus on enhancing services for our customers, increased production, modernised assets, business growth and new revenue and improved asset management. We have added a focus on climate resilience, environmental improvement and also on creating a culture of excellence and a safe, healthy, diverse and caring workplace.

In the east, the \$60m MID2030 project is bringing 32km of new pipeline and 28km of upgraded channels to the customers on the Macalister Irrigation District’s (MID) Southern Tinamba supply system. By the end of calendar year 2018, it will be halfway through the four-stage, five-year program, and has progressed with strong support from our customers. This work provides more efficient delivery and additional water to our customers, which improves their productivity and the regional economy.

In the west, \$29m has been funded by the state government and irrigators to modernise the Werribee Irrigation District (WID) and Bacchus Marsh Irrigation District (BMID), with significant milestones achieved during 2017-18, including the installation of a header tank to replace the Maddingley basin. These projects will also drive improved production and productivity and provide future environmental entitlements to enhance the health of the Werribee River.

Across the state, we have made good progress on implementing Automated Meter Reading for our unregulated surface and groundwater areas. Over the course of the year, we installed 643 readers, with almost 1,200 now automated. The rollout of this program will bring customer data benefits in the years to come.

These works are about more than just modernisation of assets. They are securing the future for southern Victoria’s high-value agriculture and horticulture, and protecting the environment as a key outcome. The works are being done in partnership with, and with joint funding from, the farmers and growers at the heart of these industries. Removing inefficient century-old channels is unlocking the future for the farmers and growers who are finally able to modernise their own on-farm irrigation practices, and grow their businesses.

Our season

Despite being drier than usual, the 2017-18 season provided sufficient water supply to meet customer demand. In the MID, we delivered customers' full entitlement and additional spill, with a total of 189,000 megalitres (ML) delivered – the highest volume since 1992.

Growers in the Werribee basin received 45% of their high reliability water share (HRWS) this season, but there was also 11 gigalitres (GL) of carryover from the previous year, meaning most had enough water for their needs.

Importantly, the benefits of the initial modernisation works already completed are bringing delivery efficiency improvements in two irrigation districts: Werribee (62%, up from 59%), Bacchus Marsh (76% up from 73%). In the MID, we were able to further improve on last year's record with 79% efficiency.

Conditions in our unregulated areas were exceptionally dry in the last half of the year, with many surface water systems on heavy restrictions or bans.

Our objective of getting more water into production continues, with a focus on water trading between customers and education to reduce inactive licences. We have also continued our program of using water savings for permanent and allocation sales in the MID and allocation sales in Bacchus Marsh.

Our service

We measure service in each part of our business, and each has either met its service targets or demonstrated significant improvement. This year's customer survey showed continued improved results with 90% of the customers surveyed reporting being overall satisfied or very satisfied.

After three successful years of auctions and sales from water savings created by the modernisation works in the MID, we completed a water share distribution in late 2017. This meant that all MID customers, who are jointly funding the works, had the opportunity to add a further 5% to their entitlement base. Customers valued the fact that this honoured the commitment SRW made when the MID2030 strategy was first developed.

Our customer engagement process was recognised by the Essential Services Commission (ESC) with a rating of 'Leading' in the PREMO assessment undertaken as part of the 2018 Pricing Submission. This is the highest rating possible for customer engagement.

We kept to, or dropped below, our planned price path from Water Plan 3. Based on our pricing submission work, we are confident that we can better our commitment to customers of modernising their irrigation districts with no more than a 10% real price increase over 20 years.

Our business

We achieved an excellent operating profit before statutory adjustments this year of \$2.03m. During the year we delivered \$31m of capital works, up from our highest ever capital spend last financial year of \$23m.

Our continued strong performance and projections in operating performance and cash position provides us with confidence in the ongoing financial sustainability of the corporation.

Our pricing submission for 1 July 2018 to 30 June 2023 period was largely accepted without change by the Essential Services Commission and the corporation received a rating overall as 'Advanced' – one of only a handful in the water industry.

Our future projects

We are always seeking opportunities to generate new revenue, to mitigate costs, to fund modernisation works and to keep prices low for customers.

The expertise of our dam engineering staff is being sought externally. They were contracted to undertake assessments of local government dams across the south of the state, and have started developing an operations and maintenance manual for South Gippsland Water.

We have made a bold pledge to have zero carbon emissions by 2025, and will be the only water corporation to do so. We have progressed with opportunities for renewable energy, the first of which is rooftop solar at our Maffra office, which will be completed during 2018.

Our people and culture

A modernised business needs a workforce that has the right roles and skills and is ready to embrace the opportunities that change brings. Our People and Culture processes have been refined over the past year, providing structures and procedures for training, recruitment, safety and staff development.

Our ongoing commitment to diversity and inclusion has brought two significant achievements:

- being awarded bronze status in the AWEI diversity and inclusion awards in 2018, one of only a handful of small employers to achieve this recognition.
- improving our gender diversity, with the overall proportion of women steadily increasing by 50% since 2013, from 20% to 30%, and women in the executive team rising from 0% to 38%.

We would like to thank our staff who all work hard to achieve great results for our customers and the business.

As always, we value the support from customers, stakeholders, and communities who work with us to provide great service, particularly the highly committed people on our customer consultative committees.

Thank you, also, to the Minister for Water for her continued interest in, and support for, the sector.

We'd also like to thank long time board member and outgoing Chairman Terry Burgi for his 14 years of service to the corporation. Terry oversaw significant change to the corporation and has left the organisation in a strong financial position poised to create further value for the state of Victoria.

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



DIANE JAMES AM

Chairman



CLINTON RODDA

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 2018.



DIANE JAMES AM

Chairman

Gippsland and Southern Rural Water Corporation

Dated on 5 September 2018

Introduction to Southern Rural Water

Gippsland and Southern Rural Water Corporation (trading as Southern Rural Water - SRW) manages rural water across southern Victoria, from the Great Divide to the coast, and from the South Australian border to the New South Wales border.

Our customers are principally the farmers, graziers, and growers of southern Victoria. SRW also manages bulk entitlements on behalf of those entitlement holders.

SRW manages three irrigation districts, the state's largest groundwater operation, and its second largest non-metropolitan headworks business.

SRW is a statutory water corporation established under the *Water Act 1989*. The responsible minister during 2017-18 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.

Vision

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

Our goals

For customers

- adaptive, efficient and sustainable irrigation districts
- affordable prices
- communication, convenience and customer control
- growth and increased productivity.

For us

- safe, healthy and caring workplace
- culture of excellence and high performance
- diverse and inclusive
- leadership at all levels
- agile and future ready people
- financially sustainable.

For all

- climate resilient
- sustainable water resources
- environmentally responsible
- strong and respectful relationships
- safe dams.

Trademark behaviours

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

History

In 1992, the Rural Water Corporation and its five regions, each with its own board of management, underwent a review.

On 1 July 1994, the five regional boards became independent rural water authorities – including the Gippsland Rural Water Authority and Southern Rural Water Authority. On 1 July 1995, these two were merged to form what is today known as Southern Rural Water, the trading name of the Gippsland and Southern Rural Water Corporation.

Our services

Our main business centres are located in Maffra, Werribee, Ringwood and Warrnambool, with smaller offices scattered across our region of responsibility. SRW employs 174 people, and its area covers 37% of the state. Refer to SRW's area coverage map on page 6.

Irrigation

SRW manages the delivery of water to the Werribee, Bacchus Marsh and Macalister irrigation districts and maintains the channels, pipelines, and drains for these districts.

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.

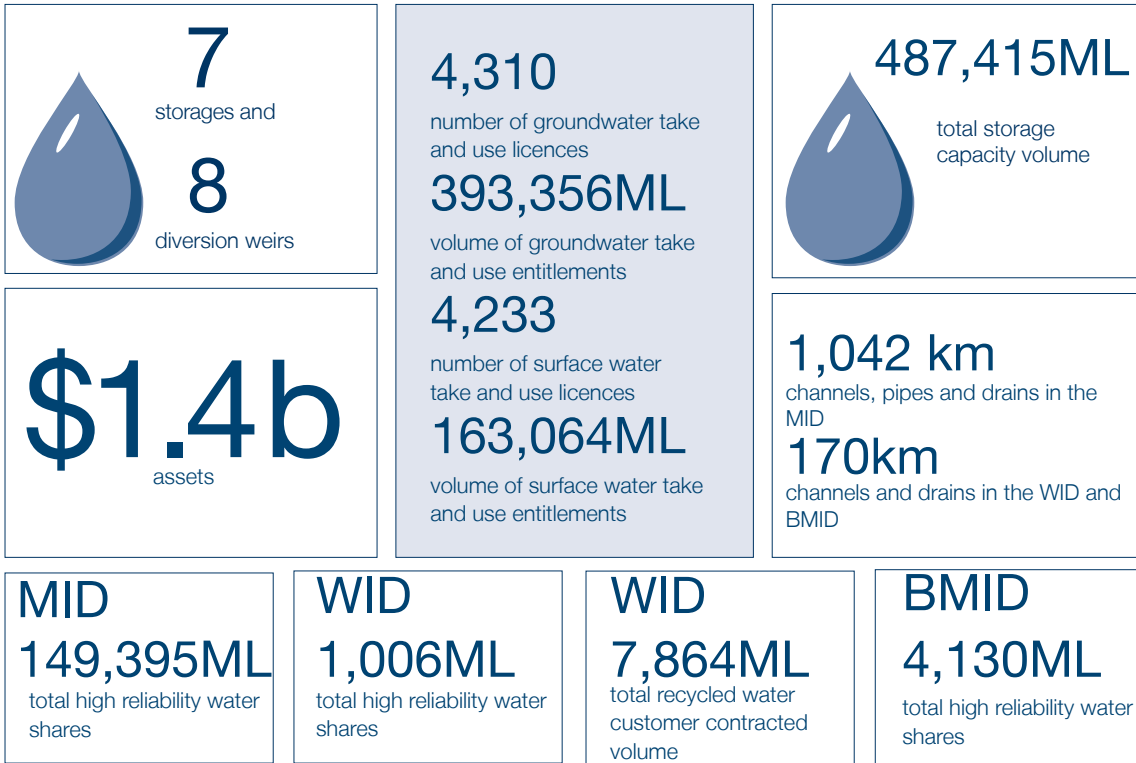
SRW also manages recreational facilities at some water storages and weirs.

Groundwater and rivers

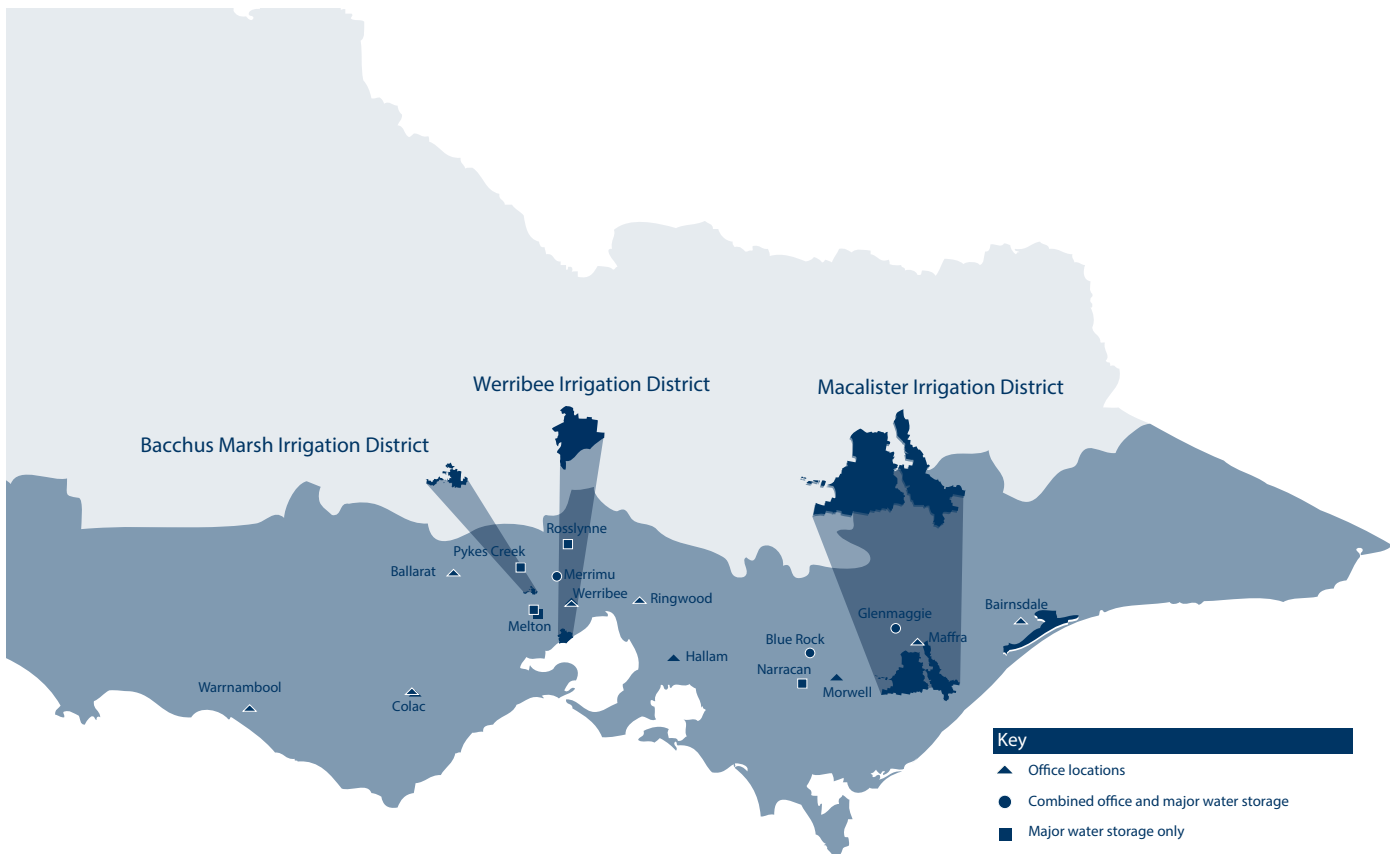
SRW implements government regulations and policy for groundwater and surface water management in accordance with delegated powers from the *Water Act 1989*. We assess licence applications, issue licences to construct new farm dams and bores (if approved) and manage new and existing groundwater and surface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

At a glance



Our operational area



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. The storages include Blue Rock Lake, Lake Glenmaggie, Lake Narracan, Melton Reservoir, Merrimu Reservoir, Pykes Creek Reservoir and Rosslynne Reservoir.

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 about 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 2017-18 irrigation season opened with an allocation on 1 July 2017 of 45% HRWS, which was increased to 50% HRWS on 2 August and 85% HRWS on 29 August.

With low demand and continued inflows to Lake Glenmaggie, the seasonal allocation was increased to 100% of HRWS on 13 September.

Significant rain on 2 December led to Lake Glenmaggie filling, with spill entitlement declared on 12 December. 54,112ML was delivered as spill entitlement.

Several dry spells were interspersed with some good rainfalls and SRW was able to allocate a welcome 20% low reliability allocation on 24 April.

SRW's share of the Thomson Dam started with a volume of 33,703ML. Usage for the season totalled 11,264ML.

Irrigation deliveries to MID customers this season totalled 188,904ML. This was the highest delivery volume since 1992 (and 36,355ML above our five-year average). Lake Glenmaggie closed the season with a volume of 42,936ML or 24.2% storage capacity, of which 19,629ML was unused allocation.

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 2017-18 season was quite dry overall and Pykes Creek and Melton reservoirs did not fill. There was 11GL of water carried over from the 2016-17 season but the allocation reached only 45% of HRWS.

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

Source	ML
Werribee Irrigation District (river water)	5,245
Werribee Irrigation District (recycled water)	5,130
Bacchus Marsh Irrigation District	2,016
River diverters	173

The Werribee season ended with the storages down to about 45% full. There is still approximately 8GL of water to be carried over into the 2018-19 season. However, much of this is held in accounts that are not being used and many irrigators may be short of water if inflows do not improve.

With modernisation works underway in both the BMID and WID, the water delivery efficiency figures improved from 73% to 76% in the BMID and from 59% to 62% in the WID.

Headworks

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 Macalister Irrigation District, 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.

Groundwater and Rivers

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

There were many highlights and challenges in 2017-18, especially the considerable improvements on our service targets both in the field and in administration functions (see tables below).

We are continuing to investigate opportunities to provide more customer control and convenience, including:

- automating our rosters and restrictions - including improving notifications and displaying the information online, expected to be piloted in 2018-19
- developing an online trade assessment process
- automating how we produce information statements
- creating an online hub for our customers to access their information when and how they want.

More water for production

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.

In 2017-18, our field staff continued to spend more time with customers to encourage water trading, which assisted those who required more water during the dry summer and autumn period. SRW also continued to develop local management plans that introduce more adaptable and flexible rules for customers.

In line with government policy, SRW has developed a process for selling unallocated water in unregulated systems. This provides new revenue that can be used for future resource appraisals or strategic projects with agreement from the state government.

Encouraging more water to be used for production will remain a focus for the business over the next few years, with the aim to establish an expanded water market, which assists in moving water to its highest value to encourage economic benefits and employment.

Current and future challenges

Adding value for customers is a high priority for SRW. Customers can now enter and access their water usage information directly in SRW's online systems.

The next step is to capture this information in the most cost-effective way while providing information that can make a real difference to how customers run their business.

Following a successful 2015-16 pilot of Automated Meter Reading technology in the Warrion Water Supply Protection Area, a four-year rollout of the technology began across our region running through to 2019-2020.

Groundwater and Rivers administration performance against target 2017-18

Measure	Target %	Actual %
Applications (processed within standard timeframes)	100	93
Applications (processed within target timeframes)	75	90
Customer satisfaction (applicant feedback)	98	100
Information statement errors	0	0

Groundwater and Rivers field performance against target 2017-18

Measure	Target %	Actual %
Compliance (enforcement actions completed within defined timeframes)	95	100
Inspections (10% of new Domestic and stock bores, all other new bores, dams and extraction licences)	98	100
Engagement (actions completed)	100	100
Customer satisfaction (survey result)	80	88
Stakeholder satisfaction (survey result)	80	82
Metering program (meters compliant with metering plan)	80	96

Irrigation district performance against target 2017-18

	Macalister	
	Target %	Actual %
Channel Performance - pool height consistency	75	69
Orders delivered within one day of request	97	98
Orders delivered at right time of day (am or pm)	75	88
Delivery reliability	100	100
Delivery efficiency	80	79
Customer satisfaction (survey result)	80	80

Irrigation districts performance against target 2017-18

	Werribee		Bacchus Marsh	
	Target %	Actual %	Target %	Actual %
Volume accuracy	94	97	95	97
Orders delivered within one day of requested	80	96	70	90
Delivery reliability	100	99	100	100
Delivery efficiency	60	62	66	76
Customer satisfaction (survey result)	70	67	80	62
Drought resilience	64	100	20	45
Water quality (recycled water)	100	100	NA ¹	NA ¹

¹ Recycled water is not available in Bacchus Marsh.

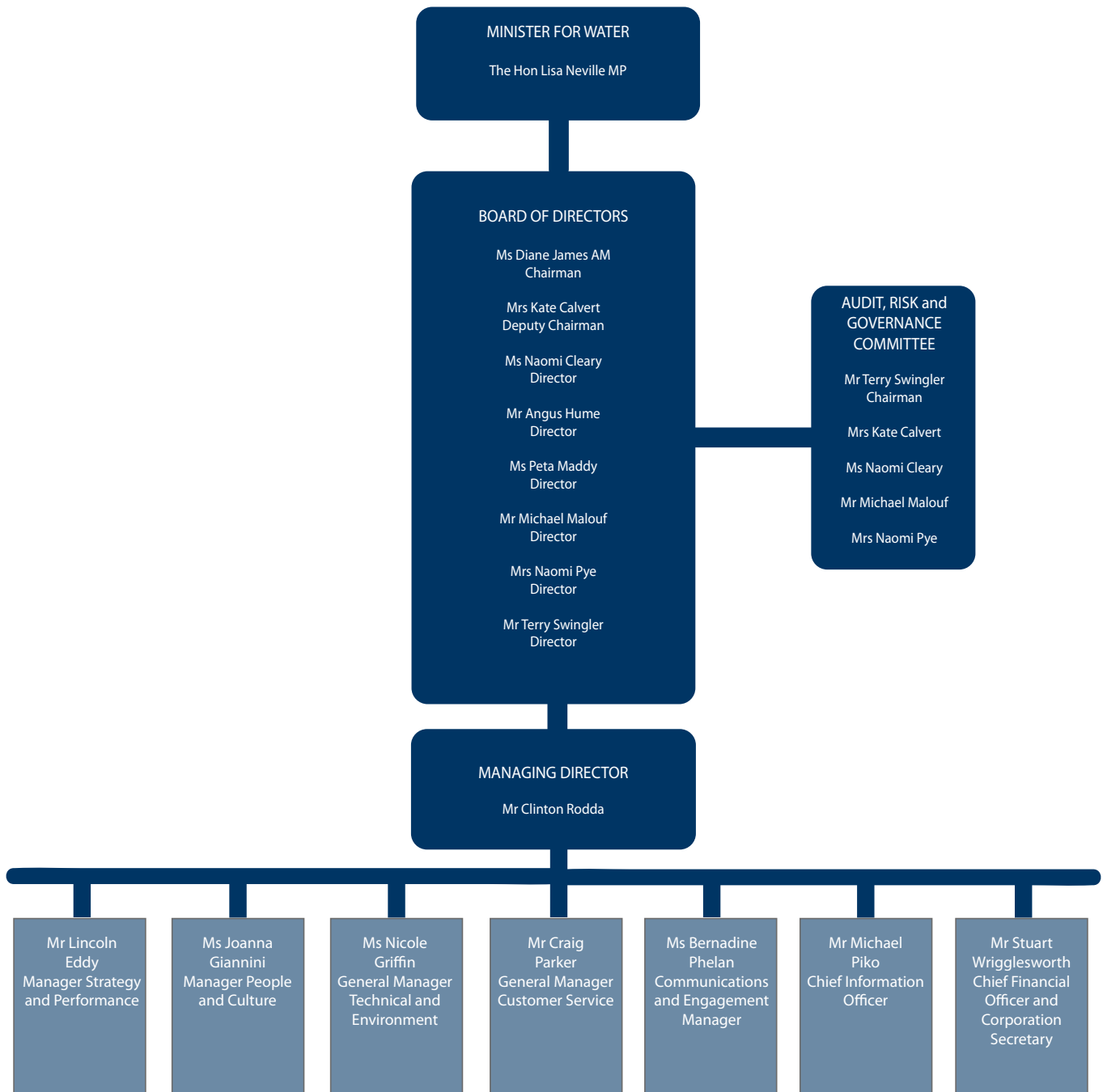
Storage operation performance against target 2017-18

	Blue Rock Lake	
	Target %	Actual %
Orders released on time	98	100
Release availability	100	100
Release accuracy	87	94
Customer satisfaction	83	75

Storage operation performance against target 2017-18

	Merrimu Reservoir		Rosslynne Reservoir	
	Target %	Actual %	Target %	Actual %
Orders released on time	99	100	95	100
Release availability	97	100	100	100
Release accuracy	95	98	93	99
Customer satisfaction	78	76	78	76

Organisational Structure



Director profiles

Ms Diane James AM

Chairman

Ms James has a background in business ownership and currently works in leadership development. She recently retired as Chair of the Bellarine Bayside Committee of Management and is a former Chair of the Victorian Coastal Council, a role she held for over a decade. She is a former Director of Barwon Water, GenU and St Laurence Community Services. She was formerly a member of the EPA of Victoria Advisory Board. Ms James is an accredited Executive Coach, a Fellow of the Australian Institute of Company Directors, and has a Graduate Certificate in Innovation and Entrepreneurship. In 2011, she was awarded a Member of the Order of Australia. She is currently Chairman of the Order of Australia Victoria Branch and is a member of the Great Ocean Road Task Force. She was appointed to the board on 1 October 2015.

Mrs Kate Calvert

Deputy Chairman

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.

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 Sports Climbing Australia. She holds a Bachelor of Business Studies and is a Graduate of the Australian Institute of Company Directors. Ms Cleary was appointed to the board on 1 October 2015.

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 and Chair of the West Gippsland Catchment Management Authority (WGCMA). Mr Hume has a strong understanding of natural resource management through his dairy farming experience and 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 and inaugural Chair of AFL Commission, Gippsland.

Ms Peta Maddy

Director

Ms Maddy has a background in water engineering and management including her current role as an associate at the consulting firm Aither. She is a past President of the Victorian branch of the Australian Water Association and comes to SRW from Grampians Wimmera Mallee Water where she was a director for the past two years and chaired its Water Resources Committee. She has been chairing the interdepartmental reference group for the Victorian Rural Drainage Strategy and is currently a member of the Victorian Catchment Management Council. Ms Maddy has a Bachelor of Chemical Engineering, a Bachelor of Science (Pharmacology and Toxicology) and is a Graduate of the Australian Institute of Company Directors.

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 is a Director on the Western Victoria PHN. 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 and more recently was the Managing Director at Barwon Water. Mr Malouf is a director at Western Victoria Primary Health Network. 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.

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 Terry Swingler**Director**

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.

Mr Clinton Rodda**Managing Director**

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 has 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 reappointed in March 2014 for a further five years effective from July 2014.

Mr Terry Burgi OAM**Chairman (2011 - 2017)**

Mr Burgi is a fruit grower in the Yarra Valley. He has more than 30 years' experience representing farmers in industry organisations at regional, state and federal levels and is a CFA volunteer with more than 45 years of active service. Mr Burgi has a degree in Engineering (Agricultural) from the University of Melbourne and has previously worked in the water industry. He is a Fellow of the Australian Institute of Company Directors and a Member of the Institution of Engineers Australia. In June 2016, Mr Burgi was awarded an Order of Australia Medal for services to agriculture and the community. Mr Burgi was appointed to the board on 1 July 2004. Mr Burgi was appointed Deputy Chairman in August 2010 and Chairman in October 2011

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.

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.

Committee members

Mr Swingler was appointed as Chairman of the committee, and Ms Calvert, Ms Cleary, Mr Malouf and Mrs Pye were appointed to the committee on 12 October 2017. Mr Swingler was Chairman and Ms Cleary, Mr Malouf and Mrs Pye were all members of the former Audit and Risk Policy Committee, which operated until 30 September 2017.

Asset Governance Committee

The Asset Governance Committee advises the board on policy, strategy and performance of asset management to ensure it meets the needs of the corporation.

Committee members

Ms Maddy was appointed to the committee on 18 August 2018. Mr Hume and Ms James AM were appointed to the committee on 12 October 2017. Mr Malouf (Chairman) and Ms Calvert were appointed to the committee on 12 November 2015.

Remuneration Committee and Corporate Governance Committee

The Remuneration Committee was formed in October 2017. Previously known as the Remuneration and Corporate Governance Committee, the committee was renamed after the transfer of its governance responsibilities to the Audit, Risk and Governance 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 was appointed as Chairman of the committee, and Ms Calvert, Mr Malouf and Mr Swingler were appointed to the committee on 12 October 2017. Mr Swingler was reappointed as a committee member on 12 November 2015. Ms James and Mrs Pye were appointed to the committee on 12 November 2015. Mr Burgi OAM was Chairman and Mrs Pye, Ms James AM and Mr Swingler were all members of the former Remuneration and Corporate Governance Committee, which operated until 30 September 2017.

Organisational Culture Committee

The Organisational Culture Committee was formed to advise the board on policy, strategy and performance of organisational culture. All members of the board were members of the Organisational Culture committee. From October 2017, these responsibilities were incorporated into the board agenda.

Werribee Office Site Redevelopment Committee

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

Committee members

Ms Cleary (Chairman), Mr Malouf and Mr Rodda were all members of the committee throughout the year.

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.

Werribee Bacchus Marsh Customer Consultative Committee – Naomi Cleary**Macalister Customer Consultative Committee** – Angus Hume**Southern Groundwater and Rivers Forum** – Naomi Pye**Board activities for the year**

Development opportunities in the past year included:

- attendance at the VicWater annual conference, held on 14-15 September 2017
- attendance at the VicWater Finance conference, held on 3-4 May 2018
- participation in the Water Industry Director Information Sessions on Dam Safety and Risk Management, held in March 2018
- attendance at various Australian Institute of Company Directors updates throughout the year
- participation in the DELWP Governance program held in March 2018.

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, 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 the Lerderderg Weir to review recent safety and productivity improvement projects
- Southern Groundwater and Rivers Forum to discuss current initiatives and priorities in groundwater and surface water across southern Victoria
- East Gippsland stakeholders and customers, and a tour of vegetable growing operations in the Lindenow Valley region.

Board meetings

Directors attended the following scheduled meetings.

Board and board committee meetings attendances 2017-18 summary

	Board meetings	Audit and Risk Policy Committee	Audit, Risk and Governance	Asset Governance Committee	Remuneration and Corporate Governance Committee	Werribee Office Site Redevelopment Committee
Terry Burgi OAM (to Sept 2017)	2 of 2			1 of 1	1 of 1	
Diane James AM	9 of 9			2 of 3	1 of 1	
Kate Calvert ¹	7 of 9		1 of 3	1 of 1		
Naomi Cleary	9 of 9	2 of 2	3 of 3			5 of 5
Angus Hume (from Oct 2017)	7 of 7			3 of 3		
Peta Maddy (from Oct 2017)	7 of 7			3 of 3		
Michael Malouf	9 of 9	2 of 2	2 of 3	4 of 4		5 of 5
Naomi Pye	9 of 9	2 of 2	3 of 3		1 of 1	
Terry Swingler	9 of 9	2 of 2	3 of 3		1 of 1	
Clinton Rodda	9 of 9					5 of 5

¹On board approved leave.

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 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 Environment

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

Since joining the water industry in 2000, Mr Parker has worked from field officer to executive levels across the SRW regions. He has also acted as CEO at the East Gippsland Catchment Management Authority, adding a new perspective to his management of water resources. As General Manager Customer Service, Mr Parker is committed to better customer outcomes in all parts of the business. This includes making water trading more accessible, making transactions such as renewals cheaper and easier and facilitating customers' ability to access their data to help run their business. Also, Mr Parker is accountable for ensuring our modernised assets lead to increased service opportunities for customers. He is a member of the AICD and has business qualifications from Mt Eliza Business School and UQ.

Ms Bernadine Phelan

Communications and Engagement Manager

Ms Phelan joined SRW in January 2017, bringing more than 30 years' experience in media, communications, engagement and corporate development. She started her 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 consultant for clients in the private and public sector, including in the water, natural resources and education sectors and for a Traditional Owners/State Government joint initiative.

Mr Michael Piko

Chief Information Officer

Mr Piko is a seasoned CIO with more than 30 years of experience. He has led ICT 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.

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 UK working in Finance and Accounting roles for commercial and public sector businesses. Mr Wrigglesworth holds a Bachelor of Commerce and is a member of the Institute of Chartered Accountants.

Letter of Expectations Reporting

SRW is focusing its attention on improving performance in relation to the Minister's Letter of Expectations. The following pages provide SRW's performance against the key performance indicators relevant to the priority areas as set out in Water for Victoria.

Climate Change

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

Key Performance Indicator

E2 Emission reduction pledges. Pledges to commit to specific actions to achieve net zero emissions.

Definition

Net tonnes of CO₂ equivalent emissions (scope 1 and scope 2 emissions only) for the whole business and its activities.

Measure

Total net CO₂ emissions equivalent tonnes. (Baseline established in 2016-17).

Performance

See page 34.

Key Performance Indicator

E3 Climate Adaptation. Apply the Guidelines for Assessing the impact of Climate Change on Water Suppliers in Victoria and demonstrate adaptation by:

Rural water corporations develop low flow contingency plans that include an appropriate range of climate scenarios.

Definition

Planning for adaptation to the warmer, drier climate conditions predicted for the future.

Measure

Baseline established in 2016-17. Report on progress towards commitments.

Performance

See pages 07-08, 29-30

Customer and community outcomes

All aspects of delivery will be customer and community centred.

Key Performance Indicator

C3 Appropriate engagement methods used when working with communities.

Definition

Use of DELWP community charter or equivalent best-practice engagement methods.

Measure

A strategy that demonstrates approaches to community engagement that are open, honest and occur frequently.

Performance

See pages 21-24.

Key Performance Indicator

CR4 Billing/payment issue complaints.

Definition

Number of billing/payment issue complaints per 100 customers.

Measure

Reduced number of complaints year on year.

Performance

See page 98.

Water for Aboriginal cultural, spiritual and economic values

Recognise and support Aboriginal cultural values and economic inclusion in the water sector.

Key Performance Indicator

AC1-1 Effective engagement of Aboriginal communities for involvement in business opportunities and access to water for economic development.

Definition

Explore and develop opportunities for business arrangements with Traditional Owners and Aboriginal enterprises to deliver value for money catchment and water services.

Measure

A strategy that demonstrates how SRW will build capability and understanding of procurement processes to address barriers for Aboriginal enterprises to supply goods/services to SRW.

Letter of Expectations Reporting

Performance

SRW is committed to upholding the highest standards of probity in all procurement related activities, in line with SRW's Probity Guidelines and best practice.

In May, SRW signed a multi-agency partnership agreement with the Gunaikurnai Land and Waters Aboriginal Corporation, which sets out mutual objectives and an action plan to:

- boost employment opportunities for Aboriginal and Torres Strait Islander Peoples in Gippsland
- develop training, capability-building and skills-sharing programs
- review tender documentation to promote training and inclusion of Aboriginal and Torres Strait Islander Peoples
- to extend cultural competency training, and promote acknowledgment, Welcome to Country and other ceremonial events
- support GLaWAC to develop priority economic opportunities.

Key Performance Indicator

AC1-2 Effective engagement of Aboriginal communities for involvement in business opportunities and access to water for economic development.

Definition

Inform Traditional Owners when opportunities arise to access water entitlements within existing framework. Provide opportunities for cross-cultural learning in the water sector, as well as skills training and employment for Aboriginal Victorians.

Measure

Number of sponsorships of Aboriginal people in relevant study and training courses, including scholarships, vocational education and traineeships.

Staff have undertaken a cross-cultural training course (by relevant Traditional Owner) in the last five years.

Performance

See above, and:

- SRW staff undertook awareness training at various locations throughout 2017-18, including at culturally important sites.

- SRW project and field staff working on external sites including excavation have also undertaken specific cultural awareness training.

SRW is currently preparing a strategy for engaging with the Aboriginal and Torres Strait Islander community which will include:

- delivering further cultural awareness training
- developing a work placement program for high school and TAFE level students
- ensuring Traditional Owner groups are informed whenever water entitlements are available.

See page 23 for more detail.

Key Performance Indicator

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

Definition

Incorporate traditional ecological knowledge into water planning and management using Aboriginal Waterway Assessments and other tools developed by Traditional Owners. Notify and engage with Traditional Owners to achieve shared benefits.

Measure

Number of engagements with Traditional Owners in water planning and management and report on outcomes.

Number of pilot programs to test different ways to achieve shared benefits.

Performance

SRW has engaged with GLaWAC and the Gunaikurnai Traditional Owner Land Management Board in early discussions on potential future economic development opportunities.

See page 23 for more detail.

Resilient and liveable cities and towns

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

Key Performance Indicator

L1 Enabling local government and communities to realise liveability outcomes.

Definition

Facilitating local government and community projects with liveability benefits.

Measure

Engagement with local councils and sponsorships of integrated water management programs.

Performance

SRW participates in the 10 Integrated Water Management forums across its region in various capacities.

SRW is 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.

Transfer of SRW land at Lake Glenmaggie to facilitate ongoing recreation at Blores Hill Mountain Bike Track.

Transfer of land to City of Wyndham at Galvin Park, building on existing recreational facilities.

SRW undertook a pre-feasibility study to examine the potential for irrigation expansion in the Macalister, Thomson and Latrobe basins with the potential to provide an opportunity for economic development from agriculture.

Recognising recreational values

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

Key Performance Indicator

Explicit inclusion of recreational values in planning and reporting activities.

Definition

Recognise and support recreational values in water/waterway planning, information provision and infrastructure.

Measure

Report on efforts taken to work with community members and other government agencies to explore cost-effective opportunities to provide complementary social, recreational and economic benefits.

Performance

See page 24.

Leadership and Culture

Water Corporations reflect the needs of our diverse communities.

Key Performance Indicator

G1 Gender and cultural diversity in workforce including gender equity in executive leadership.

Definition

Development of a Diversity Inclusion Plan/s that cover gender equity and cultural, indigenous inclusion.

Measure

- Diversity Inclusion Plan/s provided to DELWP to establish baseline.
- Follow up on annual basis for predicted increase in the number of females occupying senior executive positions over projected five year period.
- Adopt a one per cent target for Aboriginal people in the business consistent with Vic government policy¹ and commit to a stretch target of three per cent by 2020 (DELWP policy²).
- Increase capacity of Traditional Owners to participate in boards and committees.

Performance

See page 25-26 of this report or visit www.srw.com.au

Key Performance Indicator

G3 Health and Safety.

Definition

Sustained annual improvement against Health and Safety performance benchmarks (AS/NZS standard 4801).

Measure

Performance indicators adopted to monitor Occupational Health and Safety in line with FRD 22H, section 5.10.

Performance

See page 28.

Financial Sustainability

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

Key Performance Indicator

- F1 Interest cover
- F2 Gearing ratio
- F3 Internal financing ratio
- F4 Current ratio
- F5 Return on assets
- F6 Return on equity
- F7 EBITDA margin
- F8 Credit rating

Definition

Financial indicators as prescribed by performance reporting.

Measure

Maintenance or improvement in credit rating.

Performance

See pages 95-97 of the financial report for F1 - F7.

F8 - The Department of Treasury and Finance determined a credit rating of 'A' for debit facilities undertaken by SRW in the 2017-18 financial year.

Engaging with Customers and Stakeholders

Engagement objectives

Strong customer and stakeholder relationships underpin SRW's ability to achieve its strategic objectives and vision.

These relationships have been built through decades of customer and stakeholder engagement, developing a range of ways for customers to work with us to guide and inform our decision-making, and to help us shape future strategy and policy.

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.

Our core engagement objective is to ensure that our customers have a wide range of opportunities to engage with us 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 also want them to understand how their needs guide our priorities, and to find it easy to raise issues or suggestions with us.

In addition to our offices providing frontline support and our field staff maintaining 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.

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

Consultative committees:

We met regularly with our four Customer Consultative Committees to ensure we also provide a formal process for customer participation in operational and long-term planning. They fulfil their duties responsibly, and are often called upon to help represent SRW's customers at other community and industry events.

- Macalister Customer Consultative Committee (MCCC)
- Werribee Bacchus Marsh Customer Consultative Committee (WBMCCC)
- Southern Groundwater and Rivers Forum (SGRF)
- *Wellington Community Salinity Committee (WCSC).

The Wellington Community Salinity Committee held its final meeting in May, with the ongoing responsibility for salinity management to be absorbed into the functions of the MCCC.

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 demonstrates 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 to shape and approve future plans, prices, investments, budgets and performance indicators
- providing input into system and service improvements
- providing feedback on tariff structures, pricing and billing arrangements
- monitoring customer communication strategies and activities
- providing a customer's perspective on business issues, with input into problem-solving
- linking the organisation to the customer communities it serves.

In the more intensive areas of groundwater and surface water use, SRW maintains 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 2017-18, we have used: project update meetings for specific customer groups, significant individual consultation on-farm, field days and industry events, tours, workshops and group forums.

We continue to develop our digital engagement tools, particularly in the use of online surveys and encouraging opt-in self-selection to receive regular e-newsletters on the subjects that interest them.

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 includes field staff, customer service staff, billing and revenue staff, as well as management and executive representatives. This team also visits a range of customer sites to better understand customer priorities and concerns.

Engaging with Customers and Stakeholders

Pricing submission

In June 2017, our Pricing Submission for 2018-2023 was approved largely unchanged by the ES), which accepted our overall rating of 'Advanced', with a Customer Engagement rating of 'Leading' under the PREMO ratings. We were one of only a handful of water corporations to achieve a Leading rating – the others being larger and with more resources.

The price submission reflected our focus on keeping customers' bills down, while delivering the infrastructure and services our customers need and deserve. A wider engagement program allowed us to invite broader participation from across our customer base, and included information gathering, deliberative workshops on a series of customer proposals, detailed exploration and validation phases. Their participation and priorities largely helped formulate the final ESC submission.

The ESC determination found that: "The influence of SRW's engagement on its proposals supports the objectives in our pricing framework relating to efficiency and the interests of consumers."

Hardship and drought

SRW knows that a range of personal and external issues – including a hot and dry summer, market fluctuations and personal hardship – often affects many of its customers' businesses.

SRW has a Customer Charter, which includes a section on customer hardship.

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

Solutions will be tailored that assist the customer and do not negatively affect SRW's financial performance (such as waivers or rebates) or require a cross-subsidy from other customers.

Customer service improvements

SRW has several cross-business customer service improvement projects underway, as part of our customer experience program including:

- a customer hub to make all online customer interfaces available through one login, providing tools to make it easier for customers to access their information and orders.
- a customer relationship management system.
- further automation of transactions, supported by a data synchronisation project to improve data integrity for customer-related information.
- facilitating trade of unused water and improving water availability.
- continuing our work on improving processing times for customer orders and improving consistency of irrigation flow rates.

Stakeholder engagement

SRW's region includes Melbourne Water, six metropolitan retail water corporations, three retail urban corporations, five catchment management authorities, more than 25 rural municipalities and many more councils in urban Melbourne.

SRW also works closely with State Government, chiefly the 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
- 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
- Water industry groups
- Environment Victoria
- Federal Government agencies such as the Bureau of Meteorology
- the Energy and Water Ombudsman of Victoria
- environmental and sustainability groups
- regional development organisations and community-based progress groups.

Our stakeholder engagement plan includes senior leadership team meetings with:

- VicWater
- Gippsland Regional Water Alliance
- Gippsland Environmental Alliance (GEA) – MDs forum and Women in Leadership Group and the GLaWAC Working Group
- Wellington Shire Council for the MID2030 and Lake Glenmaggie; Baw Baw Shire Council (Blue Rock Lake) and other councils in our region on an as-needed basis
- Melbourne Water
- Western Water, Wannon Water, East Gippsland Water and Gippsland Water
- West Gippsland Catchment Management Authority and East Gippsland Catchment Management Authority
- East Gippsland CEO's network

- Victorian Environmental Water Holder
- Bulk entitlement holders for the Latrobe and Werribee/Maribyrnong systems
- Corangamite Catchment Management Authority and Glenelg Hopkins Catchment Management Authority regarding environmental flows
- Barwon region IWM
- Regional Development Victoria
- DEDJTR/Agriculture Victoria.

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

Measurement

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

- customer committees 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
- talking to customers on-farm
- 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 irrigator districts and groups of storages
- 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

We strive to improve our understanding and recognition of Aboriginal and Torres Strait Islander Peoples' cultural connection to Country.

We continue to seek opportunities to implement the Water for Victoria Plan goals of recognising Aboriginal values of water, and building capacity to support Aboriginal participation in water planning and management.

In May 2018, we signed a unique multi-agency partnership agreement between the Gunaikurnai Land and Water Aboriginal Corporation (GLaWAC) and 12 other organisations working across the natural resources sector in Gippsland, including DELWP and Parks Victoria, and other water corporations.

The idea of a multi-agency agreement was proposed through the Gippsland Environmental Agencies (GEA) alliance, of which SRW is an active partner. The agreement includes Victorian Government departments, water corporations, catchment management authorities, the EPA and other non-profit organisations. The joint signing event was attended by John Bradley, the DELWP Secretary.

The agreement recognises that Traditional Owner groups often do not have the resources to negotiate separate agreements with individual agencies. The GLaWAC management team worked together with GEA to create a common set of objectives and incorporate each organisation's initiatives and align them with the Gunaikurnai Whole of Country objectives.

Other activities and engagement initiatives at SRW in 2017-18 have included:

- developing a draft structure to support further Aboriginal participation in employment at SRW
- participating in Victorian Aboriginal Heritage Council stakeholder meetings
- The official ceremony in NAIDOC Week 2017 that launched the Maffra head office meeting rooms with their corresponding Gunaikurnai names, as approved by the GLaWAC Board and Elders Council. An Acknowledgment of Country is also carried across the boardroom wall image
- Cultural Awareness Training sessions, both internal and external
- engagement with GLaWAC, the Gunaikurnai Traditional Owner Land Management Board and with cultural heritage consultants in discussions about ongoing modernisation works, and studies into potential future projects
- exploring further opportunities to develop our relationships with other Registered Aboriginal Parties across our region.

SRW continued to meet its commitment to consult with indigenous groups when planning any major project works and to support NAIDOC Week activities.

We have established a joint working party to oversee the implementation of the GLaWAC agreement actions across each organisation.

SRW's guidelines on the Involvement and Acknowledgement of Traditional Owners requires that for ceremonial events, we:

- identify, and liaise with, the relevant group of Traditional Owners
- contact Traditional Owners well in advance of planned ceremonial events and invite participation
- invite an appropriate representative of the Traditional Owners to make a Welcome to Country statement
- formally acknowledge Traditional Owners.

Engaging with Customers and Stakeholders

Community engagement

SRW staff engage in a variety of ways with the wider communities across our southern Victorian regions.

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 numerous community events to promote awareness of rural water management. During 2017-18, staff attended events such as Farm World at Lardner Park, Sheepvention Field Days, East Gippsland Field Days, Silvan-Wandin Field Day and Maffra Agricultural Shows.

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

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.

Recreational use of Blue Rock Lake has grown significantly since the introduction of new community-approved boating measures that have consolidated its place as a premier Australian bass fishing destination. Since 2015, Blue Rock Angling Club has expanded its membership to more than 1,000 members, and recreational users have continued to enjoy the lake's quiet amenity. Local Landcare and community groups have also been involved in developing vegetation and recreational walks along the foreshore.

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.

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.

The Maffra Weir diversion channel project was completed this year, with a design that will incorporate a future fish ladder to support the further development of recreational fishing in the region.

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

SRW trademark behaviours considered critical to success include:

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

A focus through 2017-18 has been leadership at all levels of the organisation, delivering service excellence and stronger outcomes for our customers.

The SRW Enterprise Agreement 2014 (EA) is the main industrial agreement that regulates staff pay and conditions. The EA was negotiated in 2014 and approved by the Fair Work Commission for three years until the end of September 2017.

SRW strengthened its anti-discrimination commitment and modernised employment conditions in the new 2017 SRW Enterprise Agreement, which is continuing through the approval process and expected to be ratified in 2018.

SRW also employs seven executives including the Managing Director under contract conditions regulated by the State Government Executive Remuneration Panel.

An Employee Consultative Committee (ECC) acts as the primary consultative body about workplace issues that have significant consequences upon the operation of our business, including human resources policies and change management, and the future directions of SRW.

Position descriptions are in place for each role. SRW's selection process assesses candidates against advertised job prerequisites and selection criteria, based on the merit and equity employment principles established under the *Public Administration Act 2004*. All new employees receive a formal induction.

Pay and entitlements are administered in accordance with signed employment contracts and approved industrial agreements. Many of our people work flexibly and balance work and family commitments.

We have provided additional leave and confidential support to assist employees experiencing family and intimate partner violence and have updated our policies and processes to ensure they are gender neutral and inclusive. We have also provided training for all staff in recognising the signs of family violence and steps they can take.

Diversity and Inclusion

In 2018, SRW established a new Diversity and Inclusion Strategy.

Our vision is 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.

We want to attract and bring people to our workplace with new and different perspectives and experiences, which will enhance innovation and performance at SRW.

This strategy takes us beyond compliance, recognising diversity and inclusion as a key business enabler and a business imperative. Our strategy provides a roadmap to foster diversity and inclusion in our workforce, helping us make positive contributions to social inclusion and workforce participation.

We intend to achieve our goals by setting clear targets and action plans to help us meet them. There are several workforce targets we aim to achieve by 2020, and these will be the focus of programs and activities outlined in our Action Plan.

To drive our commitment to action, we have identified five key focus areas:

- Education and Communication
- Measurement and Reporting
- HR Policy and Practice
- Governance
- Leadership.

SRW respects and values the diversity of the workforce by helping to prevent and eliminate discrimination on the basis of race, colour, sex, sexual orientation, gender expression, age, physical or mental disability, marital status, family or carer's responsibilities, pregnancy, religion, political opinion, national extraction or social origin.

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

The People and Culture team leads the SRW Women's Network, Aurora. Aurora's annual conference attracts people of all genders and from all levels of SRW. The 2018 Aurora event was held in April, attended by more than 30 representatives from across SRW.

The event included discussion about careers, values and leadership, as well as mental and physical health and caring for the environment. Former Victoria Police Detective Narelle Fraser spoke about her life in policing and the ultimate loss of her career through PTSD.

Jason Tuazon-McCheyne from the Equality Project presented at Aurora. Jason has been actively involved with the Essendon Football Club in working to tackle homophobia and created the Purple Bombers in 2013. Angela Koukoulis from New View Psychology delivered a wellness session with a focus on stress, sleep, exercise, positive thinking and mindfulness.

The sessions were interactive, and the content was pitched to build the capacity of participants to thrive at work and in life. As in previous years, the men in attendance were all appreciative of the opportunity to participate in the forum and be exposed to the insights of the presenters and participants.

The Aurora network is a leading program for women in water and welcomes attendance from the broader industry.

What have we done?

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, seven trained internal Contact Officers, two LGBTI Contact Officers and regular reviews of our compliance with legal and government obligations.

- In February 2018, SRW lodged its submission to the national AWEI Pride in Diversity program to assess its performance in LGBTIQ+ inclusion. SRW was assessed in the Small Employer category and awarded bronze status, one of only a handful. For many organisations, it takes several years to achieve bronze recognition. Bronze employers are considered active employers in LGBTIQ+ inclusion with submissions providing detailed evidence of work in this area over the 2017 calendar year.
- SRW is an active member of Pride in Diversity and promotes LGBTI inclusion.
- To encourage young people to consider a career in water, we have continued our partnership with the Broadening Horizons Gippsland Program 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.

- The Aurora network is open to all women and focuses on supporting, developing and empowering women in their lives and careers. To attract more female applicants, SRW has updated the recruitment templates to include statements that encourage women to apply and highlight our commitment to workplace flexibility.
- SRW offers placement opportunities for university students and works with people nearing retirement to transfer their valuable knowledge to their colleagues at SRW.

Performance Development Planning

Performance Development Planning (PDP) continues to be a major focus. The PDP program provides a forum for line managers and employees to discuss key job objectives, collaboration, behaviours and development. Training and development needs are assessed, and actions put in place for the year ahead.

SRW has continued its partnership with JMW to develop leadership capacity among all staff who lead people. Programs delivered are Leader of the Future® and Foundations for Transformational Leadership®.

Some employees are studying higher level Certificate 3, 4, diploma and university degree courses.

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.

Diversity goals	Baseline 2013	Target 2020	June 2018
Overall women at Southern Rural Water	20%	>32%	30%
Women holding executive positions	0%	50%	38%
Women in SRW in the leadership group	NA	>35%	26%
Women in SRW holding degree-required positions (other than engineering)	NA	>40%	36%
Women in SRW holding engineering positions	NA	>40%	22%
Women in SRW holding field positions *includes storage operators, water service officers, field officers and compliance officers but not supervisors or managers	NA	>15%	7%
Under 25 years	4%	>8%	4%
Maintain or increase proportion of staff who identify as of ATSI decent	2%	>3%	2%

Breakdown of staff by function as at 30 June 2018

Category	2017-18			2016-17	
	Headcount	FTE	Percentage	Headcount	Percentage
Executive officers	7	7	4%	7	4%
Senior management	5	5	3%	4	2%
Administration staff	28	26.	16%	28	16%
Finance staff	8	7.	5%	7	4%
Operational staff	127	123	73%	125	73%
Total	174			171	

Category	2017-18				2016-17	
	Headcount		FTE		Headcount	
	Male	Female	Male	Female	Male	Female
Executive officers	5	2	5	2	6	1
	72%	23%			86%	14%

Reason for cessation of employment	2017-18
% turnover of total staff	14%
Resignation (number of staff)	16
Retirement (number of staff)	5
Dismissed (number of staff)	4

Staff service in excess of 10 years	Male no.	Female no.
10–15 years	32	12
15–20 years	13	1
20–25 years	11	4
25–30 years	0	0
30–35 years	2	0
35–40 years	1	0
40–45 years	4	0
45–50 years	2	0

Category Age Cohort	2017-18	
	Headcount	FTE
15 to 24	6	5.4
25 to 34	27	26.4
35 to 44	49	45.73
45 to 54	50	48.47
55 to 64	35	34.44
65+	7	6.84
Total	174	167.28

Category Classification	2017-18	
	Headcount	FTE
Band A	30	27.98
Band B	50	48.8
Band C	12	10.16
Band D	20	19.07
Band E	5	5
Band F	1	1
Total Remuneration Package	56	55.27
Total	174	167.28

NOTE: No 'self-described' data has been collected for the 2017-18 period.

Occupational Health and Safety

SRW continued to manage our Occupational Health and Safety (OH&S) responsibilities in accordance with legislation and our ongoing commitment to providing a safe work environment for the welfare of our employees.

We completed a comprehensive external review of our OH&S management system with the use of Hazcon Pty Ltd.

We continued to offer and deliver a successful health and wellbeing program, which was conducted by Health at Work with 'Man-Up' health information sessions, voluntary flu vaccination and health and skin checks.

Consultation remains strong with staff through the Health, Safety and Environment Committee and we completed six meetings as per our schedule requirement, and we have worked together to develop our three-year health, safety and wellbeing strategy.

SRW continues to participate in the Victorian Water Industry OH&S Network to discuss and share industry-related issues and achievements.

Incident management

We recently introduced Risk Wizard software to assist in the management of incidents when they occur. Incidents reported across the corporation increased by 8.8 per cent in 2017-18. Incidents include injuries and near-misses. In real terms, the increase equates to an additional three reported incidents compared with the previous year.

There was only one notifiable incident. Notifiable incidents are those which require the OH&S Regulator to be notified.

OH&S indicators for 2017-18

Indicator	2017-18	2016-17	2015-16
Number of lost time injuries for the year	2	2	3
Lost time injury frequency rate (per million hours worked)	7.3	6.4	9.5
Number of days lost due to injuries incurred during the year	248 ¹	86	788
Number of medical treatment injuries for the year	4	4	3
Medical treatment frequency rate (per million hours worked)	14.5	12.7	9.5
Total number of incidents (excluding near miss reporting)	15	12	23
Number of First Aid incidents	9	8	19
First aid treatment frequency rate	32.7	25.4	60.0
Standard lost Claims exceeding employer liability (>10days)	1	2	1
Average cost per compensation claim	\$7,168.75	\$20,371	\$15,048
Number of reported hazards closed out	379	319	297
Number of workplace inspections completed	50	52	51

¹ Increase in days lost was due to one matter that continued as WorkCover LTI once employment ceased.

Macalister Irrigation District (MID) modernisation

Phase 1B Continues

Winter construction works on Stage 2 of the \$60m Phase 1B of the MID2030 modernisation program are progressing, with all material procurement completed before the close of the financial year. Work has advanced on the pipeline installation, which is expected to be completed by mid-October. Phase 1B 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. The remaining future stages planned are:

- **Stage 4:** approximately 15km of pipeline to replace the Mewburn Park channel system (2019)
- **Stage 3:** upgrading and automating approximately 32km of channel in the Riverslea area (winter 2020).

Group meetings with customers, targeted at those involved in each stage, are held at each substantive milestone, along with email and web updates to keep the customers informed about progress. Individual on-farm consultations involve customers in the decision-making process to help inform design development.

The project team has held initial information-gathering consultations with all those involved in the Stage 4 pipeline construction next year, which is essential to completing the final design stage. Environmental, planning and cultural heritage approval investigations and planning are also underway. Consultation with Stage 3 (channel automation) customers is expected to commence in September 2018.

The initial customer consultations have identified a high level of engagement and preparedness for the project particularly in terms of private, on-farm infrastructure planning and development.

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.

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

Once completed, the project will save around 5,000ML of water a year, which is typically half of the annual river water use by our customers.

Stage 1 (2.4km) is now completed and operational while Stage 2 is currently underway and is on track for completion in September 2018. Stage 3 works will be completed in 2019.

Bacchus Marsh Irrigation District (BMID) Modernisation

In April 2016, the Victorian Government announced it would contribute \$4.12m towards the \$12.4m project. The funding is matched by the same contribution from irrigators, ensuring two-thirds of the funding for the project. SRW is continuing to engage with the Federal Government to seek matching funding.

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.

A new Maddingley pump station on the river has been operational since 2016 and now supplies a new storage tank, commissioned in May 2018. The tank supplies an existing piped network and, 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 pipelines works will be completed in 2019.

Reservoir upgrade works

The most significant projects in our \$4.2m capital program:

- A \$1.4m project to install a bypass channel at Maffra Weir was completed for more accurate passing of downstream flows. The new channel was used in the 2017-18 irrigation season.
- Design reviews for Blue Rock, Glenmaggie, Narracan and Rosslynne reservoirs have been completed. The total cost of the reviews is about \$0.8m.
- A \$2.8m project to replace the spillway gate-lifting equipment and the operating bridge at Maffra Weir has commenced and is currently in the design phase.
- A \$0.5m project to improve access to the northern inlet wells for maintenance by reducing leakage into the wells and installing a new access platform is currently underway and expected to be completed by August 2018.
- A \$0.4m project to replace the spillway gate lifting ropes at Glenmaggie Dam and Cowwarr Weir is underway and should be completed by September 2018.
- A \$0.42m project to remove red lead and repaint the spillway gates was completed at Lerderderg Weir in June 2018.
- A \$0.25m project to address frequent rock falls along an access track to the downstream end of the Lerderderg tunnel was completed in August 2017.
- A \$0.15m project to replace the guard valve at Pykes Creek due to corrosion was completed.
- A \$0.5m project to upgrade the sewage lagoons at Pykes Creek Reservoir was completed in April 2018. The lagoons treat the effluent from the recreation areas at the reservoir as well as a nearby sub-division and were in very poor condition.
- A \$0.36m project to rehabilitate the large cone valve and its controls at Merrimu Reservoir commenced and is expected to be completed by September 2018.
- A \$0.3m project to install an access track at Merrimu Reservoir to improve operator safety commenced. A planning permit has been submitted and it is expected to be completed in June 2019.
- \$0.2m worth of works have been completed in the valve house at Rosslynne Reservoir to improve operator safety. This included a new staircase and adding electrical power to all valves to avoid the need for manual operation.

Also, some long-standing required actions were completed. These include an investigation into the stability of the secondary spillway at Melton Dam, which concluded that no further works were required. Anchor testing at Glenmaggie Dam and Yallourn Weir was also completed.

The design reviews and risk assessments carried out at Blue Rock, Glenmaggie, Narracan and Rosslynne have indicated all of the dams are well within the Limit of Tolerability specified in the Australian National Committee on Large Dams (ANCOLD) Guidelines on Risk Assessment for Dams and were in good condition. Some additional studies have been recommended to clarify the risk better but these are unlikely to change the risk position significantly. The additional studies will be prioritised and carried out over the next five years.

Flood modelling

A flood prediction model was produced for Glenmaggie Dam and was used in the flood event in early December 2017. The model performed very well and assisted the incident management team in its decision-making around releases from the dam. The model was built internally by SRW staff using information provided by the Bureau of Meteorology.

Local Government Dam review

SRW staff conducted a review of Local Government Dams for the DELWP. The study involved about 30 dams that required inspections, condition reporting and preparing documents such as Dam Safety Emergency Plans and Surveillance Plans to enable councils to be able to manage their dams better.

Emergency exercise

An emergency exercise was conducted in May 2018 to test SRW's emergency plans. The exercise focused on two areas. The first was responding to a dam safety issue at Yallourn Weir and the second was a widespread communications failure while participants were responding to issues at the weir. The exercise went very well. More than 30 SRW staff participated in the exercise and displayed great enthusiasm and knowledge of their roles. The emergency plans worked very well with some further areas for improvement identified. DELWP, which was the assessor of the exercise, provided a very positive report on the exercise.

Pricing submission

The ESC approved SRW's submission with an overall rating of 'Advanced', and acknowledged that we listen to customers and understand their priorities.

SRW will continue its modernisation program and improve services for customers, without significant price increases, under the pricing approved for 2018-2023.

Over the next five years, groundwater and river licence holders across southern Victoria will see reduced fees, while irrigators across southern Victoria can look forward to stable prices.

Several tariffs have now been rationalised by combining or eliminating charges, and fees reduced, including the elimination of the licence renewal fee.

Prices in the Macalister Irrigation District will remain steady, rising only by inflation. The approved pricing provides for completion of the current phase of modernisation and a \$10m contribution towards the final phase. SRW will continue to seek additional funding to complete modernisation of the irrigation district/; to improve water security and provide improved service to irrigators.

For the WID, prices will also remain steady, rising only with inflation, while providing for completion of the current phase of modernisation. SRW continues to seek additional funding to complete modernisation of the irrigation district.

Following a price reduction over recent years in the BMID, future prices will increase only slightly above inflation. This provides a customer contribution towards the current modernisation. SRW will continue to seek additional funding to complete the program.

More than 7,300 SRW licence holders who access water from rivers and groundwater bores, will see annual bills reduce by 2.3%, before inflation.

Our new corporate strategy includes outcomes for sustainable water resources and has objectives to focus on climate resilience and environmental improvement. We are committed to finding opportunities to help our customers prepare their businesses for climate resilience.

We have developed our Environmental Strategy 2018-2020, which sets out the steps for SRW to meet its bold pledge to be carbon neutral by 2025, which is 25 years earlier than the State Government 2050 target.

Environmental and Social Sustainability

Regional Catchment Management Strategies

SRW has five CM) 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 local catchment plans such as the Macalister Land and Water Management Plan and the Port Phillip and Westernport CMA Regional Catchment Strategy
- revegetated SRW land, contributing to habitat connectivity and biodiversity
- 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
- attended the 2018 Catchments summit.

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 PPWCMA to help implement the Federal Government's 20 Million Tree revegetation project at Merrimu Reservoir. Revegetation works provided the following benefits to the site:

- reduced land degradation

- reduction in pest plant and animals
- improved habitat availability and connectivity.

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 WGOMA forums, advising on environmental water from Blue Rock Lake and Lake Glenmaggie
- participating in the MID Sustainability Group, including a recent review of the regional Land and Water Management Plan.

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 of Victoria) SEPP

The SEPP (Waters of Victoria) 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. The reviewed SEPP is currently in draft form and is scheduled for release later in 2018. SRW has been an active participant in the review process.

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 reviewed SEPP will include a new load reduction target that will come into effect when the policy is released.

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.

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 was required to submit emissions reduction pledges and pathways to achieving the reductions. The water sector is also expected to source 25% of its power needs from renewables by 2020 and 40% by 2025.

SRW made an ambitious pledge to be the only water corporation in Victoria to be carbon neutral by 2025. This pledge reflects SRW's commitment to a more sustainable future.

Compared with other water corporations, SRW is a relatively low generator of GhG emissions, but there are still opportunities to reduce our impact on climate change. Highlights include:

- We have more than 900 solar cells in the MID powering automated systems.
- The electricity we purchase for our offices, depots and water supply sites is 'green energy' derived from renewable sources.

- We have commercial contracts with energy suppliers to operate hydro-electric schemes at Blue Rock Lake and Lake Glenmaggie and we are looking at other opportunities in our network to generate renewable energy.
- We mainly operate gravity-fed distribution systems, which minimise our use of pumps and need for electricity.
- We are investigating rooftop solar options for our offices.
- We are investigating the potential to establish carbon offset sites on SRW land or in partnership with other water corporations and CMAs.

Greenhouse gas emissions and energy consumption data reporting

In 2017-18 SRW has reported its environmental data using the guidelines developed by the National Greenhouse and Energy Reporting Scheme (NGERs) standards, making it consistent with the Victorian water industry. The transition to the NGERs reporting framework has caused some variation in SRW's 2017-18 results compared with previous years. SRW's results for 2017-18 indicate it is on track to achieve its goal of net zero emissions across its business by 2024-25.

Lake Glenmaggie Native Vegetation Offset 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.

An audit of the site conducted in May 2018 showed that all woody weeds had been completely removed from the site and the total cover of all herbaceous weeds had been reduced to <1%. More work needs to be done in the coming year to exclude threats such as firewood collection and damage from dirt bike access.

Greenhouse Gas Emissions

Performance Indicator	Tonnes of CO ₂ -e			Variance (%)	Commentary
	Baseline	2017-19 Target	2017-18 Result		
Water Supply ¹	190.71	275.00	407.07	48%	Variance is primarily due to the groundwater pumps and the new Maddingley pump station. Some variance is due to the transition to reporting under NGER's Guidelines.
Vehicle Fleet ²	1252.80	1294.00	749.20	-42%	Variance is primarily due to the transition to reporting under NGER's Guidelines.
Other ³	210.53	3.00	2.60	-13%	Variance is primarily due to the transition to reporting under NGER's guidelines. The result reflects emissions from natural gas usage. Electricity purchased as 'green power' is sourced from renewable energy sources and is carbon neutral.
Offsets	1158.00	0.00	0.00	-100%	SRW is investigating options for the self-generation of carbon offsets to support emissions reduction actions
TOTAL	1,654	1,572	1,159	-26%	

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.)

Energy Consumption

Performance Indicator	Tonnes of CO ₂ -e								(h) Renewable energy use (%) ((h)/(a))*100	Renewable Energy Generated for Export (MWh)	Renewable energy use target (%) by 2025	Commentary
	(a) Total energy use (MWh)	(b) solar panels	(c) hydro-electric	(d) wind power	(e) biogas	(f) green power	(g) other	(h) Total				
Water supply (pumps & weirs)	466.60	80.00	0.00	0.00	0.00	9.68	0.00	89.68	19.22%	0.00	100%	Maddingley pump station and the groundwater pumps do not currently purchase green power
Other (office, workshops, depots, etc.)	920.18	80.00	0.00	0.00	0.00	463.26	0.00	543.26	59.04%	0.00		
TOTAL	1,654	1,572						1,159			-26%	

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

5 September 2018

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 - Victorian Industry Participation Policy Act 2003

The Victorian Government's responsibilities in relation to Local Jobs First are outlined in the *Victorian Industry Participation Policy Act 2003* (VIPPA). In 2017-18 SRW had one strategic project that was subject to VIPPA reporting, the Macalister Irrigation District MID2030 Phase 1B – Southern Tinamba Modernisation. The ICN strategic framework recommended a minimum local content for this strategic project at 70% for the supply of pipeline and 97% for installation of the pipeline.

This recommendation was accepted by SRW and approved by the Minister for Water. Tenderers for the works to date have complied with the framework requirements and submitted local industry development plans, which has achieved the local content commitment of 95% and 99% respectively.

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 its 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 expenditure

For the 2017-18 reporting period, SRW had a total ICT expenditure of \$3.2m, 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>
3.238m	1.388	0.000	1.388

Government advertisement expenditure

SRW's expenditure in the 2017-18 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 2017-18 was 1,728 kilolitres. Total consumption for the year per full-time equivalent employee was 9.94 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 28)
- a list of SRW's major committees, the purposes of each committee, and the extent to which the purposes have been achieved (on page 12-13).

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 was no industrial relations for the 2017-18 financial year).

To request information contact:

SRW
Freedom 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 \$28.90 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 2017-18, SRW received six applications. Of these requests:

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

SRW made two Fol decisions during the 12 months ended 30 June 2018.

- 1 decision was made within the statutory 30 day time period
- 1 decision was an extended statutory 30-45 day time period
- no decisions within 46-90 days
- no decisions in greater than 90 days

During 2017-18, 0 request was subject to VCAT.

Further information

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

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.

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

The following information is provided in accordance with Section 20.3 of the Thomson/Macalister Bulk Entitlement Order.

		Volume (ML)
At 1 July 2017	Volume of water held at Lake Glenmaggie ¹	46,215
	Share of Thomson Reservoir storage capacity (under Clause 9) ¹	33,703
Annual 2017-18		
a(i)	Releases from the Thomson Reservoir to supply primary entitlements	11,264
a(iii)	Inflows attributed (under clause 10.1 and 10.2)	10,303
	Transferred to Bacchus Marsh Irrigation District for emergency supplies	0
At 30 June 2018		
(h)	Volume of water held at Lake Glenmaggie ¹	42,936
a (ii)	Share of Thomson Reservoir storage capacity (under Clause 9) ¹	32,748
Annual 2017-18	Taken from waterway:	
e (i)	• Northern Channel ¹	53,650
e (ii)	• Southern Channel ¹	114,341
a (iii)	• Eastern Channel ¹	34,396
e (iv)	• Cowwarr Channel ¹	8,960
e (v)	• Southern Channel to Thomson Channel	4,372
(i)	Water taken by the primary entitlement holders	188,904
Annual 2017-18	Water pumped to supply primary entitlement holders	
g (i)	• Lake Glenmaggie	0
g (ii)	• Thomson Reservoir	0
g (iii)	• Macalister River	6,009
g (iv)	• Thomson River	14,433
g (v)	• Rainbow Creek	5,666
	Environmental allocation (2017-18 season)	13,706
	Environmental carryover (2016-17 season)	9,950
	Total available to environment (2017-18 season)	23,656
	Environmental release (including carryover)	15,884
	Write off unused carryover (due to storage spilling)	0
	Environmental carryover available (2018-19 season)	7,773
Bulk Entitlement Order		
Annual 2017-18		
(i)	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 (minor)	1
(o)	New bulk entitlements granted	Nil
(p)	Programs approved to date under sub-clause 18.2	Nil
(q)	Programs approved to date under sub-clause 19.3	Nil

Compliance

SRW is not aware of any failure to comply with the provision of the bulk entitlement. To minimise the potential for breaching compliance with environmental flows, we have developed a Risk Management Strategy and action plans.

Diversion limit

Diversion limit modelling for the previous five years will be undertaken in 2018 and reported in the 2018-19 Annual report as per the Schedule 3a of the bulk entitlement.

Minor Amendment

SRW applied to the responsible Minister to make a minor variation in the Bulk Entitlement to reflect the agreed approach to varying the passing flows between Southern Rural Water and the Victorian Environmental Water Holder and make some minor wording changes to improve clarity. In addition, the volume of water shares issued in respect of the Thomson/Macalister water system in Schedule 1 has been updated to include the latest volume of water shares resulting from water savings.

Actions

SRW has not experienced any difficulty in complying with the bulk entitlement; therefore no remedial action has been necessary.

Note 1. 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.

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 2017-18		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 2017 30 June 2018	37,203 37,415
(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	162 to reserve Nil from reserve
(f)	The implementation of a metering program: The metering program used for the Reserve Holder is that used by SRW for its bulk entitlement metering requirements	.
(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

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 2017-18		Volume (ML)
(e)	The amount of water in Blue Rock Reservoir <ul style="list-style-type: none"> 1 July 2017 30 June 2018 	178,057 168,198
(e)	The amount of water in Lake Narracan <ul style="list-style-type: none"> 1 July 2017 30 June 2018 	1,124 6,138
(f)	The amount of water in the Entitlement Holder's share of Blue Rock Reservoir - 2.10%, as at 30 June 2018	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"> SRW has previously submitted an Environmental Management Plan to the Department of Environment, Land, Water and Planning. SRW has submitted a metering plan for the Werribee system in line with the bulk entitlement guidelines. 	
(m)	Temporary or permanent transfers of a bulk entitlement of all or part of the Bulk Entitlement	Nil
(mA)	Temporary or permanent transfer of licences to this bulk entitlement	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 403ML Tru Energy 3533ML Victorian Environmental Water Holding 11224ML 	0 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

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	
--	--	--

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.

		Volume (ML)
Annual 2017-18	Volume of water taken by primary entitlement holders including outfalls:	
	• Bacchus Marsh	2,016
	• River diverters	173.3
	• Myrniong	53.9
	• Werribee	5,247.4
(g)	Releases necessary to supply transfers of primary entitlements	0
(h)	Water taken from:	
	• Bacchus Marsh Diversion Weir	371
	• Werribee Diversion Weir	9,613.9
	• Maddingley pumps	2,287
(h)	Water taken by SRW from the system waterway at each of the diversion weirs:	
	• Lerderderg Weir to Goodmans Creek	1,250.3 (SRW's share 125.0)
	• Goodmans Creek to Merrimu Reservoir	1,264.3 (SRW's share 126.4)
	• Werribee Upper Diversion Weir to Pykes Creek	2,730.8
(i)	Volume of water taken by primary entitlement holders:	
	• High and low reliability water shares	7,436.7
	• Myrniong	53.9

Bulk Entitlement Order

Annual 2017-18		Nil																																				
(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:																																					
	<table border="1"> <thead> <tr> <th>Month</th> <th>HRW</th> <th>LRWS</th> <th>Date effective</th> </tr> </thead> <tbody> <tr> <td>July 2017</td> <td>5%</td> <td>0%</td> <td>07/07/2017</td> </tr> <tr> <td>July 2017</td> <td>10%</td> <td>0%</td> <td>18/07/2017</td> </tr> <tr> <td>August 2017</td> <td>15%</td> <td>0%</td> <td>15/08/2017</td> </tr> <tr> <td>August 2017</td> <td>25%</td> <td>0%</td> <td>12/09/2017</td> </tr> <tr> <td>September 2017</td> <td>30%</td> <td>0%</td> <td>12/09/2017</td> </tr> <tr> <td>September 2017</td> <td>35%</td> <td>0%</td> <td>27/09/2017</td> </tr> <tr> <td>October 2017</td> <td>40%</td> <td>0%</td> <td>24/10/2017</td> </tr> <tr> <td>December 2017</td> <td>45%</td> <td>0%</td> <td>19/12/2017</td> </tr> </tbody> </table>	Month	HRW	LRWS	Date effective	July 2017	5%	0%	07/07/2017	July 2017	10%	0%	18/07/2017	August 2017	15%	0%	15/08/2017	August 2017	25%	0%	12/09/2017	September 2017	30%	0%	12/09/2017	September 2017	35%	0%	27/09/2017	October 2017	40%	0%	24/10/2017	December 2017	45%	0%	19/12/2017	
Month	HRW	LRWS	Date effective																																			
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October 2017	40%	0%	24/10/2017																																			
December 2017	45%	0%	19/12/2017																																			
(s)	New bulk entitlements granted	Nil																																				
(r)	Changes to this bulk entitlement	Nil																																				

Compliance

- SRW has previously submitted an Environmental Management Plan to the Department of Environment, Land, Water and Planning.
- SRW has submitted a metering plan for the Werribee system in line with the bulk entitlement guidelines.
- SRW complied with all provisions of this bulk entitlement.

- SRW did not experience any difficulties in complying with this bulk entitlement.
- SRW has recorded daily volumes and can provide this on 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.

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

The following information is provided in accordance with Section 15.3 of the Tarago Bulk Entitlement Order 2009.

		Volume (ML)
Annual 2017-18	Releases were made from the Tarago Reservoir to supply primary entitlements	1,507
Bulk Entitlement Order		
Annual 2017-18	Amendments	Nil

Compliance

- SRW has complied with the bulk entitlement.
- SRW is not aware of any failure to comply with the provisions of the bulk entitlement.
- SRW's Bulk Entitlement Metering Program was approved by the responsible Minister in April 2012. No amendments were made in 201-18.

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)
Annual 2017-18	Water taken by SRW at its pumping station	16,694
Bulk Entitlement Order		
Annual 2017-18	Temporary or permanent transfers of all or part of the bulk entitlement	Nil
	Temporary or permanent transfers of licences to this bulk entitlement	Nil
	Amendments	Nil

Compliance

- 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.
- There have been no failures in complying with this Bulk Entitlement.
- There are no existing or anticipated difficulties by the Entitlement Holder in complying with the Bulk Entitlement.
- SRW has recorded daily volumes and can provide these on request:
 - a) daily amount of water taken by the Entitlement Holder from the waterway at the pumping station
 - b) daily amount of water returned to the system waterway or tributary streams from the works of the Entitlement Holder.

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 2017-18		
a (i)	Water released to supply licence entitlements	10
a (ii)	SRW's share of Rosslynne Reservoir at 30 June 2018	793
a (iii)	Inflows, taking into account evaporation and measurement discrepancies	-79.1
a (iv)	Allowances for transfer and operating losses	0
a (v)	Water deducted for passing flow requirements	63.7
(b)	SRW achieved full compliance with the passing flows	Yes
(c)	Water taken from the waterway by primary entitlement holders	8.3

Bulk Entitlement Order		
Annual 2017-18		
(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

Compliance

- SRW has previously submitted an Environmental Management Plan to Department of Environment, Land, Water and Planning.
- SRW has submitted a metering plan for the Werribee system in line with the Bulk Entitlement guidelines.
- SRW has complied with all provisions of this bulk entitlement.
- 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 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 key 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. The operations of SRW 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 2017-18

Our operating loss before tax was \$9.97m compared to a budgeted loss of \$9.27m.

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 2017-18 financial year, the Corporation recorded \$10.73m of non-recoverable depreciation.

The following table describes our financial position once these non-regulatory charges are excluded, which reports a \$2.03m surplus for the year 2017-18 financial year compared to a Corporate Plan budget of \$2.87m.

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

- less expenditure on depreciation
- more expenditure on grant funded projects
- expenditure on major channel repairs
- more expenditure on legal expenses
- 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, and an expenditure base that was not subject to any significant unplanned cost pressures.

Significant changes in financial position

Expenditure on capital projects reached \$30.82m for the financial year (2016-17 \$22.35m).

The cash operating surplus of the Corporation is insufficient to fund our capital expenditure program, and it is necessary for SRW to utilise debt facilities to fund our capital expenditure program. The Corporation increased debt facilities for the 2017-18 financial year more than corporate plan assumptions.

Total Interest Bearing Liabilities increased by \$6.57m in the 2017-18 year, and our cash balances decreased by \$0.9m. Together our net debt position moved from \$14.4m to \$21.94m.

Our net debt position is expected to increase to \$51.5m over the next four years (until the end of the 2021-22 financial year) as the capital works program intensifies.

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 2017-18 year.

Capital Plan Expenditure 2017-18

Business	2017-18 Expenditure \$'000
Eastern Irrigation	
MID2030 Ph1A Reserve projects	843
MID Modernisation PH1B program	14,257
General projects	622
Western Irrigation	
WID Modernisation	6,690
BMID Modernisation	3,558
General projects	122
Headworks	
Blue Rock design review	190
Glenmaggie design review	230
Maffra Weir spillway/operating bridge replacement	173
Lerderderg Gate Painting & Roller & sealer refurbishment	407
Pykes Creek sewage lagoons investigation works	520
General projects	2,279
Groundwater & Rivers	
Metering	355
Other	
General projects	573
	30,819

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 2017-18 we contracted 11 consulting firms for operating contracts greater than \$10,000 to provide advice, skills and services. The total cost of these consultancies in 2017-18 was \$1,058,167. Please refer to the table below for greater detail.

For comparison, during 2016-17 we engaged 14 consulting firms at a total cost of \$729,837.

Less than \$10,000

During 2017-18 we contracted three consulting firms for operating contracts less than \$10,000 to provide advice, skills and services. The total cost of these consultancies in 2017-18 was \$22,677.

For comparison, during 2016-17 we engaged two consulting firms at a total cost of \$11,615.

Consultant	Purpose of consultancy	Start date	End date	Total approved project fee	Expenditure 2017-18	Future expenditure
Aither Pty Ltd	MID Outlet tariff reform - review	Feb-17	Aug-17	25,000	25,095	0
Beveridge Williams	Blue Rock Survey Subdivision	Jul-17	Oct-18	77,897	69,534	8,363
Ecology & Heritage Partners Pty Ltd	Lindenow Water Security Project environmental review*	Nov-17	Feb-18	49,320	49,320	0
Ecology & Heritage Partners Pty Ltd	MID Phase 1B stage 4 environmental review*	May-18	Dec-18	15,950	11,963	3,988
Five consulting (VIC) Pty Ltd	Lindenow Water Security Project business case preparation*	Oct-17	Mar-18	48,200	47,225	0
Five consulting (VIC) Pty Ltd	MID Phase 2 preparation of business case*	Apr-18	Jan-19	73,920	29,600	41,360
GHD Pty Ltd	Investigate site 2 Lindenow*	Feb-18	Mar-18	13,600	13,600	0
GHD Pty Ltd	Southern Victoria Irrigation Design Concept*	Aug-17	Jan-18	184,412	173,864	0
GHD Pty Ltd	Southern Victoria Irrigation environmental assessment*	Oct-17	Jan-18	36,000	36,480	0
GHD Pty Ltd	BMID Modernisation design	Nov-16	Mar-18	475,405	28,858	30,000
Hydro Tasmania (Entura)	Lindenow Water Security engineering assessment*	Oct-17	Feb-18	40,000	40,000	0
Hydro Tasmania (Entura)	Blue Rock Dam design risk assessment	Feb-18	Aug-18	19,400	15,649	3,751
Kellogg Brown & Root Pty Ltd (KBR)	MID Phase 2 feasibility analysis*	Dec-17	Apr-18	136,363	34,726	0
Marsden Jacob Associates	Lindenow Water Security project review*	Nov-16	Mar-18	104,229	104,229	0
Marsden Jacob Associates	Southern Victoria irrigation development review*	Nov-16	Mar-18	35,921	35,921	0
Marsden Jacob Associates	Consultancy - advice and economic	Nov-16	Mar-18	128,580	128,580	0
RM Consulting Group (RMCG)	Southern Victoria irrigation demand assessment*	Aug-17	Feb-18	108,155	108,155	0
SMEC Australia Pty Ltd	Design review of Lake Narracan Dam	May-17	Jun-18	116,734	79,663	5,795
University of New South Wales	Dam Design review reports audit	Jun-18	Sep-18	53,159	25,707	27,452

*These projects were externally funded

Five year financial summary

Revenue	2017-18	2016-17	2015-16	2014-15	2013-14
	\$'000	\$'000	\$'000	\$'000	\$'000
Fees and charges	27,285	26,978	25,931	25,474	25,123
Storage operator charges	3,882	3,714	3,710	3,678	3,427
Government grants	886	1,354	265	780	725
Other	2,320	2,933	4,403	4,819	2,009
Total revenue	34,373	34,979	34,309	34,751	31,284
Expenditure					
Operations and maintenance	20,253	22,745	19,855	19,391	17,883
Other	8,603	8,570	7,850	7,748	6,145
Earnings before interest,taxation, impairment and depreciation	5,517	3,664	6,604	7,612	7,256
Depreciation	14,418	14,135	11,521	11,354	10,856
Finance cost	1,067	1,025	914	917	1,107
Total expenditure	44,341	46,475	40,140	39,410	35,991
Equity					
Net operating statutory loss	(9,968)	(11,496)	(5,831)	(4,659)	(4,707)
Movement in retained earnings	(9,968)	(11,496)	(5,831)	(4,659)	(4,707)
Balance Sheet					
Current assets	14,040	13,459	15,553	13,085	10,330
Non-current assets	1,254,579	1,240,229	1,273,315	1,236,808	1,236,329
Total assets	1,268,619	1,253,688	1,288,868	1,249,893	1,246,659
Current liabilities	17,890	15,738	13,844	9,605	9,888
Non-current liabilities	240,892	237,248	248,645	239,869	242,298
Total liabilities	258,782	252,986	262,489	249,474	252,186
Net cash inflow from operations	4,608	7,154	6,211	8,835	6,773
Payments for infrastructure, property,plant and equipment	28,950	19,280	13,646	13,127	16,018
Financial result reconciliation					
Net operating statutory loss	(9,968)	(11,496)	(5,831)	(4,659)	(4,707)
Add back non-regulatory depreciation and impairment	11,405	10,691	8,205	8,895	8,696
Less renewals charge	(1,109)	(1,061)	(969)	(901)	(1,328)
Add non-regulatory asset transfers and write-offs	98	4,061	1,362	1,409	332
Add major projects expensed	1,599	921	2,087	1,175	791
Operating profit before statutory adjustments	2,025	3,116	4,854	5,919	3,784

Five year performance summary

Revenue	2017-18	2016-17	2015-16	2014-15	2013-14
	\$'000	\$'000	\$'000	\$'000	\$'000
Internal Financing Ratio	15.92%	37.11%	46.34%	67.28%	42.28%
Gearing Ratio	2.24%	1.75%	1.50%	1.34%	1.43%
Interest Cover(Cash)	7.80	10.90	11.40	16.50	10.20
Return on Assets	-0.74%	-0.86%	-0.42%	-0.34%	-0.34%
Return on Equity	-0.69%	-0.79%	-0.40%	-0.32%	-0.33%



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 2018. It is presented in the following structure:

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Gippsland and Southern Rural Water Corporation

Comprehensive Operating Statement
For the financial year ended 30 June 2018

	Notes	2017-2018 \$'000	2016-2017 \$'000
Revenue			
<i>Revenue from operating activities</i>			
Service and usage charges	2.1	31,655	30,800
Chargeable works	2.2	405	811
Government grants and contributions	2.3	777	1,354
Interest income		164	187
Other income		303	252
<i>Revenue from non-operating activities</i>			
Government grants and contributions for capital purposes	2.3	109	0
Fair value of assets received free of charge	2.4	0	792
Sale of water and entitlements	2.5	788	657
Net gain on disposal of non-current assets	4.1.5	172	127
Total revenue		34,373	34,979
Expenses			
Bulk water	3.3	1,364	1,059
Environmental contributions	8.2	424	423
Employee benefits	3.1.1	15,262	14,728
Interest	6.1.2	1,067	1,025
Chargeable works	2.2	405	811
Return of unspent government grant	3.4	0	450
Repairs and maintenance	3.2	1,413	1,576
Supplies and services	3.5	8,564	7,307
Other operating expenses	3.6	624	556
Depreciation of regulatory asset base	4.1.3	3,689	3,444
Depreciation of other assets	4.1.3	10,729	10,691
Asset write-offs	4.1.4	98	3,819
Intangible asset write-offs	4.2.1	26	0
Amortisation	4.2	676	586
Total expenses		44,341	46,475
Net result before tax		(9,968)	(11,496)
Income tax revenue	8.1.1	2,983	3,486
Net result for the period		(6,985)	(8,010)

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 2018

	2017-2018 \$'000	2016-2017 \$'000
Notes		
Net result for the period	(6,985)	(8,010)
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	9.1.2 0	0
Impairment of infrastructure, property, plant and equipment	9.1.2 (568)	(35,978)
Income tax relating to these items	8.1.1 170	10,793
Other comprehensive income for the year, net of income tax	<u>(398)</u>	<u>(25,185)</u>
Comprehensive result	<u><u>(7,383)</u></u>	<u><u>(33,195)</u></u>

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 2018

	Notes	2017-2018 \$'000	2016-2017 \$'000
Assets			
Current assets			
Cash and cash equivalents	6.2	6,531	7,463
Receivables	5.1	6,909	5,181
Other non-financial assets		469	482
Assets classified as held for sale		131	333
Total current assets		<u>14,040</u>	<u>13,459</u>
Non-current assets			
Infrastructure, property, plant and equipment	4.1.1	1,252,559	1,238,159
Intangible assets	4.2	1,452	2,070
Total non-current assets		<u>1,254,011</u>	<u>1,240,229</u>
Total assets		<u>1,268,051</u>	<u>1,253,688</u>
Liabilities			
Current liabilities			
Payables	5.2	9,158	6,914
Interest bearing liabilities	6.1	3,930	3,930
Employee benefits	3.1.2	4,802	4,894
Total current liabilities		<u>17,890</u>	<u>15,738</u>
Non-current liabilities			
Payables		8	9
Interest bearing liabilities	6.1	24,540	17,970
Employee benefits	3.1.2	317	259
Deferred tax liabilities	8.1.2	215,857	219,010
Total non-current liabilities		<u>240,722</u>	<u>237,248</u>
Total liabilities		<u>258,612</u>	<u>252,986</u>
Net assets		<u>1,009,439</u>	<u>1,000,702</u>
Equity			
Contributed capital	9.1.1	432,858	416,738
Asset revaluation reserve	9.1.2	557,299	557,697
Accumulated surplus	9.1.3	19,282	26,267
Total equity		<u>1,009,439</u>	<u>1,000,702</u>

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

Gippsland and Southern Rural Water Corporation

Statement of Changes in Equity
For the financial year ended 30 June 2018

	Notes	Contributed Capital	Asset Revaluation Reserve	Accumulated Funds	Total
		\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2016		409,220	582,882	34,277	1,026,379
Net result for the period		0	0	(8,010)	(8,010)
Other comprehensive income		0	(25,185)	0	(25,185)
Total comprehensive income for the year		0	(25,185)	(8,010)	(33,195)
Transactions with the State Government in its capacity as owner	9.1.1	7,518	0	0	7,518
Balance as at 30 June 2017		416,738	557,697	26,267	1,000,702
Net result for the period		0	0	(6,985)	(6,985)
Other comprehensive income	9.1.2	0	(398)	0	(398)
Total comprehensive income for the year		0	(398)	(6,985)	(7,383)
Transfer to/from accumulated deficit					
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

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 2018

	Notes	2017-2018 \$'000	2016-2017 \$'000
Cash flows from operating activities			
<i>Receipts</i>			
Receipts from service and usage charges		32,371	33,805
Receipts from State Government	2.3	886	1,354
Interest received		70	58
Goods and Services Tax received from the ATO		2,798	3,067
<i>Payments</i>			
Payments to suppliers and employees		(30,733)	(30,267)
Interest paid		(745)	(784)
Goods and Services Tax paid to the ATO		(39)	(79)
Net cash inflow from operating activities	6.2.1	<u>4,608</u>	<u>7,154</u>
Cash flows from investing activities			
Payments for infrastructure, property, plant and equipment		(28,951)	(19,280)
Proceeds from sale of infrastructure, property, plant and equipment	4.1.5	805	593
Payments for intangible assets	4.2	(84)	(185)
Net cash outflow from investing activities		<u>(28,230)</u>	<u>(18,872)</u>
Cash flows from financing activities			
Proceeds from new borrowings (i)		10,500	6,580
Repayment of existing borrowings		(3,930)	(4,030)
Proceeds from contributions by State Government in its capacity as owner	9.1.1	<u>16,120</u>	<u>7,518</u>
Net cash inflow from financing activities		<u>22,690</u>	<u>10,068</u>
Net increase in cash and cash equivalents		<u>(932)</u>	<u>(1,650)</u>
Cash and cash equivalents at the beginning of the financial year		<u>7,463</u>	<u>9,113</u>
Cash and cash equivalents at the end of the financial year	6.2	<u><u>6,531</u></u>	<u><u>7,463</u></u>

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

(i) \$2.8m of the new borrowings was applied to repay a maturing loan of \$2.8m at 30 June 2018

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 Gippsland and Southern Rural Water Corporation (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, directors' declaration and notes accompanying these statements for the period ending 30 June 2018. 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 5 September 2018.

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.

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. Figures in the financial report may not equate due to rounding.

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)

2017-2018
\$'000

2016-2017
\$'000

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 in 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 of our irrigation districts.

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 Fair value of assets received free of charge
- 2.5 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	22,965	22,649
Recycled water	1,259	1,328
Storage operator charges	3,882	3,714
Other charges		
Bore construction, application fees, transfer fees and information statements	1,135	1,296
	29,241	28,987

Water usage charges

Variable usage charges

Irrigation, diversion and groundwater	1,926	1,705
Recycled water	488	108
	2,414	1,813
Total service and usage charges	31,655	30,800

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.

	2017-2018 \$'000	2016-2017 \$'000
2.2 Chargeable works		
Chargeable works	405	811
Total chargeable works	<u>405</u>	<u>811</u>
From time to time the Corporation 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		
Local government authority dam safety	0	168
Macalister Irrigation District MID2030 phase 2 development	215	370
Lindenow Valley water security	177	377
Southern Victorian irrigation development	339	339
Dilwyn aquifer infrastructure feasibility study	0	100
Review tenants in common water shares	6	0
Bore completion reports data entry	25	0
South West Limestone GMA customer survey	15	0
Non-operating		
State Government		
Blue Rock jetty upgrade	10	0
Blue Rock floating boat ramp	99	0
Total government grants and contributions	<u>886</u>	<u>1,354</u>
Government grants and contributions are recognised as operating revenue on receipt or when the Corporation obtains control of the contribution and meets certain other criteria as outlined by AASB1004 Contributions, whichever is the sooner, and disclosed in the Comprehensive Operating Statement as government grants and contributions. However, grants and contributions received from the State Government, which were originally appropriated by the Parliament as additions to net assets or where the responsible ministers have indicated are in the nature of owners' contributions, are accounted for as Equity – Contributions by Owners in accordance with FRD 119A Transfers through Contributed Capital (Refer Note 9.1.1).		
2.4 Fair value of assets received free of charge		
Infrastructure at fair value	0	792
Total fair value of assets received free of charge	<u>0</u>	<u>792</u>
Contributions of resources received free of charge or for nominal consideration are recognised at their fair value when the Corporation obtains control over them, irrespective of whether restrictions or conditions are imposed over the use of the contributions.		
2.5 Sale of water and entitlements		
<u>Sale of water and entitlements</u>		
Sale of created water shares (i)	567	596
Sale of water (ii)	106	50
Sale of surface and groundwater licences (iii)	115	11
Total sale of water and entitlements	<u>788</u>	<u>657</u>

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

(i) In 2013, the Corporation completed water saving projects from the MID2030 leading works and 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 former Minister for Water approved the amendment of the Thomson/Macalister bulk water entitlement and the creation of these new water entitlements. Part of the fourth tranche of these entitlements, 205 ML of high reliability shares and 110 ML of low reliability shares, was sold by auction on 28 February 2018. The proceeds raised of \$0.374m 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 \$0.193m have been recorded in the Comprehensive Operating Statement as revenue.

(ii) During 2017-18, the Corporation conducted auctions selling seasonal allocations from water shares held in the Macalister and Werribee water supply systems. The proceeds raised of \$0.106m have been recorded in the Comprehensive Operating Statement as revenue.

(iii) During 2017-18, the Corporation conducted one auction of unregulated groundwater licences, and also sold unregulated groundwater and surfacewater licences on the market with a shelf price. The sales occurred in the following area:

- Parwan Groundwater Management Unit, which sold 48 ML of groundwater licensed volume (via auction).
- Parwan Groundwater Management Unit, which sold 25 ML of groundwater licensed volume (via shelf price market).
- Curdies River, which sold 400 ML of surfacewater licensed volume (via shelf price market).

The proceeds raised of \$0.115m have been recorded in the Comprehensive Operating Statement as revenue.

2017-2018
\$'000

2016-2017
\$'000

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 Return of unspent government grant
- 3.5 Supplies and services
- 3.6 Other operating expenses

3.1 Our people

3.1.1 Employee benefits - Comprehensive Operating Statement

Employee benefits		
- salaries and wages	10,603	10,143
- annual leave	1,206	1,113
- long service leave	330	414
- employer superannuation contribution	1,437	1,291
- termination benefit	48	69
- other	1,639	1,698
Total employee benefit costs	15,263	14,728

These 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.

2017-2018
\$'000

2016-2017
\$'000

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:

Annual leave

Unconditional and expected to settle within 12 months	935	937
Unconditional and expected to settle after 12 months	722	769

Long service leave

Unconditional and expected to settle within 12 months	1,448	1,324
Unconditional and expected to settle after 12 months	962	1,113

Provisions for on-costs

Unconditional and expected to settle within 12 months	432	410
Unconditional and expected to settle after 12 months	305	341
Total current provisions for employer benefits	4,802	4,894

Non-current provisions

Long service leave	288	219
On-costs	49	40
Total non-current provisions for employee benefits	317	259

Total provisions for employee benefits

	5,119	5,153
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Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries (including non-monetary benefits, annual leave, accumulating sick 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. Liabilities for salaries and annual leave are measured at:

- undiscounted value – if the Corporation expects to wholly settle within 12 months; or
- present value – if the Corporation does not expect to wholly settle within 12 months.

Sick leave payments are made in accordance with relevant awards, determinations and Corporation policy. No provision is made in the Financial Statements for unused sick leave entitlements as these are non-vesting benefits.

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

Liability for 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 – if the Corporation expects to wholly settle within 12 months; or
- present value – if the Corporation does not expect to wholly settle within 12 months.

Conditional LSL 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 LSL 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 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 2018 are detailed below:

		2017-2018 \$'000	Contribution rate	2016-2017 \$'000	Contribution rate
Accumulation schemes:					
(a)	Vision Super				
		Employer contribution		812	9.50%
(b)	Other superannuation schemes	905	9.50%	864	9.50%
		Employer contribution			
Defined benefit schemes:					
(c)	Government Superannuation Office - New Scheme	85	9.5% - 10.3%	96	9.5% - 10.3%
(d)	SAFE - State Employees Retirement Benefits Fund	5	13.30%	10	13.30%
		Employer contribution			
	Total employer contribution	<u>1,895</u>		<u>1,782</u>	

[In addition to the above contributions, the Corporation has paid unfunded liability payments to Vision Super totalling \$0 (2016-17 \$0)].

There were no contributions outstanding and no loans issued from or to the above schemes as at 30 June 2018.

Accumulation (items a - b)

Contributions to the accumulation plans are expensed as the contributions are paid or become payable

Defined Benefit (items c - d)

The following information relates to Vision Super Defined Benefit funds only. Government Superannuation Office and State Employees Retirement Benefits Fund Defined Benefits information is reported in the financial report of the Department of Treasury and Finance. The Corporation does not use defined benefit accounting because sufficient information is not available. There is no proportional split of the defined benefit liabilities, assets or costs between the participating employers as the defined benefit obligation is a floating obligation 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

On the basis of the results of the 2017 interim actuarial investigation conducted by the Fund Actuary, 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. In addition, the Corporation reimburses the Fund to cover the excess of the benefits paid as a consequence of retrenchment above the funded resignation or retirement benefit.

The 2017 interim actuarial investigation surplus amounts

As at 30 June 2017, an interim actuarial investigation was held as the Fund provides lifetime pensions in the Defined Benefit category. The vested benefit index (VBI) was 103.1%. Because the VBI was above 100%, the 2017 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.

To determine the VBI, the Fund Actuary used the following long-term assumptions:

- Net investment returns 7.0% pa
- Salary inflation 4.25% pa
- Price inflation (CPI) 2.5% pa.

Vision Super has advised that the estimated VBI at 30 June 2018 was 106.0%.

The Fund's interim actuarial investigation as at 30 June 2017 identified the following:

- A VBI surplus of \$40.3 million; and
- A total service liability surplus of \$156 million.

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 2017.

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.

The 2018 full triennial actuarial investigation

A full actuarial investigation is being conducted for the Fund's position as at 30 June 2018. It is anticipated that this actuarial investigation will be completed in December 2018.

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 at 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.

	2017-2018 \$'000	2016-2017 \$'000
3.2 Repairs and maintenance		
Repairs and maintenance	1,413	1,576
Total repairs and maintenance	<u>1,413</u>	<u>1,576</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	1,364	1,059
Total bulk water	<u>1,364</u>	<u>1,059</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 Return of unspent government grant		
Unspent government grant	0	450
Total return of unspent government grant	<u>0</u>	<u>450</u>

In the 2013-14 and 2014-15 financial years, the Corporation received \$450k from the State Government to fund a project for licensing local government dams. During 2016-17, the State Government cancelled the original funding agreement, and requested that the funds be returned.

3.5 Supplies and services		
<i>Supplies and services</i>		
- Insurance	391	451
- Motor vehicle operating costs	662	689
- Professional services	2,247	2,062
- Telecommunications	398	364
- Other services	4,866	3,741
Total supplies and services	<u>8,564</u>	<u>7,307</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.

3.6 Other operating expenses		
<i>Other expenses</i>		
<i>Operating lease rental expenses</i>		
- Lease payments	624	556
Total operating lease rental expenses	<u>624</u>	<u>556</u>
<i>Cost of goods sold / distributed</i>		
Ex gratia expense (refer to Note 9.7)	0	0
Total other operating expenses	<u>624</u>	<u>556</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

Introduction

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

- 4.1 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

4.1 Infrastructure, property, plant and equipment

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

Year ended 30 June 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 expense	0	(12,930)	(440)	(141)	(632)	(266)	0	(14,409)
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	29,879	1,198,678	4,596	1,377	4,317	3,750	14,357	1,256,954
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	29,879	1,218,261	5,383	1,445	4,313	3,717	22,101	1,285,099
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

Year ended 30 June 2017

	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 2016	27,692	1,224,660	1,216	450	2,620	2,876	11,330	1,270,844
Additions	2,187	0	0	0	1,002	0	18,727	21,916
Transfers	0	13,815	566	239	0	1,080	(15,700)	0
Transfers to held for sale	0	0	0	0	0	(201)	0	(201)
Impairment	0	(35,978)	0	0	0	0	0	(35,978)
Assets written off	0	(3,819)	0	0	0	0	0	(3,819)
Disposals	0	0	(1)	(36)	(431)	0	0	(468)
Depreciation expense	0	(12,843)	(257)	(104)	(729)	(202)	0	(14,135)
At 30 June 2017	29,879	1,185,835	1,524	549	2,462	3,553	14,357	1,238,159
At 1 July 2016	27,692	1,224,660	4,108	1,287	4,334	2,876	11,330	1,276,287
Gross carrying amount	27,692	1,224,660	4,108	1,287	4,334	2,876	11,330	1,276,287
Accumulated depreciation	0	0	(2,892)	(837)	(1,714)	0	0	(5,443)
Net carrying amount	27,692	1,224,660	1,216	450	2,620	2,876	11,330	1,270,844
At 30 June 2017	29,879	1,198,678	4,596	1,377	4,317	3,750	14,357	1,256,954
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

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 \$2,000 (2017: \$2,000) and a useful life of more than one year are recognised as an asset. All other assets acquired are expensed.

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, direct labour on the project and an appropriate proportion of variable and fixed overheads.

The cost of leasehold improvements is capitalised and depreciated over the shorter of the remaining term of the lease or their estimated useful lives. At balance date, leasehold improvements are amortised over a 10 year period (2017: 10 years).

Subsequent measurement

Infrastructure, property, plant and equipment are subsequently measured at fair value less accumulated depreciation and impairment. Fair value is determined with regard to the asset's highest and best use (considering legal or physical restrictions imposed on the asset, public announcements or commitments made in relation to the intended use of the asset). 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 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.

Non-financial physical assets

Fair value measurement hierarchy for assets as at 30 June 2018

	Carrying amount as at 30 June 2018 \$'000	Fair value measurement at end of reporting period using:		
		Level 1 (i) \$'000	Level 2 (i) \$'000	Level 3 (i) \$'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

Fair value measurement hierarchy for assets as at 30 June 2017

	Carrying amount as at 30 June 2017 \$'000	Fair value measurement at end of reporting period using:		
		Level 1 (i) \$'000	Level 2 (i) \$'000	Level 3 (i) \$'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	3,553	0	0	3,553
Total of buildings at fair value	3,553	0	0	3,553
Water infrastructure at fair value				
Reservoirs and weirs	696,748	0	0	696,748
Tunnels	54,301	0	0	54,301
Irrigation channels and pipes	177,758	0	0	177,758
Irrigation drains	46,345	0	0	46,345
Irrigation structures, meters and pumps	210,683	0	0	210,683
Total of water infrastructure at fair value	1,185,835	0	0	1,185,835
Machinery, fittings and equipment at fair value				
Machinery and tools	495	0	0	495
Computer equipment	514	0	0	514
Furniture and fittings	516	0	0	516
Total of machinery, fittings and equipment at fair value	1,524	0	0	1,524
Motor vehicles and plant at fair value				
Motor vehicles	2,462	0	0	2,462
Plant	549	0	0	549
Total of motor vehicles and plant at fair value	3,011	0	0	3,011

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 2018.

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 2018 of all asset classes, with no material movement identified since the 2017 valuations.

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 2018

Asset type	Opening balance	Additions	Transfers	Disposals and write-off	Depreciation	Impairment	Revaluation	Closing balance
Specialised land	24,420	0	0	0	0	0	0	24,420
Non-specialised buildings	3,553	0	(33)	0	(266)	0	0	3,254
Reservoirs and weirs	696,748	0	4,945	0	(3,621)	0	0	698,072
Tunnels	54,301	0	8	0	(81)	0	0	54,228
Irrigation channels and pipes	177,758	0	10,393	0	(3,295)	(452)	0	184,404
Irrigation drains	46,345	0	0	(96)	(254)	0	0	45,993
Irrigation structures, meters and pumps	210,683	0	4,903	0	(5,679)	(116)	0	209,791
Machinery and tools	495	0	33	0	(104)	0	0	424
Computer equipment	514	0	647	0	(239)	0	0	922
Furniture and fittings	516	0	50	0	(97)	0	0	469
Motor vehicles	2,462	1,102	0	(422)	(632)	0	0	2,510
Plant	549	0	116	(11)	(141)	0	0	513

Reconciliation of Level 3 fair value (\$'000) at 30 June 2017

Asset type	Opening balance	Additions	Transfers	Disposals and write-off	Depreciation	Impairment	Revaluation	Closing balance
Specialised land	24,420	0	0	0	0	0	0	24,420
Non-specialised buildings	2,876	0	879	0	(202)	0	0	3,553
Reservoirs and weirs	692,412	0	7,627	0	(3,291)	0	0	696,748
Tunnels	54,383	0	0	0	(82)	0	0	54,301
Irrigation channels and pipes	193,335	0	1,893	(664)	(3,350)	(13,456)	0	177,758
Irrigation drains	47,109	0	4	(515)	(253)	0	0	46,345
Irrigation structures, meters and pumps	237,421	0	4,291	(2,640)	(5,867)	(22,522)	0	210,683
Machinery and tools	560	0	27	(1)	(91)	0	0	495
Computer equipment	418	0	210	0	(115)	0	0	514
Furniture and fittings	238	0	329	0	(51)	0	0	516
Motor vehicles	2,620	1,002	0	(431)	(729)	0	0	2,462
Plant	450	0	239	(36)	(104)	0	0	549

Notes:

Description of significant unobservable inputs to Level 3 valuations (i)				
Asset class	Fair value at 30 June 2017 (\$'000)	Fair value at 30 June 2018 (\$'000)	Valuation technique (ii)	Significant unobservable inputs (ii)
Specialised land	24,420	24,420	Market / Adjusted	Community Service Obligation (CSO) adjustment to market value
Non-specialised buildings (52)	3,553	3,254	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)	650,748	651,269	Depreciated replacement cost	Cost per reservoir Useful life of reservoirs
Weirs (6)	46,000	46,803	Depreciated replacement cost	Cost per weir Useful life of weirs
Tunnels (3)	54,301	54,228	Depreciated replacement cost	Cost per tunnel Useful life of tunnels
Irrigation channels	152,835	149,846	Depreciated replacement cost	Cost per metre of channel Useful life of irrigation channels
Irrigation pipes	24,923	34,558	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 30 June 2017 (\$'000)	Fair value at 30 June 2018 (\$'000)	Valuation technique (ii)	Significant unobservable inputs (ii)
Irrigation drains	46,345	45,993	Depreciated replacement cost	Cost per metre Useful life of irrigation drains
Irrigation structures, meters and pumps	210,683	209,791	Depreciated replacement cost	Cost per unit Useful life of irrigation structures
Machinery and tools	495	424	Depreciated replacement cost	Cost per unit Useful life of machinery and tools
Computer equipment	514	922	Depreciated replacement cost	Cost per unit Useful life of computer equipment
Furniture and fittings	516	469	Depreciated replacement cost	Cost per unit Useful life of furniture and fittings
Motor vehicles	2,462	2,510	Depreciated replacement cost	Cost per unit Useful life of motor vehicles
Plant	549	513	Depreciated replacement cost	Cost per unit Useful life of plant

Notes:

(i) These significant unobservable inputs remain unchanged from 30 June 2017.

(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 VGV.

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.

	2017-2018 \$'000	2016-2017 \$'000
4.1.4 Asset write-offs		
<i>Assets transferred/written off</i>		
Written down value of transferred assets	98	1,038
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.		
Written down value of assets written off	0	2,781
As assets, or components of assets are replaced, the Corporation charges the written down value of the replaced or scrapped asset to the Comprehensive Operating Statement within this category.		
Total asset write-offs	98	3,819
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	805	593
Written down value of disposed infrastructure, property, plant and equipment	(633)	(466)
Net gain on disposal of assets	<u>172</u>	<u>127</u>

4.2 Intangible assets

	Software \$'000	Water allocation \$'000	Implementation in progress \$'000	Total \$'000
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
	Software \$'000	Water allocation \$'000	Implementation in progress \$'000	Total \$'000
Year ended 30 June 2017				
At 1 July 2016	2,111	255	105	2,471
Additions	0	0	185	185
Transfer	77	0	(77)	0
Amortisation	(586)	0	0	(586)
At 30 June 2017	1,602	255	213	2,070
At 1 July 2016				
Cost (gross carrying amount)	8,045	255	105	8,405
Accumulated amortisation	(5,934)	0	0	(5,934)
Net carrying amount	2,111	255	105	2,471
At 30 June 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

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]

2017-2018
\$'000

2016-2017
\$'000

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 tested 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	676	586
Total amortisation	676	586

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	26	0
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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 2015-16. 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	26	0
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2017-2018
\$'000

2016-2017
\$'000

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
 - 5.1.1 Movement in the provision for impaired receivables
 - 5.1.2 Ageing analysis of contractual receivables
- 5.2 Payables
 - 5.2.1 Ageing analysis of contractual payables
- 5.3 Fair value determination of financial assets and liabilities

5.1 Receivables

Contractual

Trade receivables	3,416	2,884
Provision for impaired receivables	(83)	(133)
Accrued income	2,514	2,114

Statutory

GST Input tax credit receivables	1,062	316
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Total current receivables

6,909 **5,181**

Total receivables **6,909** **5,181**

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.

5.1.1 Movement in the provision for impaired receivables

As at 30 June 2018, current receivables of the Corporation with a nominal value of \$102,666 were impaired. The total value of the provision for impaired receivables is \$132,716, which includes a \$30,050 general provision for the non-recovery of unspecified customer debt.

Movement in the provision for impaired receivables

Balance at beginning of the year	133	133
Provision for impaired receivables recognised during the year	0	0
Receivables written off during the year as uncollectible	(37)	0
Unused amount reversed	(13)	0
Balance at end of the year	83	133

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

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

Bad debts considered as written off by mutual consent are classified as a transaction expense. Bad debts not written off, but included in the provision for impaired receivables, are classified as other economic flows in the net result.

5.1.2 Ageing analysis of contractual receivables

The ageing of these receivables is as follows:

Carrying amount	Not past due and not impaired	Past due but not impaired				
		Less than 1 month	1-3 months	3 months - 1 year	1-5 years	
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
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
2017						
Sale of goods and services	2,884	84	121	232	1,605	842
Other receivables	0	0	0	0	0	0
Total	2,884	84	121	232	1,605	842

No interest is charged for the first 28 days from the invoice date. Thereafter, interest is charged at 6.1 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 1989*, 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.

	2017-2018	2016-2017
	\$'000	\$'000
5.2 Payables		
Contractual		
Trade creditors	8,691	6,534
Deferred revenue *	240	137
Advances for capital and other works	132	138
Statutory		
Fringe Benefits Tax payable	95	105
Total current payables	9,158	6,914
Total payables	9,158	6,914

* 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 they do not arise from contracts.

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
2018							
Supplies and services	9,063	9,063	9,043	20	0	0	0
Other payables	0	0	0	0	0	0	0
Total	9,063	9,063	9,043	20	0	0	0
2017							
Supplies and services	6,809	6,809	6,767	42	0	0	0
Other payables	0	0	0	0	0	0	0
Total	6,809	6,809	6,767	42	0	0	0

5.3 Fair value determination of financial assets and liabilities

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

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

The Corporation currently holds a range of financial instruments that are recorded in the financial statements where the carrying amounts are a reasonable approximation of fair value, either due to their short-term nature or with the expectation that they will be paid in full by the end of the 2018-19 reporting period.

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.

2017-2018
\$'000

2016-2017
\$'000

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
 - 6.1.2 Interest expense
 - 6.2 Cash flow information
 - 6.2.1 Reconciliation 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
 - 6.3.2 Capital commitments
- 6.1 Interest bearing liabilities

Current interest bearing liabilities

Treasury Corporation of Victoria (TCV) - Unsecured	3,930	3,930
Total current interest bearing liabilities	3,930	3,930
Non-current		
Treasury Corporation of Victoria (TCV) - Unsecured	24,540	17,970
Total non-current interest bearing liabilities	24,540	17,970
Total interest bearing liabilities	28,470	21,900

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.

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
- Fixed - Rate facility with repayments of interest twice annually and a final \$2.5m maturity in June 2019

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 - Semi Annual Credit Foncier facility with repayments of interest and principal (\$210k) twice annually and a final \$2.14m 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 - Semi Annual Credit Foncier facility with repayments of interest and principal (\$75k) twice annually and a final \$2.5m 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 - 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 - Semi Annual Credit Foncier facility with repayments of interest and principal (\$50k) twice annually and a final \$2.20m 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 - 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
2018						
Treasury Corporation of Victoria (TCV)	28,470	29,226	715	3,215	14,420	10,120
2017						
Treasury Corporation of Victoria (TCV)	21,900	22,750	565	3,365	11,400	6,570

2017-2018
\$'000

2016-2017
\$'000

6.1.2 Interest expense

Other interest expense	770	754
Financial accommodation levy	297	271
Total interest expense	1,067	1,025

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.

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	2	3
Cash at bank	2,907	2,109
Deposits at call	3,622	5,351
Balance as per cash flow statement	6,531	7,463

6.2.1 Reconciliation of net result to cash flow from operating activities

Net loss for the period before income tax	(9,968)	(11,496)
Non-cash movements:		
Depreciation and amortisation	15,094	14,722
Impairment	0	0
Gain on sale of fixed assets	(172)	(127)
Written down value of transferred assets	0	1,038
Written down value of destroyed, lost or de-commissioned assets	124	2,781
Movements in assets and liabilities:		
Increase in inventories	(11)	(17)
Increase/(Decrease) in current receivables	(943)	372
Decrease in other current assets	125	8
Increase in provision for employee benefits	179	77
Increase/(Decrease) in payables	180	(204)
Net cash flows from operating activities	4,608	7,154

Balances reported in the 2016-17 Annual Financial Statements have been re-stated so that Net cash flows from operating activities is reported correctly as \$7,154k (2016-17: \$14,458k), which agrees with the reported balance in the Cash Flow Statement.

The following non-cash movements were re-stated:

	Original amount	Restated amount
Impairment	10,056	0
Written down value of transferred assets	290	1,038
Written down value of destroyed, lost or de-commissioned assets	777	2,781

	2017-2018 \$'000	2016-2017 \$'000		
6.2.2 Financing facilities				
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	28,470	21,900		
Amount unused	8,230	5,150		
Total	36,700	27,050		
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				
<i>Nominal Amounts: 2018</i>				
	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
<i>Nominal Amounts: 2017</i>				
	Less than 1 year \$'000	1 to 5 years \$'000	Over 5 years \$'000	Total \$'000
Operating and lease commitments payable	1,407	1,040	23	2,470
Total commitments (inclusive of GST)	1,407	1,040	23	2,470
Less GST recoverable	128	95	2	225
Total commitments (exclusive of GST)	1,279	945	21	2,245
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.				
<i>2018</i>				
	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
<i>2017</i>				
Capital expenditure commitments payable	3,077	89	0	3,166
Total commitments (inclusive of GST)	3,077	89	0	3,166
Less GST recoverable	280	8	0	288
Total commitments (exclusive of GST)	2,797	81	0	2,878

7. 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 for 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
- 7.1 Financial instruments specific disclosures

Introduction

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

Categories of financial instruments

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

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

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

- 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 or loss, are subject to annual review for impairment.

The allowance is the difference between the financial asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. [AASB 139.58 70 AASB 7.B5(f)]

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

	Contractual financial assets loans and receivables and cash	Contractual financial liabilities at amortised cost	Total
	\$'000	\$'000	\$'000
2018			
Contractual financial assets			
Cash assets and deposits at call	6,531	0	6,531
Receivables			
Sale of goods and services	5,847	0	5,847
Total contractual financial assets	12,378	0	12,378
Contractual financial liabilities			
Payables			
Payables and accruals	0	8,931	8,931
Advances for capital and other works	0	132	132
Borrowings			
Interest bearing liabilities	0	28,470	28,470
Total contractual financial liabilities	0	37,533	37,533
2017			
Contractual financial assets			
Cash assets and deposits at call	7,463	0	7,463
Receivables			
Sale of goods and services	4,865	0	4,865
Total contractual financial assets	12,328	0	12,328
Contractual financial liabilities			
Payables			
Payables and accruals	0	6,671	6,671
Advances for capital and other works	0	138	138
Borrowings			
Interest bearing liabilities	0	21,900	21,900
Total contractual financial liabilities	0	28,709	28,709

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.

DTF 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 2017, the Corporation held a Financial Accommodation approval for \$45.70m of borrowings (1 July 2016 \$27.05m 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 2017-18 financial year surplus funds were invested with the National Australia Bank 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.

An analysis of the ageing of the Corporation's receivables at the reporting date has been provided in 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 2018, the Corporation had not accessed \$8.23m (2017: \$5.15m) 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.

30 June 2018	Interest rate exposure					Interest rate risk sensitivity					
	Carrying amount	Weighted average interest rate %	Floating interest rate \$'000	Fixed interest rate \$'000	Non-interest bearing \$'000	+1% Result \$'000	+1% Equity \$'000	-1% Result \$'000	-1% Equity \$'000		
Financial Assets											
Cash assets and deposits at call	6,531	2.51%	6,529	0	2	65	65	(65)	(65)		
Receivables	5,847		0	0	5,847	0	0	0	0		
	12,378		6,529	0	5,849	65	65	(65)	(65)		
Financial Liabilities											
Payables and accruals	8,931		0	0	8,931	0	0	0	0		
Interest bearing liabilities	28,470	3.75%	0	28,470	0	0	0	0	0		
Advances for capital and other works	132		0	0	132	0	0	0	0		
	37,533		0	28,470	9,063	0	0	0	0		
Total	(25,155)		6,529	(28,470)	(3,214)	65	65	(65)	(65)		
30 June 2017	Carrying amount					Interest rate risk sensitivity					
	Carrying amount	Weighted average interest rate %	Floating interest rate \$'000	Fixed interest rate \$'000	Non-interest bearing \$'000	+1% Result \$'000	+1% Equity \$'000	-1% Result \$'000	-1% Equity \$'000		
Financial Assets											
Cash assets and deposits at call	7,463	2.51%	7,460	0	3	75	75	(75)	(75)		
Receivables	4,865		0	0	4,865	0	0	0	0		
	12,328		7,460	0	4,868	75	75	(75)	(75)		
Financial Liabilities											
Payables and accruals	6,809		0	0	6,809	0	0	0	0		
Interest bearing liabilities	21,900	4.68%	0	21,900	0	39	39	(39)	(39)		
Advances for capital and other works	0		0	0	0	0	0	0	0		
	28,709		0	21,900	6,809	39	39	(39)	(39)		
Total	(16,381)		7,460	(21,900)	(1,941)	36	36	(36)	(36)		

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

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 2018 (2017: 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 2018

Contingent liabilities at 30 June 2017:

Merri River

During 2015, the Corporation received an injury claim for damages that occurred at Jubilee Park, Woodford (North of Warrnambool). The Corporation is one of seven respondents. While the Corporation is unable to reliably estimate the financial effect, if any, which may arise from this matter, an adverse judgement is limited by an insurance deductible of \$50,000.

2017-2018
\$'000

2016-2017
\$'000

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	0
Movement in deferred tax	(2,983)	(3,486)
	<u>(2,983)</u>	<u>(3,486)</u>

Tax reconciliation

Net result before income tax	<u>(9,968)</u>	<u>(11,496)</u>
Tax at the Australian tax rate of 30% (2017: 30%)	(2,990)	(3,449)
Tax effect of amounts which are not deductible in calculating taxable income		
Sponsorships and entertainment	7	9
Adjustment in respect of income tax of previous year	0	(46)
Income tax revenue	<u>(2,983)</u>	<u>(3,486)</u>
Income tax recognised in Other Comprehensive Income		
Net gain on revaluation of infrastructure, property, plant and equipment	0	0
Impairment of infrastructure, property, plant and equipment	<u>(568)</u>	<u>(35,978)</u>
Income tax revenue (expense) recognised in Other Comprehensive Income at the Australian tax rate of 30% (2017: 30%)	<u>(170)</u>	<u>(10,793)</u>

2017-2018
\$'000

2016-2017
\$'000

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 arose 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	1,535	1,546
Benefit of carry forward tax losses	116,106	116,295
	117,641	117,841
Offset against deferred tax liabilities	(117,641)	(117,841)
	0	0

Deferred tax liabilities

The balance comprises temporary differences attributable to:

Cumulative depreciation and amortisation	93,961	97,144
Revenue in advance	0	0
Net gain on revaluation of infrastructure, property, plant and equipment	239,537	239,707
Offset from deferred tax assets	(117,641)	(117,841)
	215,857	219,010

Movement in deferred tax liabilities

Carrying amount 1 July	219,010	233,289
Debited to other comprehensive income	(170)	(10,793)
Debited to the net result	(2,983)	(3,486)
	215,857	219,010

8.2 Environmental contribution

Environmental contribution levy 424 423

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 2018, the Corporation had an outstanding environmental contribution commitment, to be paid as follows:

	Less than 1 year \$'000	1 to 5 years \$'000	Over 5 years \$'000	Total \$'000
2018				
Environmental contribution levy	541	541	0	1,082
Total commitments (inclusive of GST)	541	541	0	1,082
Less GST recoverable	0	0	0	0
Total commitments (exclusive of GST)	541	541	0	1,082

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 2017-18 financial year.

2017-2018
\$'000

2016-2017
\$'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 Australian Accounting Standards issued that are not yet effective

9.1 Equity

9.1.1 Contributed capital

Contributed Capital

Balance at 1 July	416,738	409,220
Capital transactions with the State Government in its capacity as owner arising from:		
Contribution - Macalister Irrigation System (MID2030 Phase 1b project)	12,750	3,600
Contribution - Werribee Irrigation System (Modernisation project)	2,000	2,750
Contribution - Bacchus Marsh Irrigation System (Modernisation project)	1,370	1,168
Balance 30 June	<u>432,858</u>	<u>416,738</u>

Additions to net assets that have been designated as contributions by owners are recognised as contributed 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

	2017-18				2016-17			
	Land \$'000	Buildings \$'000	Water Infrastructure \$'000	Total \$'000	Land \$'000	Buildings \$'000	Water Infrastructure \$'000	Total \$'000
Asset revaluation reserve	14,764	1,721	541,212	557,697	14,764	1,721	566,397	582,882
Asset impairment	0	0	(568)	(568)	0	0	(35,978)	(35,978)
Asset impairment and write-off - tax (at 30%)	0	0	170	170	0	0	10,793	10,793
Revaluation increment on non-current assets	0	0	0	0	0	0	0	0
Closing balance	<u>14,764</u>	<u>1,721</u>	<u>540,814</u>	<u>557,299</u>	<u>14,764</u>	<u>1,721</u>	<u>541,212</u>	<u>557,697</u>

9.1.3 Accumulated surplus

Accumulated surplus at beginning of reporting period	26,267	34,277
Net result for the period	(8,985)	(8,010)
Accumulated surplus at end of reporting period	<u>19,282</u>	<u>26,267</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.

2017-2018
\$'000

2016-2017
\$'000

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. The responsible Minister during the 2017-18 reporting period was the Hon Lisa Neville MP, Minister for Water. Remuneration paid to the responsible Minister is shown in the financial statements of the Department of Parliamentary Services. The names of persons who were directors of Gippsland and Southern Rural Water Corporation at any time during the financial year are as follows:

Name	Title	Period of appointment during the 2017-18 reporting period
Members of Corporation Board:		
Ms D James AM	Chairman	1 October 2017 to 30 June 2018
Ms D James AM	Deputy Chairman	1 July 2017 to 30 September 2017
Mrs K Calvert	Deputy Chairman	1 October 2017 to 30 June 2018
Mrs K Calvert	Director	1 July 2017 to 30 September 2017
Ms N Cleary	Director	1 July 2017 to 30 June 2018
Mr M Malouf	Director	1 July 2017 to 30 June 2018
Mrs N Pye	Director	1 July 2017 to 30 June 2018
Mr T Swingle	Director	1 July 2017 to 30 June 2018
Mr A Hume	Director	1 October 2017 to 30 June 2018
Ms P Maddy	Director	1 October 2017 to 30 June 2018
Mr T Burgi OAM	Chairman	1 July 2017 to 30 September 2017
Mr C Rodda	Managing Director and Accountable Officer	1 July 2017 to 30 June 2018

Mr C Parker (General Manager Customer Service) acted in the position of Managing Director and Accountable Officer from 1 July 2017 - 3 July 2017, and also 23 September 2017 - 2 October 2017.

Ms J Giannini (Manager People and Culture) acted in the position of Managing Director and Accountable Officer from 23 December 2017 - 1 January 2018.

Remuneration

Remuneration received or receivable by the responsible persons in connection with the management of the Corporation during the reporting period was in the range: \$600,000– \$609,999 (\$540,000 – \$549,999 in 2016-17).

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;
- all departments and public sector entities that are controlled and consolidated into the whole of state consolidated financial statements; and
- and controlled business interests

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

Significant transactions with government-related entities

During the year, the Corporation received funding of \$27.51 million (2017: \$15.45 million) and made payments of \$4.70 million (2017: \$5.23 million) with the following government-related entities:

- The Department of Environment, Land, Water and Planning - received contributed capital funding of \$16.90 million in relation to modernisation of irrigation districts (refer Notes 9.1.1 and 2.3)
- The Department of Economic Development, Jobs, Transport and Resources - received contributed capital funding of \$0.11 million in relation to improving boating facilities (refer Note 2.3)
- Treasury Corporation of Victoria - received loan accommodation funding of \$10.50 million in relation to the Corporation's capital expenditure requirements (refer Note 6.1)
- Treasury Corporation of Victoria - made repayments of loan accommodation funding of \$3.93 million in relation to the Corporation's capital expenditure requirements (refer Note 6.1)
- Treasury Corporation of Victoria - made payments of interest on loan accommodation funding of \$0.77 million (refer Note 6.1.2)

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	555	495
Post-employment benefits	44	40
Other long-term benefits	8	8
Total	607	542

Notes: Note that KMPs are also reported in the disclosure of remuneration of executive officers (Note 9.5).

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.

2017-2018
\$'000

2016-2017
\$'000

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

Short-term employee benefits include amounts such as wages, salaries, bonus payments, 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	1,092	848
Post-employment benefits	100	78
Other long-term benefits	19	22
Total remuneration	1,211	948
Total number of executives	6	6
Total annualised employee equivalents	6.2	4.7

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	43	44
Total remuneration of auditors	43	44

9.7 Ex-gratia expense

Property damage expenses (i)	0	0
Total ex gratia expenses	0	0

In accordance with FRD 11A *Disclosure of Ex-Gratia Expenses* the Corporation must disclose in aggregate the total amount of material (greater than \$5000) expenses.

(i) Payments for water damage to properties due to pipeline leaks (not being in settlement of a legal liability).

9.8 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 2018 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 9 <i>Financial Instruments</i>	The key changes introduced by AASB 9 include the simplified requirements for the classification and measurement of financial assets, a new hedging accounting model and a revised impairment loss model to recognise impairment losses earlier, as opposed to the current approach that recognises impairment only when incurred.	1 January 2018	The assessment has identified that the amendments are likely to result in earlier recognition of impairment losses and at more regular intervals. While there will be no significant impact arising from AASB 9, there will be a change to the way financial instruments are disclosed.
AASB 2010-7 <i>Amendments to Australian Accounting Standards arising from AASB 9</i> (December 2010)	The requirements for classifying and measuring financial liabilities were added to AASB 9. The existing requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities the change in fair value is accounted for as follows: - the change in fair value attributable to changes in credit risk is presented in other comprehensive income (OCI); and - other fair value changes are presented in profit or loss. If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.	1 January 2018	The assessment has identified that the financial impact of available for sale (AFS) assets will now be reported through other comprehensive income (OCI) and no longer recycled to the profit and loss. Changes in own credit risk in respect of liabilities designated at fair value through profit and loss will now be presented within other comprehensive income (OCI). Hedge accounting will be more closely aligned with common risk management practices making it easier to have an effective hedge. For entities with significant lending activities, an overhaul of related systems and processes may be needed.
AASB 2014-1 <i>Amendments to Australian Accounting Standards [Part E Financial Instruments]</i>	Amends various AASs to reflect the AASB's decision to defer the mandatory application date of AASB 9 to annual reporting periods beginning on or after 1 January 2018; as a consequence of Chapter 6; and to amend reduced disclosure requirements.	1 January 2018	This amending standard will defer the application period of AASB 9 to the 2018-19 reporting period in accordance with the transition requirements.
AASB 2014 7 <i>Amendments to Australian Accounting Standards arising from AASB 9</i>	Amends various AASs to incorporate the consequential amendments arising from the issuance of AASB 9.	1 January 2018	The assessment has indicated that there will be no significant impact for the public sector.
AASB 15 <i>Revenue from Contracts with Customers</i>	The core principle of AASB 15 requires an entity to recognise revenue when the entity satisfies a performance obligation by transferring a promised good or service to a customer.	1 January 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. The Standard will also require additional disclosures on service revenue and contract modifications.
AASB 2014 5 <i>Amendments to Australian Accounting Standards arising from AASB 15</i>	Amends the measurement of trade receivables and the recognition of dividends. Trade receivables, that do not have a significant financing component, are to be measured at their transaction price, at initial recognition. Dividends are recognised in the profit and loss only when: □ the entity's right to receive payment of the dividend is established; □ it is probable that the economic benefits associated with the dividend will flow to the entity; and the amount can be measured reliably.	1 January 2017, except amendments to AASB 9 (December 2009) and AASB 9 (December 2010) apply 1 January 2018.	The assessment has indicated that there will be no significant impact for the public sector.
AASB 2015-8 <i>Amendments to Australian Accounting Standards – Effective Date of AASB 15</i>	This standard defers the mandatory effective date of AASB 15 from 1 January 2017 to 1 January 2018.	1 January 2018	This amending standard will defer the application period of AASB 15 for for-profit entities to the 2018-19 reporting period in accordance with the transition requirements.
AASB 2016-7 <i>Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities</i>	This standard defers the mandatory effective date of AASB 15 for not-for-profit entities from 1 January 2018 to 1 January 2019.	1 January 2019	This amending standard will defer the application period of AASB 15 for not-for-profit entities to the 2019-20 reporting period.

Topic	Key requirements	Effective date	Estimated Impact
AASB 2016-3 Amendments to Australian Accounting Standards – Clarifications to AASB 15	This Standard amends AASB 15 to clarify requirements on identifying performance obligations, principal versus agent considerations and the timing of recognising revenue from granting a licence. The amendments require: € a promise to transfer to a customer a good or service that is 'distinct' to be recognised as a separate performance obligation; € for items purchased online, the entity is a principal if it obtains control of the good or service prior to transferring to the customer; and € for licences identified as being distinct from other goods or services in a contract, entities need to determine whether the licence transfers to the customer over time (right to use) or at a point in time (right to access).	1 January 2019	The assessment has indicated that there will be no significant impact for the public sector, other than the impact identified for AASB 15 above.
AASB 2016-4 Amendments to Australian Accounting Standards – Recoverable Amount of Non-Cash -Generating Specialised Assets for Not-for-Profit Entities	The standard amends AASB 136 <i>Impairment of Assets</i> to remove references to using depreciated replacement cost (DRC) as a measure of value in use for not-for-profit entities.	1 January 2019	The assessment has indicated that there is minimal impact. Given the specialised nature and restrictions of public sector assets, the existing use is presumed to be the highest and best use (HBU), hence current replacement cost under AASB 13 <i>Fair Value Measurement</i> is the same as the depreciated replacement cost concept under AASB 136.
AASB 16 Leases	The key changes introduced by AASB 16 include the recognition of most operating leases (which are currently not recognised) on balance sheet.	1 January 2019	The assessment has indicated that as most operating leases will come on balance sheet, recognition of the right-of-use assets and lease liabilities will cause net debt to increase. Rather than expensing the lease payments, depreciation of right-of-use assets and interest on lease liabilities will be recognised in the income statement with marginal impact on the operating surplus. No change for lessors.
AASB 1058 <i>Income of Not-for-Profit Entities</i>	This Standard will replace AASB 1004 <i>Contributions</i> and 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 objectives.	1 January 2019	The assessment has indicated that revenue from capital grants that are provided under an enforceable agreement that have sufficiently specific obligations, will now be deferred and recognised as performance obligations are satisfied. As a result, the timing recognition of revenue will change.
AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities	This Standard amends AASB 9 and AASB 15 to include requirements and implementation guidance to assist not-for-profit entities in applying the respective standards to particular transactions and events.	1 January 2019	The assessment has indicated that there will be no significant impact for the public sector, other than the impacts identified for AASB 9 and AASB 15 above.

The following accounting pronouncements are also issued but not effective for the 2017-18 reporting period. At this stage, the preliminary assessment suggests they may have insignificant impacts on public sector reporting.

Standard
AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurements of Share-based Payment Transactions
AASB 2016-6 Amendments to Australian Accounting Standards – Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts
AASB 2017-1 Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014-16 Cycle and Other Amendments
AASB 2017-2 Amendments to Australian Accounting Standards – Further Annual Improvements 2014-16 Cycle

Notes:

For the current year, given the number of consequential amendments to AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers*, the standards/interpretations have been grouped together to provide a more relevant view of the upcoming change.

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 2018 and the financial position of the Corporation as at 30 June 2018.

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 5 September 2018.



Ms Diane James AM
Chairman
Gippsland and Southern Rural Water Corporation
Dated on 5 September 2018



Mr Stuart Wigglesworth
Chief Financial Officer
Gippsland and Southern Rural Water Corporation
Dated on 5 September 2018



Mr Clinton Rodda
Managing Director
Gippsland and Southern Rural Water Corporation
Dated on 5 September 2018

Independent Auditor's Report

To the Board of the Gippsland and Southern Rural Water Corporation

Opinion	<p>I have audited the financial report of the Gippsland and Southern Rural Water Corporation (the corporation) which comprises the:</p> <ul style="list-style-type: none"> • balance sheet as at 30 June 2018 • 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. <p>In my opinion, the financial report presents fairly, in all material respects, the financial position of the corporation as at 30 June 2018 and its financial performance and cash flows for the year then ended in accordance with the financial reporting requirements of Part 7 of the <i>Financial Management Act 1994</i> and applicable Australian Accounting Standards.</p>
Basis for Opinion	<p>I have conducted my audit in accordance with the <i>Audit Act 1994</i> which incorporates the Australian Auditing Standards. I further describe my responsibilities under that Act and those standards in the <i>Auditor's Responsibilities for the Audit of the Financial Report</i> section of my report.</p> <p>My independence is established by the <i>Constitution Act 1975</i>. My staff and I are independent of the corporation in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 <i>Code of Ethics for Professional Accountants</i> (the Code) that are relevant to my audit of the financial report in Victoria. My staff and I have also fulfilled our other ethical responsibilities in accordance with the Code.</p> <p>I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.</p>
Board's responsibilities for the financial report	<p>The Board of the corporation is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the <i>Financial Management Act 1994</i>, and for such internal control as the Board determines is necessary to enable the preparation and fair presentation of a financial report that is free from material misstatement, whether due to fraud or error.</p> <p>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.</p>

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
7 September 2018



Paul Martin
as delegate for the Auditor-General of Victoria

PERFORMANCE REPORT

KPI Number	Key Performance Indicator	2016-17 Result	2017-18 Result	2017-18 Target	% Variance to prior year	Notes	% Variance to target	Notes
F1	Cash Interest Cover <i>Net operating cash flows before net interest and tax</i> Net interest payments	10.9	7.8	9.2	-28.4%	1	15.2%	7
F2	Gearing Ratio <i>Total Debt (including Finance Leases)</i> Total assets	1.75%	2.25%	2.10%	28.5%	2	7.1%	
F3	Internal Financing Ratio <i>Net operating cash flow</i> Net capital expenditure	37.11%	15.92%	22.30%	-57.1%	3	-28.6%	8
F4	Current Ratio <i>Current assets</i> Current liabilities (excluding long-term employee provisions and revenue in advance)	0.86	0.78	0.38	-9.3%		105.3%	9
F5	Return on Assets <i>Earnings before net interest and tax</i> Average assets	-0.86%	-0.74%	-0.40%	-14.0%	4	-85.0%	10
F6	Return on Equity <i>Net profit after tax</i> Average total equity	-0.79%	-0.69%	-0.60%	-12.7%	5	13.0%	11
F7	EBITDA Margin <i>Earnings Before Interest, Tax, Depreciation and Amortisation</i> Total revenue	10.84%	16.68%	22.40%	53.9%	6	-25.5%	12

Notes:

Significant variances to prior year

1. Cash Interest Cover

A deterioration of 28.4% has resulted from lower net operating cash flows before net interest and tax by \$2.55m, resulting from:

- . Less receipts from service and usage charges (\$1.44m)
- . Less receipts from service and usage charges is due to an increase in customer debt at 30 June 2018 from higher water usage charges, and lower fees for recoverable works.
- . Less receipts from State Government (\$0.47m)
- . More payments to suppliers and employees (\$0.64m)
- . More payments to suppliers and employees is due to additional grant funded expenditure carried over from 2016-17, and unplanned major channel repairs and legal expenses

Remedial action for the deterioration to the Cash Interest Cover:

The factors influencing the changes to the Cash Interest Cover are either caused by timing, or were one-off and not expected to recur. As there is no change to the underlying financial activities of SRW represented by these factors, no remedial action is proposed.

2. Gearing Ratio

A deterioration of 28.5% has resulted from:

- . an increase in debt by \$12.62m
- . An increase in debt is caused by 2017-18 capital expenditure in excess of operating and government contribution cash flow (\$12.62m)

Remedial action for the deterioration to the Gearing Ratio:

The change to the Gearing Ratio since 2016-17 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 Corporate Plan. As the change is fully consistent with the SRW strategy, no remedial action is proposed by SRW.

3. Internal Financing Ratio

A deterioration of 57.1% has resulted from lower net operating cash flow of \$2.55m (see Note 1) and an increase in capital expenditure of \$9.67m resulting from our capital expenditure program:

Remedial action for the deterioration to the Internal Financing Ratio:

The deterioration to Internal Financing Ratio since 2016-17 is due to the increase in capital expenditure since 2016-17, and the reduction in net operating cash flow. This increase to capital expenditure was identified within the Corporate Plan, and is as a result of our large program of irrigation modernisation works. Once these works are completed SRW capital expenditure is expected to return to levels consistent with our cash flow surplus from operating activities. Accordingly, no remedial action is proposed.

Significant variances to prior year (continued)

4. Return on Assets is lower due to an improvement in Earnings before net interest and tax

An improvement to Earnings before net interest and tax by \$1.57m from prior year, resulting from:

- . Reduced assets written off expense (\$3.70m)
The reduction in assets written off results from irrigation modernisation works and associated planned decommissioning of redundant assets (conducted largely in 2016-17).
- . Increased service and usage charges (\$0.86m)
The increase in service and usage charges results from greater usage charges during 2017-18.

These improvements were offset by:

- . Reduced assets received free of charge (\$0.79m)
The decrease in assets received free of charge results from a contributed asset in the Bacchus Marsh Irrigation District during 2016-17 (nil in 2017-18).
- . Increased operating expenses (\$1.83m)
The increase in operating expenses from additional grant funded expenditure, major channel repairs, legal expenses and information technology costs.
- . Increased expenditure on depreciation (\$0.37m)

The increase in depreciation expense results from the increase in the capital expenditure program.

5. Return on Equity is lower due to an improvement in Net result after tax

An improvement to Net result after tax by \$1.03m from prior year, resulting from:

- . Reduced assets written off expense (\$3.70m)
- . Increased service and usage charges (\$0.86m)

These improvements were offset by:

- . Reduced assets received free of charge (\$0.79m)
- . Increased operating expenses (\$1.83m)
- . Increased expenditure on depreciation (\$0.37m)
- . Greater income tax revenue (\$0.54m)

The increase in income tax revenue is due to a lower net loss before tax

6. EBITDA Margin is higher due to an improvement in Earnings Before Interest, Tax, Depreciation and Amortisation

An improvement to EBITDA by \$1.94m from prior year, resulting from:

- . Reduced assets written off expense (\$3.70m)
- . Increased service and usage charges (\$0.86m)

These improvements were offset by:

- . Reduced assets received free of charge (\$0.79m)
- . Increased operating expenses (\$1.83m)

Significant variances to target

The 2017-18 target is derived from the 2017-18 Corporate Plan of the Corporation. Since the 2017-18 Corporate Plan was finalised, the following changes to the projection have occurred:

7. Cash Interest Cover

A deterioration of 15.2% has resulted from lower net operating cash flows before net interest and tax by \$3.32m, resulting from:

- . Less receipts from service and usage charges (\$0.72m)
Less receipts from service and usage charges is due to lower charges than budgeted for recoverable works and higher customer debt
- . More payments to suppliers and employees (\$2.60m)
More payments to suppliers and employees is due to increased project related operating expenses, and a reduction in employee provisions

Remedial action for the deterioration to the Cash Interest Cover:

The factors influencing the changes to the Cash Interest Cover are unpredictable and related to timing. Given these factors, and that there will be no change in underlying financial position, our remedial action is limited to a review of our budgeting approach for project related expenditure.

8. Internal Financing Ratio

A deterioration of 28.6% has resulted from lower net operating cash flow of \$3.32m (see Note 7), offset by lower capital expenditure than target of \$6.50m.

Remedial action for the deterioration to the Internal Financing Ratio:

Remedial actions for the deterioration to net operating cash flow are described by Note 7.

9. Current Ratio

An improvement of 0.40% to target has resulted as we did not plan to hold advanced funds for modernisation works on deposit at 30 June 2018.

10. Return on Assets is lower due to a deterioration in Earnings before Net Interest and Tax from target

A deterioration to Earnings before net interest and tax by \$1.06m from target, resulting from:

- . Increased service and usage charges (\$0.47)
The increase in service and usage charges results from greater variable revenue charged during 2017-18.
- . Less expenditure on depreciation (\$0.89m)
The decrease in depreciation expense resulting from less capital expenditure than budget

These improvements were offset by:

- . Increased operating expenses (\$2.42m)
The increase in operating expenses from additional grant funded expenditure, major channel repairs, legal expenses and information technology costs.

Remedial action for the deterioration to Earnings before net interest and tax:

The reduction in earnings before net interest and tax compared to the Corporate Plan budget is primarily due to additional project related expenditure, offset by increased service and usage charges.

The 2017-18 additional expenditure is based on operational and contractual needs during the period. The variance is due to the nature of expenditure not being known at the time of preparing the Corporate Plan.

Future budgeting processes will be improved to allow for the uncertain expenditure types.

11. Return on Equity is lower due to a deterioration in Net profit after tax

A deterioration to Net profit after tax by \$0.50m, resulting from:

- . Increased service and usage charges (\$0.47)
- . Less expenditure on depreciation (\$0.89m)
- . Less other transactions (\$0.56m)

These improvements were offset by:

- . Increased operating expenses (\$2.42m)

Remedial action for the deterioration to Net profit after tax:

The reduction in Net profit after tax compared to the Corporate Plan budget for 2017-18 is due to the same transactions as described by Note 10 above, and SRW has accepted remedial actions consistent with these descriptions.

12. EBITDA Margin is lower due to a deterioration in Earnings Before Interest, Tax, Depreciation and Amortisation

A deterioration to EBITDA from target by \$1.95m, resulting from:

- . Increased service and usage charges (\$0.47)

These improvements were offset by:

- . Increased operating expenses (\$2.42m)

Remedial action for the deterioration to EBITDA when compared to the Corporate Plan:

The reduction in EBITDA compared to the Corporate Plan budget for 2017-18 is due to the same transactions as described by Notes 10 and 11 above, and SRW has accepted remedial actions consistent with these descriptions.

PERFORMANCE REPORT

WATER SERVICE PERFORMANCE INDICATORS		2016-17 Result	2017-18 Result	2017-18 Target	% Variance to prior year	Notes	% Variance to target	Notes
KPI Number	Key Performance Indicator							
WSR1	Rural water supply deliveries							
	<i>Number of orders delivered</i> x 100	90.15%	90.27%	92.88%	0.1%		-2.8%	
	<i>Total number of orders</i>							
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	0.00%	0.00%		0.0%	1	0.0%	2
WSR3	Groundwater supply							
	<i>Number of transfers processed within target period</i> x 100	92.70%	89.88%	99.80%	-3.0%		-9.9%	3
	<i>Total number of transfers processed</i>							

Notes:

Significant variances to prior year

1. This indicator is not applicable.

Significant variances to target

2. This indicator is not applicable.
3. While performance has deteriorated from last year, a number of process related factors prevented us from achieving our ambitious target of 99.80%. We are now investigating automation and process improvement to further improve performance so that the target is achieved in 2018-19.

CUSTOMER RESPONSIVENESS PERFORMANCE INDICATORS		2016-17 Result	2017-18 Result	2017-18 Target	% Variance to prior year	Notes	% Variance to target	Notes
KPI Number	Key Performance Indicator							
CR4	Billing Complaints							
	<i>Number of complaints per 1000 customers</i> number	0.200	0.100	0.100	-50.0%	1	0.0%	1

Notes:

1. While the percentage decreased from 2016-17 and target appears significant, as this represents 1 new complaint only, this remains a very low number of complaints to the Corporation and no further action is proposed.

ENVIRONMENTAL PERFORMANCE INDICATORS		2016-17 Result	2017-18 Result	2017-18 Target	% Variance to prior year	Notes	% Variance to target	Notes
KPI Number	Key Performance Indicator							
E2	Total net CO2 emissions							
	<i>Net tonnes CO2 equivalent</i> tonnes	1,200.0	1,159.0	1,572.0	-3.5%	1	-26.3%	2

Notes:

1. The decrease in net CO2 emissions since 2016-17 is a result of less emissions from our motor vehicle fleet. The decrease in CO2 is due to a change in the categorisation of vehicle fleet usage. Previously SRW has included personal use of vehicles in its own emissions data. During the development of the DELWP (Department of Environment, Land, Water and Planning) Pledge it was identified that emissions from personal use should be separated from SRW's emissions. The 2016-17 comparative result has been restated to pre-offset emissions to enable consistency of reporting in line with the new NGER (National Greenhouse and Energy Reporting) guidelines by removing the greenfleet offsets.
2. Performance has improved from last year, and we exceeded our CO2 target. This is mainly due to process related improvements in relation to transitioning to the new NGER (National Greenhouse and Energy Reporting) guidelines. Further work is currently underway to improve environmental outcomes and ensure that SRW's target of 0 net emissions by 2025 is met.

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 2017-18 financial year, is presented fairly in accordance with the *Financial Management Act 1994*.

The Performance Report outlines the relevant performance indicators for the financial year as determined by the Minister for Water and as set out in the 2017-18 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 5 September 2018



Mr Stuart Wigglesworth
Chief Financial Officer
Gippsland and Southern Rural Water Corporation
Dated on 5 September 2018



Mr Clinton Rodda
Managing Director
Gippsland and Southern Rural Water Corporation
Dated on 5 September 2018

Independent Auditor's Report

To the Board of the Gippsland and Southern Rural Water Corporation

Opinion	<p>I have audited the accompanying performance report of the Gippsland and Southern Rural Water Corporation (the corporation) for the year ended 30 June 2018, which comprises the:</p> <ul style="list-style-type: none"> • financial performance indicators • water service performance indicators • customer responsiveness performance indicators • environmental performance indicators • statutory certification. <p>In my opinion, the performance report of the corporation for the year ended 30 June 2018 presents fairly, in all material respects, in accordance with the performance reporting requirements of Part 7 of the <i>Financial Management Act 1994</i>.</p>
Basis for Opinion	<p>I have conducted my audit in accordance with the <i>Audit Act 1994</i> which incorporates the Australian Standards on Assurance Engagements. I further describe my responsibilities under that Act and those standards in the <i>Auditor's Responsibilities for the Audit of the performance report</i> section of my report.</p> <p>My independence is established by the <i>Constitution Act 1975</i>. My staff and I are independent of the corporation in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's <i>APES 110 Code of Ethics for Professional Accountants</i> (the Code) that are relevant to my audit of the performance report in Victoria and have also fulfilled our other ethical responsibilities in accordance with the Code.</p> <p>I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.</p>
Board's responsibilities for the performance report	<p>The Board is responsible for the preparation and fair presentation of the performance report in accordance with the performance reporting requirements of the <i>Financial Management Act 1994</i> and for such internal control as the Board determines is necessary to enable the preparation and fair presentation of the statement of performance that is free from material misstatement, whether due to fraud or error.</p>
Auditor's responsibilities for the audit of the performance report	<p>As required by the <i>Audit Act 1994</i>, my responsibility is to express an opinion on the performance report based on the audit. My objectives for the audit are to obtain reasonable assurance about whether the performance report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the Australian Standards on Assurance Engagements will always detect a material misstatement when it exists.</p>

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
7 September 2018



Paul Martin
as delegate for the Auditor General of Victoria

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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* Nothing to report

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About this report

This Annual Report has been prepared for the financial year 1 July 2017 to 30 June 2018.

This report is printed on Revive Laser paper. This paper is:

- Made in Australia by an ISO 14001 certified mill. No chlorine bleaching occurs in the recycling process
- FSC Recycled Certified
- Certified carbon neutral under the Department of the Environment's National Carbon Offset Standard (NCOS), an Australian Government initiative.

Through the Spicers 'Recreate' program, sales of Revive Laser support Landcare Australia and the restoration and replanting of landfill sites throughout Australia.

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