



2016-17 ANNUAL REPORT

OUR SERVICE AREA



Cover image features Boisdale Primary School students participating in a water filtering activity, canola farming at Dutson Downs which is also home to the Wellington Mintbush and Green and Golden Bell Frog, composting at the Soil and Organic Recycling Facility, and a tour at the Gippsland Water Factory.

Also featured are Gippsland Water employees, including Senior Technical Officer Major Water Systems Carl Vesty at Moondarra Reservoir (bottom right).

We congratulate Carl for celebrating a milestone 40 years with Gippsland Water and we thank him for his commitment to our customers and the contribution he has made over the past four decades to the corporation.

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MESSAGE FROM THE CHAIR AND MANAGING DIRECTOR

We are pleased to present Gippsland Water's Annual Report for 2016-17.

The past 12 months has seen significant change throughout the Gippsland region, in particular, the closure of major businesses. While this changing landscape presents many challenges to Gippsland Water, it also highlights the importance of the role Gippsland Water plays in the region, and the role we play in the region's transition.

Gippsland Water will continue to focus on:

- maintaining quality water and wastewater services for our customers at an affordable price;
- our sustainable future; and
- the future of the region and the role we play in that future.

In the wake of the closure of the Hazelwood Power Station and Carter Holt Harvey, we have also turned our focus to how we can contribute to the community through enabling and maintaining employment, initiating capital projects that contribute to economic viability and growth in the region, and being at the table in various forums looking at ways to accelerate regional growth.

There is a great deal we can do as a water corporation to ensure we have the necessary infrastructure and security of water to service our region in years to come, recognising that Gippsland is anticipated to grow by an additional 116,000 people, bringing the region to a population of 386,000 by 2041 (Gippsland Regional Growth Plan 2014).

Drouin, in particular, will benefit from a series of key projects as Gippsland Water delivers infrastructure to meet demand. We will initiate three major projects throughout 2017 to ensure the town's water and sewerage facilities can match the rate of Drouin's urban expansion. This includes an estimated \$32 million upgrade of the Drouin Wastewater Treatment Plant, and a new 1.2 kilometre-long sewer main installed near Bellbird Park to add capacity to the sewer network.

We will not be forgetting the smaller towns and communities in the region. Boolarra, Churchill, Yinnar, Yinnar South, Jumbuk, Jeeralang, Traralgon South, Hazelwood North, Hazelwood South, Morwell, and the Loy Yang Power complex, will benefit from a new pipeline as part of a second stage of works of the Buckley's Hill Reservoir in Morwell – a key piece of infrastructure which plays an important role in supplying water to these towns.

In 2017, we developed our Urban Water Strategy, which documents our current water resources and water demands, and outlines how we plan to continue to deliver sustainable water supplies for the next 50 years. In forming our strategy, we talked with our customers and the community to understand what type of efficiency and sustainability initiatives they want us to consider and implement to support existing and growing communities.

Planning for our Price Submission, a requirement of the Essential Services Commission (ESC), is well underway. It outlines our proposed investments and priorities, guaranteed service levels to customers, and proposed water and wastewater prices for the subsequent five-year period to take effect from July 2018.

Our strong focus on building on customer experience and community engagement continued as we consulted with a broad cross-section of our customers to determine what they value and need from Gippsland Water.

Our engagement with customers found that they want us to do our job well, be easy to deal with, be affordable and fair, be involved in the community, and to prepare and protect the environment. They also valued the fact that we are local, easily accessible, and employ local people; and that we provide quality water and a reliable service. We have incorporated this valuable feedback into our Price Submission.

Our staff have been connecting with customers through a range of activities during the year, including an open day at the Sale Water Treatment

Plant to celebrate the extensive work that was done to upgrade the facility and in town with the completion of the town's Second Water Supply Pipeline project, through to site tours at the Soil and Organic Recycling Facility and the Gippsland Water Factory, information sessions with local neighbourhood houses, and school visits as part of our education program.

We have continued our partnerships with key stakeholders to promote sustainable and healthy initiatives such as the Victorian Government's 'Target Your Water Use', and the 'H30 Challenge' in collaboration with Latrobe Community Health Service, Latrobe City, and Wellington Shire. We joined forces with local peak sporting group GippSport, South Gippsland Water, East Gippsland Water, and Westernport Water, to encourage the community to choose tap water for 'Sip-tember'.

All of these initiatives wouldn't be possible without our committed employees, one of whom has celebrated a milestone 40 years with Gippsland Water this year. We recognise and congratulate Senior Technical Officer Major Water Systems Carl Vesty (pictured on our front cover), for his efforts and achievements over the past four decades.

The safety of our people, our contractors, and the public is of utmost importance to us. Our commitment to safety is demonstrated throughout the year with improved safety performance. We will maintain a laser-like focus on safety in everything we do.

We will maintain our focus on employee satisfaction and engagement, and continue to build an inclusive culture with particular focus on diversity and indigenous engagement. To further this commitment, we introduced cultural awareness training for all staff and commenced two indigenous traineeships this year with assistance from local government to promote and attract indigenous trainees. Furthermore, we are working with East Gippsland Water and South East Gippsland Water to develop a draft Reconciliation Action Plan, and continue to include the Aboriginal community in

our planning and operations in managing Gippsland waterways and our business as it remains an important focus for us.

We embraced gender diversity in partnership with other local water corporations to co-host the first industry-combined Women in Water event, which was attended by Minister for Water Lisa Neville and more than 150 women from across the water sector. The conference provided a networking and learning opportunity for women and celebrated the role women play in the water industry.

After nine years of service, David Mawer finished his term as Managing Director. On behalf of the Board we would like to express our appreciation for David's leadership and contributions during his term, and we wish him all the best with his future endeavours.

We also welcomed Sarah Cumming as our new Managing Director, and look forward to the future under Sarah's leadership. Sarah is a local Gippslander who brings a very strong background in governance and major reform, and is well placed to lead the organisation in its delivery of the Victorian Government's Water for Victoria Strategy.

We extend a sincere thanks to the Board of Directors and to our staff for their continued support, efforts, and achievements over the past year as we continue to build on our past success.

We are proud of all we have achieved in the last 12 months and we look forward to continuing to provide high quality, valued services for our customers, stakeholders, and the community.



Therese Ryan
Board Chair



Sarah Cumming
Managing Director

PART I

YEAR IN REVIEW

This section provides an overview of Gippsland Water and features some of our highlights of the year, key and future initiatives and projects.

Profile

The Central Gippsland Region Water Corporation is one of the major regional water corporations in Victoria. Trading as Gippsland Water, the corporation was constituted on 21 December 1994 under the *Water Act 1989* (Vic).

The responsible minister during the 2016-17 period was the Hon Lisa Neville MP, Minister for Water.

Gippsland Water has its statutory functions of water and wastewater detailed under parts 8 and 9 of the *Water Act 1989* (Vic) and has its role relating to acceptance, treatment and disposal of industrial waste in Part 6 Section 122F, Division 5 of the *Water Act 1989* (Vic).

Our services

Gippsland Water supplies fresh drinking water to 68,772 customers and wastewater services to 61,492 customers across an area of approximately 5,000 square kilometres.

Our service area spans from Drouin in the west, to Loch Sport in the east, and from Briagolong in the north, to Mirboo North in the south. Gippsland Water's customers also include major industries, some of which are of state and national significance. Baw Baw, Latrobe City, South Gippsland, and Wellington shires are incorporated in our service area.

The way water is treated depends on where it is sourced. Gippsland Water takes water from 13 different aquifers, rivers, creeks, and reservoirs. Our largest storage is Moondarra Reservoir, south of Erica, with a capacity of 30,300ML. We also take water from storages managed by Southern Rural Water (Blue Rock Dam and Lake Glenmaggie) and Melbourne Water (Tarago Reservoir).

Our assets

Gippsland Water owns and maintains a \$1 billion infrastructure network, which includes:

- Approximately 2,127 kilometres of water mains and 48 pump stations.
- Approximately 1,723 kilometres of sewer mains and 199 pump stations.
- 15 water treatment plants.
- 14 wastewater treatment plants, including the Gippsland Water Factory.
- Two ocean outfalls.

We also produce a combination of beef, crops, and plantation timber at 12 sites across the region as part of our agribusiness arm. Our largest farm is located 25 kilometres south-east of Sale and spans 8,341 hectares at Dutson Downs. This is also home to the Soil and Organic Recycling Facility which treats more than 200,000 tonnes of waste each year and transforms it into valuable, nutrient rich compost.

In 2016-17, approximately 50,000 tonnes of Revive™ Recycled Compost was supplied to dairy, beef and horticultural farms across Gippsland. By doing this, Gippsland Water completes the water and nutrient cycle, returning important organic content back to the soil.

OUR MISSION, VISION AND VALUES

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Our Mission

We will manage the resources in our care in a manner that secures social, environmental, and economic benefits to our customers, stakeholders, and the Gippsland region.

Our Vision

Efficient water and wastewater services for a healthy community and environment.

Our Values

Our values guide us to fulfil our mission and vision. We are committed to:

Accountability

We are accountable for how we efficiently deliver quality water and wastewater services.

Capability

We are committed to strengthening the capabilities of our people and communities.

Collaboration

We work in partnership with our colleagues, customers and stakeholders to achieve the most efficient and sustainable solutions for our community.

Integrity and respect

We act with honesty, consistency and transparency, and demonstrate appreciation of peoples' diversity, needs, and opinions.

Open dialogue

We engage with our colleagues, customers and stakeholders by actively listening and openly discussing and resolving issues of common interest.

Safety and wellbeing

We place the safety and wellbeing of our staff and communities at the forefront of decisions and actions we take.

HIGHLIGHTS OF THE YEAR

The 2016-17 financial year has seen another strong performance by Gippsland Water, delivering quality services to our customers and maintaining high standards of compliance with regulatory requirements. Key highlights for the reporting period are outlined below.

Resource resilience

- Commenced work on a new Sale sewer outfall pump station with the purchase of land in Sale.
- Completed a Reverse Osmosis Plant Optimisation Study at the Gippsland Water Factory and actioned key items to increase reliability and efficiency.
- Worked on significant upgrades of fluoride controls at the Warragul, Moe, Sale and Traralgon water treatment plants.
- Rehabilitated approximately six kilometres of sewer reticulation mains at various locations.
- Constructed approximately five kilometres of water reticulation mains at various locations.
- Completed the Warragul South Basin pipeline works as part of Stage Two of the interconnection between Moe and Warragul.
- Finalised Gippsland Water's Climate Change Strategy which is supported by a number of key energy and environmental offset projects.
- Completed the Bellbird Park Drouin wastewater re-use scheme, which began operating in January 2017.
- Implemented an equipment management process for pressure sewer systems for Broadspectrum and Gippsland Water Operations team.
- Continued working with VicRoads with regard to asset diversions to enable the Traralgon to Sale highway duplication project.
- Identified a remarkable amount of native aquatic life in the Hazelwood northern wetland – Gippsland Water's discharge point for the Morwell Wastewater Treatment Plant. The survey, which was completed by Aquatica Environmental on behalf of ENGIE, found Eastern snake-necked turtles, Freshwater Shrimp, Flathead Gudgeon, Australian Smelt, and a platypus.

Customers, stakeholders and the community

- Undertook an extensive customer values research program and associated customer engagement program to help inform our Price Submission process.
- Introduced a 'brown bill' for a single billing period from November to February to increase customer awareness of our wastewater services. Wastewater awareness now sits at 71 per cent compared to 51 per cent in 2015.
- Continued our focus on first point resolution resolving 91 per cent of customer calls at first point for the period.
- Completed the development of the 2017 Urban Water Strategy, ensuring the most recent climate science is considered, with input from the community.
- Conducted 93 school visits and 25 excursions to various Gippsland Water facilities including the Gippsland Water Factory, as part of the organisation's schools education program, which involved 2,095 students.
- Conducted 18 site tours for various community groups at the Soil and Organic Recycling Facility which were attended by a total of 342 people. Some of these tours incorporated agribusiness tours of Gippsland Water's Dutson Downs farm. A further five tour groups with a total of 75 people visited the farm only.
- Held an open day event at the Sale Water Treatment Plant in October 2016 to celebrate and showcase the major upgrades completed at the site, which included a new contact tank, aeration towers, and chemical dosing facility.

Governance

- Completed strategic assessments and options assessments to justify capital projects, develop scope of works, and costings for the Price Submission.

- Undertook project prioritisation with many internal stakeholders across Gippsland Water for the capital investment program.
- Developed an internal energy efficiency program to monitor energy reduction and cost saving projects at the Gippsland Water Factory.
- Completed the upload of more than 8,000 assets from the 2016 asset revaluation data into the Fixed Asset Register.
- Submitted the functional design and business case for the upgrade at the Drouin Wastewater Treatment Plant to the Minister for Water and Treasurer.
- Completed the full automation of Information Statement processing, which has decreased the time taken to process information statements from three and a half days to under one day.
- Managed 63 per cent of our online solicitors updates through the Gippsland Water website, which has significantly improved the convenience for solicitors to access and carry out this work after hours.
- Collaborated with the Department of Environment, Land, Water and Planning (DELWP) and Parks Victoria to undertake an interagency fuel reduction burn in the Moondarra catchment during autumn 2017.
- Conditionally endorsed a Domestic Wastewater Management Plan (DWMP) in partnership with Wellington Shire Council.
- Successfully transitioned to new contracts for sewer maintenance services, analytical services, and chemical supply and services.
- Engaged with the local indigenous community to source Aboriginal artwork by Morwell Gunai artist Ronald Edwards-Pepper for display at our Traralgon office, and in preparations for NAIDOC Week celebrations held in July 2017.
- Conducted a second round of Water Industry traineeships with three trainees appointed.
- Implemented a new e-learning program across the organisation.
- Co-hosted the inaugural 'Women in Water' event held for all Gippsland-based water corporations and attended by 150 women from across the water sector and the Minister for Water.
- Continued focus on Occupational Health and Safety engagement across all levels, with the inception of the toolbox topics calendar driving the responsibility for the delivery of relevant information into workgroups supported by health and wellbeing campaigns run internally. These include 'Back to Work, Switch on to Safety' and 'Hop into Safety', recognising the risks of returning to work after the Christmas and Easter breaks.
- Developed a Drug and Alcohol Policy which was implemented with the support of an employee working party.
- Upgraded Gippsland Water's Electronic Documents Records Management System (EDRMS) which is an essential organisation-wide system that manages corporate information. The EDRMS ensures legislative, compliance and accountability requirements are met, and has been well received with a new Windows-based look that is more intuitive, as well as enhanced search options among other improvements making it easier for users to navigate.
- Implemented new software which has enabled the Geographic Information System to be available on any device (including mobile and web) with reduced licensing costs and faster response times.
- Commenced a review of third party software systems to determine if any system can improve the delivery of financial management and financial planning for the organisation.
- Developed a new chemical ordering system for the chemical service contract for water and wastewater treatment.
- Implemented new low voltage electrical work guidelines and personal protective equipment changes for electrical work.
- Improved the Dial Before You Dig process (server and software) to identify hazards associated with decommissioned asbestos pipes.

Organisational success

- Transitioned to a new Managing Director with the appointment of Sarah Cumming in April 2017.
- Commenced a review of our hardship program with our Customer Contact and Reception teams receiving training for dealing with vulnerable customers. Training and a change in focus has seen earlier identification of customers experiencing difficulty in paying their water bill.
- Developed an internal electronic training system for Gippsland Water Factory operators and other staff, with learnings shared with the rest of the organisation through 'listen and learn' presentations.
- Moved towards generating a more inclusive and diverse organisation with the implementation of unconscious bias training for board members, executive, and third level managers.
- Appointed two new indigenous trainees and introduced cultural awareness training for all staff.

KEY AND FUTURE INITIATIVES AND PROJECTS

Key initiatives and projects

Customer Information Billing System replacement

The Digital Customer Experience Transition Project which was undertaken during 2016-17 identified the need to upgrade the current Customer Information Billing System. The billing system is the collection of software and business processes that manage customers' financial, contact, usage, and property transactions and information, and has integrations with other business systems. The project report sets out a roadmap to improve the customer experience and support a change in the culture of Gippsland Water to become more customer-centric. This project, which will be implemented by June 2018, aims to deliver:

- Greater customer choice, access and flexibility in interacting with Gippsland Water.
- A single view of a customer which enables users to be informed on the current and historic aspects of the customer.
- An improved customer experience (internal and external) through innovative and engaging new technology and self-service capabilities.
- Improvement and automation of key business processes, including processes that interact with third parties.
- Elimination of manual and paper-based processes.
- Greater collaboration and sharing of customer information and process within Gippsland Water.

Drouin – water supply and wastewater services

With the township of Drouin undergoing significant and sustained growth, three major projects will be delivered throughout 2017 to ensure the town's water and sewerage facilities can match the rate of Drouin's urban expansion. The current population of the town is around 11,000 and is growing at around 420 each year. Work will include increasing the capacity of the water storage facility in Drouin by 6ML to 24ML, and relining the basin, which will ensure water quality remains high into the future.

A further \$2.5 million will be invested in Drouin with the construction of a 1.2 kilometre-long sewer main, which will reduce the risk of potential sewer spills from manholes near Settlement and Bosanko roads during storm events. The wet weather reliever pipeline, which will be installed from the north-east corner of Bellbird Park to the Drouin Wastewater Treatment Plant at Settlement Road, will provide capacity for a one-in-five year rain event, and allow for future population growth within the township.

The pipeline will also be sized to allow for an estimated \$32 million upgrade of the Drouin Wastewater Treatment Plant to meet this rapid increase in demand from Drouin and surrounding areas. The project will include an ability to add capacity in stages when population growth requires it. Completion is expected by 2021-22.

Morwell – Crinigan Road sewer pump station rising main

This \$1.4 million project involved construction of a pipeline from the Crinigan Road sewer pump station to the Gippsland Water Factory. The project, upon completion in 2017, will reduce the risk of potential sewer spills to the environment in the Waterhole Creek and the Crinigan Road sewer pump station catchments during major wet weather events.

Sale – second water supply pipeline project

Completed in October 2016, this \$2 million project provides greater security of supply to Gippsland Water customers in Sale by reducing the town's reliance on the existing single trunk water main from the Sale Water Treatment Plant to Sale's town reticulation system. The secondary main will ensure ongoing supply if the existing supply main fails or needs to be shut down to carry out repairs, replacement, or maintenance.

Traralgon – Swallow Grove and Grubb Avenue augmentation

Traralgon residents benefited from a \$2.8 million investment to prevent sewer backflows in the west end of town. The project involved construction of a 1.4 kilometre-long sewer main, which will add capacity to the sewerage network, so that in times of high wastewater flow or heavy rain events, the system can cope with the added volume and reduce the risk of potential sewer spills within the Swallow Grove and Grubb Avenue catchment.

Gippsland Water Factory – membrane replacement and major works

The Gippsland Water Factory treatment process uses a range of technologies, including world first technology for the treatment of pulp and paper waste. The range of technologies includes anaerobic reactors, ultrafiltration, reverse osmosis and membrane bioreactor (MBR) treatment. The secondary treatment process for both domestic and industrial wastewater is the MBR, which is integral to producing treated water suitable for environmental discharge or reuse. The design life of the membrane is, on average, five years, and these were originally installed in 2009.

Major refurbishment works were also completed at the Gippsland Water Factory in April 2017, which saw the replacement of diffusers and pipework, followed by surface preparation, concrete remediation, and works to reinstate one of the four MBRs.

The upgrade, which involved a significant shut of MBR 4 for five weeks, has potentially extended the life of the reactor by up to 15 years. Replacing the aeration diffusers has also resulted in an increase of the efficiency of the aeration process, which accounts for a large part of the plant's power costs. While another outage will be required for diffuser replacement in three years' time, the extra time spent on concrete remediation means that the

outage should only take up to three weeks rather than four to five weeks next time around – reducing environmental and social impact, as well as costs for Gippsland Water.

Future initiatives and projects

Warragul-Moe Water Supply Interconnect – Stage 2 – Darnum to Warragul

Stage 2 of this project involves connection from Darnum to the Warragul water system with the construction of a new pipeline scheduled for 2017-18. This will enable transfer of water from the Moe system to Warragul, providing access to stored water in Blue Rock Dam and improving water supply security to customers in Traralgon, Yarragon, and major customers in Moe and Warragul. It will also provide operational security and flexibility to transfer water in both directions between the Moe and Tarago systems in the event of a shortfall in supply in either systems.

Warragul – water supply western ring main upgrade

Water to supply Warragul comes from the water treatment plant on the northern side of the town via a main pipeline, which also runs through the central business area. Failures on the main in the past have caused significant disruption to water supplies particularly in the CBD. Due to the growth of the town on the western side (between Warragul and Drouin) and also high growth in Drouin, planning has begun to construct a new western ring water main around Warragul to service the growing demand in both Warragul and Drouin, and provide an alternative supply to service both towns. Completion of the project is expected by 2021-22.

Moe Water Treatment Plant upgrade

The Moe Water Treatment Plant, which supplies the townships of Moe, Newborough, Yallourn North, Traralgon, Yarragon, Darnum, and major customers Energy Australia and Fonterra Australia, has a range of systems to disinfect water during the treatment process. This project, which is currently in the concept design phase, involves adding an ultraviolet light system into the treatment process, which will further safeguard the safety and quality of the Moe system.

Sale sewer system

A new pump station, emergency storage, odour control facility and pipeline will be constructed in Sale to meet future growth and cope with high rainfall events. The new pump station will also minimise the risk of odour escaping. The existing pump station, which is located opposite the Port of Sale precinct, will be removed. Gippsland Water has committed to working extensively with the community to make sure the façade and landscaping of the new site retains and enhances the western entrance to Sale. Completion of this project is expected by 2019-20 and will be built on a new site adjacent to the existing main sewer pump station.

Coongulla to Heyfield interconnection pipeline

Coongulla is currently supplied with water which is pumped from Lake Glenmaggie and treated at the Coongulla Water Treatment Plant. Treating water from Lake Glenmaggie has a number of challenges; the water in the lake can be impacted by bushfires upstream and by recreational activities such as boating and water-skiing. To better manage the ongoing costs and challenges associated with Coongulla's water supply, a new pipeline will be built from the Heyfield Water Treatment Plant to Coongulla. Once the pipeline is complete, the water treatment plant at Coongulla will be decommissioned. Planning is underway, with the project expected to be delivered in 2020-21.

Water and sewer main replacement programs

Gippsland Water manages more than 2,127 kilometres of water reticulation pipes and approximately 1,723 kilometres of reticulation gravity sewer pipes. We are constantly monitoring and maintaining our network of water pipes, pump stations and water storage facilities. For the last three years, on average, Gippsland Water has renewed six kilometres of water reticulation mains each year, and has relined five kilometres of sewers each year.

A comprehensive monitoring program is in place for both water and sewer reticulation systems as part of our asset management information system. The program determines the condition and remaining service life of the pipework and a long-term rolling program to replace those that are in poor condition and ensure that levels of service can be maintained. Works undertaken on these programs aim to ensure Gippsland Water meets its charter to customers and Key Performance Indicators agreed to by the ESC, in terms of number of unplanned water supply disruptions, water quality, and minimum supply pressure and flow rate.

Around \$1 million is spent each year on sewer relining to improve the structural strength of the pipes, reduce the risk of leakage, and generally improve the pipe's performance. Sewer relining is done by pulling through a new internal 'skin' within the pipe which is then inflated and heated with steam. Once the lining cools, some final work is done before the main is 're-opened' for business. The program has been in place for 10 years and has seen mains relined in major towns throughout the region during that period. Work in 2017 will see mains relined in Morwell, Traralgon, Sale and Maffra to improve service, protect the environment, and provide reliability for the community for many years to come.

Summary of financial results

	2016-17	2015-16	2014-15	2013-14	2012-13
	\$'M	\$'M	\$'M	\$'M	\$'M
Core business revenue	122.7	127.9	116.6	120.6	114.5
Interest received	0.1	0.2	0.1	0.3	0.5
Non-government contributions	7.0	10.7	9.4	6.5	12.0
Government contributions	0.0	0.0	0.2	0.4	0.0
Other revenue (farm and gross proceeds)	4.1	3.3	3.6	2.3	1.9
	133.9	142.2	129.8	130.0	128.8
Operations, maintenance and administration	78.1	78.9	75.8	78.2	81.5
Depreciation expenses	38.1	36.4	33.8	32.2	29.4
Asset transfer	0.6	-0.1	3.2	0.0	0.0
Finance expenses	14.3	15.1	15.3	14.6	13.6
	131.0	130.4	128.1	125.0	124.5
Net operating result	2.9	11.8	1.7	4.9	4.3
Current assets	34.9	33.5	32.3	27.0	26.8
Non-current assets	1,177.5	1,179.5	1,143.7	1,125.7	1,108.0
	1,212.4	1,213.0	1,176.1	1,152.7	1,134.8
Current liabilities	78.3	85.4	82.9	78.4	52.6
Non-current liabilities	374.3	368.5	361.6	344.9	355.8
	452.6	453.8	444.5	423.3	408.4
Net cash flow from operations	32.9	47.4	33.0	41.2	17.6
Payments for capital works	30.5	52.3	58.9	53.7	59.3

KEY RESULTS FOR THE FINANCIAL YEAR

Our net operating result in 2016-17 of \$2.9 million was \$8.9 million lower than 2015-16, however was \$4.3 million higher than budget and more in line with prior years.

Overall revenue decreased by \$8.3 million in 2016-17, however it exceeded budget by \$4.5 million. While core business revenue was \$5.3 million down on 2015-16, it was higher than budget by \$2.0 million. Service charges increased by \$1.9 million over 2015-16, primarily due to a combination of higher than expected residential connections and major customer service charges. Volumetric revenue increased by \$0.4 million over 2015-16. We provided rebates of \$2.2 million to customers in accordance with the government's Water Rebate, similar to 2015-16. Revenues received from our Soil and Organic Recycling Facility were also down against both 2015-16 and budget. 2015-16 revenue also included a one-off \$2.8 million reimbursement for capital works undertaken on assets servicing a major customer.

Non-government contributions include cash contributions and gifted assets from developers. Whilst revenue was \$3.7 million less than in 2015-16, it was \$1.7 million favourable to budget. The reduction in non-government contributions is a reflection of slower developer activity (\$2.2 million), the phasing out of developer fees (\$0.6 million) and the completion of new connections from the Loch Sport Sewerage Scheme (\$0.8 million).

Other revenue is \$0.8 million higher than 2015-16 and \$0.9 million higher than budget, principally due to higher market valuations of livestock.

Total expenses have increased by \$0.6 million in 2016-17 and exceeded budget by \$0.8 million.

Operations, maintenance and administration expenditure has decreased by \$0.8 million since 2015-16 and was also \$0.5 million under budget. This has been driven by lower operational costs which have been partially offset by higher salaries, maintenance and administrative costs.

Depreciation expense has increased by \$1.7 million since 2015-16 and \$1.4 million higher than budget. The increase is partially due to a recent change to the process of capitalising assets brought into service in a prior financial year but brought to account in the general ledger in the current financial year. Depreciation from the 'placed in service' date to the current month is now all expensed in the current financial period rather than being accelerated over the reduced life of the asset, to align with accounting standards.

Finance expenses for the year were lower (\$0.8 million) than 2015-16 and lower (\$0.5 million) than budget. This was the result of slower than expected capital expenditure which allowed the temporary repayment of \$13 million in borrowings which were not drawn down until June 2017. In addition, no new borrowings were required during the financial year.

Performance Report for the year ended 30 June 2017

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Part I - Financial performance indicators								
KPI no.	Key Performance Indicator	2015-16 result	2016-17 result	2016-17 target	Variance to prior year	Notes	Variance to target	Notes
F1	Cash interest cover (times) Net operating cash flows before net interest and tax / net interest payments	4.17	3.33	3.07	-20.1%	1a	8.5%	
F2	Gearing ratio Total debt (including finance leases) / total assets * 100	23.08%	23.09%	24.20%	0.1%		-4.6%	
F3	Internal financing ratio Net operating cash flow less dividends / net capital expenditure * 100	92.99%	109.99%	80.80%	18.3%	2a	36.1%	2b
F4	Current ratio Current assets / current liabilities (excluding long-term employee provisions and revenue in advance)	0.41	0.47	0.36	14.6%	3a	30.6%	3b
F5	Return on assets Earnings before net interest and tax / average assets * 100	2.24%	1.41%	1.10%	-37.1%	4a	28.2%	4b
F6	Return on equity Net profit after tax / average total equity * 100	1.22%	0.26%	-0.10%	-78.7%	5a	-360.0%	5b
F7	EBITDA margin Earnings Before Interest Tax, Depreciation and Amortisation / total revenue * 100	44.43%	41.21%	38.70%	-7.2%		6.5%	

- (1a) Operating cash flows in 2015-16 were higher than those recorded in 2016-17, due mainly to lower operating revenues (\$3.8 million) and higher payments to suppliers (\$9.6 million) in 2016-17. Noting that when compared to target, this result is favourable, we will continue to work towards improving this indicator.
- (2a) Despite lower operating cashflows in 2016-17, net capital expenditure (\$29.9 million) in 2016-17 was significantly lower than the 2015-16 year (\$50.3 million) leading to an improved outcome for this indicator.
- (2b) Net capital expenditure (\$29.9 million) in 2016-17 was significantly lower than the target for 2016-17 (\$38.3 million) leading to an improved outcome for this indicator.
- (3a) 2016-17 saw a reduction at year-end in current liabilities compared with 2015-16, as short-term borrowings decreased in value by \$10 million, leading to an improved outcome for this indicator.
- (3b) In 2016-17, a reduction in total current liabilities was recorded when compared to budget, as short-term borrowings decreased in value by \$7.5 million, leading to an improved outcome for this indicator.
- (4a) 2016-17 saw a reduction in earnings before interest and tax compared with 2015-16 (\$17.1 million compared to \$26.7 million), while average assets in 2016-17 rose slightly. Noting that when compared to target, this result is favourable, we will continue to work towards improving this indicator.
- (4b) 2016-17 saw an increase earnings before interest and tax compared to budget (\$17.1 million compared to \$13.5 million) leading to an improved outcome for this indicator.
- (5a) 2016-17 saw a significant reduction in operating profit after tax compared with 2015-16 (\$2.9 million compared to \$11.8 million) leading to a poorer outcome for this indicator. Noting that when compared to target, this result is favourable, we will continue to work towards improving this indicator.
- (5b) In 2016-17, net profit after tax exceeded budget significantly (\$2 million profit compared to a \$1 million loss) leading to a significantly improved result, driven primarily by stronger operating revenues and higher developer contributions than planned.

Water is a vital element of our natural environment. It sustains all forms of life. Gippsland Water is committed to securing and delivering a reliable supply of safe water and the management of wastewater, with a strong focus on using and reusing our natural resources efficiently.

Victorian Waterway Management Strategy

Gippsland Water continues to work in partnership with the West Gippsland Catchment Management Authority (WGCMA) and Department of Environment, Land, Water and Planning (DELWP) to deliver positive outcomes to both the community and environment. Activities in this area include provision of water for the environment, ecological monitoring for river health and identification, and delivery of projects for improved ecological health.

Gippsland Water participates in joint WGCMA and Southern Rural Water forums advising on environmental water from Blue Rock Dam and Lake Glenmaggie, as well as the Macalister Irrigation District Sustainability Group. The group encapsulated the review of the DELWP-driven Land and Water Management Plan for the area, now flagged to incorporate the whole of Lake Wellington's catchments.

In 2016-17, agencies worked on completing business cases to remove fish barriers in three rivers: the Tyers River, Merrimans Creek and the Thomson River.

Gippsland Water completed ecological assessments (both riparian terrestrial and waterways) at each of the weir sites we manage for the extraction of drinking water under our bulk entitlements. The ecosystem health was found to be comparable to the surrounding river stretches at all sites, indicating nil impacts of operational activities on the environment.

West Gippsland Regional Catchment Management Strategy and Waterway Strategy

Gippsland Water participates in waterways and catchment management activities as part of the sustainable management of water resources identified in our strategic plan, and in line with the objectives of the West Gippsland Regional Catchment Strategy (2013-2019) and West Gippsland Waterways Strategy (2014-2022).

During the reporting period, we:

- Continued to collaborate with stakeholders on catchment management issues. This included municipal councils, crown land managers, industry groups associated with catchment land uses, individual property owners and parties looking at undertaking use and development activity in catchments.
- Continued working with the WGCMA to ensure successful implementation of the Regional Strategies, including a mid-point review of the Regional Catchment Strategy.
- Continued working with the Wellington and Baw Baw Shire councils to ensure successful implementation of their Domestic Wastewater Management Plans (DWMPs) where the focus is on managing on-site waste for the protection of raw water quality in drinking water catchments.
- Enhanced the risk management systems regarding catchment monitoring activities, through ongoing participation in the Gippsland regional water monitoring partnership, as well as our own raw water sampling, and catchment land use observations.
- Continued an ongoing progressive update of our environmental risk assessments for all of our facilities to ensure that our operations

do not impact waterways riparian and aquatic values. This also included capturing high risks within our catchment water, which will allow us to work with land managers to collaboratively reduce risks to water quality from point-source and disperse pollution.

- Participated in a regional catchment planning group, as well as the state-wide VicWater catchment task group, with the objective of establishing a consistent approach to land use and development in catchments. This approach will result in a consistent message from all water corporations, in engaging with land managers, and municipal planning and environmental health staff about our vested interest in water quality for potable water supply.
- Participated in the planning stage of crown land fire prevention, rather than the consultation phase, with the local DELWP fire management officers.
- Strengthened relationships with local councils, Parks Victoria, catchment management authorities, DELWP, EPA and other crown land managers to improve decision-making and outcomes with respect to preservation of water quality in drinking water catchments, whilst promoting and enhancing economic development and recreational opportunities.

State Environment Protection Policy (Waters of Victoria)

The State Environment Protection Policy (Waters of Victoria) (SEPP (WoV)) provides guidance and opportunities for Gippsland Water to work collaboratively with other agencies to develop strategies to maintain and improve water quality within the catchments where we extract the region's drinking water. Over the past 36 months, Gippsland Water has continued to work collaboratively with all Gippsland-based water corporations and relevant local councils (Baw Baw and Wellington shires) to develop DWMPs. In accordance with the SEPP (WoV) for Gippsland, these plans detail how on-site wastewater treatment systems within potable water catchments will be managed to ensure that the environment is not impacted.

The SEPP (WoV) also provides the guidance and measures that Gippsland Water use to monitor the waterways where we discharge treated wastewater from Environment Protection Authority (EPA) licensed wastewater treatment plants in Drouin, Warragul, Neerim South, Willow Grove, Rawson, Moe, and Morwell. In many instances, this water represents a significant proportion of flow in the receiving waterways for much of the year.

Water quality monitoring is regularly conducted

upstream and downstream of the discharge points to ensure the health of the rivers and creeks is not adversely affected by the discharge.

Detailed biological monitoring surveys were undertaken upstream and downstream this year for the Drouin, Moe and Rawson wastewater treatment plants. The water quality data results of these surveys indicated that the wastewater discharges did not have an adverse effect on the receiving environments. Biological monitoring for the Morwell, Neerim South and Warragul wastewater treatment plants commenced for 2016-17 with autumn sampling completed.

2017 Urban Water Strategy

Gippsland Water's Urban Water Strategy identifies actions required to manage and meet the water needs of the region over a planning horizon of 50 years. Major updates of the strategy are undertaken every five years. The 2017 strategy supersedes the 2012 Water Supply Demand Strategy.

The Urban Water Strategy examines each water system to determine drought resilience, as well as forecast long term yield and demand trends under a range of scenarios such as climate change. Where a possible shortfall is forecast, the magnitude and timing of that shortfall is considered in preparing an action plan. The action plan sets out the preferred initiatives, which may include further options analysis, to ensure supply will exceed demand.

The strategy identified that the Tarago system, and in particular, that part of the system that supplies Warragul and Drouin, is the critical water system in the Gippsland Water region that will need major augmentation in the short term (2018-23 Price Submission period) to ensure that customers continue to receive a satisfactory supply reliability.

Planning for Stage 2 of the Warragul-Moe Water Supply Interconnect is now complete with construction of the pipeline scheduled for 2017-18. This pipeline will run from Darnum to Warragul and will include supporting infrastructure such as pumping stations. It will provide an interconnected water grid between the Tarago and Latrobe systems, improving flexibility and reliability of supply, regardless of the long term augmentation chosen for the Warragul/Drouin system.

During the development of the 2017 Urban Water Strategy, a shortlist of options was

analysed at a conceptual level and discussed with the community. The solution for this system has not been determined yet, and further work is needed to progress a detailed analysis of options to provide the best outcome. The solution may comprise of a suite of augmentations.

Building on the scope of the 2012 Water Supply Demand Strategy, the 2017 Urban Water Strategy adopts new and updated climate science, a more comprehensive view of the whole water cycle with the incorporation of sewer system descriptions and outlooks, a broadening of engagement with the community into the topic of urban liveability, and a shift from drought response to drought preparedness. This evolution of scope supports the water sector's ongoing journey towards Integrated Water Management, a holistic and inter-agency approach to planning that aims to maximise benefits for the community.

Drought Response Plan

The development of the 2017 Urban Water Strategy marked an explicit shift within the Victorian water sector from drought response to drought preparedness. Accordingly, the 2017 Urban Water Strategy contains a Drought Preparedness Plan (DPP). The DPP includes an update of Gippsland Water's previous Drought Response Plan (DRP), with the DRP component of the DPP required to remain as a stand-alone section because water corporations' Water Restrictions By-Laws still directly reference the DRP.

The DPP, inclusive of the updated DRP section, now forms a more holistic planning tool to not only guide our response to periods of short term water shortage, but to prepare in advance for shortages by thinking now about how water might be used to better provide for community expectations. The DRP has always set out a water restrictions regime which consists of four stages of restrictions on water use, as well as detail on how we will communicate with our customers in relation to water restrictions. Restrictions apply to both residential and commercial customers and include limitations on garden watering times, car washing, cleaning paved areas, and the filling of pools and spas. The DRP also detailed other contingency actions that may be taken instead of, or in conjunction with, water restrictions.

While the DPP continues to detail guidance on the implementation of water restrictions and other contingency response actions, the Guidelines for the Development of Urban Water Strategies and

the Melbourne Water System Strategy (DELWP 2017) now require the DPP to consider matters such as the following:

- Planning in advance, in liaison with councils and customers, to provide exemptions for water restrictions for some community assets such as sporting grounds and parks. The government's Water for Victoria Water Plan (2016) discussed some of the less noticed consequences of the Millennium Drought (1997-2009) in terms of the impacts on community health and wellbeing. Some such outcomes during that drought related to liveability and the impact on community gathering spaces such as sporting grounds becoming parched and unusable. During the development of the 2017 Urban Water Strategy, Gippsland Water liaised with local councils and customers to better understand their views on this topic. Some preliminary work identified some high value community assets and we will work with communities and councils towards better drought resilience for those assets.
- Improving the understanding of the full cost of water restrictions to the community, so that water system investment decisions consider the full cost implications to all stakeholders, to avoid outcomes of some sections of the community or industry unfairly bearing the cost burdens of water restrictions. Examples could include plant nurseries or sporting clubs. Water corporations have not typically considered such external costs in the past to the degree that government now expects. Gippsland Water is currently participating in a study led by DELWP to develop guidance for factoring the full costs of water supply reliability (frequency and severity of water restrictions) into planning decisions.

Gippsland Water has also taken the opportunity during the development of the 2017 Urban Water Strategy and associated DPP to better understand drought resilience of our town supply systems through more sophisticated computer modelling of systems and through the use of more up-to-date and better developed climate guidance. The guidance around decisions to transfer water from Gippsland Water's major reserve supply for the Latrobe Valley, Blue Rock Dam, to Moondarra Reservoir, has also been revised in light of changes over the last decade to demand for water in the Latrobe Valley.

Gippsland Water releases an Annual Water Outlook (AWO) on 1 December each year, which is required under our Statement of Obligations (SoO). The AWO provides an annual update on trends and actions stemming from the Urban Water Strategy, as well as an outlook for the summer ahead.

Summer of 2016-17 was somewhat mild with average temperatures in the last quarter of 2016 and slightly above average temperatures in the first quarter of 2017. There were no extreme hot days, and fortunately, no severe fires. However, March 2017 continued from summer with temperatures two to three degrees above average – a fairly significant anomaly.

Rainfall from October 2016 to April 2017 was below average, with the exception of the far west of Gippsland Water's region which had closer to average rainfall. Overall, our systems were able to meet demand without the need for restrictions or other measures, with all systems in Gippsland Water's region remaining on Permanent Water Saving Rules for the full 2016-17 year.

Biodiversity and natural asset management

Gippsland Water is committed to demonstrating leadership and empowering our staff to responsibly manage the environmental impacts of our operations. Our Environment and Climate Change Policy can be viewed on the Gippsland Water website at <https://www.gippswater.com.au/residential/what-we-do/environmental-management>.

As a manager of significant areas of land of high conservation significance, Gippsland Water continues to work on projects that help protect and improve Victoria's biodiversity, which align with the objectives of Victoria's Biodiversity Strategy. The work has been delivered in partnership with local and policy arms of the relevant agencies and contractors.

During the reporting period, environmental highlights include:

- The continued management of over 600 hectares of land (containing optimal habitat for approximately 50 threatened species) in perpetuity across the operating region. All environmental offset sites are registered on the DELWP Credit Register and are managed under environmental covenants or land management plans. All sites were approved to be compliant with requirements by DELWP during the annual reporting period in 2016-17. The offset bank ensures all past and future impacts of constructing and operating our infrastructure ensuring no net loss of biodiversity will be caused.

- The preservation of the ecological significance of our Dutson Downs property, which includes in excess of 4,000 hectares of high conservation status vegetation, has been strengthened through the development and implementation of a pest and weed management strategy. This allows landscape-scale management and monitoring of threatening processes across the site, with emphasis on protecting threatened species such as the Dwarf Kerrawang, Trailing Hopbush and Wellington Mintbush.
- Population monitoring of the state and nationally threatened New Holland Mouse and Green and Golden Bell Frog was completed and the populations of both species were higher than in previous sampling years.
- Gippsland Water operates another large land holding (2,500 hectares) around the Moondarra Reservoir, which is largely regrowth native vegetation, with some pine timber plantations. The land provides protection for water quality within the reservoir. A detailed weed mapping survey was conducted during the annual reporting period, which will inform future management strategies for this land. The first fuel reduction burn has successfully been undertaken on our behalf by DELWP in accordance with a joint Bushfire Protection Plan, formulated by both Gippsland Water and adjacent crown land managers. We are also considering options for land use post clear-felling of the existing pine forestry coupes. Options include revegetating the land for ecological or carbon biosequestration offsets.
- Gippsland Water again worked with the Latrobe Valley Field Naturalists Club Bird Group at the Moe Wastewater Treatment Plant during 2016-17. The results of the group's survey at the plant comprised of 47 different species.

Urban stormwater

Gippsland Water has no role in the management of urban stormwater.

Greenhouse gas emissions

Gippsland Water is committed to reducing the greenhouse gas emissions and carbon footprint associated with our operations. We updated our Environment Policy, with a stronger focus on climate change, and are now developing specific actions and strategies to assist with reducing energy consumption and greenhouse gas emissions across the business. Gippsland Water also developed a Climate Change Strategy which specifically outlines our operational activities, and the mitigation and adaption strategies proposed for the future years.

A decrease in greenhouse gas emissions of 16.3 per cent from 2015-16 has been recorded across the business. The decrease is largely due to wastewater treatment operations and associated electricity consumption. Fugitive emissions decreased by approximately 5,000 t CO₂ equivalent as there was no lagoon desludging undertaken this 2016-17 financial year.

Gippsland Water is committed to achieving the state government emissions reductions targets to be carbon neutral by 2050. We have developed and prepared a carbon emissions reduction pledge, in which we commit to a 24 per cent reduction in carbon emissions by 2025 based on the average baseline emissions over the past five years. Approximately \$8.5 million of renewable energy and carbon sequestration projects have been proposed over the next seven years (to 2025) to help achieve these targets.

Gippsland Water continues to focus on operational efficiencies in order to reduce our electricity consumption and reduce carbon emissions associated with our operations. CO₂ emissions attributed to electricity consumption have been reduced by 1,500 tonnes, due in large part to reductions in grid electricity consumption at our largest wastewater treatment facility and energy consumer – the Gippsland Water Factory. The Gippsland Water Factory reduced its grid electricity consumption by around 15 per cent in 2016-17 through efficiency improvements such as increased renewable energy output from the onsite biogas cogeneration facility, the installation of new diffusers in the wastewater aeration system, and improved operational practices – all of which played a large part in this energy saving.

The net greenhouse gas emissions, expressed as tonnes of CO₂ equivalent (t CO₂-e), for the whole business and our activities are expressed in the table on the following page.

Greenhouse gas emissions

Activity	Greenhouse gas emissions (t CO ₂ -e)					Variance (%)
	2012-13	2013-14	2014-15	2015-16	2016-17	
Water treatment and supply ¹	11,065	10,228	10,312	10,386	10,144	-2.33
Sewage treatment and management ²	28,575	24,774	28,432	31,068	23,863	-23.19
Transport ³	1,455	1,474	1,475	1,423	1,282	-9.91
Other ⁴	1,770	1,771	2,474	1,989	2,260	13.62
Offsets ⁵	-	-	-	-	-	-
Total	42,865	38,247	42,693	44,866	37,549	-16.31

(1) Electricity consumption.

A small reduction in emissions is generated from the treatment and supply of water is largely due to favourable climatic conditions allowing more efficient running of our water treatment and supply network.

(2) Methane and nitrous oxide gas emissions, electricity, gas.

Fugitive emissions decreased by more than 5,000 t CO₂ equivalent as there was no lagoon desludging undertaken within this financial year. Electricity emissions associated with wastewater treatment also fell by more than 1,500 tonnes, due in large part, to reductions in grid electricity consumption at the Gippsland Water Factory. Efficiency improvements at this facility included increased renewable energy output, installation of new diffusers in the aeration system, and other operational efficiency improvements.

(3) Fuel – petrol, diesel, gas.

Fuel use across all areas of Gippsland Water's operations fell by more than 50kL – resulting in a fall of almost 10 per cent in transport associated emissions between the 2016 and 2017 reporting years.

(4) Electricity, gas and diesel consumption at Traralgon head office and depot, Soil and Organic Recycling Facility, and Agribusiness operations.

A small increase in emissions from fuel and energy sources at the Traralgon head office, and non-operational facilities (including farming and waste management) was experienced in 2016-17. This increase is attributable to small constituent increases in office-based electricity use, natural gas consumption and diesel consumption from operational plant and equipment.

(5) No offsets were purchased or retired in the 2016-17 financial year.

Energy consumption

Activity	Target	2012-13	2013-14	2014-15	2015-16	2016-17	Variance (%)
Wastewater treatment and reticulation (kWh ML ⁻¹) ¹	N/A	701	550	580	601	561	-6.59
Water treatment and supply (kWh ML ⁻¹) ²	N/A	158	151	150	154	151	-1.94
All systems treatment and reticulation (kWh ML ⁻¹) ³	N/A	325	280	286	297	283	-4.79
Waste disposal (Soil and Organic Recycling Facility) kWh ⁴	N/A	15,402	33,039	22,578	22,677	23,687	4.45
Other activities (office, depot, ancillary) kWh ⁵	N/A	888,281	875,824	1,121,606	1,043,399	1,080,413	3.55

- (1) Reduction of almost 40 kWh ML⁻¹ to handle and treat wastewater is reflective of significant electricity savings made at the Gippsland Water Factory through various efficiency initiatives.
- (2) A small reduction in energy used to treat and supply water is largely due to favourable climatic conditions allowing more efficient running of our water treatment and supply network.
- (3) The improvement in the net figure for all systems is a combination of the factors discussed above.
- (4) A small increase in energy consumption at the Soil and Organic Recycling Facility is largely attributable to expansion of the facility's operations and the construction of new offices.
- (5) A small increase in energy consumption for other activities is largely due to the first full year of operation of pivot irrigation at the Dutson Downs farm.

Beneficial reuse of treated wastewater and biosolids

Across the 2016-17 financial year, Gippsland Water reused 21.23 per cent (2,168ML) of the total 10,213ML of wastewater that is available for reuse purposes. The overall volume of water reused has increased by 221ML from the 2015-16 financial year. The percentage of wastewater reused has increased significantly from last year due to the calculation methodology being reviewed to reflect the removal of 15,421ML of saline wastewater which is of an unacceptable quality for use as a recycled product in freshwater aquatic or terrestrial applications. This water must therefore be disposed of via ocean outfall only.

Nine out of the 10 wastewater treatment plants with current reuse arrangements with Gippsland Water's Agribusiness arm, or third-party agreements, are reusing 100 per cent of treated water produced. 2016-17 is the fourth year running that treated wastewater reuse volumes have increased. These consecutive increases are largely attributable to significant volumes of irrigation from the Sale system at Dutson Downs, where new pivot irrigation systems were commissioned in August 2015. Moderate increases in irrigation were also achieved at Drouin with the completion of the Bellbird Park reuse scheme by Baw Baw Shire, becoming operational in January 2017.

Water transported from the Regional Outfall System and Saline Wastewater Outfall Pipeline accounts for approximately 75 per cent of the wastewater handled by the organisation. The Gippsland Water Factory produces a small amount of treated wastewater for reuse – around four per cent; this volume has doubled from the last financial year. This water is processed through the reverse osmosis membranes reducing the salt concentrations making it viable for reuse. The majority of the effluent from the Gippsland Water Factory is pumped down to the Dutson Downs lagoons where it is discharged via the ocean outfall. Wastewater discharged from the Saline Wastewater Outfall Pipeline is not treated by Gippsland Water; it is received and transferred to the discharge point as a treated product. The Saline Wastewater Outfall Pipeline and Regional Outfall System effluent do not meet the EPA standards for reuse as irrigation water due to high salinity.

All biosolids produced by our water and wastewater treatment activities are reused at the Soil and Organic Recycling Facility to produce compost which is supplied to external customers, as well as used in pasture and crop application throughout our Agribusiness (reuse is considered to include any residual composted biosolids which may have been stockpiled during the previous year).

Treatment system	Destination of wastewater	Treated water disposed by Gippsland Water		Volume reused (ML)		Volume discharged (ML)	
		2016-17	2015-16	2016-17	2015-16	2016-17	2015-16
Drouin	Irrigation to pasture or discharge to Shillinglaw Creek	767	586	91	114	676	472
Heyfield	Irrigation to pasture or emergency discharge to Back Creek	81	91	81	91	0	0
Maffra	Irrigation to pasture and sporting / playing field. Emergency discharge to Macalister River.	286	203	286	203	0	0
Mirboo North	Irrigation to pasture and sporting / playing field or emergency discharge to Little Morwell River	54	93	54	93	0	0
Morwell	Supplement flow to wetlands	616	583	616	583	0	0

		Treated water disposed by Gippsland Water		Volume reused (ML)		Volume discharged (ML)	
Treatment system	Destination of wastewater	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16
Seaspray	Irrigation to pasture	19	3	19	3	0	0
Stratford	Irrigation to pasture	157	128	157	128	0	0
Willow Grove	Irrigation to pasture or emergency discharge to Latrobe River	13	14	13	14	0	0
Neerim South	Discharge to Red Hill Creek	47	46	0	0	47	46
Rawson	Discharge to Coopers Creek	28	26	0	0	28	26
Warragul	Discharge to Hazel Creek	1,501	1,439	0	0	1,501	1,439
Moe	Discharge to Moe River	1,909	2,001	0	0	1,909	2,001
Sale	Irrigation to pasture	761	683	761	683	0	0
Regional Outfall System - urban wastewater	Recycled to Pine Gully (Australian Paper) or discharge to Bass Strait (Delray Beach)	3,974	4,623	90	45	3,884	4,578
Total water available for reuse		10,213	10,519	2,168	1,957	8,045	8,562
% reuse of water available for reuse				21.23	18.60	78.77	81.40
Regional Outfall System^ - industrial wastewater	Industrial wastewater discharged to Bass Strait (Delray Beach)	6,143	3,030	0	0	6,143	3,030
Saline Wastewater Outfall Pipeline*	Discharge to Bass Strait (McGaurans Beach)	9,278	9,538	0	0	9,278	9,538
Total saline wastewater		15,421	12,568	0	0	15,421	12,568
Grand total wastewater discharged		25,634	23,087	2,168	1,957	23,466	21,130
% reuse of grand total				8.46	8.48	91.54	91.52

*Wastewater discharged from the Saline Wastewater Outfall Pipeline is not treated by Gippsland Water; it is received and transferred to the discharge point as a treated product and its qualities do not meet EPA standards for reuse as irrigation water.

^The vast majority of wastewater treated in the Regional Outfall System is unsuitable for irrigation due to its high salt content.

Environment Protection Authority compliance summary

Gippsland Water is required to report on water quality conditions for environmental discharges and irrigation in relation to each wastewater treatment facility under Gippsland Water's corporate EPA licence.

The EPA compliance summary expressed in the table below outlines the median water quality limits that are required to be met by each individual facility. Compared to the last financial year, there has been an improvement to the water quality being discharged, which reflects on the treatment from the wastewater facilities. All wastewater treatment sites met the annual water quality compliance limits for the 2016-17 financial year.

Gippsland Water is continually striving to improve the quality of water discharged to the environment. Future upgrades to the Drouin Wastewater Treatment Plant will see improvements to the discharge quality and wastewater treatment to the growing population of Drouin. Saline Wastewater Outfall Pipeline effluent is not treated by Gippsland Water as it is a product of the Latrobe Valley power industry treated at AGL Loy Yang. For future improvement, Gippsland Water will work together with AGL Loy Yang to ensure their treatment methods continue to have no adverse impacts to the ocean outfall.

Site description	Total parameters compliant with EPA median limits		Total reportable parameters analysed		% parameters compliant with EPA median limits		Overall site compliance with EPA licence median
	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	
Drouin	70	66	84	77	83	86	Compliant
Heyfield	12	10	12	10	100	100	Compliant
Maffra	12	11	12	11	100	100	Compliant
Mirboo North	12	9	12	9	100	100	Compliant
Morwell	81	76	84	84	96	90	Compliant
Seaspray	12	12	12	12	100	100	Compliant
Stratford	12	12	12	12	100	100	Compliant
Willow Grove	12	9	12	9	100	100	Compliant
Neerim South	81	83	84	84	96	99	Compliant
Rawson	83	83	84	84	99	99	Compliant
Warragul	84	78	84	84	100	93	Compliant
Moe	82	82	84	84	98	98	Compliant
Sale	12	11	12	11	100	100	Compliant
Regional Outfall System	95	94	96	96	99	98	Compliant
Saline Wastewater Outfall Pipeline	223	300	264	300	84	100	Compliant

Alternative water sources

Gippsland Water does not use alternative water sources for potable water. Alternative sources are used for other purposes as described below.

Town/system	Annual total (ML)	Use
Drouin	90.6	Agriculture and recreation
Heyfield	81.0	Agriculture
Maffra	282.4	Agriculture
	3.5	Recreation
Maryvale (Gippsland Water Factory)	89.8	Industry
Mirboo North	21.4	Recreation
	32.5	Agriculture
Morwell	615.8	Wetlands Irrigation
Sale	761.0	Agriculture
Seaspray	19.0	Agriculture
Stratford	157.5	Agriculture
Willow Grove	13.5	Agriculture
Total	2,168.0	

Total groundwater

Raw water taken (ML)	2016-17	2015-16	2014-15
Briagolong	79	63	73
Sale	1,846	1,850	1,910
Dutson	62	47	44
Total	1,988	1,961	2,027

Bulk water entitlement reporting

Bulk Entitlement	Source of supply	Bulk Entitlement volume (ML)	Raw water volume taken (ML)	Reporting requirements in accordance with Bulk Entitlement clauses
Boolarra ¹	Walkleys and O'Gradys Creeks	145	0	<p>► Approval, amendment and implementation of programs under clauses 9 (Environmental Program) and 10 (Metering Program):</p> <ul style="list-style-type: none"> - <i>Environmental Program implemented.</i> - <i>Metering Program not required as no diversions are taking place.</i>
Gippsland Water – Blue Rock ²	Tanjil River	20,000	3,738 (2,701)	<p>Location and volume of water taken pursuant to clause 10: None.</p> <ul style="list-style-type: none"> • Implementation of programs under sub-clause 12.3 (Metering): Implemented. • The Bulk Entitlement for Blue Rock Dam is extracted from 3 points. Specified Point A is extracted directly from the reservoir. Specified Point B is extracted from the Tanjil River pump station. Specified Point C is extracted from the Latrobe River pump station. • Specified Point A - Blue Rock Dam Headworks Outlet (supply to Moondarra Reservoir and Willow Grove Water Treatment Plant): 2016-17 total = 532ML; 3 year rolling average: = 1,673ML. • Specified Point B - Tanjil River pump station: 2016-17 total = 2,169ML; 3 year rolling average: = 2,065ML. • Specified Point C - Latrobe River pump station: 2016-17 total = 0ML; 3 year rolling average: = 0ML.
Erica-Rawson	Trigger Creek	340	55	<p>► Approval, amendment and implementation of programs under clauses 9 (Environmental Program) and 10 (Metering Program):</p> <ul style="list-style-type: none"> - <i>Environmental Program implemented.</i> - <i>Metering Program implemented.</i>
Mirboo North	Little Morwell River (North Arm)	270	217	<p>► Approval, amendment and implementation of programs under clauses 9 (Environmental Program) and 10 (Metering Program):</p> <ul style="list-style-type: none"> - <i>Environmental program implemented.</i> - <i>Metering program implemented.</i>

Bulk Entitlement	Source of supply	Bulk Entitlement volume (ML)	Raw water volume taken (ML)	Reporting requirements in accordance with Bulk Entitlement clauses
Moe – Narracan Creek	Narracan Creek	3,884	1,607	<ul style="list-style-type: none"> ► Approval, amendment and implementation of programs under clause 8 (Making Allowances): <ul style="list-style-type: none"> - Nil. ► Approval, amendment and implementation of programs under clauses 9 (Environmental Program) and 10 (Metering Program): <ul style="list-style-type: none"> - Environmental Program implemented. - Metering Program implemented.
Moondarra ³	Tyers River	62,000	45,774	<ul style="list-style-type: none"> • Diversion at Tyers River pump station for 2016-17 = 0ML. ► Approval, amendment and implementation of programs under clauses 12 (Environmental Program) and 13 (Metering Program): <ul style="list-style-type: none"> - Environmental Program implemented. - Metering Program implemented.
			(47,504)	
Noojee ⁴	Deep Creek / Loch River	73	0	<ul style="list-style-type: none"> ► Approval, amendment and implementation of programs under clauses 9 (Environmental Program) and 10 (Metering Program): <ul style="list-style-type: none"> - Environmental Program implemented. - Metering Program not required as no diversions are taking place.
Seaspray	Merrimans Creek	133	34	<ul style="list-style-type: none"> ► Approval, amendment and implementation of programs under clauses 9 (Environmental Program) and 10 (Metering Program): <ul style="list-style-type: none"> - Environmental Program implemented. - Metering Program implemented.
Tarago	Tarago River	4,825	3,750	<ul style="list-style-type: none"> ► Approval, amendment and implementation of programs under clause 13 (Metering Program): <ul style="list-style-type: none"> - Metering Program implemented. • Pederson Weir / Westernport Pipeline diversions 2016-17: 3,538ML of 4,070ML entitlement. • Labertouche Creek diversions 2016-17: 0ML of 480ML entitlement. • Tarago Reservoir (Neerim South) diversions 2016-17: 212ML of 275ML entitlement.

Bulk Entitlement	Source of supply	Bulk Entitlement volume (ML)	Raw water volume taken (ML)	Reporting requirements in accordance with Bulk Entitlement clauses
Thomson-Macalister	Thomson River / Macalister River	2,335	1,398	<ul style="list-style-type: none"> Credits granted under clause 11: None. ► Approval, amendment and implementation of programs under clauses 12 (Metering Program): <i>Implemented.</i> • Clause 13.1 (b) Extraction at Maffra Weir: 1,103ML. Extraction at Thomson River at Heyfield: 248ML. Extraction at Lake Glenmaggie: 47ML. Extraction at Main Southern Channel: 0ML. Extraction at Cowwarr Weir: 0ML. • Clause 13.1 (d) Annual amount and location of water taken at any other works of the corporation: 0ML. • Clause 13.1 (g) Period and degree of restriction of supplies of annual entitlement: <i>100% allocation.</i>
Thorpdale ⁵	Easterbrook Creek	80	0	<ul style="list-style-type: none"> ► Approval, amendment and implementation of programs under clauses 9 (Environmental Program) and 10 (Metering Program): - <i>Environmental Program implemented.</i> - <i>Metering Program no longer required from September 2015 as supply not being used.</i>

(1) Boolarra Bulk Entitlement not currently utilised.

(2) Bulk Entitlement volume calculated as three-year rolling average (figure in brackets is volume for 2016-17).

(3) Bulk Entitlement volume calculated as two-year rolling average (figure in brackets is volume for 2016-17).

(4) Noojee Bulk Entitlement not currently utilised.

(5) Thorpdale Bulk Entitlement not currently utilised.

General reporting requirements

Temporary or permanent transfer of authority entitlements
No transfer of Authority entitlements in 2016-17.
Temporary or permanent transfers of licences or entitlements to authority
Gippsland Water has access to 400ML/y in Tarago Reservoir as drought contingency. This water is held in reserve under agreement with the Melbourne retailers but relinquished on 30 June each year if not used, and replenished with a new 400ML allocation. The agreement is current until 1 July 2018. This agreement originally provided access to water held in the Melbourne retailers' joint Bulk Entitlement. Bulk Water reform in the Melbourne system occurred in 2014-15 which disaggregated the joint entitlement providing individual entitlements for retailers. Gippsland Water has agreed with the retailers for this agreement to continue to operate under the reformed arrangements. Gippsland Water used 41.6ML under this agreement in 2016-17.
Amendments to bulk entitlements
No amendments to bulk entitlements in 2016-17.
New bulk entitlements
No new bulk entitlements in 2016-17.
Failure by authority to comply with provisions of bulk entitlements
Moondarra Bulk Entitlement: Passing flows were reduced from the required 30ML/d to 8ML/d for the period 29 March to 11 April 2017, against bulk entitlement rules. This was done to facilitate more favourable streamflow conditions for the construction of a Gippsland Water pipeline across the Tyers River at Wirilda Park. The reduction in streamflow was undertaken after consultation with DELWP, WGCMA and Southern Rural Water. A river "fresh" release was made after this period as compensation adopting a release pattern as recommended by WGCMA.
Difficulties experienced in complying with entitlement and remedial actions
None.

Water quality reporting

Gippsland Water undertakes water quality monitoring and reporting in line with the requirements of the Safe Drinking Water Regulations (SDWR) 2015 under section 56 of the *Safe Drinking Water Act 2003* (Vic). Detailed water quality reporting is available in the Key Performance Indicator table (see Part 4 under 'Corporate Key Performance').

Each week, we conduct a prescribed water quality sampling program, where water quality samples are taken at registered sampling points in accordance with the SDWR 2015 requirements. If there are potential changes to water quality which may be caused by weather or other unplanned events, we do more frequent sampling and monitor the range of tests. Analysis of the water quality samples is undertaken by independent laboratories with the water quality monitoring data made available to customers on request.

Residential daily drinking water consumption

The following table details residential water consumption per capita on a daily basis.

Month	L/person/day 2016-17	L/person/day 2015-16
July	187	175
August	160	156
September	196	198
October	138	147
November	184	193
December	162	175
January	220	252
February	223	211
March	226	238
April	212	226
May	262	237
June	166	174

Annual water consumption and number of assessments

Supply system	Residential		Non-residential		Major industry	Metered hydrant	Non-revenue ⁷	Total supplied	5 year average annual demand	Consumption variation (%)
	Billed connections ⁴	Billed volume ⁶ (ML)	Billed connections ⁴	Billed volume ⁶ (ML)	Billed volume ⁵ (ML)	Volume (ML)	Volume (ML)	Volume (ML)	Volume (ML)	
Briagolong	371	54.3	24	2.9	0.0	0.0	13.3	70.5	71.5	-1
Coongulla-Glenmaggie	465	35.1	9	5.2	0.0	0.0	4.7	45.0	43.3	4
Erica Rawson	313	34.2	46	16.5	0.0	0.0	3.5	54.1	74.0	-27
Heyfield	891	147.5	109	77.8	0.0	2.4	4.9	232.6	240.7	-3
Maffra-Stratford	3,188	564.9	317	91.9	282.8	5.1	130.4	1,075.1	1,091.9	-2
Mirboo North	764	114.1	87	29.3	0.0	0.0	69.2	212.7	189.6	12
Moe-Newborough ¹	11,311	1,650.2	882	299.0	1,445.6	16.4	284.5	3,695.7	3,640.4	2
Moondarra ²	25,659	4,407.9	2,474	813.1	41,375.1	3.2	1,487.6	48,086.8	48,507.0	-1
Neerim South-Noojee	688	132.3	66	29.0	0.0	0.4	33.0	194.7	192.5	1
Sale-Wurruk	7,156	1,155.1	873	272.6	199.7	3.1	150.8	1,781.2	1,781.3	0
Seaspray	357	20.2	11	7.5	0.0	0.1	4.0	31.8	30.1	6
Warragul-Drouin ³	13,593	2,008.9	1,224	391.1	234.5	7.7	680.8	3,323.1	3,020.5	10
Willow Grove	178	26.6	11	0.9	0.0	0.2	8.4	36.1	43.3	-17
Total	64,934	10,351.4	6,133	2,036.6	43,537.6	38.6	2,875.1	58,839.4	58,926.2	0

(1) Supplies Moe, Newborough, Trafalgar, Yarragon, Darnum North, Yallourn North and Thorpdale (carting).

(2) Supplies Boolarra, Churchill, Cowwarr, Glengarry, Hazelwood North, Morwell, Rosedale, Toongabbie, Traralgon, Traralgon South, Tyers, Jumbuk/Jeeralang and Yinnar.

(3) Supplies Buln Buln, Drouin, Nilma, Darnum South, Rokeby and Warragul.

(4) Number of assessments includes both connected and non-connected customers.

(5) Includes untreated water supplied to major customers from the Moondarra system.

(6) Treated water only.

(7) Includes raw water losses in the Moondarra system.

Non-revenue water summary

Non-revenue water total (ML)	2016-17	2015-16
	2,245	1,915
Infrastructure Leakage Index (ILI)	1.33	1.11
Real water losses (kL/connection/day)	0.085	0.072
Real water losses (kL/km/day)	3.4	2.9

Corporate water consumption

During 2016-17, Gippsland Water's water consumption at the Traralgon head office at 55 Hazelwood Road was estimated at 3,365 kilolitres (kL). The estimate was based on previous year's consumption due to faulty water meters.

	Total full-time equivalent (FTE) employees	Office space (m ²)	Water consumption (kL)	kL/FTE	Water consumption by office space (kL/m ²)
2016-17	220.02	3,335	3,365	15.29	1.01
2015-16	221.26	3,335	3,365	15.21	1.01

Major customer consumption

As required under the *Water Act 1989* (Vic), the number of Gippsland Water customers who consume more than 100ML per annum are shown below:

Volume range – ML per year	No. of customers
Equal to or greater than 100ML and less than 200ML	5
Equal to or greater than 200ML and less than 300ML	2
Equal to or greater than 300ML and less than 400ML	0
Equal to or greater than 400ML and less than 500ML	0
Equal to or greater than 500ML and less than 750ML	0
Equal to or greater than 750ML and less than 1,000ML	0
Greater than 1,000ML	4
Total no. of customers	11

Major customers and their participation in water conservation programs

The *Water Act 1989* requires water corporations to annually publish water conservation programs their major non-residential water users have undertaken. The following table details the water conservation programs completed by Gippsland Water's major customers who consume more than 200ML per annum:

Customer	Water conservation initiatives
AGL Loy Yang Pty Ltd (Traralgon)	<p>AGL Loy Yang aims to be a prudent and responsible user of water. AGL Loy Yang has ongoing maintenance and monitoring programs to maintain and improve the efficiencies already achieved through water saving initiatives. This includes:</p> <ul style="list-style-type: none"> • Increasing the cycles of concentration of the cooling towers. • Tighter control of cooling tower cycles. • Improved plant maintenance and operation to reduce demineralised water consumption and reduce excess waste generation. • Diversion of wastewater for fire service pond make-up water.
Australian Paper Pty Ltd (Maryvale)	<p>Australian Paper continues to focus on water consumption through the setting of strategic annual objectives (water/tonne production) and area budgets (ML/day) with progress communicated via monthly reports. Continuous improvement projects have focused on the accuracy of the site water balance, increasing awareness of water consumption and improving the internal recycling of water. Water saving initiatives continue to be explored to offset increases in production rates.</p>
Engie Australia (Hazelwood)	<p>Hazelwood used around 85 per cent of its overall raw water volume within its contracted volume in 2016, with approximately 12 per cent of total raw water used being directed to the management of water quality in the Hazelwood Cooling Pond during the drier period from January to May. This raw water for environmental management is dependent on climatic conditions, which requires additional raw water use in order to minimise water quality impacts of the cooling pond discharge to local streams. Employee awareness of water use and conservation continues to be communicated on a regular basis, with monthly performance against targets reported in monthly health and safety reports to employees. Potable water continues to be monitored and reported internally.</p>
Energy Australia Yallourn Pty Ltd	<p>Programs that Energy Australia has completed in 2016-17 consist of:</p> <ul style="list-style-type: none"> • Repairs undertaken to the Surge Water Vessels in Stage 1 and Stage 2. • Refurbishment program of intake valves from the Gippsland Water handover of the Yallourn basins. • Replacement of wall toilet units with dual flush systems in three bathroom amenities areas. • Installation of two waterless urinals in the Commercial House Building. • Connection of Fire Training Ground to water supply from fire service ponds and not from town water supply hydrants. • Sprinkler Testing completed in line with AS1851 2012 reduced testing regime of deluge and water fire response systems.

Customer	Water conservation initiatives
Lion – Dairy And Drinks, Lion Pty Ltd (Morwell)	As part of Lion Morwell's waste reduction and continuous improvement strategy, the site has implemented waste and utilities optimisation projects to improve environmental sustainability. A new hydration process for yoghurt making has seen the total water usage per kilogram of product increase to 3.8 litres per kilogram. Lion Morwell is actively investigating alternative options for the hydration process as well as further optimisation of cleaning processes to reduce this water usage. It is noted that future water usage may increase slightly due to greater use of water for cleaning rather than chemicals to achieve a better cost and environmental outcome.
Murray Goulburn Co-operative Co. Limited (Maffra)	As of 30 June 2017, Murray Goulburn was unable to provide comment regarding its water conservation initiatives.

PART 3

CUSTOMERS STAKEHOLDERS AND COMMUNITY

3

Gippsland Water's objective is to manage our resources to provide value to customers, stakeholders and the community, and to provide strong leadership and advocacy in sustainable water management.

Community consultation and engagement

Community-focused initiatives

The emphasis on community engagement gained momentum this year as we actively engaged with more than 300 people from across the region as part of a key targeted consultation program to help inform our Price Submission for 2018-2023.

This important consultation was central in developing our Price Submission which outlines our tariffs and investments over the next five years. Gippsland Water ran community focus groups and an online community forum in November 2016 to connect with customers and ask them about the levels of service they expect from us. The level and depth of this engagement allowed us to gain valuable insights into what customers expect, how they feel about the services they receive, and what they would like to see in the future.

A similar approach was also adopted for the development of Gippsland Water's Urban Water Strategy, which is our principal water resources planning document. The strategy is a 50-year plan about balancing supply and demand so that there is enough water for everyone in the long term. More than 30 customers participated in the focus groups which gave them the opportunity to voice their opinions on whether customers would rather use water more efficiently, build infrastructure or access alternative water sources to increase supply to meet the growing demand for water, or adopt a mix of approaches (see Part 2 under 'Urban Water Strategy').

Gippsland Water also attended and hosted a range of events throughout the 2016-17 period including an open day at the Sale Water Treatment Plant in October 2016 to coincide with National Water Week. The event offered free tours of the treatment plant which had been recently upgraded as part of a series of major projects in the Sale township.

Farmers' markets continued to be a useful method of meeting customers and providing information and receiving feedback on services and community needs. Staff from different areas of the business attended markets in Warragul, Traralgon and Sale.

Our partnership with the local neighbourhood house network saw information sessions held in Moe and Morwell. This activity allowed Gippsland Water to meet with customers, many of whom are on low incomes, to provide them with valuable information about their bills, water usage, hardship program, and payment methods.

Gippsland Water also provided sponsorship in the form of merchandise and monetary donations. We have committed to providing \$30,000 each year to initiatives that support the wellbeing of our communities, with all donations approved by our Community Consultative Committee. Sponsorship was extended to a range of community groups including the Sale Field Naturalists Club, Warragul Warriors Swimming Club, Traralgon Lions Club Christmas Parade, Morwell Historical Society, Arc Yinnar Art Gallery, the Gippsland Sustainable Schools Expo, and schools and sporting groups.

Our sponsorship also extended to the free hire of our portable water fountains to 56 local events, providing the community with clean fresh drinking water. The fountains featured at the AFL Gippsland NAB Auskick State Launch, Drouin Ficifolia Festival, Oktoberfest, Moe Dog's Day Out, Rosedale Man Cave Market, and many school athletics and swimming carnivals.

We also supplied our Mobile Water Trailer to larger events including the Victorian Swimming Championships, Traralgon Lions Club Carols by Candlelight at Victory Park, and the Suzie Quatro Leather Forever Encore Tour held at the Sale Botanic Gardens.

Gippsland Water continued to be active in the media landscape including social media. The activity saw a high number of positive stories about the

organisation in the local media with more than 1,460 likes to our Facebook page. Facebook was also used to provide information during incidents including a water leak in a high level tank within the Maffra system. It was effectively used as an additional avenue to inform customers in Maffra, Stratford and Boisdale to be vigilant with their outdoor water use as the tank underwent inspection and was patch-repaired within a week. A post on our Facebook page, which announced the repair accompanied with an image of the site, reached more than 1,000 people and gained 93 post clicks.

Community education

Water conservation and wastewater treatment education and awareness continues to be a key focus for our engagement with the community and schools, with a strong focus on the broader theme of sustainability.

The schools program aims to build an appreciation of water from a young age. For many years, we have delivered water education to schools and community groups in the local area. This commitment is continuing.

Free to schools and community groups within Gippsland Water's service area, our program incorporates a number of activities including tailored visits to schools, tours of our treatment plants and water storages, as well as demonstrations and presentations from experienced Gippsland Water staff.

The primary schools water education program focuses on four priority areas identified in consultation with local educators: the Natural and Urban Water Cycle, Water Efficiency, Water for Health and Hydration and After the Drain. In addition to these topics, secondary school programs support the geography curriculum, including 'Water in the World' and 'Water Sanitation'.

A total of 2,095 students from kinder to third year tertiary students from 39 schools, universities and educational institutions participated in our education program during the financial year. This included 93 school visits and 25 excursions to various Gippsland Water facilities. Feedback from teachers about the education program has been very positive with the majority indicating that the content is relevant, interesting, and has met their purpose.

Eighteen schools visited the Gippsland Water Factory and Vortex Centre with a total of 339 students ranging from Grade 2 to Year 12 secondary students.

Gippsland Water participated in local education events including the Maffra Show education

day, the Sustainable Skills Expo in Warragul, and the Wellington Rural Schools Cluster World Environment Day.

The National Water Week poster competition attracted a record number of entries from young students across central Gippsland. St Mary's Primary School Maffra and St Mary's Primary School Sale took out the school prizes.

Community education plays a vital role in promoting the value that we deliver for our customers, stakeholders, and the community. In addition to open days, community and industry groups such as the South East Australian Naturalists, Dairy Australia, Rotary Club of Sale and Latrobe Community Health Service toured a number of sites throughout the year. The Soil and Organic Recycling Facility alone attracted around 500 visitors, indicating a growing interest in the work that is done to develop compost from organic waste.

Water initiatives

Gippsland Water has continued to promote water conservation with the distribution of information packs at events, as well as trigger nozzles and showerheads to eligible customers during 2016-17. We further encouraged customers to get involved in the state government's new water efficiency program, 'Target Your Water Use', aimed at rural and regional Victorians. The program focuses on taking a longer-term view of water usage habits in the Gippsland region, while providing locals better access to the information they need to make informed decisions about the amount of water they use.

The 2016 'Sip-tember' initiative expanded on the previous year's 'Choose Tap for October' campaign which was a successful social media venture and partnership with peak sporting agency GippSport, featuring local 'ambassadors' including councillors and local personality 'Koko The Clown'. Sip-tember, which aimed to encourage the community to choose tap water, was launched in partnership with GippSport, and South Gippsland Water, Westernport Water, and East Gippsland Water under the corporations' Memorandum of Understanding. The campaign involved targeted cross-promotional social media posts covering a 'Choose Tap' theme each week during the month of September.

Wastewater initiatives

As well as Gippsland Water's ongoing program of promoting awareness about water conservation, we ramped up our 'Stop It. Don't Block It.' message in November 2016. 'Wastewater Month' saw the colour of our water bill change from blue to brown for a single billing cycle, accompanied by targeted social media posts to raise awareness about wastewater services with the tagline 'Flush, wash, spray – it all goes away for around \$2 a day'. One particular Facebook post, a light-hearted one-minute video of a person's urge to go to the toilet, reached a record 9,561 people. The video, which was viewed more than 4,690 times, was produced in-house. In addition to the campaign, 'Stop It. Don't Block It.' remains a key visual message for customers with branding placed on most of our operational trucks and fleet vehicles.

Local government initiatives

Gippsland Water maintains partnerships with Latrobe City, Wellington and Baw Baw shire councils with our commitment to providing permanent drinking water fountains installed at various locations across the region.

Choosing tap over sugary drinks was another successful campaign that we participated in to promote the Victorian government's H30 Challenge in March 2017. The joint initiative was in partnership with Latrobe Community Health Service, Latrobe City Council, Wellington Primary Care Partnership, and Wellington Shire. Again, this was a successful initiative gaining inroads into the community as measured by media mentions and social media traffic.

Community Consultative Committee

The Community Consultative Committee is made up of volunteer representatives that have been nominated by organisations representing customer demographics.

In the 2016-17 period, the committee met formally six times with internal speakers from Property Connections, Environment, Communications, Water Quality and Customer Service seeking input to process and issues management.

Our consultative committee comprises of seven members representing a diverse range of interests and organisations from across Gippsland Water's operating area.

The committee's objectives are to:

- Provide a direct link between Gippsland

Water and our customer base, enabling Gippsland Water to remain responsive to customer needs and concerns.

- Provide a mechanism by which Gippsland Water can understand problems, issues, and possible solutions from the perspectives of the various stakeholder groups.
- Provide Gippsland Water with access to valuable community/local knowledge.
- Provide feedback on community satisfaction with Gippsland Water's current level of service performance.
- Advise on the need for new or modified services.

The focus for the committee was around communication with our customer base and providing a community perspective on a range of projects. The committee participated in the endorsement of sponsorship requests submitted by local community groups, and provided suggestions, guidance and encouragement in a range of areas, including about effectively reaching out to low income customers in public housing.

Additionally, the committee helped shape 'customer values' research that was undertaken. The results from this research provided valuable insights and while forming a central part of Gippsland Water's next Price Submission, the results also provided an opportunity for the committee to best represent the interests of the wider customer base.

Social sustainability

Gippsland Water strives to meet the needs of all our customers, including those on low incomes or who are financially vulnerable. Listening to customers helps us continue to improve our Customer Care program.

We continue to focus on training team members in the early identification of customers experiencing financial difficulty and to be particularly vigilant where situations of family violence are identified.

The Customer Contact Centre and team members at reception are equipped with a broad range of skills in tailoring payment plans to meet customer needs. They are trained to assist customers in an empathetic and non-judgemental way.

Customer-focused initiatives

Gippsland Water continued to improve procedures and make it easier for customers to do business with us. Initiatives this year included the following:

- We continued to improve customer experience by making it easier while also driving down costs through better use of digital tools and channels. Our thinking toward how we can better fit into the lives of our customers based on their expectations on how and when they communicate and transact with us, while delivering efficiencies, has experienced change.
- With continued focus on making bills more manageable and convenient for customers, we continued campaigns to promote eBills and Direct Debit. These proved successful with 7,500 customers opting to receive their bills electronically (an increase of 1,500 customers from the previous year) and an additional 1,000 customers using the direct debit payment option in 2016-17, bringing the total to 9,000 customers on a direct debit payment plan.

- Property information statement systems have been automated resulting in a faster turnaround on responses to information statement requests.
- The online solicitor updates system continues to operate successfully with more than 65 per cent of solicitors' requests for information now completed using the system – an increase of 10 per cent from the previous year.

Energy and Water Ombudsman Victoria

The Energy and Water Ombudsman (Victoria) (EWOV) has the power to investigate and facilitate the resolution of disputes between Victorian electricity, gas and water customers and their service providers. EWOV provides Gippsland Water customers with independent advice, information and complaint resolution.

During 2016-17, EWOV handled 30 referrals on behalf of Gippsland Water customers. Twenty-seven of these referrals were handled as enquiries requiring no further action. No referrals were resolved by real time resolution, while three referrals were investigated by EWOV. All investigations were resolved.

Community service obligations

	2016-17 \$	2015-16 \$	2014-15 \$	2013-14 \$	2012-13 \$
Provision of concessions to pensioners	5,398,273	5,168,386	4,988,032	4,799,341	4,611,778
Rebates paid to not-for-profit organisations under the Water and Sewerage Rebate Scheme	279,443	274,263	273,523	268,530	249,182
Utility Relief Grant Scheme* payments	116,752	92,391	89,048	139,129	164,859
Water concession on life support machines – Haemodialysis	1,607	1,928	2,921	2,571	2,250

*The Utility Relief Grant Scheme is administered and managed by the Department of Health and Human Services and is accessed via direct application to the department by eligible concession cardholders.

Gippsland Water is required to comply with various State and Commonwealth legislation. As a statutory authority, we are governed by the Statement of Obligations issued by the Minister for Water. This section outlines our corporate structure, functions, policies and legislation.

Profile of the Board

Gippsland Water operates under a Board of Directors that are appointed by the Victorian government. Section 95 of the *Water Act 1989* (Vic) outlines the Minister for Water's need to appoint a board of directors consisting of not less than two and not more than nine directors and a managing director. Directors provide the Board with a mix of skills, experiences and a range of viewpoints. Gender balance and cultural diversity are also taken into consideration.

Therese Ryan (Chair)

LLB, GAICD

Appointed October 2015

Current term expires September 2019

Therese, LLB, GAICD, is an experienced director and former lawyer. She is presently a non-executive director of listed entity Bapcor Ltd, WA Super, Victorian Managed Insurance Authority, and VicForests. She is also an independent member of the Audit Committee of the City of Melbourne. She was previously a director of Yarra Valley Water and the Metropolitan Fire Brigade, and in her last executive role was Vice President and General Counsel of General Motors International Operations, based in Shanghai.

Greg Hade (Deputy Chair)

BBus, CPA, GAICD

Appointed October 2015

Current term expires September 2019

Greg has extensive experience as a non-executive director, including nine years as a director of Latrobe Regional Hospital and five years as a trustee director of Equisuper, a \$5 billion profit-for-member superannuation fund. His executive career spanned 40 years in the energy sector, most recently as Head of Finance, Merchant Energy AGL and Executive General Manager Finance (CFO) at Loy Yang Power. Greg has a Bachelor of Business, is a Certified Practising Accountant, and a Graduate of the Australian Institute of Company Directors.

Jo Benvenuti

Appointed October 2015

Current term expires September 2017

Jo is an experienced consultant across a range of consumer matters, specialising in consumer engagement and energy and water policy. Jo was previously Executive Officer of the Consumer Utilities Advocacy Centre and held executive positions for the Energy and Water Ombudsman Victoria (EWOV) and RSPCA Victoria. She was previously Chair of the Consumers' Federation of Australia. Jo has a Graduate Diploma in Public Policy.

Sarah Cumming (Managing Director)

B.A., LLB (Hons), EMBA, GAICD

Appointed October 2011

Resigned from Board on 7 March 2017

Commenced as Managing Director on 5 April 2017

Sarah has extensive experience in successfully leading transformational change and implementing large scale technology solutions across multiple tiers of government. Her expertise is in governance, strategic leadership, business transformation and creating enabling cultures to deliver process improvements.

In addition to her previous role of General Manager Corporate Services at Latrobe City Council, Sarah's experience covers a range of senior management positions at the Australian Securities and Investment Commission (ASIC), and commenced her career as a litigation lawyer with a national law firm.

Sarah lives in Gippsland and has a very strong connection to the Gippsland community.

Sarah has a Bachelor of Arts (Australian National University (ANU)), Bachelor of Law (Honours) (ANU), and a Master of Business Administration (Executive) (Mt Eliza/Melbourne Business School). She is also a graduate of the Australian Institute of Company Directors.

Malcolm Eccles

MSc, CEng, MIET, MAICD, FCFI

Appointed October 2011

Current term expires September 2017

Malcolm is the Chief Executive Officer and Managing Director of the Basslink Group (2007-current). The Basslink group owns power and telecoms transmission assets in Australia. He was previously Basslink's Assets and Operations Director (2005-2007).

Malcolm has held senior management and engineering roles with Siemens Power Services (2002-2005) and British Nuclear Fuels Ltd (1986-2002). He is a current Director and Executive Committee member of the International Cable Protection Committee (2007-current).

Malcolm has international management experience having led projects and operational businesses in Europe, USA, Asia and Australia. Malcolm has a Master of Science in Electrical Engineering and Management Studies. He is a Chartered Electrical Engineer (CEng), a member of the Institute of Engineering Technology (UK), a senior member of the Institute of Electrical and Electronic Engineers (US), a member of the Australian Institute of Company Directors, and a Fellow of the Chartered Management Institute (UK). Malcolm has also completed an Advanced Management Program at Henley Business School (UK) and the Australian Institute of Company Directors course. He is also a qualified health and safety practitioner, holding an International NEBOSH certificate.

Jane Oakley

Appointed October 2015

Current term expires September 2019

Jane is the Executive Manager Community, Information and Advocacy at Baw Baw Shire and was previously the Regional Director Regional Development Victoria Gippsland at the Department of State Development, Business and Innovation. Having worked in the telecommunications sector for a number of years, Jane has held senior leadership roles with Telstra Corporation primarily in sales and marketing. Jane has been a previous Director of Latrobe Regional Hospital. She has a Graduate Certificate in Regional Leadership, Diploma Practice Management, and Diploma Competitive Systems and Practices. Jane is also an accredited MBTI facilitator.

Margaret Supplitt

B.Eng (Civil), MIEAust

Appointed October 2015

Current term expires September 2017

Margaret has a Bachelor of Engineering (Civil) and is a MIEAust and is a Senior Project Manager at Crossco Consulting Pty Ltd. Her professional experience includes employment in local and state government agencies, the mining industry, property development and civil engineering consulting. Margaret's previous board experience includes membership of the Gippsland Lakes Ministerial Advisory Committee, East Gippsland Shire's Economic Development Advisory Board, and East Gippsland Marketing Inc., company secretarial roles and community committees. Margaret currently lives in East Gippsland and works throughout greater Gippsland.

David Mawer (Managing Director until 4 April 2017)

MSM, MBA, Dip.M, Dip. Bus. MAICD

David has held senior management roles internationally with electricity and gas utilities, both in the public and private sectors. Previously the Managing Director of Westernport Water, he is a former State Manager for BHP Billiton. He is a metallurgist and has a special interest in utility markets and industry deregulation. He was a director of the gas market regulator of NSW for four years. David was formerly a Director of savewater!@Alliance Inc. and a Committee Member of the Australian Water Association (AWA). David was responsible for the organisation's strategic and business planning and economic regulation.

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

Director	Board meeting		Safety, Health and Environment (SHE) Committee		Audit and Risk Committee		Executive Remuneration and Capability Committee	
	Eligible	Attendance	Eligible	Attendance	Eligible	Attendance	Eligible	Attendance
Therese Ryan	8	8	4	3	0	2	4	4
Greg Hade	8	8	0	0	4	4	4	4
Jo Benvenuti	8	8	0	1	4	3	0	3
Sarah Cumming	7	8*	3	2	1	1	4	4
Malcolm Eccles	8	7	4	4	4	4	0	3
Jane Oakley	8	8	0	0	4	4	0	0
Margaret Supplitt	8	8	4	4	0	0	0	4
David Mawer	6	6	0	3	3	3	3	3

*Attended one meeting as a guest.

Profile of the Executive Leadership Team

The Executive Leadership Team is responsible for delivering the objectives of the Board.

Sarah Cumming (commenced as Managing Director on 5 April 2017)

See Sarah's profile under 'Profile of the Board'.

Paul Clark, General Manager Customer Service and Communications

Grad. Cert. Dispute Resolution

Paul is responsible for Corporate Communications, Customer Service, Major Customers and Property Development. With a background in the utilities sector, Paul holds postgraduate qualifications in dispute resolution and has extensive experience in customer service and stakeholder management. Previously the General Manager Customer and Market Services with Essential Energy in New South Wales, Paul is committed to community engagement and effective communications with customers and the community.

Nicole Griffin, General Manager Assets and Agribusiness

B.App Sci (SysAg) Grad Dip EnvMgmt GAICD

Nicole is responsible for Asset Management, Planning and Delivery, the Soil and Organic Recycling Facility, and Agribusiness. Nicole has worked in agribusiness for the past 22 years and has spent eight years working in the biotechnology sector. Nicole has trained as an agronomist and spent several years in a consulting capacity in the cotton and broad acre industries. Most recently, Nicole was working as the Regional Marketing Manager looking after the Asia Pacific business for Monsanto. Nicole is currently completing her Executive MBA and has a strong interest in sustainable agricultural practices and regional economic development.

Peter Skeels, General Manager Operations

BBus. (Acct. and Economics), FCPA

Peter is responsible for the management and leadership of the organisation's operational areas of water and wastewater treatment, water quality, bulk water storage and supply, bulk waste transport, potable water distribution, sewer reticulation and information technology. He is also responsible for Gippsland Water's internal service functions of safety, environment and emergency management. Peter has more than 36 years of experience in the energy and water utilities sector and has

held a range of senior leadership roles in varied infrastructure, and service based businesses within these market segments.

Tony Staley, General Manager Corporate Services

BBus (Acct.), GradDipACG, FCPA, ACSA, GAICD

Tony is responsible for the organisation's commercial services, financial and management accounting and organisational development. He has more than 30 years of experience working primarily in the utilities sector in the Gippsland region. These roles have included financial and management accounting, strategic/business planning and economic regulation. Tony's core strengths are in accounting, economic regulation, business modelling, financial forecasting and governance.

David Mawer (Managing Director until 4 April 2017)

See David's profile under 'Profile of the Board'.

Audit and Risk Committee

Gippsland Water's Audit and Risk Committee supports the Board in discharging its oversight responsibilities related to financial reporting, risk management, maintenance of sound systems of internal control, assurance activities including internal and external audit, and the organisation's performance with regard to legislative and regulatory compliance.

During the 2016-17 financial year, the Audit and Risk Committee met four times.

2016-17 Audit and Risk Committee members

Geoff Harry – Independent Chair

July 2014 – current

Appointed Chair September 2015

Attended all four meetings during the reporting year

Geoff is a Chartered Accountant and a graduate member of the AICD. He was an assurance partner at PricewaterhouseCoopers (PwC) for 25 years, and in addition to servicing a number of large corporate clients of PwC, Geoff was responsible for assurance and consultancy services to several water corporations in Melbourne and regional Victoria. He retired from PwC on 31 December 2006. Since then, Geoff has held roles with Jemena (formerly Alinta) for two years, and Fortescue Metals Group Limited for three years as the Chief Risk and Assurance Officer. He retired from full

time executive roles on 30 June 2014.

Geoff has also been a leader in the development of improved governance performance and reporting for the Victorian local government sector over many years, and he has developed and delivered training courses on enhancing the effectiveness of audit committees in that sector.

Geoff has held a number of independent memberships of audit committees since his retirement and is currently a member of audit and risk committees at the Department of Premier and Cabinet in Victoria, City of Melbourne, City of Greater Geelong (Chairman), City of Monash (Chairperson), Regional Kitchens Group and Orygen. Geoff is also Chairperson of a large body corporate holiday resort in Queensland.

Neil Greenaway – Independent Member

July 2015 – current

Attended three of the four meetings during the reporting year

Neil is currently a consultant to the not-for-profit and public sector. He is a Fellow of Chartered Accountants A&NZ, Fellow of CPA Australia, Fellow of Governance Institute of Australia, Fellow of Chartered Institute of Secretaries and Administrators, and a Fellow of the AICD. He is also honorary fellow of the Royal Australian College of General Practitioners.

Neil has held executive, governance and finance positions at Medibank Private and St Vincent's Health. He has also held director/trust positions with the Royal Australian College of General Practitioners, Greater Metropolitan Cemeteries Trust and the Necropolis Springvale.

Neil currently holds director and independent governance roles with Eastern Victoria GP Training (Chairperson), member of Audit and Risk Management Committee of City of Frankston (Chairperson), Box Hill Cemetery Trust, and RACGP Oxygen.

The Audit and Risk Committee also included the following Board members:

- Jo Benvenuti (from November 2015).
- Malcolm Eccles (from November 2012).
- Greg Hade (from November 2015).
- Jane Oakley (from November 2015).

Board Safety, Health and Environment (SHE) Sub-Committee

Gippsland Water's Safety, Health and Environment (SHE) Committee provides reports and recommendations to the Board regarding a range of strategic and performance issues relating to Occupational Health and Safety, and environmental management at Gippsland Water.

The SHE Committee encourages employee participation and a team-based consultative approach to occupational health and safety. The objectives of the committee are to provide an avenue for employee and management representatives to monitor and evaluate safety performance, and consult and communicate changes in occupational health and safety.

The SHE Committee met four times in the calendar year. Its members for 2016-17 were:

Current SHE Board Committee members

- Malcolm Eccles (Chair)
- Therese Ryan
- Margaret Supplitt

Former SHE Committee members

- Sarah Cumming (Board Director resigned March 2017)

Executive Remuneration and Capability Committee

Gippsland Water's Executive Remuneration and Capability Committee is responsible for the implementation of the Executive Remuneration Policy and ensuring its compliance with the Government Sector Remuneration Panel guidelines. The committee also takes a strong focus on executive performance and ensuring the delivery of our organisational development objectives.

The committee met four times in 2016-17. Its members for 2016-17 were:

Current Executive Remuneration and Capability Committee members

- Jane Oakley (Chair effective from June 2017)
- Therese Ryan
- Greg Hade

Former Executive Remuneration and Capability Committee members

- Sarah Cumming (Board Director resigned March 2017)

Corporate Key Performance Indicators 2016-17

Gippsland Water continued to report against a set of established key performance indicators (KPIs) throughout the reporting period. The KPI targets are reviewed annually to ensure relevance and the provision of a basis for improved performance.

In the 2016-17 reporting period, Gippsland Water reported against 33 indicators that measured performance for water, wastewater, customer service, safety, and employee availability. These indicators are directly linked to the 2013-18 Water Plan and are aligned with the service standards reported to the Essential Services Commission (ESC) six-monthly and annually.

Key Performance Indicators 2016-17

KPI no.	KPI	Unit of measure	2016-17 Target	2016-17 Actual	2015-16	2014-15	2013-14	2012-13
Water								
1	Unplanned water supply interruptions	Per 100km	19.5	15.37	18.47	19.69	8.70	22.07
2	Average time taken to attend bursts and leaks (priority 1)	Minutes	35	27.15	26.48	29.34	33.82	25.01
3	Average time taken to attend bursts and leaks (priority 2)	Minutes	138	60.30	56.72	52.76	90.74	69.29
4	Average time taken to attend bursts and leaks (priority 3)	Minutes	2,000	1,166.79	1,067.52	991.81	1,449.34	2,093.27
5	Unplanned water supply interruptions restored within 5 hours	Per cent	98	98.78	98.97	98.54	98.82	98.89
6	Planned water supply interruptions restored within 5 hours	Per cent	90	98.52	97.93	97.77	96.19	97.09
7	Average unplanned customer minutes off water supply	Minutes	10.8	8.63	8.51	10.69	7.88	10.33
8	Average planned customer minutes off water supply	Minutes	12	11.15	12.90	27.35	18.51	31.67
9	Average frequency of unplanned water supply interruptions	Number	0.12	0.10	0.11	0.130	0.108	0.120
10	Average frequency of planned water supply interruptions	Number	0.08	0.08	0.08	0.17	0.11	0.20

KPI no.	KPI	Unit of measure	2016-17 Target	2016-17 Actual	2015-16	2014-15	2013-14	2012-13
11	Average duration of unplanned water supply interruptions	Minutes	90	87.37	76.15	80.57	73.10	86.43
12	Average duration of planned water supply interruptions	Minutes	150	141.98	156.66	157.82	170.86	156.88
13	Number of customers experiencing more than 5 unplanned water supply interruptions in the year	Number	0	36 ¹	0	0	0	0
14	Unaccounted for water	Per cent	12	14.7 ²	12.9	14.4	16.6	14.2
Sewerage								
15	Sewerage blockages	Per 100 km	18	17.29	14.88	14.98	8.76	7.93
16	Average time to attend sewer spills and blockages	Minutes	40	20.08	23.43	28.84	30.63	40.78
17	Average time to rectify a sewer blockage	Minutes	95	71.46	78.68	87.44	93.70	95.70
18	Spills contained within 5 hours	Per cent	98	100	98.59	100	100	96
19	Customers receiving more than 3 sewer blockages in the year	Number	0	0	0	0	0	0
Customer service								
20	Complaints to Energy and Water Ombudsman of Victoria (EWOV)	Per 1,000 customers	0.08	0.06	0.028	0.059	0.030	0.015
21	Telephone calls answered within 30 seconds	Per cent	84	84.76	88.70	82.33	83.04	82.58

KPI no.	KPI	Unit of measure	2016-17 Target	2016-17 Actual	2015-16	2014-15	2013-14	2012-13
Additional service standards								
22	Population receiving water meeting E.coli standards	Per cent	100	100	88.9	100	100	100
23	Population receiving water meeting disinfection by-products standards	Per cent	100	100	100	100	100	100
24	Population receiving water meeting turbidity standards	Per cent	100	100	100	100	100	100
25	Total CO ₂ equivalent emissions	Tonne (000s)	70	37.55	44.87	42.7	38.25	42.87
26	Recycled water target	Per cent	10.3	8.46 ³	8.5	7.52	5.23	6.70
27	Biosolids reuse	Per cent	100	100	100	100		
28	Country Towns Water Supply and Sewerage (CTWSS) connections	Number	250	241 ⁴	864	536	280	0
Our people								
29	No. of significant incidents per month / total number of reports per month	Per cent	< 5	2	2			
30	Lost Time Injury Frequency Rate	Number	≤ 6.2	7 ⁵	15			
31	Average severity index for incidents reported	Number	≤ 4	2.96	3.25			

KPI no.	KPI	Unit of measure	2016-17 Target	2016-17 Actual	2015-16	2014-15	2013-14	2012-13
32	No. of reported incidents without injury (near misses) per monthly / total no. of reports per month	Per cent	> 25	27	31			
33	Employee availability	Hours	≤ 34 annually per employee	32.07	30.70	31.47	29.94	32.50

- (1) **KPI 13** - A 900m long length of asbestos cement water main in Stratford failed numerous times at a number of locations along its length between November 2016 and April 2017. All failures within the area resulted in 36 customers experiencing 11 unplanned interruptions during that period. In the five years before November 2016, there had been no failures on this section of pipeline. As a result of this cluster of failures, the main was included as an emergency addition to the 2016-17 water main renewal program and has been replaced.
- (2) **KPI 14** - The target of 12 per cent was not achieved this year. The outcome of 14.7 per cent is higher than last year's figure of 12.9 per cent. Unaccounted for water can comprise of real losses from causes such as leaks (e.g. ageing pipelines), water main breaks, firefighting and mains flushing, as well as apparent losses that arise from metering inaccuracies in customer and bulk system meters.
- (3) **KPI 26** - Across the 2016-17 financial year, Gippsland Water reused 8.46 per cent (2,168ML) of the 25,634ML of wastewater disposed by the organisation. While the percentage of wastewater treated and reused has slightly reduced from 2015-16, the overall volume has increased by 221ML. Nine out of the 10 wastewater treatment plants with current reuse arrangements with Gippsland Water's Agribusiness arm, or third-party agreements, are reusing 100 per cent of treated water produced. 2016-17 is the fourth year running that treated wastewater reuse volumes have increased. These consecutive increases are largely attributable to significant volumes of irrigation from the Sale system at Dutson Downs where new pivot irrigation systems were commissioned in August 2015. Moderate increases in irrigation were also achieved at Drouin with the completion of the Bellbird Park reuse scheme by Baw Baw Shire becoming operational in January 2017.
- Despite falling short of 100 per cent reuse at one of the 10 plants, achievement of the 10.3 per cent reuse target could not have been achieved without significant changes in the following:
1. Entering into new reuse agreements at plants not currently supplying reuse water.
 2. A reduction in volume discharged at plants not producing reuse water and/or an increase in overall volume produced at reuse sites.
- (4) **KPI 28** - Due to the early connections in 2014-15, the project has been continually running ahead of the original forecast value and although subsequent years have been below individual yearly forecasting, the overall project connections have been ahead of schedule to see completion in 2016-17.
- (5) **KPI 30** - Four lost time injury claims have been accepted for Gippsland Water employees for the 2016-17 year.

Freedom of Information Act 1982 (Cth)

Gippsland Water is considered a government agency under the terms of the *Freedom of Information Act 1982 (Cth)* and is required to comply with procedures that have been prescribed under which members of the public may gain access to information held by Gippsland Water. A decision to release information is made by an authorised officer.

The following information is available on request, subject to the *Freedom of Information Act 1982 (Cth)*:

- A statement that declarations of pecuniary interests have been duly completed by all relevant officers.
- Details of shares held by a senior officer as nominee or held beneficially in a statutory authority or subsidiary.
- Details of publications produced by the entity about itself, and how these can be obtained.
- Details of changes in prices, fees, charges and rates and levies charged by Gippsland Water.
- Details of any major external reviews carried out on Gippsland Water.
- Details of major research and development activities undertaken by Gippsland Water.
- Details of overseas visits undertaken including a summary of the objectives and outcomes of each visit.
- Details of major promotional, public relations and marketing activities undertaken by Gippsland Water to develop community awareness of Gippsland Water and its services.
- Details of assessment and measures undertaken to improve the occupational health and safety of employees.
- A general statement on industrial relations within Gippsland Water and details of lost time through industrial accidents and disputes.
- A list of major committees sponsored by Gippsland Water, the purposes of each committee and the extent to which the purposes have been achieved.

In the 2016-17 reporting period, Gippsland Water received three requests for information under the *Freedom of Information Act 1982 (Cth)*. The requested information was provided in accordance with FOI guidelines.

Categories of documents

Gippsland Water creates a large number of documents and records in the course of our work. We utilise a computerised records management system to manage correspondence and documents. We use online computer systems to manage financial, human resource and other operational activities and plans relating to our water supply, waterways, and drainage and sewerage responsibilities. Historical archives on our activities are available through the Public Record Office Victoria. More information is available under 'Part II Information Statement' on the Gippsland Water website at <https://www.gippswater.com.au/residential/about-us/governance/freedom-information>.

FOI requests

Requests for information held by Gippsland Water under the *Freedom of Information Act 1982 (Cth)* should be made in writing to:

Authorised FOI Officer:

Lynley Keene

Manager Commercial Services

Gippsland Water

PO Box 348 Traralgon VIC 3844

Phone: 1800 050 500

Email: foi@gippswater.com.au

The request should identify as clearly as possible, which document is being requested and be accompanied by the appropriate application fee (the fee may be waived in certain circumstances). The application fee effective from 1 July 2017 is \$28.40.

Information required under Part II of the *Freedom of Information Act 1982 (Cth)* is also available on the Gippsland Water website at <https://www.gippswater.com.au/residential/about-us/governance/freedom-information>.

The statement includes information about Gippsland Water functions, decision making, consultation arrangements and publications. It also outlines how to make a Freedom of Information request and how to request information outside the scope of the *Freedom of Information Act 1982 (Cth)*.

Protected Disclosure Act 2012 (Vic)

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

Gippsland Water does not tolerate improper conduct by employees, nor reprisals against those who come forward to disclose such conduct. We are committed to ensuring transparency and accountability in our administrative and management practices and support the making of disclosures that reveal corrupt conduct, conduct involving a substantial mismanagement of public resources, or conduct involving a substantial risk to public health and safety or the environment. Our commitment is incorporated in our Code of Conduct and our Protected Disclosure Procedures.

Where a disclosure is brought to Gippsland Water's attention by an investigative body, we will take all reasonable steps to protect people who make such disclosures from any detrimental action in reprisal for making the disclosure. It will also afford natural justice to the person who is the subject of the disclosure to the extent it is legally possible.

What is a 'protected disclosure'?

A protected disclosure is a complaint of corrupt or improper conduct by a public officer or a public body. Gippsland Water is a public body for the purposes of the Act and a public officer can be a Gippsland Water employee (including temporary/contract staff), director or independent committee member.

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 Gippsland Water or our board members, officers or employees by contacting the Independent Broad-Based Anti-Corruption Commission Victoria

using the contact details provided below. Please note that Gippsland Water is not able to receive protected disclosures.

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

Gippsland Water's procedures can be accessed at <https://www.gippswater.com.au/residential/about-us/governance/corporate-documents/protected-disclosure-policy>.

Contact

Gippsland Water Protected Disclosure Coordinator

Lynley Keene

Manager Commercial Services

Gippsland Water

PO Box 348, Traralgon Vic 3844

Phone: 1800 050 500

Independent Broad-Based Anti-Corruption Commission Victoria

Address: Level 1, North Tower, 459 Collins Street, Melbourne Victoria 3001

Mail: IBAC, GPO Box 24234, Melbourne Victoria 3000

Website: www.ibac.vic.gov.au

Phone: 1300 735 135

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

In the period 2016-17, Gippsland Water did not notify IBAC of any disclosures.

National Competition Policy

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

Financial Management Act 1994 (Vic)

Information relevant to the headings listed in Financial Reporting Direction (FRD) 22H is held at Gippsland Water's Traralgon office and is available on request, subject to the *Freedom of Information Act 1982* (Cth).

Public Administration Act 2004 (Vic)

The *Public Administration Act 2004* (Vic) lists principles that must be observed by public sector organisations and its employees. Gippsland Water employees observe these principles.

The Code of Conduct for the Victorian Public Sector is issued to all employees at their induction to promote integrity and conduct standards. Required behaviours are set out in all staff performance plans.

Gippsland Water is committed to applying merit and equity principles when appointing staff. The selection processes ensure that applicants are assessed and evaluated fairly and equitably on the basis of the key selection criteria and other accountabilities without discrimination.

For more information on the Code of Conduct, visit the Victorian Public Sector Commission website: <http://vpssc.vic.gov.au/resources/codes-of-conduct>.

Building Act 1993 (Vic)

Gippsland Water complies with the *Building Act 1993* (Vic), the Building Regulations 2006 and associated statutory requirements and amendments.

An Occupancy Permit is obtained for new facilities or for upgrades to existing facilities endorsed by a Municipal Building Surveyor or a Registered Building Surveyor Practitioner.

Conflict of interest

Managing conflicts of interest is an important aspect of Gippsland Water's operations. The integrity of the organisation relies on public confidence that employees and board directors will act fairly, impartially, and in the best interests of customers, the community, and stakeholders.

Gippsland Water has a Conflict of Interest Policy and Conflict of Interest Guidelines which provide a framework for all employees and board directors in managing conflicts of interest.

Disclosure of major contracts

During the reporting period, Gippsland Water did not enter into any major contracts with a value exceeding \$10 million.

Government advertising expenditure

Gippsland Water's expenditure for the 2016-17 reporting period on government campaign expenditure did not exceed \$100,000.

Local Jobs First – Victorian Industry Participation Policy (VIPP)

The *Victorian Industry Participation Policy Act 2003* (Vic) requires Gippsland Water to report on its implementation of the Local Jobs First – Victorian Industry Participation Policy (VIPP).

The policy was developed by the Victorian Government to ensure that applicable projects use local suppliers when and where it offers best value for money.

Gippsland Water is required to apply the policy in all tenders over \$1 million where state or federal funding has been utilised for the project.

During the reporting period, three contracts commenced totalling \$4.93 million and three contracts were completed totalling \$5.04 million to which the VIPP applied.

Overseas travel

Approval was granted for Gippsland Water Manager Agribusiness Jonathan Craven to travel internationally to Europe and North America as part of his Churchill Fellowship from 16 May to 5 August 2016. This travel was funded by the Churchill Fellowship and supported by Gippsland Water as a development opportunity.

Jonathan used the opportunity to research effective recycling of urban and agricultural wastes to provide positive outcomes for agriculture. His finding will assist in the further development of Revive™ Recycled Compost at Gippsland Water's Soil and Organic Recycling Facility and the wider agricultural community across Australia.

Approval was granted for overseas travel to New Zealand for Paul Clark, General Manager Customer Service and Communications, and Mark Heffernan, Manager Information Communication and Technology (ICT), from 7-9 February 2017.

The purpose of the travel was to visit Watercare in Auckland. Gippsland Water benefited significantly from understanding Watercare's process for selecting our future billing system, as Gippsland Water was at a similar point at that time with a forward looking approach. The areas of interest were:

- Understanding Watercare's wider ICT architecture.
- Current challenges in the regulatory and customer environments.
- Governance processes around system procurement.
- System requirements documentation and proposed system assessment process.
- Understanding any digital/customer strategy.
- Approach to using customers and data to drive business decisions.
- Key process changes being considered.
- Analytics and customer insight.
- Change management and support structure for change.

Approval was also given for travel to New Zealand from 28 April to 6 May for two Water Treatment group staff members Ben Ottery and Steven Gore to attend the Water Industry Operations Group (WIOG) New Zealand Conference and Water Industry Operators of Australia (WIOA) tour to New Zealand, Queenstown.

The event was a technical study tour for water industry water and wastewater operational staff to their New Zealand counterparts. Gippsland Water has supported this tour on a number of

occasions and has brought innovations and process improvements back to Gippsland Water which have since been implemented.

The trip involved four days of visiting New Zealand water utilities and getting exposure to technologies, process and systems in use, and culminated with a visit to the New Zealand equivalent of the Bendigo WIOA conference in Queenstown, New Zealand. The conference consisted of trade exhibitions and technical presentations.

The technical program covered various aspects of the industry. Presentations covered various issues, including:

- Management of dams and storages.
- Water treatment.
- Water and wastewater reticulation.
- Wastewater collection and treatment.
- Use of reclaimed water or biosolids.
- Consultation and public education.
- Development and application of new technologies.
- New infrastructure projects relating to water and wastewater.
- Project management.
- Asset management.
- Training and safety issues.
- Sharing of operator experiences.

Consultant services

In 2016-17, there were 16 consultancies where the total fees payable to the consultants were \$10,000 or greater. The total expenditure incurred during 2016-17 in relation to these consultancies was \$1,124,660.54 (excl. GST). In 2016-17, there were 15 consultancies where the total fees payable to the consultants were less than \$10,000. The total expenditure incurred during 2016-17 in relation to these consultancies was \$74,617.73 (excl. GST). Details of individual consultancies (valued at \$10,000 or greater) are noted in the table below.

Consultant	Purpose of consultancy	Start date	End date	(\$ thousand)		
				Total approved	Expenditure 2016-17	Future expenditure
Red Handed Creative P/L	Customer engagement services	1/12/2016	30/06/2017	155.0	155.0	-
KPMG	Asset Management Strategy and Price Submission	1/05/2017	30/06/2017	139.5	139.5	-
Mott Macdonald Australia P/L	Asset management plans	1/07/2016	30/06/2017	136.5	136.5	-
Insync Surveys P/L	Customer Satisfaction Survey	1/09/2016	30/11/2016	100.5	100.5	-
Aquenta Consulting P/L	Pricing Submission project cost estimates	1/01/2017	30/06/2017	98.0	98.0	-
SMEC Australia P/L	Various surveying consultancy services	1/07/2016	30/06/2017	85.6	85.6	-
Collab IT Systems P/L	Water treatment plant implementation consultancy services	1/09/2016	30/06/2017	78.0	78.0	-
CH2M Hill Australia P/L	Gippsland Water Factory process engineering advice	1/08/2016	31/05/2017	72.5	72.5	-
Risk2C P/L	Evaluation of technical panel EOI and tenders	1/07/2016	30/04/2017	69.0	69.0	-
R & I Consulting P/L	Strategy consulting services	1/04/2017	30/06/2017	48.9	48.9	-
Ernst & Young	Residential demand modelling re 2017 Price Submission	1/07/2016	31/12/2016	38.0	38.0	-

				(\$ thousand)		
Consultant	Purpose of consultancy	Start date	End date	Total approved	Expenditure 2016-17	Future expenditure
Yarra Valley Water Limited	OD HR consultancy services	1/10/2016	30/06/2017	35.0	35.0	-
UXC Consulting P/L	VPDSS review	1/07/2016	30/06/2017	23.9	23.9	-
ECOS Environmental Consulting	Domestic Wastewater Management Plan consultancy services	1/07/2016	31/07/2016	18.8	18.8	-
Pitcher Partners Consulting P/L	Service strategy	1/09/2016	30/11/2016	14.4	14.4	-
Rodwells and Co P/L	Agronomy services	1/07/2016	30/06/2017	11.1	11.1	-

For the requirements of FRD 22H, a consultant is a particular type of contractor that is engaged primarily to perform a discrete task for an entity that facilitates decision making through:

- (i) Provision of expert analysis and advice; and/or
- (ii) Development of a written report or other intellectual output.

Information Communication and Technology expenditure

	(\$ million)			
	BAU ICT expenditure Total	Non BAU ICT expenditure Total = A + B	Operational expenditure A	Capital Expenditure B
2016-17	9.3	0.3	0.0	0.3
2015-16	8.4	2.7	0	2.7

Note: BAU - Business as usual.

PART 5

ORGANISATIONAL SUCCESS

Gippsland Water is committed to ensuring the ongoing sustainability of the organisation through continued investment in our people, our systems and our physical assets.

Equal Employment Opportunity

Gippsland Water complies with Equal Opportunity legislation, the Victorian Public Sector Code of Conduct, and the *Charter of Human Rights and Responsibilities Act 2006* (Vic).

Gippsland Water's employee induction program and regular Equal Opportunity training highlights the policies and procedures around discrimination, bullying, harassment and violence, including the employee assistance and contact officer programs, to provide information, support and processes for employees who feel harassed or bullied at work.

There was one Equal Employment Opportunity complaint at Gippsland Water for the reporting period.

Community inclusiveness

Gippsland Water has recruitment policies that ensure a fair, open and transparent opportunity for all potential employees.

We have supported a number of career initiatives, including active involvement in the Industry Placement Program in association with Federation University, Churchill and by hosting work experience students from local secondary schools.

Employment and development opportunities for young people

Opportunities for young people at Gippsland Water include:

- Work experience.
- Indigenous traineeships – 12 month and 24 month opportunities.
- Water and Wastewater Operator traineeships.
- Vacation employment.
- Industry Placement Program, Federation University, Australia.
- Water Industry Traineeship Program – 24 month training and development opportunity.
- Apprenticeships – hosting placements.

These programs have provided young people with the ability to acquire and expand their work experience, creating positive and lasting skills development and competencies.

These programs have enabled two industry placement students and four vacation students to obtain temporary casual employment with Gippsland Water.

Diversity and Inclusion Strategy and Action Plan

As an organisation, Gippsland Water aims to create a high performing, inclusive learning and working environment that values diversity and promotes equality and inclusion. We strive to support Gippsland Water employees to achieve their full potential, free from prejudice, bias and discrimination.

Our focus is on creating an inclusive culture where our efforts are dedicated to raising awareness, removing barriers, and enabling change by implementing initiatives and actions for enablement through the development and delivery of a targeted diversity and inclusion strategy.

As part of this strategy, Gippsland Water set targets for achievement by 2020 with endorsement from the Board and are currently in an 'awareness and visibility' stage of implementing initiatives and actions. Positive progress has been made in enabling gender diversity at a senior leadership level as well as for the Aboriginal and Torres Strait Islander (ATSI) data set with specific development and engagement of two indigenous traineeships. The following table outlines the targets and progress to date.

Diversity and inclusion data set	% Target	% Actual progress 2016-17	% Actual progress 2015-16
Women in senior leadership – (Managing Director and general managers)	40	40	20
Women in senior leadership – (Board, (Managing Director and general managers)	40	55	50
Identified disability	5.80	Data not available	Data not available
ATSI	1.30	1.4	0.35
Language Other Than English (LOTE)	9.70	2.4	2.5
Caring responsibilities	35	Data not available	Data not available
LGBTI	7	Data not available	Data not available
Workforce flexibility	25	13.5	10.1

Gender equity

A total of 90 women were employed at Gippsland Water during the reporting period, representing 32 per cent of the full-time equivalent workforce. Women worked across all levels of the organisation including board, executive, senior management, team leadership, engineering, scientific, technical and administrative roles.

During 2016-17, 47 per cent of position appointments were women.

Gippsland Water continues to encourage women to participate in leadership, networking and development opportunities, including coordinating the inaugural women in water event which acknowledged and embraced gender diversity within the industry.

	2016-17	2015-16
Executive staff (including Managing Director)	6	5
Female	2	1
% Female	33	20
Male	4	4
% Male	67	80
Senior managers	16	18
Female	3	2
% Female	19	11
Male	13	16
% Male	81	89

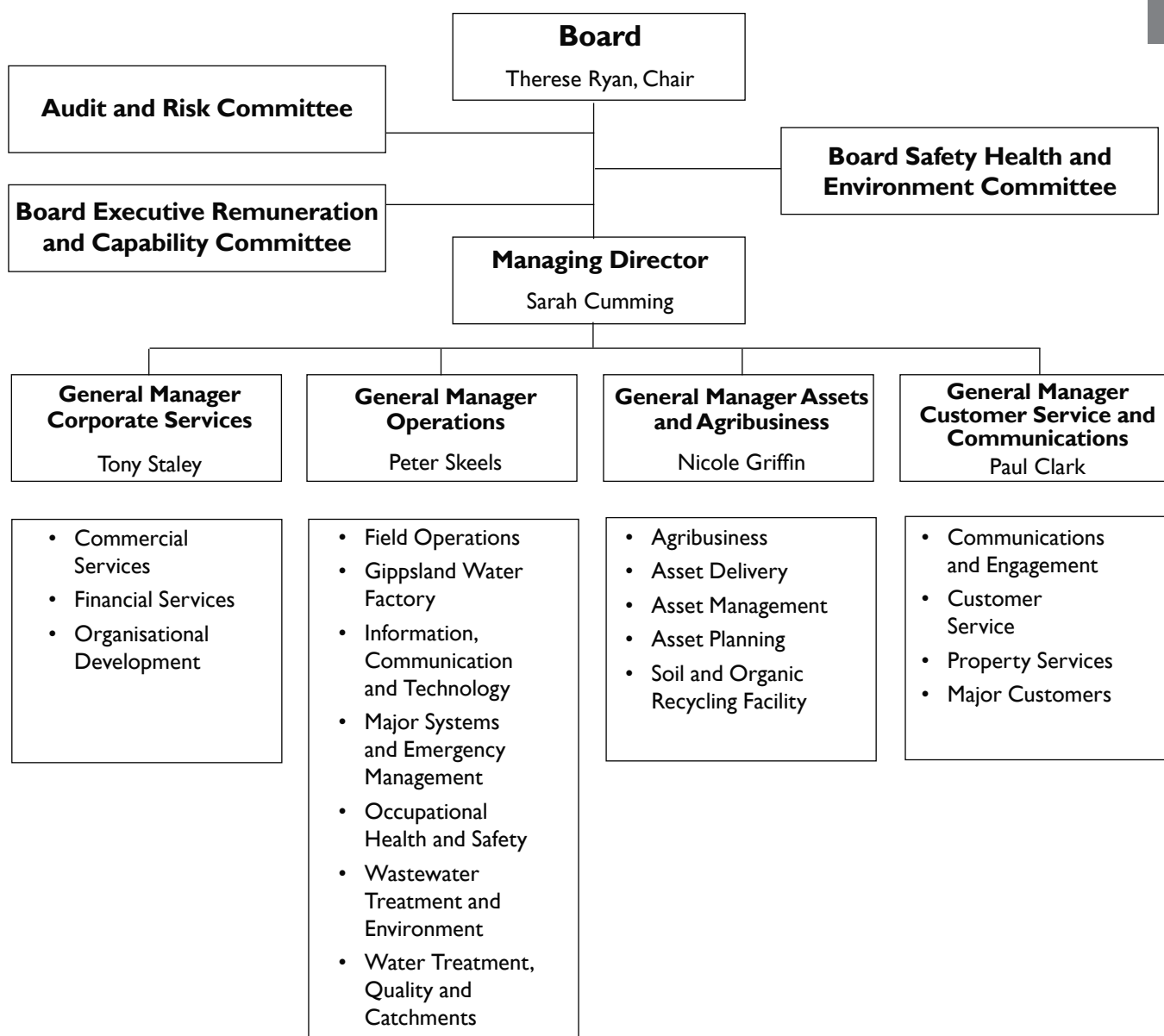
Employment by category

	2016-17	2015-16
Full time	234	239
Part time	26	28
Casual / fixed term	21	11
Total employees	281	278
FTE [^]	255.97	258.52
Executive	3	8
Asset and Agribusiness	59	59
Corporate Services	32	23
Customer Service and Communications	48	51
Operations	139	137
Total employees	281	278
Female	90	84
% Female	32	30
Male	191	194
% Male	68	70

[^]FTE is inclusive of casual hours worked in the last full pay period in June.

Organisational structure as at 30 June 2017

5



Occupational Health and Safety management measures

Measure	KPI	2016-17	2015-16	2014-15
Incidents	No. of incidents (excl. contractors)	465	374	316
	No. of incidents (incl. contractors)	515	480	401
	Rate per 100 FTE (excl. contractors)	182	145	123
Claims	No. of standard claims	4	13	6
	FTE	255.97	257.68	252.23
	Rate per 100 FTE	1.56	5.05	2.38
	No. of lost time claims	4	11	3
	Rate per 100 FTE	1.56	4.27	1.19
	No. of claims exceeding 13 weeks	1	1	0
	Rate per 100 FTE	0.39	0.39	-
Fatalities	Fatality claims	0	0	0
Claim costs	Average cost per standard claim	\$14,436.00	\$27,845.85	\$13,678.83

Throughout the reporting period, Gippsland Water has continued to focus on supporting and enhancing our safety reporting culture and the early identification of safety hazards.

The total numbers of incidents include those that are classified as 'leading indicators' – i.e. near misses, hazard reports. An increased number of reports is an indicator of an open and transparent safety culture being fostered by the SHE Committee and leadership team. The increased education and awareness activities undertaken throughout the year has contributed to a rise in the number of reports.

During the period, Gippsland Water also conducted training and education, awareness and ergonomic assessments as preventative and reactive measures to minimise injuries. Activities undertaken were driven through the SHE Committee and Gippsland Water's leadership team.

The Lost Time Injuries (LTIs) reported for the 2016-17 period are a combination of preventable, non-preventable and non-specific injuries.

PART 6

RISK MANAGEMENT

6

Gippsland Water's strong risk management culture is critical to achieving its strategic plan objectives.

Gippsland Water endorses the Victorian Government's initiative of adopting good practice in public sector risk management. To support this initiative, Gippsland Water has implemented and maintains a consolidated business-wide risk management framework that is consistent with AS/NZS ISO 31000:2009 Risk Management – Principles and Guidelines and the requirements of the Victorian Government's Risk Management Framework 2015.

Gippsland Water's Risk Management Framework promotes a positive risk culture and assists and guides all staff to identify and manage risk and uncertainty to achieve objectives.

To ensure currency and to foster continuous improvement in risk management, Gippsland Water annually reviews business-wide processes.

During 2016-17, Gippsland Water finalised a comprehensive review of the Risk Management Framework.

To ensure compliance with Standing Direction 3.7.1, Gippsland Water's Board, Audit and Risk Committee, and Risk Management Committee review the Risk Management Framework annually and receive quarterly reports focusing on the outputs of detailed annual risk assessments undertaken for all corporate risks with respective risk owners.

The reviews include assessment of the effectiveness of risk controls and identification of Inter-Agency or State Significant Risks. This process supports the four-year Internal Strategic Audit Plan that targets the effectiveness of control measures of specific high level risks.

Gippsland Water, along with other water corporations, continues to actively participate in the Department of Environment, Land, Water and Planning (DELWP) Risk Network and annually reports Corporate Risks to the state via the DELWP risk portal. This process assists in providing a snapshot of risks across all Victorian water corporations.

Risk management attestation

In accordance with the Ministerial Standing Directions (being part of the Standing Directions of the Minister for Finance pursuant to the *Financial Management Act 1994* (Vic)), I, Therese Ryan, Chair of the Board of Central Gippsland Region Water Corporation (trading as Gippsland Water) certify, on behalf of the Board, that the Corporation has complied with the mandatory requirements of Ministerial Standing Direction 3.7.1 related to the Victorian Government Risk Management Framework for the year ended 30 June 2017.

This certification is based on confirmation by the Corporation's Audit and Risk Committee (the Committee) that it has completed its programme of work for the year ended 30 June 2017, which included review of compliance with the mandatory requirements of Ministerial Standing Direction 3.7.1 related to the Victorian Government Risk Management Framework (Ministerial Standing Direction) and has received management representations which also confirm compliance with the relevant Ministerial Standing Direction.



Therese Ryan

Board Chair

Central Gippsland Region Water Corporation

Dated 25 August 2017

PART 7

PERFORMANCE REPORT

7

Performance Report for the year ended 30 June 2017

Part I - Financial performance indicators								
KPI no.	Key Performance Indicator	2015-16 result	2016-17 result	2016-17 target	Variance to prior year	Notes	Variance to target	Notes
F1	Cash interest cover (times) Net operating cash flows before net interest and tax / net interest payments	4.17	3.33	3.07	-20.1%	1a	8.5%	
F2	Gearing ratio Total debt (including finance leases) / total assets * 100	23.08%	23.09%	24.20%	0.1%		-4.6%	
F3	Internal financing ratio Net operating cash flow less dividends / net capital expenditure * 100	92.99%	109.99%	80.80%	18.3%	2a	36.1%	2b
F4	Current ratio Current assets / current liabilities (excluding long-term employee provisions and revenue in advance)	0.41	0.47	0.36	14.6%	3a	30.6%	3b
F5	Return on assets Earnings before net interest and tax / average assets * 100	2.24%	1.41%	1.10%	-37.1%	4a	28.2%	4b
F6	Return on equity Net profit after tax / average total equity * 100	1.22%	0.26%	-0.10%	-78.7%	5a	-360.0%	5b
F7	EBITDA margin Earnings Before Interest Tax, Depreciation and Amortisation / total revenue * 100	44.43%	41.21%	38.70%	-7.2%		6.5%	

- (1a) Operating cash flows in 2015-16 were higher than those recorded in 2016-17, due mainly to lower operating revenues (\$3.8 million) and higher payments to suppliers (\$9.6 million) in 2016-17. Noting that when compared to target, this result is favourable, we will continue to work towards improving this indicator.
- (2a) Despite lower operating cashflows in 2016-17, net capital expenditure (\$29.9 million) in 2016-17 was significantly lower than the 2015-16 year (\$50.3 million) leading to an improved outcome for this indicator.
- (2b) Net capital expenditure (\$29.9 million) in 2016-17 was significantly lower than the target for 2016-17 year (\$38.3 million) leading to an improved outcome for this indicator.
- (3a) 2016-17 saw a reduction at year-end in current liabilities compared with 2015-16 as short-term borrowings decreased in value by \$10 million, leading to an improved outcome for this indicator.
- (3b) In 2016-17, a reduction in total current liabilities was recorded when compared to budget as short-term borrowings decreased in value by \$7.5 million, leading to an improved outcome for this indicator.
- (4a) 2016-17 saw a reduction in earnings before interest and tax compared with 2015-16 (\$17.1 million compared to \$26.7 million), while average assets in 2016-17 rose slightly. Noting that when compared to target, this result is favourable, we will continue to work towards improving this indicator.
- (4b) 2016-17 saw an increase earnings before interest and tax compared to budget (\$17.1 million compared to \$13.5 million) leading to an improved outcome for this indicator.
- (5a) 2016-17 saw a significant reduction in operating profit after tax compared with 2015-16 (\$2.9 million compared to \$11.8 million) leading to a poorer outcome for this indicator. Noting that when compared to target, this result is favourable, we will continue to work towards improving this indicator.
- (5b) In 2016-17, net profit after tax exceeded budget significantly (\$2 million profit compared to a \$1 million loss) leading to a significantly improved result, driven primarily by stronger operating revenues and higher developer contributions than planned.

Part 2 - Water and sewerage service performance indicators

KPI no.	Key Performance Indicator	2015-16 result	2016-17 result	2016-17 target	Variance to prior year	Notes	Variance to target	Notes
WS1 (i)	Unplanned water supply interruptions No. of customers receiving more than 5 unplanned interruptions in the year / total number of water (domestic and non-domestic) customers * 100	0.00%	0.05%	0.00%	0.0%		0.0%	
WS2 (ii)	Interruption time (minutes) Average duration of unplanned water supply interruptions	76.23	87.37	90.00	14.6%	6a	-2.9%	
WS3	Restoration of unplanned water supply Unplanned water supply interruptions restored within 5 hours / total unplanned water supply interruptions * 100	98.97%	98.78%	98.00%	-0.2%		0.8%	
SSI	Containment of sewer spills Sewer spills from reticulation and branch sewers contained within 5 hours / total sewer spills from reticulation and branch sewers * 100	98.59%	100.00%	98.00%	1.4%		2.0%	
SS2 (iii)	Sewer spills interruptions No. of residential sewerage customers affected by sewerage interruptions restored within 5 hours	99.13%	99.63%	97.06%	0.5%		2.6%	

- (i) 2016-17 Corporate Plan target of 'per 1,000 customers' revised above in accordance with MRD01 disclosure requirements.
- (ii) The Corporation identified a minor error in relation to the disclosure reported in the 2015-16 financial statements. This error was identified during an audit of non-financial indicators and resulted in 2015-16 disclosure being modified from 76.15 to 76.23 above.
- (iii) 2016-17 Corporate Plan target modified from 'number of customers' to '% of total customers' in accordance with MRD01 disclosure requirements.

(6a) The duration of unplanned shut events can vary markedly. During 2016-17, the duration of several shut events relied on the attendance of other utilities which in turn delayed the closure of the event. In addition, during 2016-17 a number of events were more complex in nature than in 2015-16. The 2016-17 year also saw a higher number of breaks due to ageing mains. Noting that when compared to target, this result is favourable, we will continue to work towards improving this indicator.

Part 3 - Customer responsiveness performance indicators								
KPI no.	Key Performance Indicator	2015-16 result	2016-17 result	2016-17 target	Variance to prior year	Notes	Variance to target	Notes
CR1 (i)	Water quality complaints (No.) No. of complaints per 100 customers	0.34	0.24	0.45	-29.4%	7a	-46.7%	7b
CR2 (i)	Sewerage service quality complaints (No.) No. of complaints per 100 customers	0.01	0.01	0.01	0.0%		0.0%	
CR3 (i)	Sewerage odour complaints (number) No. of complaints per 100 customers	0.03	0.05	0.05	66.7%	8a	0.0%	
CR4 (i)	Billing complaints (No.) No. of complaints per 100 customers	0.21	0.18	0.18	-14.3%	9a	0.0%	

(i) 2016-17 Corporate Plan targets modified from 'per 1,000 customers' to 'per 100 customers' above in accordance with MRD01 disclosure requirements.

(7a) Total water quality complaints reduced from 230 in 2015-16 to 162 in 2016-17 leading to an improved outcome. This trend is not unusual as actuals can vary significantly from year to year.

(7b) Total water quality complaints of 162 in 2016-17 compared with a target of 290 complaints, leading to an improved outcome. This trend is not unusual as actuals can vary significantly from year to year.

(8a) Total sewerage odour complaints increased from 21 in 2015-16 to 28 in 2016-17 leading to a poorer outcome. This trend is not unusual as actuals can vary significantly from year to year. Noting that when compared to target, this result is favourable, we will continue to work towards improving this indicator.

(9a) Total water quality complaints reduced from 139 in 2015-16 to 124 in 2016-17 leading to an improved outcome. This trend is not unusual as actuals can vary significantly from year to year.

Part 4 - Environmental performance indicators								
KPI no.	Key Performance Indicator	2015-16 result	2016-17 result	2016-17 target	Variance to prior year	Notes	Variance to target	Notes
E1	Effluent reuse volume (end use) Percentage recycled	8.48%	8.46%	10.30%	-0.2%		-17.9%	10a
E2 (i)	Total net CO₂ equivalent (T) Net tonnes CO ₂ equivalent	45,865	37,548	70,000	-18.1%	11a	-46.4%	11b

(i) The Corporation identified a material error in relation to the disclosure reported in the 2015-16 financial statements. This error was identified during the 2016-17 financial year and resulted in 2015-16 disclosure being modified from 60,963 tonnes to 45,865 tonnes above.

(10a) The reuse percentage volume falls short of the 10.3 per cent 2016-17 target by 17.9 per cent. While the percentage of wastewater treated and reused has slightly reduced from 2015-16, the overall volume has increased by 221ML. It should be noted that 15,421ML of wastewater disposed by Gippsland Water in 2016-17 contained salts at levels unacceptable for use as a recycled product in freshwater aquatic or terrestrial applications. This water must therefore be disposed of via ocean outfall only. The reuse volume target will be reviewed in future years in order to continue to encourage Gippsland Water to actively pursue further re-use opportunities.

(11a) A decrease in greenhouse gas emissions of 18.1 per cent from 2015-16 (which is favourable) has been recorded across the business. Factors that have contributed to the decrease are largely due to wastewater treatment operations and associated electricity consumption. Fugitive emissions decreased by approximately 5,000 tCO₂ equivalent as there was no lagoon desludging undertaken within this financial year. Gippsland Water continues to focus on operational efficiencies in order to reduce its electricity consumption and reduce carbon emissions associated with its operations. Electricity emissions have reduced by 1,500 tonnes, due in large part to reductions in grid electricity consumption at Gippsland Water's largest wastewater treatment facility and energy consumer - the Gippsland Water Factory. The Gippsland Water Factory reduced its grid electricity consumption by around 15 per cent in 2016-17. Efficiency improvements such as increased renewable energy output from the biogas cogeneration facility; the installation of new diffusers in the wastewater aeration system; and improved operational practices played a large part in this energy saving.

(11b) In 2013, the Clean Energy Regulator determined that emissions due to composting activities will no longer be included in greenhouse gas accounting from 2012-13 onwards. This decision has contributed to Gippsland Water's emissions being significantly below the 70,000 t KPI limit which was set to be inclusive of emissions generated from composting. In addition, the Gippsland Water Factory has reduced its grid electricity consumption by around 15 per cent in 2016-17 (a favourable variance), and no desludging of lagoons was undertaken this year, also contributing to the reduction in carbon emissions. The current target of 70,000t will be reviewed in future years to ensure Gippsland Water continues to strive for carbon emissions reductions and aligns with the current Carbon Emissions Reduction Pledge.

CENTRAL GIPPSLAND REGION WATER CORPORATION

Certification of Performance Report 2016-17

We certify that the accompanying Performance Report of Central Gippsland Region Water Corporation in respect of the 2016-17 financial year is presented fairly in accordance with the *Financial Management Act 1994* (Vic).

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

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



Therese Ryan

Board Chair

Central Gippsland Region Water Corporation



Sarah Cumming

Managing Director

Central Gippsland Region Water Corporation



Anthony Staley

Chief Financial Officer

Central Gippsland Region Water Corporation

Dated 25 August 2017



Independent Auditor's Report

To the Board of the Central Gippsland Region Water Corporation

Opinion	<p>I have audited the accompanying performance report for the year ended 30 June 2017 of the Central Gippsland Region Water Corporation (the corporation) which comprises the:</p> <ul style="list-style-type: none"> • financial performance indicators • water and sewerage service performance indicators • customer responsiveness performance indicators • environmental performance indicators • certification of performance report for 2016–2017. <p>In my opinion, the performance report of the corporation in respect of the year ended 30 June 2017 presents fairly, in all material respects, in accordance with the performance reporting requirements 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. My responsibilities under the Act are further described 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>. I and my staff are independent of the corporation in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 <i>Code of Ethics for Professional Accountants</i> (the Code) that are relevant to my audit of the performance report in Australia and have also fulfilled our other ethical responsibilities in accordance with the Code.</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 performance report that is free from material misstatement, whether due to fraud or error.</p>

VAGO ATTESTATION

**Auditor's
responsibilities for the
audit of the
performance report**

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

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

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

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

MELBOURNE
4 September 2017



Roberta Skliros
as delegate for the Auditor-General of Victoria

PART 8

FINANCIAL PERFORMANCE

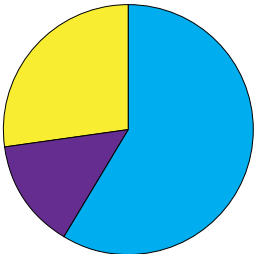
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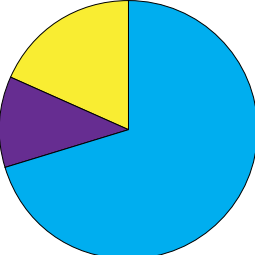
*Financial Report
for the year ended 30 June 2017*

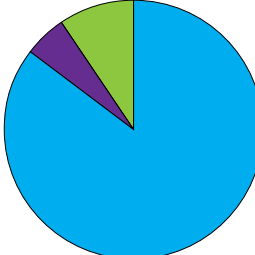
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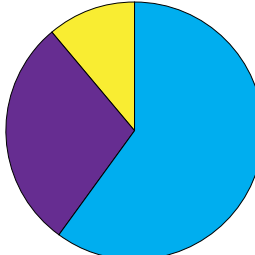
FINANCIAL PERFORMANCE AND BUSINESS INDICATORS

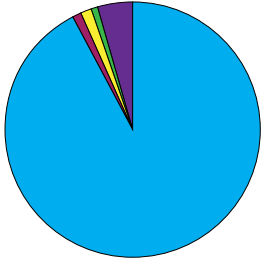
AS AT 30 JUNE 2017

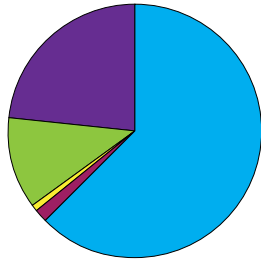
Water income from service and volumetric charges		
		2017
		\$'000
	Urban residential	29,392
	Urban non-residential	7,163
	Major clients	13,538
	TOTAL	50,093

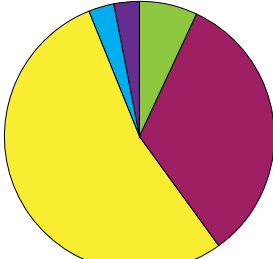
Wastewater income from service and volumetric charges		
		2017
		\$'000
	Urban residential	45,415
	Urban non-residential	7,225
	Major clients	11,761
	TOTAL	64,401


Total income from all sources		
		2017
		\$'000
	Service and volumetric	114,493
	Development contributions	6,996
	Interest	92
	Other	12,315
	TOTAL	133,896

Total expenses		
		2017
		\$'000
	Operations, maintenance and administration	78,628
	Depreciation	38,098
	Interest	14,282
	TOTAL	131,009

Total assets		
		2017
		\$'000
	Fixed assets	1,118,874
	Cash and investments	12,855
	Debtors and receivables	19,394
	Inventory and biological	10,290
	Other	50,987
	TOTAL	1,212,400

Liabilities and equity		
		2017
		\$'000
	Equity	759,806
	Creditors and accruals	19,913
	Provisions	9,332
	Deferred tax liability	143,348
	Borrowings	280,000
	TOTAL	1,212,400

Business stream revenue		
		2017
		%
	Bulk	7
	Water	33
	Waste	54
	Soil and Organic Recycling Facility	3
	Agriculture	3
	TOTAL	100

Business stream expenses		
		2017
		%
	Bulk	9
	Water	35
	Waste	49
	Soil and Organic Recycling Facility	4
	Agriculture	3
	TOTAL	100

FINANCIAL STATEMENTS

AS AT 30 JUNE 2017

Comprehensive Operating Statement for the year ended 30 June 2017

	Note	2017 \$'000	2016 \$'000
Revenue from operating activities			
Service charges	2.2.1	75,965	74,084
Volumetric charges	2.2.1	38,528	38,109
Interest income	2.2.2	92	159
Developer contributions	2.2.3	6,996	10,727
Other revenue	2.2.4	11,014	15,142
Net gain / (loss) on disposal of non-current assets	4.1.5	(577)	63
Total revenue from operating activities		132,018	138,284
Revenue from non-operating activities			
Other revenue	2.3	1,878	3,933
Total revenue from non-operating activities		1,878	3,933
Total revenue		133,896	142,217
Expenses			
Employee benefits	3.2	31,621	30,357
Direct operating	3.4	19,265	21,285
Repairs and maintenance	3.5	15,417	14,864
Administration	3.6	7,653	7,318
Environmental contribution	8.2	4,660	4,660
Depreciation	4.1.1	37,254	35,689
Amortisation	4.3	845	727
Impairment	4.1.3	12	389
Borrowing costs	6.1.2	14,282	15,124
Total expenses		131,009	130,413
Net result before tax		2,887	11,804
Income tax expense	8.1.1	883	2,721
Net result		2,004	9,083
Other comprehensive income			
<i>Items that will not be reclassified to net result</i>			
Change in asset revaluation reserve	9.1.2	(1,921)	26,387
Income tax relating to components of other comprehensive income	9.1.2	576	(7,916)
Total other comprehensive income		(1,345)	18,471
Comprehensive result		659	27,554

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

FINANCIAL STATEMENTS

AS AT 30 JUNE 2017

Balance Sheet as at 30 June 2017

	Note	2017 \$'000	2016 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	6.2	11,855	8,866
Receivables	5.1	17,779	19,340
Prepayments	5.5	627	737
Inventories	5.3	2,906	2,801
Biological assets	4.2	1,223	1,337
Other financial assets	5.4	521	394
Total current assets		34,911	33,475
Non-current assets			
Receivables	5.1	1,615	307
Other financial assets	5.4	1,000	2,498
Infrastructure, property, plant and equipment	4.1	1,112,857	1,111,473
Biological assets	4.2	6,161	4,590
Intangible assets	4.3	6,017	6,503
Deferred tax assets	8.1.2	49,839	54,149
Total non-current assets		1,177,489	1,179,521
TOTAL ASSETS		1,212,400	1,212,996
LIABILITIES			
Current liabilities			
Payables	5.2	19,913	17,694
Interest bearing liabilities	6.1	50,000	60,000
Employee benefits	3.7	7,793	7,008
Provisions	5.6	551	660
Total current liabilities		78,257	85,362
Non-current liabilities			
Interest bearing liabilities	6.1	230,000	220,000
Employee benefits	3.7	988	1,134
Deferred tax liability	8.1.2	143,348	147,351
Total non-current liabilities		374,336	368,485
TOTAL LIABILITIES		452,593	453,847
NET ASSETS		759,807	759,149
EQUITY			
Contributed capital	9.1.1	255,971	255,971
Asset revaluation reserve	9.1.2	182,202	183,548
Accumulated funds	9.1.3	321,634	319,630
TOTAL EQUITY		759,807	759,149

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

FINANCIAL STATEMENTS

AS AT 30 JUNE 2017

Statement of Changes in Equity for the year ended 30 June 2017

	Note	Equity at 01/07/2016	Total comprehensive income	Transaction with owners	Equity at 30/06/2017
			\$'000	\$'000	
Contributed capital		255,971	-	-	255,971
Capital appropriations		-	-	-	-
	9.1.1	255,971	-	-	255,971
Accumulated funds		306,921	-	-	306,921
Net result after tax		12,709	2,004	-	14,713
Other comprehensive income		-	-	-	-
	9.1.3	319,630	2,004	-	321,634
Asset revaluation reserve		164,616	-	-	164,616
Revaluation increment / decrement (net of tax)		18,932	(1,345)	-	17,586
Transfers to accumulated funds		-	-	-	-
	9.1.2	183,548	(1,345)	-	182,202
Total equity		759,149	659	-	759,807

Statement of Changes in Equity for the year ended 30 June 2016

	Note	Equity at 01/07/2015	Total comprehensive income	Transaction with owners	Equity at 30/06/2016
			\$'000	\$'000	
Contributed capital		255,971	-	-	255,971
Capital appropriations		-	-	-	-
	9.1.1	255,971	-	-	255,971
Accumulated funds		306,921	-	-	306,921
Net result after Tax		3,626	9,083	-	12,709
Other comprehensive income		-	-	-	-
	9.1.3	310,547	9,083	-	319,630
Asset revaluation reserve		164,616	-	-	164,616
Revaluation increment / decrement (net of tax)		461	18,471	-	18,932
Transfers to accumulated funds		-	-	-	-
	9.1.2	165,077	18,471	-	18,548
Total equity		731,595	27,554	-	759,149

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

FINANCIAL STATEMENTS

AS AT 30 JUNE 2017

Cash Flow Statement for the year ended 30 June 2017

	Note	2017 \$'000	2016 \$'000
Cash flows from operating statements			
Receipts			
Service and volumetric charges and other revenue		125,434	129,264
Interest income		93	159
GST received		4,960	6,453
Developer contributions fees received		782	1,656
		131,270	137,532
Payments			
Payments to suppliers		(49,537)	(39,932)
Payments to employees		(29,906)	(30,467)
Interest and other costs of finance paid		(14,249)	(15,097)
Environmental contributions		(4,660)	(4,660)
		(98,352)	(90,156)
Net cash flows from operating activities	6.2.1	32,918	47,376
Cash flows from investing activities			
Payments for infrastructure, property, plant and equipment		(30,452)	(52,334)
Payments for intangible assets	4.3	(18)	(138)
Proceeds from sale of infrastructure, property, plant and equipment	4.1.5	540	1,385
Proceeds from other financial assets	5.4	-	785
Net cash flows from investing activities		(29,929)	(50,302)
Cash flows from financing activities			
Proceeds from borrowings	6.1	-	2,500
Net cash flows from financing activities		-	2,500
Net increase / (decrease) in cash and cash equivalents		2,989	(426)
Cash and cash equivalents at beginning of year	6.2	8,866	9,292
Cash and cash equivalents at end of year		11,855	8,866

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

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

INTRODUCTION

The Central Gippsland Region Water Corporation (the Corporation), trading as Gippsland Water, was constituted on 21 December 1994 under the *Water Act 1989* (Vic). The Corporation's Australian Business Number is 75 830 750 413. The Corporation's principal address is 55 Hazelwood Road, Traralgon, Victoria 3844 and its website address is www.gippswater.com.au.

Advisors to the Corporation

The key advisors to the Corporation are:

Lawyers

Russell Kennedy, DLA Piper, Herbert Smith Freehills, Logie-Smith Lanyon Lawyers, Meerkin & Apel Lawyers, Mills Oakley Lawyers

Bankers

Westpac Banking Corporation

External Auditors

Auditor General of Victoria

Internal Auditors

RSM Australia Pty Ltd

Tax Agents

RSM Australia Pty Ltd

Funding Agency

Treasury Corporation of Victoria (TCV)

This financial report was approved and authorised for issue by the Board on 25 August 2017.

NOTE I

ABOUT THIS REPORT

NOTE I – ABOUT THIS REPORT

1.1 Contents of the financial report

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the requirements of the *Financial Management Act 1994* (Vic) and applicable Ministerial Directions. The Corporation is a not-for-profit entity for the purpose of preparing the financial report.

1.2 Basis of accounting

This financial report has been prepared on the accrual and going concern basis under the historical cost convention, except for the revaluation of financial assets, property, plant and equipment and biological assets. Unless otherwise stated, all accounting policies applied are consistent with those of the prior year.

The financial report includes separate financial statements for 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 and notes accompanying these statements for the period ended 30 June 2017.

1.3 Critical estimates and judgements

The preparation of financial reports requires management to make judgements, estimates and assumptions which, by definition, rarely replicate actual results. Management also needs to exercise judgement in applying the Corporation's accounting policies.

Key areas in this financial report that have involved the application of estimates and judgements are summarised below:

- Revenue and expenditure accruals.
- Current tax payable, current tax expense and deferred tax assets and liabilities.
- Provisions for future costs of site rehabilitation.
- Employee benefits liabilities.
- Fair values of financial assets and liabilities, including impairment assessments.
- Fair values of non-financial assets, including the determination of values used in the asset revaluation undertaken during the reporting period and impairment assessments.
- Fair values of biological assets and impairment assessments.
- Fair values of contingent liabilities and assets.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

NOTE I – ABOUT THIS REPORT (cont.)

I.4 Classification of assets and liabilities between current and non-current

Assets and liabilities are classified as either current or non-current in the Balance Sheet. Current and non-current classification is determined by the period of time in which the asset is expected to be realised or the liability settled. Assets and liabilities expected to be realised or settled within one year of the balance date are classified as current, and assets and liabilities expected to be realised or settled at least one year after the balance date are classified as non-current.

An exception to this method occurs in relation to employee benefits, which is described in a later note.

I.5 Rounding

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

I.6 Transition to streamlined accounts

For the 2016-17 financial year, Gippsland Water has revised its approach to the presentation of annual accounts, by adopting the 'streamlined approach', driven by amendments to AASB 101 Presentation of Financial Statements. While the adoption of the 'streamlined approach' was not mandatory for public sector agencies, the Department of Treasury and Finance (DTF) encouraged early adoption.

NOTE 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 revenue items recognised in the financial statements.

Gippsland Water supplies fresh drinking water to close to 68,000 customers and wastewater services to more than 60,000 customers across an area of approximately 5,000 square kilometres. Our service area spans from Drouin in the west, to Loch Sport in the east, and from Briagolong in the north, to Mirboo North in the south. Gippsland Water's customers also include several major industries in the energy production, pulp and paper and oil and gas sectors. Baw Baw, Latrobe City, South Gippsland and Wellington shires are incorporated in our service area.

The water supply is treated to ensure that water quality meets relevant quality standards. Treatment varies depending on the source of supply. We take water from aquifers, rivers, creeks, and reservoirs. Our largest storage is Moondarra Reservoir, south of Erica, with a capacity of 30,300ML. We also take water from storages managed by Southern Rural Water (Blue Rock Dam and Lake Glenmaggie) and Melbourne Water (Tarago Reservoir) to supply our customers living near these storages. Gippsland Water also treats more than 28,000 million litres of wastewater each year.

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NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

NOTE 2 – FUNDING DELIVERY OF OUR SERVICES (cont.)

2.1 Extract from Comprehensive Operating Statement

	2017	2016
	\$'000	\$'000
Revenue from operating activities		
Service charges	75,965	74,084
Volumetric charges	38,528	38,109
Interest income	92	159
Developer contributions	6,996	10,727
Other revenue	11,014	15,142
Net gain / (loss) on disposal of non-current assets	(577)	63
Total revenue from operating activities	132,018	138,284
Revenue from non-operating activities		
Other revenue	1,878	3,933
Total revenue from non-operating activities	1,878	3,933
Total revenue	133,896	142,217

2.2 Revenue from operating activities

2.2.1 Service and volumetric charges

	2017	2016
	\$'000	\$'000
Service charges		
Water charges	20,154	20,058
Rebates on tariffs	(2,222)	(2,185)
Wastewater charges	57,763	55,946
Trade waste charges	270	265
Total service charges	75,965	74,084
Volumetric charges		
Water	32,161	32,030
Wastewater	6,367	6,079
Total volumetric charges	38,528	38,109

Water and wastewater service charges are recognised as revenue when levied or determined.

Volumetric water and wastewater (non-residential customers only) charges are recognised as revenue when the services are provided. Meter reading is undertaken progressively throughout the year. An estimation of unbilled volumetric charges is made in respect of meters which have not been read at balance date and accrued as revenue.

NOTE 2 – FUNDING DELIVERY OF OUR SERVICES (cont.)

2.2.2 Interest income

	2017	2016
	\$'000	\$'000
Interest received from investment of financial assets	92	159
Total interest income	92	159

Interest earned on bank accounts and other interest bearing facilities is recognised in the period in which it is earned.

2.2.3 Developer contributions

	2017	2016
	\$'000	\$'000
Fees paid by developers	434	1,965
Assets received from developers	6,562	8,762
Total developer contributions	6,996	10,727

Water and wastewater infrastructure assets built by developers in new land subdivisions that on completion are provided to the Corporation, and fees paid by developers to connect new developments to the Corporation's existing water supply and wastewater systems, are recognised as revenue when the contributions are received.

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.

2.2.4 Other revenue

	2017	2016
	\$'000	\$'000
Agriculture pursuits	4,471	4,527
Waste charges (prescribed and non-prescribed)	4,325	5,624
Rechargeable works	858	3,578
Other fees	1,360	1,413
Total other revenue – operating	11,014	15,142

Other revenue includes revenues related to waste charges (prescribed and non-prescribed), agricultural activities, new development connection fees and miscellaneous fees and charges. Revenue from these activities is recognised in the period in which the service is rendered.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

NOTE 2 – FUNDING DELIVERY OF OUR SERVICES (cont.)

2.3 Revenue from non-operating activities

	2017	2016
	\$'000	\$'000
Liquidated damages	16	46
External service provision	144	67
Diesel fuel rebate	164	378
Salary sacrifice contributions	499	511
WorkCover refunds received	125	82
Other fees	930	2,849
Total other revenue – non-operating	1,878	3,933

Revenue from non-operating activities includes a range of miscellaneous revenues such as liquidated damages, salary sacrifice contributions, external service provision, large-scale generation certificates sales. Revenue from these activities is recognised in the period in which the service is rendered. Other fees include items such as the recovery of legal costs, insurance costs and rental income.

Contributions in the form of services provided to external parties are only recognised when fair value can be reliably determined and if the services would have been purchased by the transferee if they had not been donated by the Corporation.

NOTE 3 THE COST OF DELIVERING SERVICES

NOTE 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.

Note contents

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NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

NOTE 3 – THE COST OF DELIVERING SERVICES (cont.)

3.1 Extract from Comprehensive Operating Statement

	2017	2016
	\$'000	\$'000
Expenses		
Employee benefits	31,621	30,357
Direct operating	19,265	21,285
Repairs and maintenance	15,417	14,864
Administration	7,653	7,318
Environmental contribution	4,660	4,660
Depreciation	37,254	35,689
Amortisation	845	727
Impairment	12	389
Borrowing costs	14,282	15,124
Total expenses	131,009	130,413

3.2 Employee benefits – Comprehensive Operating Statement

	2017	2016
	\$'000	\$'000
Salaries and wages, annual leave and long service leave	27,964	26,906
Superannuation expense	2,238	2,060
Other	1,419	1,389
Total employee benefit costs	31,621	30,357

Employee benefits include all costs related to employment including wages and salaries, superannuation costs, fringe benefits tax, leave entitlements, redundancy payments and WorkCover premiums and are recognised as expenses when incurred.

Superannuation costs are contributions paid or payable to the relevant superannuation plans of which current and past employees are members. The Corporation makes contributions to the plans based on the rules of each plan and any relevant compulsory superannuation requirements that the Corporation is required to comply with.

3.3 Superannuation

The Corporation makes the majority of its employer superannuation contributions in respect of its employees to the Vision Superannuation Fund (The Fund). This Fund has two categories of membership, accumulation and defined benefit, each of which is funded differently.

Obligations for contributions to the Fund are recognised as an expense in the Comprehensive Operating Statement when they are made or due.

3.3.1 Accumulation

The Fund's accumulation categories, Vision MySuper/Vision Super Saver, receive both employer and employee contributions on a progressive basis. Employer contributions are normally based on a fixed percentage of employee earnings (for the year ended 30 June 2017, this was 9.5 per cent as required under superannuation guarantee legislation).

3.3.2 Defined benefit

As provided under Paragraph 34 of AASB 119 Employee Benefits, the Corporation does not use defined

NOTE 3 – THE COST OF DELIVERING SERVICES (cont.)

benefit accounting for its obligations under the Fund's defined benefit category. This is because the Fund's defined benefit category is a multi-employer sponsored plan.

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 actuary is unable to allocate benefit liabilities, assets and costs between employers for the purposes of AASB 119 because of the pooled nature of the Fund's defined benefit category.

3.3.3 Funding arrangements

The Corporation makes employer contributions to the defined benefit category of the Fund at rates determined by the trustee on advice of the Fund's actuary.

As at 30 June 2016, an interim actuarial investigation was held as the Fund provides lifetime pensions in the defined benefit category. The vested benefit index (VBI) of the defined benefit category of which Gippsland Water is a contributing employer was 102.0 per cent. To determine the VBI, the Fund actuary used the following long-term assumptions:

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

- Net investment returns 7.0 per cent per annum.
- Salary information 4.25 per cent per annum.
- Price inflation (CPI) 2.5 per cent per annum.

Vision Super has advised that the estimated VBI at March 2017 was 106.6 per cent.

The VBI is to be used as the primary funding indicator. Because the VBI was above 100 per cent, the interim actuarial investigation determined the defined benefit category was in a satisfactory financial position under SPS 160. As a result, the Fund actuary determined that no change was necessary to the defined benefit category's funding arrangements from prior years.

3.3.4 Employer contributions

On the basis of the results of the most recent interim investigation conducted by the Fund's actuary as at 30 June 2016, the Corporation makes employer contributions to the Fund's defined benefit category at rates determined by the Fund's trustee. For the year ended 30 June 2017, this rate was 9.5 per cent of members' salaries (9.5 per cent in 2015-16). This rate will increase in line with the superannuation guarantee increases.

3.3.5 The 2016 interim actuarial investigation surplus amounts

The Fund's actuarial investigation as at 30 June 2016 identified the following in the defined benefit category of which the Corporation is a contributing employer:

- A VBI surplus of \$40.3 million.
- 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 2016.

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 results of the 2017 full triennial actuarial investigation are expected in December 2017.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

NOTE 3 – THE COST OF DELIVERING SERVICES (cont.)

3.3.6 Super contributions

The Corporation contributes in respect of its employees to the following superannuation schemes:

Fund	Type of scheme	Contribution rate	2017	2016
			\$'000	\$'000
Vision Super – defined benefits	Defined benefits	9.50 - 15.25%	195	211
Vision Super – super saver	Accumulation	9.50%	1,099	1,054
Other superannuation funds	Accumulation	9.50%	863	809
Total			2,157	2,074

There were no contributions outstanding to the above schemes as at 30 June 2017.

3.4 Direct operating

	2017	2016
	\$'000	\$'000
Routine sampling	1,312	1,477
Chemicals	3,176	3,182
Energy	3,306	3,432
Other	10,553	12,259
Fleet	918	934
Total direct operating	19,265	21,285

Direct operating expenditure includes all costs directly attributable to the operations of the Corporation including energy costs, treatment chemicals and supplies and contracted sampling costs. These are recognised as expenses when incurred.

3.5 Repairs and maintenance

	2017	2016
	\$'000	\$'000
Planned preventative maintenance	1,134	1,029
Planned corrective maintenance	2,482	2,280
Operational maintenance agreements and contractor payments	1,317	629
Major maintenance	3,604	4,421
Land services	956	898
Other maintenance costs	5,924	5,606
Total repairs and maintenance	15,417	14,864

Routine maintenance, repair and minor renewal costs of the water supply and wastewater systems are recognised as expenses as incurred. Where repairs relate to the upgrade of components of an asset and the cost exceeds the capitalisation threshold, those costs are capitalised and depreciated. The carrying values of the replaced components of such assets are expensed. The carrying amounts of any inventories held are expensed when the inventories are consumed.

NOTE 3 – THE COST OF DELIVERING SERVICES (cont.)

3.6 Administration

	2017	2016
	\$'000	\$'000
Administrative maintenance, agreements and contractor payments	1,314	1,276
Licence fees	1,140	1,068
Bill printing services	359	325
Other	4,710	4,499
Fleet	130	151
Total administration	7,653	7,318

Administration expenses generally represent the day-to-day running costs incurred in normal operations.

Supplies and services are recognised as an expense in the reporting period in which they are incurred.

3.7 Employee benefits – Balance Sheet

	2017	2016
	\$'000	\$'000
Current provisions		
Employee benefits	351	350
Annual leave		
Unconditional and expected to settle within 12 months	2,149	2,099
Unconditional and expected to settle after 12 months	314	310
Long service leave		
Unconditional and expected to settle within 12 months	420	396
Unconditional and expected to settle after 12 months	3,588	2,900
On-costs		
Unconditional and expected to settle within 12 months	370	377
Unconditional and expected to settle after 12 months	601	576
Total current provisions	7,793	7,008
Non-current provisions		
Employee benefits	856	958
On-costs	132	175
Total non-current provisions employee benefits	988	1,134
Total provisions	8,781	8,142

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

NOTE 3 – THE COST OF DELIVERING SERVICES (cont.)

Reconciliation of movement in on-cost provision

	2017
	\$'000
Current provisions	
Annual leave and long service leave	
Opening balance	953
Additional provisions recognised	18
Closing balance – current	971
Non-current provisions	
Long service leave	
Opening balance	175
Additional provisions recognised	(43)
Closing balance – non-current	132

Liabilities for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave for services rendered to the reporting date are recognised in the Balance Sheet.

3.7.1 Wages and salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave are all 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.

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

- Undiscounted value – if the Corporation expects to wholly settle within 12 months.
- Present value – if the Corporation does not expect to wholly settle within 12 months.

3.7.2 Employee benefit on-costs

Provisions for on-costs related to employee benefits provisions such as payroll tax, workers' compensation insurance and superannuation are recognised as liabilities separately from the provision for employee benefits.

3.7.3 Long service leave

A liability for long service leave is recognised in the provision for employee benefits. Long service leave entitlements are comprised of two categories as follows:

- Unconditional long service leave – entitlements that employees can access immediately.
- Conditional long service – entitlements to which employees are not immediately entitled as they have not completed the requisite years of service.

Unconditional long service leave entitlements are recognised in the Balance Sheet as a current liability, even where the Corporation does not expect to settle the liability within 12 months as it does not have an unconditional right to defer settlement should an employee take leave within 12 months.

Unconditional long service leave entitlements are measured at either undiscounted value (if the Corporation expects to wholly settle within 12 months) or at present value (if the Corporation does not expect to wholly settle within 12 months).

Conditional long service leave entitlements are recognised in the Balance Sheet as a non-current liability as there is an unconditional right to defer the settlement of the entitlements until the employees have completed

NOTE 3 – THE COST OF DELIVERING SERVICES (cont.)

the requisite years of service. Non-current long service leave entitlements are measured at present value.

3.7.4 Performance payments

The Corporation's executive officers are entitled to performance payments (subject to achievement of agreed key performance indicators) based on a percentage of the annual salary packages provided under their contracts of employment. A liability is recognised in the Balance Sheet for these entitlements and is measured as the aggregate of the amounts accrued under the terms of the contracts up to the balance date.

NOTE 4

KEY ASSETS AVAILABLE TO SUPPORT SERVICE DELIVERY

NOTE 4 – KEY ASSETS AVAILABLE TO SUPPORT SERVICE 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 the delivery of those outputs.

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NOTE 4 – KEY ASSETS AVAILABLE TO SUPPORT SERVICE DELIVERY (cont.)

4.1 Infrastructure, property, plant and equipment

Asset class	2017			2016		
	Fair value	Accumulated depreciation	Carrying value	Fair value	Accumulated depreciation	Carrying value
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Land	36,767	-	36,767	36,147	-	36,147
Buildings	10,891	(436)	10,455	10,413	-	10,413
Water infrastructure (i)	457,140	(15,444)	441,696	450,364	(470)	449,894
Wastewater infrastructure (i)	568,903	(23,255)	545,648	557,066	(3,909)	553,157
Plant, equipment and other	23,919	(17,748)	6,171	22,860	(16,262)	6,598
Motor vehicles	7,611	(3,198)	4,413	7,300	(2,706)	4,594
	1,105,231	(60,081)	1,045,150	1,084,150	(23,347)	1,060,803
Assets under construction - at cost			67,707			50,670
Total	1,105,231	(60,081)	1,112,857	1,084,150	(23,347)	1,111,473

(i) Note 9.8 provides further detail in relation to the restatement of water and wastewater infrastructure asset values for 2015-16.

Recognition

Infrastructure, property, plant, and equipment recognised in the Balance Sheet include land, buildings, water and wastewater infrastructure, plant, equipment and motor vehicles used by the Corporation in its operations. Items with a cost or value in excess of \$500 (2016: \$500) and useful lives of more than one year are recognised as non-current assets and items under these limits are expensed in the Comprehensive Operating Statement.

During construction, the costs of new assets are recorded in capital work in progress accounts until the assets are completed and available for their intended use, at which point they are capitalised. Capital work in progress at the end of the reporting period is recognised as an asset in the Balance Sheet.

Assets acquired at no cost to the Corporation are recognised at fair value at their dates of acquisition (refer Note 2.2.3).

Measurement

All non-current assets are initially recognised at cost and are subsequently revalued at fair value less accumulated depreciation and impairment charges in accordance with the requirements of Financial Reporting Direction 103F Non-Current Physical Assets (FRD103F).

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

NOTE 4 – KEY ASSETS AVAILABLE TO SUPPORT SERVICE DELIVERY (cont.)

Revaluation

Revaluations are conducted in accordance with FRD103F, which requires that revaluations be undertaken at least every five years. In between the five-year valuations, an annual assessment of fair value is undertaken to determine if any class of assets have values materially different to their carrying values. If there is a difference of 10 per cent or more between the carrying value and the annual assessment of fair value for any asset class, a management revaluation of the asset is undertaken. If the difference is greater than 40 per cent, an appropriately qualified valuer is engaged to perform a detailed assessment of fair value. If the movement in fair value of an asset class since the last revaluation is no greater than 10 per cent, no change is made to carrying amounts.

When revaluations of non-current physical assets occur, the Corporation complies with the requirements of Australian Accounting Standard AASB 116 Property, Plant and Equipment and FRD103F.

Revaluation increments arising on asset revaluations are credited directly to the asset revaluation reserve except that, to the extent that increments reverse prior year decrements for the same class of asset that had been previously recognised as an expense, increments are recognised as revenue in determining the net result.

Revaluation decrements are recognised as an expense except that, where prior increments are included in the asset revaluation reserve for that class of asset, they are debited to the reserve to the extent of the remaining increments. Within the same class of assets, revaluation increments and decrements within the year are offset.

4.1.1 Depreciation

Charge for the period

	2017	2016
	\$'000	\$'000
Buildings	414	525
Water infrastructure	15,065	12,253
Wastewater infrastructure	19,347	20,399
Plant, equipment and other	1,515	1,452
Motor vehicles	913	1,059
Total depreciation	37,254	35,689

Non-current physical assets

All non-current physical assets that have limited useful lives are depreciated over their useful lives. Where assets have separate identifiable components that have distinct useful lives and/or residual values, separate depreciation rates are determined for each component.

Land is assumed to have unlimited useful life and is not depreciated.

Depreciation is calculated using the straight line method, whereby the cost or revalued amounts, net of residual values, is allocated over the useful lives of the assets. Depreciation commences when assets are first ready for use, which is when they are in the location and condition required for them to operate as planned. Residual values and useful lives are estimated at the time depreciation commences and are reviewed and adjusted if necessary at each balance date.

NOTE 4 – KEY ASSETS AVAILABLE TO SUPPORT SERVICE DELIVERY (cont.)

4.1.2 Useful lives

Depreciation and amortisation periods used for new assets, by asset class, are listed below and are consistent with the prior year unless otherwise stated.

Asset class	Useful life (years)		
	Corporate	Water infrastructure	Wastewater infrastructure
Infrastructure			
Treatment cells and vessels		10 - 80	10 - 80
Control and instrumentation		5 - 10	5 - 10
Ducting and pipework		5 - 80	5 - 80
Electrical		5 - 25	5 - 25
Cathodic protection		20	20
Health and safety equipment		4 - 15	4 - 15
Mechanical plant		5 - 40	5 - 40
Pumps / blowers / fans		4 - 50	3 - 28
Storages		9 - 100	9 - 100
Lab equipment		7	7
Valves		9 - 30	9 - 30
Civil assets		9 - 150	9 - 150
Earth embankments		350	
Bridge and headwall		50	50
Other assets			
Fleet	3 - 15		
IT equipment	1 - 17		
Plant and equipment	2 - 50		
Furniture and fittings	4 - 40		
Buildings	5 - 80		
Radio and telemetry equipment	3 - 50		
Intangibles			
Software	1 - 10		
Water licences	99		
Water entitlements	Indefinite		

The useful lives of revalued assets are based on the remaining life nominated by the valuer at the time of the revaluation, on an asset by asset basis.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

NOTE 4 – KEY ASSETS AVAILABLE TO SUPPORT SERVICE DELIVERY (cont.)

4.1.3 Impairment of assets

At each balance date, the Corporation reviews the carrying value of its assets to determine whether there is any indication that they have been impaired. If such an indication exists, the recoverable amounts of those assets, being the higher of fair value less costs to sell and value in use, are compared to carrying values. Any excess of the carrying values of those assets over their recoverable amounts are expensed to the Comprehensive Operating Statement, unless those assets are carried at revalued amounts, in which case the impairment losses are recognised directly against the revaluation surpluses in respect to the same classes of assets to the extent that the impairment losses do not exceed the amounts in the revaluation surpluses for those same classes of assets.

All assets are assessed annually for indicators of impairment, except for financial assets.

	2017	2016
	\$'000	\$'000
Impairment of fixed assets	-	378
Impairment of receivables	12	11
Total impairment of assets	12	389

NOTE 4 – KEY ASSETS AVAILABLE TO SUPPORT SERVICE DELIVERY (cont.)

4.1.4 Reconciliation of movements in carrying values

2016-17	Opening WDV 1 July 2016	Additions	Disposals	Revaluations	Transfers between categories	Impairment	Depreciation	Closing WDV 30 June 2017
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Land								
At fair value	36,147	-	(2)	(438)	1,060	-	-	36,767
Buildings								
At fair value	2,419	-	-	-	(1,435)	-	(36)	948
At independent valuation	7,994	-	-	-	1,892	-	(379)	9,507
At fair value	10,413	-	-	-	457	-	(415)	10,455
Water infrastructure								
At fair value (i)	71,104	1,861	(14)	-	(47,117)	-	(938)	24,896
At independent valuation (ii)	378,790	-	(650)	(1,477)	54,264	-	(14,127)	416,800
At fair value	449,894	1,861	(664)	(1,477)	7,147	-	(15,065)	441,696
Wastewater infrastructure								
At fair value (i)	165,957	4,702	(1)	-	(109,397)	-	(3,422)	57,839
At independent valuation (ii)	387,200	-	(46)	-	116,579	-	(15,924)	487,809
At fair value	553,157	4,702	(47)	-	7,182	-	(19,346)	545,648
Plant, equipment and other								
At fair value	6,598	-	(43)	(6)	1,137	-	(1,515)	6,171
Motor vehicles								
At fair value	4,594	-	(323)	-	1,055	-	(913)	4,413

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

NOTE 4 – KEY ASSETS AVAILABLE TO SUPPORT SERVICE DELIVERY (cont.)

2016-17	Opening WDV 1 July 2016	Additions	Disposals	Revaluations	Transfers between categories	Impairment	Depreciation	Closing WDV 30 June 2017
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Assets under construction								
At cost	(iii) (iv)	50,670	35,486	-	-	(18,449)	-	67,707
Total infrastructure, property, plant and equipment		1,111,473	42,049	(1,921)	(411)	-	(37,254)	1,112,857

(i) Additions for water and wastewater infrastructure reflect the owner cost works (gifted assets by developers).

(ii) Note 9.8 provides further detail in relation to the restatement of water and wastewater infrastructure asset values for 2015-16.

(iii) \$349,000 has been transferred to Intangibles in 2016-17.

(iv) Prior year capex of \$61,367 was written off on the Comprehensive Operating Statement in 2016-17.

NOTE 4 – KEY ASSETS AVAILABLE TO SUPPORT SERVICE DELIVERY (cont.)

2015-16	Opening WDV 1 July 2015	Additions	Disposals	Revaluations	Transfers between categories	Impairment	Depreciation	Closing WDV 30 June 2016
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Land								
At fair value	(i)	32,447	1,424	-	1,690	586	-	36,147
Buildings								
At fair value		1,869	-	-	-	550	-	2,419
At independent valuation		8,834	-	(315)	-	-	(525)	7,994
At fair value		10,703	-	(315)	550	-	(525)	10,413
Water infrastructure								
At fair value		55,039	2,484	-	-	13,671	(90)	71,104
At independent valuation	(ii)	296,492	-	-	94,551	-	(12,253)	378,790
At fair value	(iii)	351,531	2,484	-	94,551	13,671	(12,253)	449,894
Wastewater infrastructure								
At fair value		133,522	6,278	-	-	26,412	(255)	165,957
At independent valuation	(ii)	477,138	-	-	(69,539)	-	(20,399)	387,200
At fair value	(iii)	610,660	6,278	-	(69,539)	26,412	(20,399)	553,157
Plant, equipment and other								
At fair value		5,788	-	(56)	-	2,318	(1,452)	6,598
Motor vehicles								
At fair value		4,515	-	(891)	-	2,062	(33)	4,594

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

NOTE 4 – KEY ASSETS AVAILABLE TO SUPPORT SERVICE DELIVERY (cont.)

2015-16	Opening WDV 1 July 2015	Additions	Disposals	Revaluations	Transfers between categories	Impairment	Depreciation	Closing WDV 30 June 2016
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Assets under construction								
At cost	57,627	39,704	-	-	(46,661)	-	-	50,670
Total infrastructure, property, plant and equipment	(iv) 1,073,271	49,890	(947)	26,387	(1,062)	(378)	(35,688)	1,111,473

(i) Additions for land are reserves acquired without consideration.

(ii) Note 9.8 provides further detail in relation to the restatement of water and wastewater infrastructure asset values for 2015-16.

(iii) Additions for water and wastewater infrastructure reflect the owner cost works (gifted assets by developers).

(iv) Transfers between categories: \$375,000 has been transferred to intangibles in 2015-16. Prior year capex of \$687,000 was written off in 2015-16.

NOTE 4 – KEY ASSETS AVAILABLE TO SUPPORT SERVICE DELIVERY (cont.)

4.1.5 Net gain / (loss) on disposal

The surplus/(deficit) from ordinary activities includes the following specific net gains and expenses:

	2017	2016
	\$'000	\$'000
Proceeds on sale	540	1,385
Written down value	(1,117)	(1,322)
Net gain / (loss) on disposal of non-current assets	(577)	63

4.2 Biological assets

Biological assets

The Corporation holds various biological assets that are recognised in its Balance Sheet. These assets are comprised as follows:

Asset	Description
Crops	Cereal, forage and legumes stored on site at the Corporation's various farming properties.
Plantations	Forests established through planting of seedlings at specified spacings, following intensive site preparation.
Livestock	Heifers, steers, cows, bulls and wether lambs located at the Corporation's various farming properties.

4.2.1 Crops and plantations

	2017	2016	2017	2016
	\$'000	\$'000	Qty	Qty
Consumable assets				
Mature assets				
Fodder				
Silage – (bales)	8	12	113	205
Cereal and legume silage (tonnes)	55	147	1,200	2,240
Hay – (bales)	103	41	780	817
Crops				
Feed wheat (tonnes)	32	23	140	77
Feed mixed grain (tonnes)	107	106	390	330
Total consumable assets (CAI)	305	329		
Non-bearer assets				
Immature assets (plantation)				
Softwood pinus radiata (Ha)	3,714	3,381	542	542
Total non-bearer assets (NCAI)	3,714	3,381		

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

NOTE 4 – KEY ASSETS AVAILABLE TO SUPPORT SERVICE DELIVERY (cont.)

4.2.2 Livestock

	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
Consumable assets				
Immature assets				
Mixed sex calves and weaners	578	1,008	428	912
Mature assets				
Heifers	238	-	150	-
Bullocks	102	-	64	-
Total consumable assets (CA2)	918	1,008		
Bearer assets				
Immature assets				
Heifers	539	297	431	350
Mature assets				
Cows and bulls	1,908	912	960	742
Total bearer assets (NCA2)	2,447	1,209		

	2017	2016
	\$'000	\$'000
Total biological assets		
Animals (CA1) and livestock (CA2)	1,223	1,337
Total non-current biological assets		
Animals (NCA1) and livestock (NCA2)	6,161	4,590

Recognition

These assets are recognised at fair value in accordance with the requirements of Australian Accounting Standard AASB 141 Agriculture. There were no changes in the basis of valuation during the year.

Valuation

Livestock

Fair value for livestock is based on relevant market indicators, including store cattle prices, abattoir market prices and cattle prices received/quoted for the Corporation's cattle at reporting date. Prices for cattle generally reflect the shorter term spot prices available in the market and vary depending on the weight and condition of animals.

Any net increment and decrement in market value in the reporting year is recognised in the Comprehensive Operating Statement. Chris Stanley Livestock of Woori Yallock completed an independent valuation of livestock as at 30 June 2017 and previously at 30 June 2016.

Plantations

Plantations are recognised at fair value less estimated costs to sell.

Plantations have been independently valued based on expected volumes of merchantable timber that could be obtained from existing stands given current management strategies. The cost of growing the trees has been

NOTE 4 – KEY ASSETS AVAILABLE TO SUPPORT SERVICE DELIVERY (cont.)

included in the assessment of net cashflows. Costs associated with the land on which the plantations are grown are rates, land tax and other related costs.

Agribusiness Valuations Australia, certified practicing valuers, completed an independent valuation of the plantations at 30 June 2017 and at 30 June 2016.

Any net increment and decrement in market value in the reporting year is recognised in the Comprehensive Operating Statement after allowing for the costs of acquiring and planting the trees.

Crops

The value of crops has been verified by reference to established market prices. These values are determined having regard to prevailing seasonal conditions in Gippsland and in other recipient markets for each category of produce.

4.2.3 Reconciliation of movement in carrying amounts

	2017	2016
	\$'000	\$'000
Movement in carrying amount		
Carrying amount at 1 July	5,927	4,482
Increases due to:		
Purchases	453	468
Natural increase	431	1,069
New crops	-	-
Fair value increase – livestock and plantations	1,810	1,809
Decreases attributable to:		
Sales	(1,170)	(1,853)
Deaths	(43)	(47)
Movement in crops	(24)	-
Carrying amount at 30 June	7,384	5,927

4.2.4 Cost of biological assets sold

	2017	2016
	\$'000	\$'000
Cost of biological assets sold – plantations	-	-
Cost of biological assets sold – livestock	1,170	1,853
Total cost of biological assets sold	1,170	1,853

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

NOTE 4 – KEY ASSETS AVAILABLE TO SUPPORT SERVICE DELIVERY (cont.)

4.3 Intangible assets

The Corporation recognises various intangible assets in the Balance Sheet in accordance with Australian Accounting Standard AASB 138 Intangible Assets and FRD109 Intangible Assets. These assets are identifiable non-monetary assets without physical substance and can either have finite useful lives or have indefinite useful lives.

2017	Opening WDV 1 July 2016	Additions	Transfers	Amortisation	Closing WDV 30 June 2017
	\$'000	\$'000	\$'000	\$'000	\$'000
Software at cost	12,193	-	408	-	12,601
Water entitlements at cost	4,500	-	-	-	4,500
Accumulated amortisation	(10,395)	-	-	(845)	(11,240)
	6,298	-	408	(845)	5,861
Software development (work in progress)	205	18	(66)	-	156
Total intangible assets	6,503	18	342	(845)	6,017

2016	Opening WDV 1 July 2015	Additions	Transfers	Amortisation	Closing WDV 30 June 2016
	\$'000	\$'000	\$'000	\$'000	\$'000
Software at cost	11,414	-	779	-	12,193
Water entitlements at cost	4,500	-	-	-	4,500
Accumulated amortisation	(9,668)	-	-	(727)	(10,395)
	6,246	-	779	(727)	6,298
Software development (work in progress)	471	138	(404)	-	205
Total intangible assets	6,717	138	375	(727)	6,503

Intangible assets with finite useful lives (computer software)

Intangible assets with finite useful lives are recognised at cost and are amortised over their useful lives. Annually, the value of these assets are tested to determine whether carrying value exceeds recoverable amount and hence whether there has been any impairment.

In years subsequent to acquisition, these assets are recorded at cost less accumulated amortisation and impairment losses. Costs incurred subsequent to acquisition are capitalised when it is expected that additional economic benefits will flow to the Corporation.

Intangible assets with indefinite useful lives (permanent water entitlements)

Intangible assets with indefinite useful lives are recognised at cost and their values are tested annually to determine whether carrying value exceeds recoverable amount and hence whether there has been any

NOTE 4 – KEY ASSETS AVAILABLE TO SUPPORT SERVICE DELIVERY (cont.)

impairment.

Permanent water entitlements acquired after 1 July 2013 are recognised as intangible assets with indefinite lives and are not amortised. Entitlements acquired prior to 1 July 2013 are not recognised as intangible assets as they cannot be reliably measured.

Internally generated intangible assets

An internally generated intangible asset arising 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.
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

Amortisation	2017	2016
	\$'000	\$'000
- Software	845	727
Total amortisation	845	727

A summary of the approach to amortisation of the various types of intangible assets recognised by the Corporation is set out in the table below. Amortisation periods used for each asset class are listed and are consistent with the prior year, unless otherwise stated:

	Computer software	Water licences	Water entitlements
Useful life	1 - 10 years	99 years	Indefinite
Method of amortisation	Straight line	Straight line	Not amortised or revalued
Type of asset	Internally generated and acquired assets	Acquired assets	Acquired assets
Impairment test	Amortisation and indicators of impairment are reviewed annually	Reviewed annually	Reviewed annually

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

NOTE 4 – KEY ASSETS AVAILABLE TO SUPPORT SERVICE DELIVERY (cont.)

4.4 Capital commitments

Capital commitments for future expenditure arise from contracts entered into. These commitments are recorded below at their nominal value and are inclusive of GST. These future expenditures cease to be disclosed as commitments once the related liabilities are recognised in the Balance Sheet.

Capital commitments	2017	2016
	\$'000	\$'000
<i>Infrastructure, property, plant and equipment</i>		
- Within one year	4,670	2,741
- Later than one year but not later than five years	-	-
- Later than five years	-	-
Total capital commitments	4,670	2,741

4.5 Fair value determination

The Corporation measures certain assets at fair value where required or permitted by Australian Accounting Standards. These assets include non-financial assets such as infrastructure, property, plant and equipment and biological assets).

Australian Accounting Standard AASB 13 Fair Value Measurement provides a definition of fair value and a single source of fair value measurement and disclosure requirements for use across all Australian Accounting Standards.

AASB 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

Heirarchy	Fair value approach
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.
Level 3	Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For the purposes of fair value disclosures, the Corporation has determined classifications of assets on the basis of the nature, characteristics and risks of the asset and the level of the fair value hierarchy as explained above.

In addition, the Corporation annually reviews categorisation of assets within the hierarchy levels and re-categorises assets as appropriate (based on the lowest level input that is significant to the fair value assessment as a whole) at the end of each reporting period.

NOTE 4 – KEY ASSETS AVAILABLE TO SUPPORT SERVICE DELIVERY (cont.)

4.5.1 Fair value determination: non-financial physical assets

Fair value measurement hierarchy for assets as at 30 June 2017:

	Carrying amount	Fair value measurement at end of reporting period using:		
		Level 1	Level 2	Level 3
	\$'000	\$'000	\$'000	\$'000
Land at fair value				
Non-specialised land	1,378	-	1,378	-
Specialised land	35,389	-	-	35,389
Total of land at fair value	36,767	-	1,378	35,389
Buildings at fair value				
Non-specialised buildings	8,061	-	8,061	-
Specialised buildings	2,394	-	-	2,394
Total buildings at fair value	10,455	-	8,061	2,394
Water infrastructure at fair value				
Headworks	106,599	-	-	106,599
Water transfer	74,396	-	-	74,396
Water storage	13,758	-	-	13,758
Water treatment	58,628	-	-	58,628
Water pump stations	2,867	-	-	2,867
Water reticulation	185,312	-	-	185,312
Water spares	136	-	-	136
Total of water infrastructure at fair value	441,696	-	-	441,696
Wastewater infrastructure at fair value				
Waste transfer	73,984	-	-	73,984
Waste storage	10,774	-	-	10,774
Waste treatment	203,415	-	-	203,415
Waste pump stations	52,139	-	-	52,139
Waste reticulation	205,113	-	-	205,113
Waste spares	223	-	-	223
Total of wastewater infrastructure at fair value	545,648	-	-	545,648
Plant, equipment and vehicles at fair value				
Vehicles	4,413	-	4,413	-
Plant and equipment	6,171	-	-	6,171
Total of plant, equipment and vehicles at fair value	10,584	-	4,413	6,171
Total infrastructure, property, plant and equipment at fair value	1,045,150	-	13,852	1,031,298

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

NOTE 4 – KEY ASSETS AVAILABLE TO SUPPORT SERVICE DELIVERY (cont.)

Fair value measurement hierarchy for assets as at 30 June 2016:

	Carrying amount	Fair value measurement at end of reporting period using:		
		Level 1	Level 2	Level 3
	\$'000	\$'000	\$'000	\$'000
Land at fair value				
Non-specialised land	1,378	-	1,378	-
Specialised land	34,769	-	-	34,769
Total of land at fair value	36,147	-	1,378	34,769
Buildings at fair value				
Non-specialised buildings	8,351	-	8,351	-
Specialised buildings	2,062	-	-	2,062
Total buildings at fair value	10,413	-	8,351	2,062
Water infrastructure at fair value				
Headworks	109,387	-	-	109,387
Water transfer	75,017	-	-	75,017
Water storage	14,194	-	-	14,194
Water treatment	60,927	-	-	60,927
Water pump stations	2,761	-	-	2,761
Water reticulation	187,493	-	-	187,493
Water spares	115	-	-	115
Total of water infrastructure at fair value (i)	449,894	-	-	449,894
Wastewater infrastructure at fair value				
Waste transfer	74,371	-	-	74,371
Waste storage	10,791	-	-	10,791
Waste treatment	209,686	-	-	209,686
Waste pump stations	52,876	-	-	52,876
Waste reticulation	205,190	-	-	205,190
Waste spares	243	-	-	243
Total of wastewater infrastructure at fair value (i)	553,157	-	-	553,157
Plant, equipment and vehicles at fair value				
Vehicles	4,594	-	4,594	-
Plant and equipment	6,598	-	-	6,598
Total of plant, equipment and vehicles at fair value	11,192	-	4,594	6,598
Total infrastructure, property, plant and equipment at fair value	1,060,803	-	14,323	1,046,480

(i) Note 9.8 provides further detail in relation to the restatement of water and wastewater infrastructure asset values for 2015-16.

NOTE 4 – KEY ASSETS AVAILABLE TO SUPPORT SERVICE DELIVERY (cont.)

Non-specialised land and buildings

Fair values for non-specialised land and buildings were determined using independent valuations prepared by the Valuer-General of Victoria (VGV) as at 30 June 2016. Comparable sales were analysed and differences in share, size, topography, location and any other relevant factors were taken into account in the valuations. The analysis resulted in establishment of rates per square metre which were applied to the subject assets.

These assets have been classified as Level 2 assets in the hierarchy due to the Corporation assessing that fair value can be determined from market sources as there are active markets for these assets and they can be made available for sale immediately.

A fair value assessment has been conducted at 30 June 2017. This assessment has determined that no change to the fair value has arisen from the 2016 valuation.

Specialised land and buildings

Fair values for specialised land and buildings were determined using independent valuations as described above for non-specialised land and buildings with an adjustment for the impact of various community service obligations (CSOs) related to these assets. The valuations were determined by the VGV. The CSO adjustment reflects the impact of restrictions associated with use of these assets on the basis that such restrictions also equally apply to other market participants. This adjustment reflects the highest and best use consideration as described in Note 1.12. Adjustment for CSOs is regarded as significant observable inputs and that drives the classification of these assets as Level 3 assets in the hierarchy.

Fair value for the majority of the Corporation's specialised buildings is determined as the depreciated replacement cost; this being considered to be the best estimate of fair value. As depreciation charges are considered to be significant unobservable inputs, specialised buildings are classified as Level 3 assets in the hierarchy.

A fair value assessment has been conducted at 30 June 2017. This assessment has determined that no change to the fair value has arisen from the 2016 valuation.

Water and wastewater infrastructure

Fair values for water and wastewater infrastructure were determined using independent valuations prepared by the VGV as at 30 June 2016. Fair value for these assets is based on depreciated replacement cost, this being considered as the best estimate of fair value. Replacement cost represents estimated costs to replace the current service capacity of the asset being valued. Depreciated replacement cost is replacement cost less accumulated depreciation charges calculated. Economic obsolescence has been considered in determining depreciated replacement cost.

These assets have been classified as Level 3 assets in the hierarchy due to the absence of an active market, this being an unobservable condition that significantly impacts the assessment of fair value.

A fair value assessment has been conducted at 30 June 2017. This assessment has determined that no change to the fair value has arisen from the 2016 valuation.

Plant, equipment and other

Fair values for plant, equipment and other related assets were determined on the basis of depreciated replacement cost; this being the preferred method of estimation of fair value when such assets are of a specialised nature.

These assets have been classified as Level 3 assets in the hierarchy due to the absence of an active market, this being an unobservable condition that significantly impacts the assessment of fair value.

A fair value assessment has been conducted at 30 June 2017. This assessment has determined that no change to the fair value has arisen from the 2016 valuation.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

NOTE 4 – KEY ASSETS AVAILABLE TO SUPPORT SERVICE DELIVERY (cont.)

Motor Vehicles

Fair values for motor vehicles can be determined from market sources as there are active markets for these assets and they can be made available for sale immediately. These assets have been classified as Level 2 assets in the hierarchy by the Corporation.

NOTE 4 – KEY ASSETS AVAILABLE TO SUPPORT SERVICE DELIVERY (cont.)

2016-17	Opening balance	Purchases (sales)	Transfers in (out) of Level 3	Gains or losses recognised in Comprehensive Operating Statement	Gains or losses recognised in asset revaluation reserve	Depreciation	Impairment loss	Closing balance
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Specialised purpose land	34,769	1,055	-	2	(437)	-	-	35,389
Specialised buildings	2,062	456	-	-	-	(124)	-	2,394
Water infrastructure								
Headworks	109,387	282	-	(24)	-	(3,046)	-	106,599
Water transfer	75,017	1,538	-	-	-	(2,159)	-	74,396
Water storage	14,194	49	-	-	-	(485)	-	13,758
Water treatment	60,927	2,394	-	(639)	-	(4,054)	-	58,628
Water pump stations	2,761	229	-	-	-	(123)	-	2,867
Water reticulation	187,493	4,497	-	-	(1,477)	(5,201)	-	185,312
Water spares	115	21	-	-	-	-	-	136
Total of water infrastructure at fair value (i)	449,894	9,010	-	(663)	(1,477)	(15,068)	-	441,696
Wastewater infrastructure								
Waste transfer	74,371	1,170	-	-	-	(1,557)	-	73,984
Waste storage	10,791	255	-	-	-	(272)	-	10,774
Waste treatment	209,686	1,729	-	-	-	(8,000)	-	203,415
Waste pump stations	52,876	888	-	(47)	-	(1,578)	-	52,139
Waste reticulation	205,190	7,862	-	-	-	(7,939)	-	205,113
Waste spares	243	(20)	-	-	-	-	-	223
Total of wastewater infrastructure at fair value (i)	553,157	11,884	-	(47)	-	(19,346)	-	545,648
Plant and equipment	6,598	1,027	95	(28)	(6)	(1,515)	-	6,171
Total Level 3 assets	1,046,480	23,432	95	(736)	(1,920)	(36,053)	-	1,031,298

(i) Note 9.8 provides further detail in relation to the restatement of water and wastewater infrastructure asset values for 2015-16.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

NOTE 4 – KEY ASSETS AVAILABLE TO SUPPORT SERVICE DELIVERY (cont.)

2015-16	Opening balance	Purchases (sales)	Transfers in (out) of Level 3	Gains or losses recognised in Comprehensive Operating Statement	Gains or losses recognised in asset revaluation reserve	Depreciation	Impairment loss	Closing balance
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Specialised purpose land	31,362	586	-	1,424	1,397	-	-	34,769
Specialised buildings	1,057	550	(i) 1,242	-	(419)	(368)	-	2,062
Water infrastructure								
Headworks	55,563	199	-	-	54,246	(621)	-	109,387
Water transfer	98,979	10	-	-	(21,756)	(2,316)	-	75,017
Water storage	7,560	71	-	-	7,008	(445)	-	14,194
Water treatment	44,532	7,086	-	-	13,709	(4,310)	(90)	60,924
Water pump stations	7,537	33	-	-	(4,399)	(410)	-	2,761
Water reticulation	137,238	8,663	-	-	45,743	(4,151)	-	187,493
Water spares	120	(5)	-	-	-	-	-	115
Total of water infrastructure at fair value (i)	351,529	16,157	-	-	94,551	(12,253)	(90)	449,894
Wastewater infrastructure								
Waste transfer	82,453	8,246	-	-	(14,107)	(2,221)	-	74,371
Waste storage	410	251	-	-	10,177	(47)	-	10,791
Waste treatment	194,742	4,611	-	-	18,549	(8,216)	-	209,686
Waste pump stations	59,192	1,079	-	-	(4,468)	(2,672)	(255)	52,876
Waste reticulation	273,617	18,506	-	-	(79,690)	(7,243)	-	205,190
Waste spares	246	(3)	-	-	-	-	-	243
Total of wastewater infrastructure at fair value (i)	610,660	32,690	-	-	(69,539)	(20,399)	(255)	553,157
Plant and equipment	5,787	2,263	-	-	-	(1,452)	-	6,598
Total Level 3 assets	1,000,395	52,246	1,242	1,424	25,990	(34,472)	(345)	1,046,480

(i) Transfers in Level 3 for specialised buildings reflect the buildings in special purpose land since these buildings alone do not have an active market.

(ii) Note 9.8 provides further detail in relation to the restatement of water and wastewater infrastructure asset values for 2015-16.

NOTE 4 – KEY ASSETS AVAILABLE TO SUPPORT SERVICE DELIVERY (cont.)

Description of significant unobservable inputs to Level 3 valuations

Asset category	Valuation technique	Significant unobservable inputs
Specialised land	Market approach	Community Service Obligation (CSO) adjustment
Specialised buildings	Depreciated replacement cost	Direct cost per square metre Useful life of specialised buildings
Headworks	Depreciated replacement cost	Cost per unit Useful life of the infrastructure, plant and equipment
Water transfer		
Water storage		
Water treatment		
Water pump stations		
Water reticulation		
Water spares		
Waste transfer		
Waste storage		
Waste treatment		
Waste pump stations		
Waste reticulation		
Waste spares		
Plant and equipment		

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

NOTE 4 – KEY ASSETS AVAILABLE TO SUPPORT SERVICE DELIVERY (cont.)

4.5.2 Fair value determination of biological assets

Biological asset type	2017				2016			
	Carrying amount	Fair value measurement at end of reporting period using:			Carrying amount	Fair value measurement at end of reporting period using:		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Crops and fodder	305		305		329		329	
Animals	3,365		3,365		2,218		2,218	
Plantations	3,714		3,714		3,381		3,381	
Total of biological assets at fair value	7,384		7,384		5,927		5,927	

These assets have been classified as Level 2 assets in the hierarchy due to the Corporation assessing that fair value can be determined by valuation techniques for which the lowest level input is directly or indirectly observable.

Livestock

Fair value for livestock is based on relevant market indicators, including store cattle prices, abattoir market prices and cattle prices received/quoted for the Corporation's cattle at reporting date. Prices for cattle generally reflect the shorter term spot prices available in the market and vary depending on the weight and condition of animals.

Plantations

Plantations are recognised at fair value less estimated costs to sell. Plantations have been independently valued based on expected volumes of merchantable timber that could be obtained from existing stands given current management strategies. The cost of growing the trees has been included in the assessment of net cash flows. Costs associated with the land on which the plantations are grown are rates, land tax and other related costs.

NOTE 5 – OTHER ASSETS AND LIABILITIES

Introduction

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

Note contents

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NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

NOTE 5 – OTHER ASSETS AND LIABILITIES (cont.)

5.1 Receivables

	2017	2016
	\$'000	\$'000
Current receivables		
Statutory receivables		
Goods and services taxation refund due	996	1,490
Contractual receivables		
Private schemes unmatured capital	91	91
Trade receivables	11,048	12,990
Provision for impaired receivables	(237)	(226)
Loans to third parties	35	33
Accrued revenue	5,846	5,053
Total current receivables	17,779	19,431
Non-current receivables		
Contractual receivables		
Private schemes unmatured capital	1,343	1,498
Loans to third parties	272	307
Total non-current receivables	1,615	1,805
Total receivables	19,394	21,236

Receivables recognised in the Balance Sheet consist of:

- Contractual receivables, such as trade receivables arising from the sale of goods and services and loans to third parties.
- Statutory receivables, such as amounts receivable from the Victorian Government and goods and services tax input credits recoverable.

Contractual receivables are due for settlement no more than 30 days from date of recognition, except for loans to third parties which are represented in both current and non-current receivables. Loans to third parties arise from new sewerage schemes where customers have long term payment arrangements, with an instalment payment due annually.

Statutory receivables are not classified as financial instruments because they do not arise from any contractual arrangements. They are recognised similarly to contractual receivables, except that no provision is made for impairment.

Volumetric water usage and wastewater (non-residential customers only) charges are recognised as revenue when the services are provided. Meter reading is undertaken progressively throughout the year. An estimation of unbilled volumetric charges is made at the end of each accounting period in respect of meters which have not been read at balance date and accrued as revenue. The Corporation estimated accrued revenue in respect of residential water meters which had not been read at balance date of \$3,142,793 (2016: \$3,035,679) for residential customers and \$970,638 (2016: \$533,403) for non-residential customers, by multiplying the number of days since the last reading by each customer's average service usage.

Private schemes unmatured capital

Private scheme receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are included in the Balance Sheet as current assets, except for those with maturities of greater than 12 months after the reporting date, which are classified as non-current assets. These assets are recorded at amortised cost less any impairment.

NOTE 5 – OTHER ASSETS AND LIABILITIES (cont.)

During the reporting period, the Corporation had private schemes only on sewerage schemes. A private scheme arises when sewerage is first connected to a previously unsewered small town. Residents are offered payment terms of up to 20 years which includes an interest component.

5.1.1 Movement in the provision for impaired receivables

Collectability of contractual receivables is reviewed regularly. Receivables which are known to be uncollectible are written off as expenses in the Comprehensive Operating Statement. A provision for impaired receivables is established when there is objective evidence that the Corporation will not be able to collect amounts due according to the original terms of those receivables.

As at 30 June 2017, the amount of the provision was \$237,000. The individually impaired receivables mainly relate to outstanding debts for water and wastewater services. It was assessed that a portion of the receivables is expected to be recovered.

Movement in provision for impaired receivables	2017	2016
	\$'000	\$'000
Opening balance at 1 July	(226)	(214)
(Increase) / decrease in allowance recognised in Comprehensive Operating Statement	(159)	(445)
Amounts written-off during the year	148	433
Closing balance at 30 June	(237)	(226)

The provision for impairment is measured as the difference between the carrying amount of the receivables and the present value of future cash flows that are estimated will be received by the Corporation from those receivables, discounted at the original effective interest rate applicable to the receivables. Increases in the provision for impairment are recognised as expenses in the Comprehensive Operating Statement.

Renegotiated trade receivables relate to a number of independent customers who have entered into payment arrangements with the Corporation to repay amounts outstanding under a formal instalment payment process.

Contractual receivables – renegotiated	2017	2016
	\$'000	\$'000
The carrying amount of trade receivables that would otherwise be past due or impaired whose terms have been renegotiated	1,063	1,308

5.1.2 Ageing analysis of contractual receivables

Past due but not impaired trade receivables relate to a number of independent customers for whom there is no recent history of default. 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.

Ageing analysis of contractual receivables	2017	2016
	\$'000	\$'000
Trade receivables past due but not impaired		
0 - 30 days	2,093	2,151
30 - 60 days	302	353
60 - 90 days	153	137
Over 90 days	982	732
Total trade receivables past due but not impaired	3,530	3,373

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

NOTE 5 – OTHER ASSETS AND LIABILITIES (cont.)

5.2 Payables

	2017	2016
	\$'000	\$'000
Current		
Statutory payables		
GST payable	160	172
Other government payables	112	145
Total	272	317
Contractual payables		
Trade creditors	1,594	3,886
Accrued expenses	12,256	7,357
Other		
Security deposits	1,601	1,405
Retentions	738	1,216
Overpaid rates and charges	3,376	3,509
Unclaimed monies	15	4
Other	61	-
Total	19,641	17,377
Total current payables	19,913	17,694

Total payables do not include any foreign currency denominated liabilities (2016: Nil).

Payables consist of:

- Statutory payables which are obligations to make payments to government and government agencies, such as payment of goods and services tax and fringe benefits tax.
- Contractual payables, which are liabilities for goods and services supplied to the Corporation prior the end of the financial year that are unpaid at that date.

Statutory payables are not classified as financial instruments because they do not arise from contractual arrangements and are therefore not required to be recognised at amortised cost.

Contractual payables are unsecured and usually due for settlement no more than 30 days from date of recognition. Contractual payables consist of:

- Security deposits which are a single cash payment received by Gippsland Water from a contractor or customer and held by Gippsland Water as security.
- Retention amounts are cash security withheld from progress payments made to contractors by Gippsland Water.
- Overpaid fees are payments by customers in advance of a bill being issued.
- Unclaimed monies are payments which cannot be identified within two months of receipt.
- Other relates to various salary sacrifice payments from employees.

NOTE 5 – OTHER ASSETS AND LIABILITIES (cont.)

5.2.1 Ageing analysis of contractual payables

2017	Maturity dates					
	Carrying amount	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Payables	19,641	19,641				

2016	Maturity dates					
	Carrying amount	Less than 6 months	6-12 months	1-2 years	2-5 years	5+ years
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Payables	17,377	17,377				

5.3 Inventories

	2017 \$'000	2016 \$'000
Stores and consumables – at cost	2,906	2,801
Total inventories	2,906	2,801

There were no inventories pledged as security for liabilities (2016: Nil)

Inventories recognised in the Balance Sheet are comprised of unused stores and materials held for use in the construction of new assets and the repair and maintenance of existing assets. All inventories are measured at the lower of cost and net realisable value. Cost is based on weighted average cost. Inventories include goods held for distribution at no or nominal cost in the ordinary course of business.

Inventories are valued at net realisable value if there has been any loss of service potential during the period that they have been held. Loss of service potential can occur as a result of technical or functional obsolescence. Technical obsolescence occurs when an item still functions for some or all of the tasks it was originally acquired to do, but no longer matches existing technologies. Functional obsolescence occurs when an item no longer functions the way it did when it was first acquired. Reductions in the carrying amounts of inventories are recognised as expenses in the Comprehensive Operating Statement.

5.4 Other financial assets

	2017 \$'000	2016 \$'000
Current		
Other	521	303
Total current	521	303
Non-current		
TCV deposit – environmental bond	1,000	1,000
Total non-current	1,000	1,000
Total other financial assets	1,521	1,303

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

NOTE 5 – OTHER ASSETS AND LIABILITIES (cont.)

Other current

Renewable Energy Certificates (RECs)

The Corporation operates a biogas co-generation unit and micro hydro-electric generator as part of the Gippsland Water Factory operation. The Corporation is able to obtain RECs in exchange for the energy created. There is an active sales market for these certificates. In 2017, the Corporation did not sell any RECs (sales proceeds 2016: \$785,000).

TCV deposit - environmental bond

The Corporation operates a prescribed (industrial) waste treatment and storage facility at its Dutson Downs property which falls under EPA Licence CL62999, and is required to meet the conditions of Section 67B of the *Environment Protection Act 1970* (Vic) (the Act). Pursuant to the Act, the Corporation is required to provide financial assurance as the occupier of a landfill. The financial assurance is intended to provide a guarantee that the costs of remediation and site closure and post closure costs are not borne by the local community in the event of the occupiers of the site abandoning the site, becoming insolvent or incurring clean-up costs beyond their financial capability. This assurance takes the form of a \$1 million cash deposit with TCV and is recognised in the Balance Sheet as a non-current financial asset.

5.5 Other non-financial assets

	2017	2016
	\$'000	\$'000
Prepayments	627	737
Total other non-financial assets	627	737

Prepayments represent payments in advance of receipt of goods or services or that part of expenditure made in one accounting period covering a term extending beyond that period.

5.6 Other provisions

	2017	2016
	\$'000	\$'000
Current		
Bioremediation pond rehabilitation	304	403
Landfill site rehabilitation	247	257
Total current other provisions	551	660
Total other provisions	551	660

Provisions are recognised in the Balance Sheet when the Corporation, as a result of a past event, has a legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured on the basis of cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows, using a discount rate that reflects the time value of money and risks specific to the provision.

When some or all of the economic benefits required to settle the provision are expected to be received from a third party, the receivable is recognised as an asset if recovery is virtually certain and the amount of the receivable can be reliably measured.

NOTE 5 – OTHER ASSETS AND LIABILITIES (cont.)

Dutson Downs rehabilitation provisions

The Corporation operates a prescribed waste treatment and storage facility at its Dutson Downs property. Historically, the 350ha site was established in order to dispose of prescribed wastes using landfill technology. The facility is approved by the Environment Protection Authority (EPA) for this purpose due to its large buffer distances, its thick clay overlays and its well-developed management practices.

Two provisions have been established to recognise the future rehabilitation costs associated with this site:

Bioremediation pond rehabilitation

On 30 June 2008, the bioremediation pond ceased operating. The Corporation recognised through the establishment of a provision, the liability for the rehabilitation of the bioremediation pond. The provision is reviewed each year to ensure that it is of sufficient value to cover the actual cost associated with the final rehabilitation of the site. Remediation of the site commenced in 2010-11 with works to be completed in accordance with the Rehabilitation Action Plan.

Landfill site rehabilitation

The Corporation operates an EPA licensed landfill for the disposal of inorganic waste. This provision recognises the final restoration cost to close and restore the landfill site. Based upon current utilisation, management has estimated the landfill site has one year of remaining life (2016:1). This provision is reviewed annually to ensure it adequately covers the rehabilitation costs and satisfies any current environmental regulations prevailing at the end of reporting period.

5.6.1 Reconciliation of movements in other provisions

	Bioremediation pond	Landfill site	Total
	\$'000	\$'000	\$'000
Opening balance at 1 July	403	257	660
Utilised during reporting period	(99)	(10)	(109)
Closing balance at 30 June	304	247	551

NOTE 6

HOW WE FINANCED OUR OPERATIONS

NOTE 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 7.2 provides additional, specific financial instrument disclosures.

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NOTE 6 – HOW WE FINANCED OUR OPERATIONS (cont.)

6.1 Interest bearing liabilities

	2017	2016
	\$'000	\$'000
Current secured		
Borrowings – TCV	50,000	60,000
Total current interest bearing liabilities	50,000	60,000
Non-current secured		
Borrowings – TCV	230,000	220,000
Total non-current interest bearing liabilities	230,000	220,000
Total interest bearing liabilities	280,000	280,000

Interest bearing liabilities are recognised in the Balance Sheet and are entirely represented by borrowings from TCV.

Borrowings are initially recognised at fair value, net of transaction costs incurred. As borrowings are a financial liability, in subsequent years they are 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 borrowings, using the effective interest rate method.

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

The Corporation has classified borrowings which mature within 12 months as non-current liabilities on the basis that it has discretion to refinance or rollover these loans with the lender, TCV, pursuant to Section 8 of the *Borrowings and Investment Powers Act 1987* (Vic). Borrowings known as I lam debt are classified as current borrowings.

6.1.1 Maturity analysis of interest bearing liabilities

	2017	2016
	\$'000	\$'000
0 - 1 year	50,000	60,000
1 - 4 years	90,000	90,000
4 - 8 years	90,000	90,000
8 years and over	50,000	40,000
Total	280,000	280,000

6.1.2 Borrowing costs

	2017	2016
	\$'000	\$'000
Interest on TCV borrowings	10,289	11,427
Financial accommodation levy	3,993	3,697
Total borrowing cost	14,282	15,124

Borrowing costs are recognised as expenses in the period in which they are incurred.

Borrowing costs include interest on bank overdrafts, short term and long term borrowings and the Financial Accommodation Levy (FAL) administered by the DTF. The purpose of the FAL is to expose public sector corporations to competitive disciplines by neutralising the competitive advantage provided by the state government guarantee on borrowings.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

NOTE 6 – HOW WE FINANCED OUR OPERATIONS (cont.)

6.2 Cash and cash equivalents

Cash and cash equivalents recognised in the Balance Sheet comprise cash on hand, deposits held at call with financial institutions and other highly liquid investments (with original maturity dates of three months or less), that are readily convertible to known amounts of cash and which are subject to insignificant risk of change in values.

	2017	2016
	\$'000	\$'000
Cash on hand	1	1
Cash at bank	11,854	8,865
Total cash and cash equivalents	11,855	8,866

6.2.1 Reconciliation of net result for the period to cash flow from operating activities

	2017	2016
	\$'000	\$'000
Net result	2,004	9,083
Add / (less) non-cash flows in operating activities		
Loss on sale and impairment of property, plant and equipment	1,118	315
Depreciation and amortisation	38,099	36,416
Developer contributions	(6,562)	(8,762)
Provision for impaired receivables	12	11
Plantations revenue non-cash	(333)	(1,192)
Other revenue non-cash	(2,914)	(1,424)
Income tax expense / (benefit)	883	2,721
Net cash provided by operating activities before change in assets and liabilities	32,307	37,168
Changes in assets and liabilities		
(Increase) / decrease in trade receivables	1,676	(1,057)
(Increase) / decrease in other current assets	(107)	(811)
(Increase) / decrease in inventory and biological assets	(1,562)	(435)
(Increase) / decrease in deferred tax liabilities / assets	306	7,916
(Decrease) / increase in payables	(261)	4,267
(Decrease) / increase in provisions	(96)	(35)
(Decrease) / increase in employee benefits	655	363
Net cash flows from operating activities	32,918	47,376

NOTE 6 – HOW WE FINANCED OUR OPERATIONS (cont.)

6.2.2 Financing facilities

Credit standby arrangements	2017	2016
	\$'000	\$'000
Total facilities – TCV	5,000	5,000
Used at balance date	-	-
Unused at balance date	5,000	5,000

Bank loan facilities	2017	2016
	\$'000	\$'000
Total facilities – TCV	5,000	5,000
Used at balance date	-	(2,500)
Unused at balance date	5,000	2,500

6.3 Operating commitments for expenditure

Commitments for future expenditure include operating commitments arising from contracts entered into. Please refer to Note 4.4 and Note 8.2.1 for details on capital and environmental commitments, respectively. Operating commitments are recorded below at their nominal value and inclusive of GST. Where it is considered appropriate and provides additional relevant information to users, the net present values of significant individual projects are stated. These future expenditures cease to be disclosed as commitments once the related liabilities are recognised in the Balance Sheet.

	2017	2016
	\$'000	\$'000
Non-cancellable operating lease commitments		
Operating leases for access to roads and infrastructure		
- Within 1 year	25	34
- Later than 1 year but not later than 5 years	28	43
- Later than 5 years	48	9
Total operating lease commitments	101	86

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease payments (net of any incentives received from the lessor) are charged as expenses in the Comprehensive Operating Statement on a straight line basis over the period of the leases to reflect the pattern of benefits derived from the leased assets.

NOTE 7

RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

NOTE 7 – RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS

Introduction

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 to fair value determination.

Note contents

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7.2.2	Financial risk management objectives and policies	129
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NOTE 7 – RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (cont.)

7.1 Contingent assets and contingent liabilities

Contingent assets and liabilities are not recognised in the Balance Sheet, but are disclosed by way of note and, if quantifiable, are measured at nominal value. The amounts shown for contingent assets and liabilities are inclusive of goods and services tax receivable or payable.

At balance date, the Corporation was aware of the following contingent assets and contingent liabilities which are not recorded or disclosed in these accounts.

Contingent assets

In 2016, the EPA published a new reformed system in relation to landfill licence conditions, including new calculations to advise current licence holders with a financial assurance obligation.

Now that the reformed system is in place, EPA will be conducting a review of all existing licences. This will be done according to a planned program, where the highest risk sites will be reviewed first. It is expected that the implementation process will take some time to complete. While the Corporation is encouraged to review the effect of the guidelines, there is no requirement to act until EPA initiates a review at Corporation's site.

Gippsland Water's Soil and Organic Recycling Facility operates landfills to which the new conditions apply. The Corporation's initial review has indicated that the current bond of \$1 million will be increased to approximately \$3 million.

Contingent liabilities

None (2016: nil).

7.2 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).
- Borrowings.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

NOTE 7 – RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (cont.)

De-recognition 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.
- 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.
- 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.
 - 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.

7.2.1 Financial instruments: categorisation

2017	Contractual financial assets – loans and receivables and cash	Contractual financial liabilities at amortised cost	Total
	\$'000	\$'000	\$'000
Contractual financial assets			
Cash and cash equivalents	11,855		11,855
Trade receivables	10,811		10,811
Other receivables	8,108		8,108
Other receivables – TCV deposit	1,000		1,000
Total contractual financial assets	31,774		31,774
Contractual financial liabilities			
Payables		19,641	19,641
Borrowings		280,000	280,000
Total contractual financial liabilities		299,641	299,641

NOTE 7 – RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (cont.)

2016	Contractual financial assets – loans and receivables and cash	Contractual financial liabilities at amortised cost	Total
	\$'000	\$'000	\$'000
Contractual financial assets			
Cash and cash equivalents	8,866		8,866
Trade receivables	12,764		12,764
Other receivables	6,752		6,752
Other receivables – TCV deposit	1,000		1,000
Total contractual financial assets	29,382		29,382
Contractual financial liabilities			
Payables		17,377	17,377
Borrowings		280,000	280,000
Total contractual financial liabilities		297,377	297,377

7.2.2 Financial risk management objectives and policies

The Corporation's business activities expose it to a variety of financial risks, primarily through ownership of financial assets and liabilities. This note explains those exposures and how the associated risks could affect the Corporation's future financial performance.

Types of financial risk

The table below shows a summary of the risk exposures related to financial instruments held by the Corporation at the reporting date. The Corporation's approach to management of these risks is explained later in this note.

Risk	Source of exposure
Market risk – interest rates	Long term borrowings at variable rates Renewable energy certificates
Credit risk	Cash and cash equivalents Trade receivables Private schemes Environmental bond Renewable energy certificates
Liquidity risk	Borrowings and other liabilities

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

NOTE 7 – RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (cont.)

Management of financial risk

The Board of the Corporation is responsible for setting risk management policy and monitoring management's performance in compliance with the policy. The Board has established an Audit and Risk Committee to assist and support it in overseeing the effectiveness of risk management. The Board has also established various policies related to financial risk management that must be complied with and for which compliance is regularly reviewed through regular Board reporting and an internal audit programme that is monitored by the Audit and Risk Committee.

The Corporation's financial risk management activities are carried out by the finance function in accordance with the Board approved Treasury Management Policy, which provides guidance on management of interest rate risk, credit risk and liquidity risk. The policy also provides guidance on the use of non-derivative financial instruments and investment of excess liquidity. The Board receives regular reports on the Corporation's performance with regard to these matters.

Risk exposures – credit risk

Credit risk is the risk of financial loss to the Corporation as a result of customers and counter parties to financial instruments failing to meet their contractual obligations. Credit risk arises principally from the Corporation's trade receivables and other financial assets.

The Corporation measures credit risk on a fair value basis and monitors credit risk continually. The Corporation's credit department has direct responsibility for monitoring collection performance on customer-by-customer and whole of portfolio basis and identifying any changes in collection performance trends across the entire customer database based on ageing of receivables, requests for extensions of time to pay, customer payment arrangements, comparison of actual and estimated collections on a monthly basis and review of impaired accounts. This information is reviewed regularly with the finance department in order to identify any significant impacts on the Corporation's operating cash flows.

There have been no significant changes in collection patterns during the reporting period and based on assessments at balance date, no significant changes are expected after balance date.

The Corporation has large numbers of both water and wastewater customers. Gippsland Water provides water and wastewater to a small number of large industrial customers under contractual arrangements.

Credit quality of contractual financial assets that are neither past due nor impaired (i)

2017	Financial institutions (AA- credit rating)	Government agencies (AAA credit rating)	Other	Total
	\$'000	\$'000	\$'000	\$'000
Cash and cash equivalents	11,855			11,855
Receivables			18,919	18,919
Other financial assets		1,000		1,000
Total contractual financial assets				31,744

NOTE 7 – RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (cont.)

2016	Financial institutions (AA- credit rating)	Government agencies (AAA credit rating)	Other	Total
	\$'000	\$'000	\$'000	\$'000
Cash and cash equivalents	8,866			8,866
Receivables			19,516	19,516
Other financial assets		1,000		1,000
Total contractual financial assets				29,382

(i) The total amounts disclosed here exclude statutory amounts (e.g. amounts owing from Victorian government and GST input tax credit recoverable).

Risk exposures – 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 of resolution.

The Corporation has detailed knowledge of the key cycles in the business for both cash inflows and outflows and therefore has excellent knowledge of its cash requirements. Nevertheless, it manages liquidity risk through careful planning of cash inflows and outflows based on known collection performance and the required timing of payment of obligations. In conjunction with these assessments, the Corporation undertakes regular reviews of current and future borrowing levels to ensure that cash requirements for the capital expenditure programme are anticipated and met, bearing in mind the maturity date profiles of borrowings. A key objective of cash flow planning is to ensure that the Corporation has adequate reserves at all times, and this includes ensuring that there are sufficient standby credit facilities available to meet all obligations as they fall due, including allowances for any unexpected short term cash flow needs.

Risk exposures – market risk

Market risk is the risk that changes in market prices will affect the fair value of future cash flows of the Corporation's financial assets and liabilities and it has three components – interest rate risk, foreign exchange risk and other price risk. The Corporation's exposure to market risk is primarily through interest rate risk. Exposures to foreign exchange and other price risks are insignificant. There were no changes to the policy for managing market risk in the reporting period.

Interest rate risk

The Corporation minimises its exposure to adverse interest rate changes on its long term borrowings by holding a mix of fixed and floating rate debt with a range of maturities. All long term debt is sourced from TCV and is managed within a range of Board-approved limits. Debt levels and related interest rates are monitored regularly by the Board through reports from management.

The Corporation has minimal exposure to interest rate risk arising from its holdings of cash and cash equivalents and other financial assets.

Foreign exchange risk

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

Other price risk

The Corporation has no significant exposure to other price risk.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

NOTE 7 – RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (cont.)

Interest rate exposure of financial instruments

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

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Corporation has minimal exposure to cash flow interest rate risks through cash and deposits, term deposits and bank overdrafts that are at floating rate.

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

Interest rate risk sensitivity

The table below sets out the potential impact of 'reasonably possible' movements in interest rates on the net result, financial assets and liabilities and equity of the Corporation at 30 June 2017 and at 30 June 2016 for comparative purposes.

2017					
Financial instruments	Carrying amount	Rate change of -0.25%		Rate change of +0.50%	
		Net result	Equity	Net result	Equity
	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets					
Cash and cash equivalents (i)	11,855	(30)	(30)	59	59
Trade receivables (ii)	10,811	-	-	-	-
Other receivables (ii)	8,108	-	-	-	-
Other receivables – TCV deposit	1,000	(3)	(3)	5	5
Financial liabilities					
Payables (ii)	19,641	-	-	-	-
Interest bearing liabilities – fixed	230,000	-	-	-	-
Interest bearing liabilities – maturing	40,000	100	100	(200)	(200)
Interest bearing liabilities – variable	10,000	25	25	(50)	(50)
Total		93	93	(186)	(186)

(i) All cash and cash equivalents are held at variable interest rates.

(ii) Receivables and payables balances at 30 June 2017 are not subject to interest rate risk.

NOTE 7 – RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (cont.)

Financial instruments	2016				
	Carrying amount	Rate change of -0.25%		Rate change of +0.50%	
		Net result	Equity	Net result	Equity
	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets					
Cash and cash equivalents (i)	8,866	(22)	(22)	44	44
Trade receivables (ii)	12,764	-	-	-	-
Other receivables (ii)	6,752	-	-	-	-
Other receivables - TCV deposit	1,000	(3)	(3)	5	5
Financial liabilities					
Payables (ii)	17,378	-	-	-	-
Interest bearing liabilities - fixed	220,000	-	-	-	-
Interest bearing liabilities - maturing	40,000	100	100	(200)	(200)
Interest bearing liabilities - variable	20,000	50	50	(100)	(100)
Total		125	125	(251)	(251)

(i) All cash and cash equivalents are held at variable interest rates.

(ii) Receivables and payables balances at 30 June 2016 are not subject to interest rate risk.

7.3 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.
- Level 3 – the fair value is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using unobservable market inputs.

Financial assets

For financial assets, carrying value less impairment adjustments is considered to be a reasonable approximation of fair value due to their short term nature as indicated in the table below.

Financial liabilities

The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the market interest rate that is available to the Corporation for similar financial instruments.

For payables, carrying value is considered to be a reasonable approximation of fair value due to their short term nature as indicated in the table below.

In assessing fair value for interest bearing liabilities, the market rates used vary from 4.04 per cent to 7.05 per cent (2016: 2.17 per cent to 7.13 per cent).

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

NOTE 7 – RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (cont.)

	2017		2016	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$'000	\$'000	\$'000	\$'000
Financial assets				
Cash and cash equivalents	11,855	11,855	8,866	8,866
Trade receivables	10,811	10,811	12,764	12,764
Other receivables	8,108	8,108	6,752	6,752
Deposits at TCV	1,000	1,005	1,000	1,006
Total	31,774	31,779	29,382	29,388
Financial liabilities				
Payables	19,641	19,641	17,378	17,378
Interest bearing liabilities	280,000	290,737	280,000	298,978
Total	299,641	310,378	297,378	316,356

NOTE 8 – STATUTORY OBLIGATIONS

Introduction

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

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NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

NOTE 8 – STATUTORY OBLIGATIONS (cont.)

8.1 Taxation

8.1.1 Income tax expense

The Corporation is subject to the National Tax Equivalent Regime (NTER) which is administered by the Australian Taxation Office on behalf of the Victorian Government. The Corporation is required to pay tax (tax expense) under NTER if it has generated a taxable income in the reporting period. If the Corporation has incurred a tax loss in the reporting period, an amount is recoverable (tax revenue).

The income tax expense or revenue of the Corporation for the reporting period is the tax payable or receivable under the NTER scheme on the taxable income or loss for the reporting period based on the national corporate tax rate of 30 per cent. The amount payable or receivable is adjusted by changes in the balances of deferred tax assets and liabilities attributable to:

- Temporary differences between the tax bases of assets and liabilities and their carrying amounts in the Corporation's financial records.
- Unused tax losses.

	2017	2016
	\$'000	\$'000
Comprehensive Operating Statement		
Current income tax expense (paid or payable)	883	2,721
Adjustments to prior years	-	-
Deferred income tax expense		
Temporary differences	-	-
Adjustment for prior years	-	-
Income tax reported in the Comprehensive Operating Statement	883	2,721
Statement of Changes in Equity		
Current tax – credited / (debited)	-	-
Net deferred tax – debited / (credited) directly to equity	(576)	7,916
Income tax reported in equity	(576)	7,916

	2017	2016
	\$'000	\$'000
Reconciliation of income tax to prima facie tax payable		
Net result before income tax expense	2,887	11,804
Tax at the Australian tax rate of 30% (2016: 30%)	866	3,541
Tax effect of amounts which are not deductible (taxable) in calculating taxable income	11	8
Expenditure not allowable for income tax purposes	-	-
Benefit of tax losses not brought to account	-	-
Other permanent adjustment	6	(828)
Income tax expense as reported in the Comprehensive Operating Statement	883	2,721

NOTE 8 – STATUTORY OBLIGATIONS (cont.)

	2017	2016
	\$'000	\$'000
Tax expense (income relating to items of other comprehensive income)		
Gain / (loss) on revaluation of infrastructure, property, plant and equipment	(576)	7,916
Tax losses		
Unused tax losses for which no deferred tax asset has been recognised	-	-
Potential tax benefit @ 30%	-	-

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 and liabilities 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.

Deferred tax assets	2017	2016
	\$'000	\$'000
This balance comprises temporary differences attributable to:		
Amounts recognised in Comprehensive Operating Statement		
Provisions and accrued expenditure not deductible	6,006	5,861
Other	197	198
Tax losses	43,636	48,089
Net deferred tax assets	49,839	54,148
Movements:		
Opening balance at 1 July	54,148	57,467
Credited / (charged) to the Comprehensive Operating Statement	151	3,010
Tax losses	(4,460)	(6,329)
Closing balance at 30 June	49,839	54,148
Deferred tax assets to be recovered after more than 12 months	49,839	54,148

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

NOTE 8 – STATUTORY OBLIGATIONS (cont.)

Deferred tax liabilities	2017	2016
	\$'000	\$'000
This balance comprises temporary differences attributable to:		
Amounts recognised in the Comprehensive Operating Statement		
Depreciation	61,101	67,534
Other	4,160	1,154
Amounts recognised in equity	-	-
Asset revaluations	78,087	78,663
Net deferred tax liabilities	143,348	147,351
Movements:		
Opening balance at 1 July	147,351	140,030
Credited / (charged) to the Comprehensive Operating Statement	(3,427)	(595)
Credited / (charged) to the equity	(576)	7,916
Closing balance at 30 June	143,348	147,351
Deferred tax liabilities to be recovered after more than 12 months	143,348	147,351

8.2 Environmental contribution

The *Water Industry Act 1994* (Vic) (*Environmental Contributions Act 2004* as amended) establishes an obligation for water corporations to pay annual environmental contributions into the consolidated fund in accordance with a prescribed schedule of payments for each corporation. The initial contribution period has been extended to include the period 1 July 2012 to 30 June 2020.

The purpose of the environmental contribution is set out in the Act. In summary, they may be used to fund initiatives that seek to promote the sustainable management of water or address water-related initiatives.

The Corporation's contribution is recognised as an expense during the reporting period as incurred.

8.2.1 Environmental commitments

At 30 June 2017, the Corporation had outstanding environmental contribution commitments, to be paid is follows:

	2017	2016
	\$'000	\$'000
<i>Environmental contribution</i>		
- Within one year	4,660	4,660
- Later than one year but not later than five years	10,362	15,022
- Later than five years	-	-
Total environmental contribution commitment	15,022	19,682

8.3 Dividends

The Corporation may be required to pay a dividend to the State, as is determined by the Treasurer, after consultation with the Board of directors of the water corporation and the Minister for Water. No dividend has been provided for the current financial year. The Board does not believe that it will be required to pay a dividend based on the 2016-17 result. No dividend was paid on the 2015-16 result.

NOTE 9 – OTHER DISCLOSURES

Introduction

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

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NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

NOTE 9 – OTHER DISCLOSURES (cont.)

9.1 Equity

9.1.1 Contributed capital

	2017	2016
	\$'000	\$'000
Opening balance at 1 July	255,971	255,971
Capital contributions	-	-
Closing balance at 30 June	255,971	255,971

Additions to net assets which have been designated as contributions by owners are recognised as contributed capital. Other amounts that are in the nature of contributions or distributions have also been designated as contributions by owners.

9.1.2 Asset revaluation reserve

	2017	2016
	\$'000	\$'000
Asset revaluation reserve		
- Land (net of tax)	16,225	16,532
- Buildings (net of tax)	2,204	2,204
- Infrastructure (net of tax)	163,773	164,812
Total reserves	182,202	183,548
Movements in reserves		
Asset revaluation reserve		
Opening balance at 1 July	183,548	165,077
Revaluation increment / (decrement) on non-current assets (gross)	(1,921)	26,387
- Less tax on revaluation increments / (decrement)	576	(7,916)
Closing balance at 30 June	182,202	183,548

9.1.3 Accumulated surplus/(deficit)

	2017	2016
	\$'000	\$'000
Opening balance at 1 July	319,630	310,547
Net result for the period	2,004	9,083
Closing balance at 30 June	321,634	319,630

9.2 Ex-gratia expenses

	2017	2016
	\$'000	\$'000
Trade receivables written-off	148	433
Property damage payments	19	31
Other	-	11
Total ex-gratia expenses	167	475

NOTE 9 – OTHER DISCLOSURES (cont.)

Trade receivables written-off

Trade receivables written-off is where the Corporation has made a commercial decision to no longer pursue customers who have a debt with Gippsland Water. This will generally be after having exhausted all avenues of debt collection, where it is no longer commercially viable to pursue and is subject to sign-off at general manager level. Amounts are typically less than \$1,000. Additionally, no major customer debt was written-off during 2017.

Property damage payments

Property damage payments represent a contribution to owners who have experienced property damage due to unforeseen events such as a sewerage spill. Property damage payments in 2016-17 included one major claim associated with a treated sewer overflow and no major water overflows (\$15,000 and \$0) (2016: \$16,700, \$6,500) with the remaining five claims all being less than \$5,000 each. This has been included in administration expenses in the Comprehensive Operating Statement.

Other

Other represents a termination arrangement with employees who have left the Corporation. In 2016-17, there were no instances (2016:1). This has been included in employee benefits in the Comprehensive Operating Statement.

9.3 Remuneration of auditors

	2017	2016
	\$'000	\$'000
Victorian Auditor-General's office		
Audit of financial statements – VAGO	73	65
Internal audit	116	174
Total remuneration for auditors	189	239

9.4 Responsible persons

The names of persons who were responsible persons at any time during the financial year were:

Responsible person	Period
The Hon. Lisa Neville MP – Minister for Water	1 July 2016 – 30 June 2017
Board members	
Therese Ryan (Chair)	1 July 2016 – 30 June 2017
Greg Hade (Deputy Chair)	1 July 2016 – 30 June 2017
Jane Oakley	1 July 2016 – 30 June 2017
Margaret Supplitt	1 July 2016 – 30 June 2017
Jo Benvenuti	1 July 2016 – 30 June 2017
Malcolm Eccles	1 July 2016 – 30 June 2017
Sarah Cumming (Managing Director)	5 April 2017 – 30 June 2017
Retiring members	
David Mawer (Managing Director)	1 July 2016 – 4 April 2017
Sarah Cumming (Board Member)	1 July 2016 – 7 March 2017

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

NOTE 9 – OTHER DISCLOSURES (cont.)

Remuneration of responsible persons

The compensation of responsible persons detailed below excludes the salaries and benefits received by the Minister for Water. The Minister's remuneration and allowances is set by the *Parliamentary Salaries and Superannuation Act 1968* (Vic) and is reported within the Department of Parliamentary Services' Financial Report.

Appointments as acting Managing Director during the financial year

Nicole Griffin was appointed as Acting Managing Director and held associated delegated authority for the period from 1 July 2016 to 14 August 2016. Paul Clark was appointed as Acting Managing Director and held associated delegated authority for the period from close of business on Friday 23 June until 30 June (with period ending on Monday 17 July 2017). These temporary/relieving arrangements have not been included as part of the remuneration disclosure due to the short term nature of the arrangement and given remuneration of the substantive key management personnel has already been reported.

Income bands	Total remuneration	
	2017	2016
	No.	No.
Up to 9,999	-	4
10,000 - 19,999	-	5
20,000 - 29,999	5	2
30,000 - 39,999	-	1
40,000 - 49,999	1	-
70,000 - 79,999	1	-
240,000 - 249,000	1	-
290,000 - 299,999	-	1
Total numbers	8	13

9.5 Related parties

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.

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

NOTE 9 – OTHER DISCLOSURES (cont.)

9.5.1 Key management personnel

Key management personnel of the Corporation are set-out in the table below.

Key management personnel	Title
The Hon. Lisa Neville MP	Minister for Water
Therese Ryan	Board Chair
Greg Hade	Board Deputy Chair
Jane Oakley	Board Member
Margaret Supplitt	Board Member
Jo Benvenuti	Board Member
Malcom Eccles	Board Member
Sarah Cumming	Board Member and Managing Director
David Mawer	Managing Director

The Corporation has reviewed the role of the Executive Leadership Team and the extent of control these executives are delegated. As all executive positions are required to assist, but do not have the authority or responsibility for planning, directing and controlling the activities of the entity as a whole, directly or indirectly, they have not been included as key management personnel.

The compensation of key management personnel detailed below excludes the salaries and benefits received by the Minister for Water. The Minister's remuneration and allowances is set by the *Parliamentary Salaries and Superannuation Act 1968* (Vic) and is reported within the Department of Parliamentary Services' Financial Report.

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, 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.

Compensation of key management personnel	2017
	\$'000
Short-term employee benefits	440
Post-employment benefits	35
Other long-term benefits	4
Termination benefits	0
Total	479

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

NOTE 9 – OTHER DISCLOSURES (cont.)

9.5.2 Transactions with key management personnel and related parties

Given the Corporation's activities, key management personnel and related parties may transact with the Corporation in a manner consistent with other members of the public; e.g. payment of water and wastewater charges (normal citizen type transactions).

Outside of normal citizen type transactions with the Corporation, testing revealed there were no related party transactions that involved key management personnel or their close family members. In addition, the Corporation has tested for and found no related party transactions with cabinet ministers of the state or their close family members. No provision has been required, nor any expense recognised, for impairment of receivables from related parties.

9.5.3 Significant transactions with government-related entities

During the year, the Corporation undertook a range of government-related entity transactions (receipts and payments) that were business as usual in nature. Collective information on these transactions, where the total value is significant is provided below.

Government-related entity receipts

Entity name	Brief description of main activity	2017
		\$'000
Department of Human Services	Refund of concession rebates	5,390
Department of Human Services	Payment of fixed charge on properties	2,627
State Revenue Office	Refund of charities rebates	276
Latrobe Regional Hospital	Rates and charges	223
West Gippsland Hospital	Rates and charges	149

Government-related entity receivables

Entity name	Brief description of main activity	2017
		\$'000
Department of Human Services	Refund of concession rebates	532
Department of Human Services	Payment of fixed charge on properties	167

Government-related entity payments

Entity name	Brief description of main activity	2017
		\$'000
Treasury Corporation Victoria	Interest on borrowings	10,346
Department of Environment, Land, Water and Planning	Environmental contribution	4,919
Department of Treasury and Finance	Financial accommodation levy	3,970
Southern Rural Water	Storage management and recreation facilities	573
Environment Protection Authority	Licence fees and levies	393
VicRoads	Registration fees	96

NOTE 9 – OTHER DISCLOSURES (cont.)

Government-related entity payables

Entity name	Brief description of main activity	2017
		\$'000
VicRoads	Registration fees	100

During the year, the Corporation did not undertake any government-related entity transactions that were not business as usual.

9.6 Remuneration of executives

The Corporation has reviewed the role of the Executive Leadership Team and the extent of control these executives are delegated. Total remuneration for all members of the Executive Leadership Team 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.

Remuneration categories (short-term employee benefits, post-employment benefits, other long-term benefits and termination benefits) have the same definitions as outlined section 9.5.1 above.

Total remuneration	2017 (i)	2016 (i)
	\$'000	\$'000
Short-term employee benefits	765	-
Post-employment benefits	72	-
Other long-term benefits	8	-
Termination benefits	0	-
Total remuneration (ii)	845	-
Total number of executives	4	4
Total annualised employee equivalents (iii)	4	4

(i) No comparatives have been reported because remuneration in the prior year was determined in line with the basis and definition under FRD21C. Remuneration previously excluded non-monetary benefits and comprised any money, consideration or benefit received or receivable, excluding reimbursement of out-of-pocket expenses, including any amount received or receivable from a related party transaction. Refer to the prior year's financial statements for executive remuneration for the 2015-16 reporting period.

(ii) No executive officers meet the definition of key management personnel of the entity under AASB 124 Related Party Disclosures and have not been reported within the related parties note disclosure (Note 9.5).

(iii) Annualised employee equivalent is based on the time fraction worked over the reporting period.

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

NOTE 9 – OTHER DISCLOSURES (cont.)

9.7 Events occurring after the balance date

Assets, liabilities, revenue and expenses arise from past transactions and past events. Where the transactions result from agreements between the Corporation and other parties, the transactions are only recognised in the financial report when the agreements are irrevocable at or before the end of the reporting period. Adjustments are made to amounts recognised in the financial report for events which occur between the end of the reporting period and the date when the financial report is authorised for issue, where those events provide information about conditions which existed at the reporting date.

Note disclosure is made about events between the end of the reporting period and the date the financial report is authorised for issue where the events relate to conditions which arose after the end of the reporting period that are considered to be of material interest.

Management is not aware of any significant events occurring after balance date.

9.8 Correction of prior period disclosure

In 2015-16, Gippsland Water conducted a comprehensive revaluation of its infrastructure, land and buildings in accordance with the requirements of FRD103F Non-Financial Physical Assets. Due to a classification error (allocation methodology) between water infrastructure and wastewater infrastructure, the fair value of water infrastructure was understated and the fair value of wastewater infrastructure was overstated. The tables below illustrate the reclassification of the adjustment. No material error existed on the Balance Sheet, to the asset balance infrastructure, property, plant and equipment; the error only impacted classification of assets in the respective note disclosures.

Note 4.1 Classes of infrastructure, property, plant and equipment (extract – refer page 93)

	2016	Adjusted	2016 revised
	\$'000	\$'000	\$'000
Water infrastructure			
Fair value	358,637	91,727	450,364
Accumulated depreciation	(470)	-	(470)
Carrying value	358,167	91,727	449,894
Wastewater infrastructure			
Fair value	648,793	(91,727)	557,066
Accumulated depreciation	(3,909)	-	(3,909)
Carrying value	644,884	(91,727)	553,157

Note 4.1.4 Movements during the reporting period (extract - refer page 97)

	2016	Adjusted	2016 restated
	\$'000	\$'000	\$'000
Water infrastructure – at independent valuation			
Revaluations	2,824	91,727	94,551
Wastewater infrastructure			
Revaluations	22,188	(22,188)	-
Impairments	-	(69,539)	(69,539)

NOTE 9 – OTHER DISCLOSURES (cont.)

Note 4.5.1 Fair value determination (extract 1 - refer page 107)

	2016	Adjusted	2016 revised
	\$'000	\$'000	\$'000
Water infrastructure			
Headworks	52,919	56,468	109,387
Water transfer	94,040	(19,023)	75,017
Water storage	6,960	7,234	14,194
Water treatment	51,452	9,475	60,927
Water pump stations	6,890	(4,129)	2,761
Water reticulation	145,790	41,703	187,493
Water spares	115	-	115
Total of water infrastructure at fair value	358,167	91,727	449,894

Note 4.5.1 Fair value determination (extract 2 - refer page 107)

	2016	Adjusted	2016 revised
	\$'000	\$'000	\$'000
Wastewater infrastructure			
Waste transfer	92,214	(17,843)	74,371
Waste storage	933	9,858	10,791
Waste treatment	188,772	20,914	209,686
Waste pump stations	60,004	(7,128)	52,876
Waste reticulation	302,718	(97,528)	205,190
Waste spares	243	-	243
Total of wastewater infrastructure at fair value	644,884	(91,727)	553,157

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

NOTE 9 – OTHER DISCLOSURES (cont.)

9.9 Australian Accounting Standards issued that are not yet effective

As the Corporation reports its annual financial results pursuant to the *Financial Management Act 1994* (Vic), it relies on advice from the DTF as to the applicability of any new or changed requirements of Australian Accounting Standards and interpretations, and early adoption where applicable.

At 30 June 2017, there are a number of new or changed Australian Accounting Standards and interpretations that may have future applicability for the Corporation. The impact of such changes on the Corporation's financial reports in future years are assessed on an ongoing basis and any changes that are assessed as potentially significant are disclosed in the financial report as soon as the assessment is concluded.

Based on current assessments, there are no new or changed Australian Accounting Standards and interpretations that are likely to significantly impact future financial reports of the Corporation.

Topic	Key requirements	Effective date for the entity	Estimated impact
AASB 9 Financial Instruments	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 July 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 Amendments to Australian Accounting Standards arising from AASB 9 (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: <ul style="list-style-type: none"> The change in fair value attributable to changes in credit risk is presented in other comprehensive income (OCI). Other fair value changes are presented in profit and 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 July 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. Gippsland Water does not currently have any assets available for sale.

NOTE 9 – OTHER DISCLOSURES (cont.)

Topic	Key requirements	Effective date for the entity	Estimated impact
AASB 15 Revenue from Contracts with Customers	The core principle of AASB 15 requires an entity to recognise revenue when the entity satisfies a performance obligation by transferring a promised good or service to a customer.	1 July 2018	<p>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.</p> <p>A potential impact for Gippsland Water will be the upfront recognition of revenue from licenses that cover multiple reporting periods.</p>
AASB 2016-7 Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities	This Standard defers the mandatory effective date of AASB 15 for not-for-profit entities from 1 January 2018 to 1 January 2019.	1 July 2019	This amending standard will defer the application period of AASB 15 for Gippsland Water to the 2019-20 reporting period.
AASB 16 Leases	The key changes introduced by AASB 16 include the recognition of most operating leases (which are currently not recognised) on the Balance Sheet.	1 July 2019	<p>Gippsland Water's assessment is 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.</p> <p>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.</p>

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

NOTE 9 – OTHER DISCLOSURES (cont.)

Topic	Key requirements	Effective date for the entity	Estimated impact
<i>AASB 1058 Income of Not-for-Profit Entities</i>	This standard replaces AASB 1004 Contributions and establishes revenue recognition principles for transactions where the consideration to acquire an asset is significantly less than fair value to enable a not-for-profit entity to further its objectives.	1 July 2019	Gippsland Water's assessment is 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.

In addition to the new standards and amendments above, the AASB has issued a list of other amending standards that are not effective for the 2016-17 reporting period (as listed below). In general, these amending standards include editorial and references changes that are expected to have insignificant impacts on public sector reporting.

CENTRAL GIPPSLAND REGION WATER CORPORATION

STATUTORY CERTIFICATION

We certify that the attached financial statements for the Central Gippsland Region Water Corporation have been prepared in accordance with Standing Direction 5.2 of the *Financial Management Act 1994* (Vic), applicable Financial Reporting Directions, Australian Accounting Standards, 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 Notes to and forming part of the Financial Statements, presents fairly the financial transactions during the year ended 30 June 2017 and the financial position of the Corporation as at 30 June 2017.

We are not aware of any circumstances, which would render any particulars included in the financial statements to be misleading or inaccurate.

At the time of signing we authorise the attached financial statements for issue.



Therese Ryan

Board Chair

Central Gippsland Region Water Corporation



Sarah Cumming

Managing Director

Central Gippsland Region Water Corporation



Anthony Staley

Chief Financial Officer

Central Gippsland Region Water Corporation

Dated 25 August 2017

Independent Auditor's Report

To the Board of the Central Gippsland Region Water Corporation

Opinion	<p>I have audited the financial report of the Central Gippsland Region Water Corporation (the corporation) which comprises the:</p> <ul style="list-style-type: none">• balance sheet as at 30 June 2017• 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 and forming part of the financial report• 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 2017 and their financial performance and cash flows for the year then ended in accordance with the financial reporting requirements of Part 7 of the <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. My responsibilities under the Act are further described 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 Australia. 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, 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 our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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
4 September 2017



Roberta Skliros
as delegate for the Auditor-General of Victoria

PART 9

DISCLOSURE INDEX

Gippsland Water's annual report is prepared in accordance with all relevant Victorian legislation. This index facilitates identification of our compliance with statutory disclosure requirements.

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Responsible Body's Declaration

In accordance with the *Financial Management Act 1994* (Vic), I am pleased to present the Central Gippsland Region Water Corporation's Annual Report for the year ending 30 June 2017.



Therese Ryan

Board Chair

Central Gippsland Region Water Corporation

Dated 25 August 2017

GLOSSARY

AWO	Annual Water Outlook
BAU	Business as usual
Biosolids	Organic solids and minerals that accumulate as a final product of wastewater treatment processes, and have been stabilised through treatment or long-term storage.
Catchment	The area drained by a stream, lake or other body of water. Frequently referred to as the area used to feed water into reservoirs, dams, and water courses.
CIBS	Customer Information Billing System
CO ₂ equivalent	A variety of atmospheric gas compounds, collectively known as greenhouse gases. As each component has a different level of impact on the environment, greenhouse gas emissions are converted to CO ₂ equivalents, which is the concentration of carbon dioxide (CO ₂) that would contribute an equivalent degree of impact as the total amount of greenhouse gases emitted.
CTWSS	Country Towns Water Supply and Sewerage
DELWP	Department of Environment, Land, Water and Planning
DRP	Drought Response Plan
DWMP	Domestic Wastewater Management Plan
EMS	Environmental Management System. The system includes organisational structure, planning activities, responsibilities, practices, procedures, processes and resources for developing, implementing, achieving, reviewing and maintaining the environmental policy.
EPA	Environment Protection Authority
ESC	Essential Services Commission
FRD	Financial Reporting Direction – a financial reporting direction issued by the Department of Treasury and Finance, on behalf of the Minister for Finance under the <i>Financial Management Act 1994</i> (Vic).
GWF	Gippsland Water Factory
ICT	Information Communication and Technology
Kilolitres (kL)	1,000 litres
LTIFR	Lost Time Injury Frequency Rate
Megalitres (ML)	1 million litres
MBR	Membrane bioreactor
M	Million
MRD	Ministerial Reporting Direction – a Ministerial reporting direction issued by the Department of Treasury and Finance under the <i>Financial Management Act 1994</i> (Vic).

Ocean outfall	A pipeline that carries effluent to the ocean where it is dispersed and diluted. Gippsland Water's two ocean outfalls are strictly monitored in accordance with EPA regulations to ensure water quality.
Price Submission	Gippsland Water's five-year plan for the period 2018-2023 which is required to be submitted to the Essential Services Commission for approval in September 2017. The plan outlines our customer values, the price we intend to charge our customers for water and wastewater services, the projects we plan to deliver, and the introduction of enhanced guaranteed service levels.
Regional Outfall System (ROS)	The ROS pipeline transports approximately 50 per cent of central Gippsland's wastewater to the Dutson Downs wastewater treatment facility.
Saline Wastewater Outfall Pipeline (SWOP)	A Gippsland Water pipeline used to transfer saline wastewater from the Loy Yang Ash Pond to Bass Strait.
SDWA	<i>Safe Drinking Water Act 2003</i> (Vic)
SDWR	Safe Drinking Water Regulations 2015 (Vic)
SEPP (Wov)	State Environment Protection Policy (Waters of Victoria)
SORF	Soil and Organic Recycling Facility
Statement of Obligations (SoO)	Section 41 of the <i>Water Industry Act 1994</i> (Vic), the Minister for Water prescribes statement of obligations to water corporations. These statements specify obligations of the water corporation in relation to the performance of its functions and the exercise of its powers.
URG	The Utility Relief Grant Scheme helps eligible customers who are unable to pay their water account due to a temporary financial crisis.
UWS	Urban Water Strategy
WIOA	Water Industry Operators Association of Australia
WGCMA	West Gippsland Catchment Management Authority
WSAA	Water Services Association of Australia
WSDS	Water Supply Demand Strategy
WSO	Water Security Outlook

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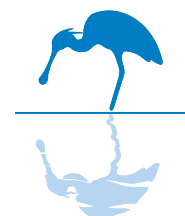
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GIPPSLAND
WATER

55 Hazelwood Road
Traralgon VIC 3844



Account enquiries 1800 050 500
Faults and emergencies 1800 057 057



contactus@gippswater.com.au
www.gippswater.com.au



ABN 75 830 750 413

