



South  
Gippsland Water

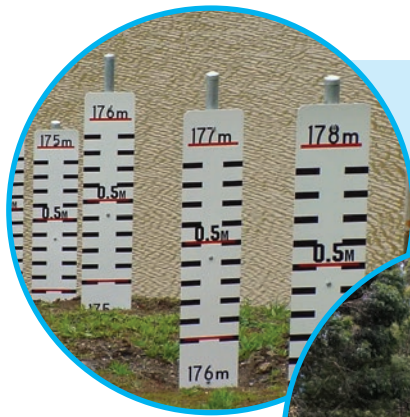


# Planning for our future, ready to respond

South Gippsland Water understands that water is fundamental to our communities, that our role is vital in order to support a prosperous economy, thriving communities and a healthy environment. Water is vital, it is essential to the social fabric of our communities, our health and wellbeing. The liveability of our region, its townships and industries, relies on access to safe, dependable and affordable water supplies. The Corporation is committed towards meeting the directives set out in the 'Water for Victoria' plan and Water Minister's strategic expectations and deliverables. It is poised at the ready, to respond to future challenges, including those of climate variability, population growth and a more open Victorian water grid and market place.

## A Year of Planning for Key Strategic Outcomes

South Gippsland Water has embarked on a program of deep and wide engagement and consultation in which customers have been clear in expressing their desire for South Gippsland Water to proactively and collaboratively plan for the future. Customers confirmed that this planning should encompass issues and pressures such as climate change, population growth, water security and ageing infrastructure.



## ***Proactive and collaborative planning***

### **Urban Water Strategy – tackling climate change and planning**

The Corporation released its Urban Water Strategy, for managing the water supply and demand balance over the next 50 years. This long-term view is a component of the Corporation's overall planning processes, which includes planning for drought preparedness, financial expenditure, asset management, water quality and wastewater. The strategy is also important in the context of the Gippsland Region Sustainable Water Strategy, which considers the needs of other water users such as irrigators and the environment.

### **Lance Creek Water Connection-realising the potential of the state water grid**

Preparations and planning for construction of the Lance Creek Water Connection project are complete and pipeline supply and construction has started. The project has a total cost of some \$43 million and has been successful in acquiring state government funding of \$30 million. It will secure the water supply needs of Korumburra, Poowong, Loch and Nyora over the next 50 years.

Pipelines will connect these townships with the Lance Creek reservoir, which has an existing connection to the Melbourne Water Supply System via Cardinia Reservoir.

With the Lance Creek Water Connection progress, further exploratory work has commenced to identify the optimum timing for purchase of additional Bulk Entitlement from the Greater Yarra / Thompson River (Melbourne) system.

### **Pricing Submission, Engagement and Outcomes – livability, jobs, economy and growth**

South Gippsland Water has completed its most comprehensive program to date in preparing its five year plan for services and prices for submission to the Essential Services Commission. The community engagement process undertaken to support this submission was primarily completed during the 2016/17 financial year. Consultation included the establishment of a Customer Advisory Panel to play a pivotal role in providing advice and making recommendations to the Corporation for input into the submission.

As part of this submission, foundations have been laid for the Corporation's planning and investment structure to migrate to a 'Customer Outcome' based model.

## ***Key steps forward on major environment and social initiatives***

### **Carbon Pledge – tackling climate change**

South Gippsland Water has made a greenhouse gas emissions reduction pledge of 15% by 1 July 2025. The Corporation will also continue its planning toward achieving net zero carbon emissions by 2050. To achieve these goals, the organization has identified a number of solar energy projects at key sites across our region.

### **Diversity and Inclusion Plan – leadership and culture, aboriginal values**

South Gippsland Water continues to work with the Gippsland Regional Water Alliance and traditional owner groups, both the Bunurong and Gunaikurnai to finalise a *Partner Action Plan*. The action plan objectives are to respect the Bunurong and Gunaikurnai Traditional Owners of land and water, foster mutual respect, support economic development opportunities and assist customers in hardship.

The year has seen progress towards the implementation of the current *Diversity and Inclusion Plan*, including establishing further strategies and goals, in line with the Minister's strategic expectations, to increase gender equality and Aboriginal inclusion, participation and engagement.

### **Continued Efficiency Gains – liveability, jobs, economy and growth**

The Corporation continues to utilise partnerships and efficiency gains in order to deliver affordable and quality water and wastewater services to the region.

# Vision, Mission and Values

## VISION

### **Our future ideal is.....**

To be widely recognised as an exemplary service provider and valued as an essential contributor to regional development and resource sustainability.

## MISSION

### **Our core purpose is.....**

As South Gippsland's Regional Urban Water Corporation; to secure and manage quality water and wastewater systems, in an environmentally sustainable and cost efficient manner.

## CORE VALUES

### **Integrity – earning and sustaining public trust through:**

- Freedom from conflicts of interest
- Using powers responsibly
- Honesty and transparency
- Reporting improper conduct
- Respect for others
- Freedom from discrimination, harassment and bullying

### **Accountability – accepting responsibility for decisions and actions by:**

- Working to objectives
- Acting in a transparent manner
- Achieving best use of resources
- Being open to appropriate scrutiny

### **Impartiality – acting objectively:**

- Without bias or self interest
- Based on merit, facts and fair criteria
- By implementing policies and programs equitably

### **Service - providing the best standards of service to:**

- Our customers
- Government
- Local and regional community
- Board Directors and Corporation staff
- The broader water industry

### **Operational responsibility – the way we run our business**

- Operating our business in a sustainable manner
- Behaving as a good corporate citizen
- Striving to minimise the environmental impact of our operations
- Committing to safety in the workplace
- Prioritising highest standards of public health

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# Our Region

## South Gippsland – The Region

South Gippsland is located around two hours' drive from Melbourne. The region has a key focus on the natural environment with two internationally recognised National Parks, Wilsons Promontory and Tarra Bulga, north east of Yarram. South Gippsland is a popular tourist destination, well known for its coastal resorts such as Inverloch, Cape Paterson, Waratah Bay, Sandy Point and Port Albert.

Dairy farming is the major industry in the region. It sits alongside a range of other important agricultural and horticultural enterprises including beef, lamb, wine, cheese and vegetable production, and a commercial fishing industry.

Based on our vision, mission, core values and functions, South Gippsland Water recognises that water is fundamental to our communities, industries and natural environment.

As a proactive service provider South Gippsland Water's aim is to support economic development and strong communities. The Corporation is proactive in providing environmentally sustainable water and wastewater services in a way that benefits our customers and the wider community.

## Nature and Range of Services Provided

South Gippsland Water's service area covers 4,000 square kilometres and its total operation in 2016/17 comprised:

### Headworks

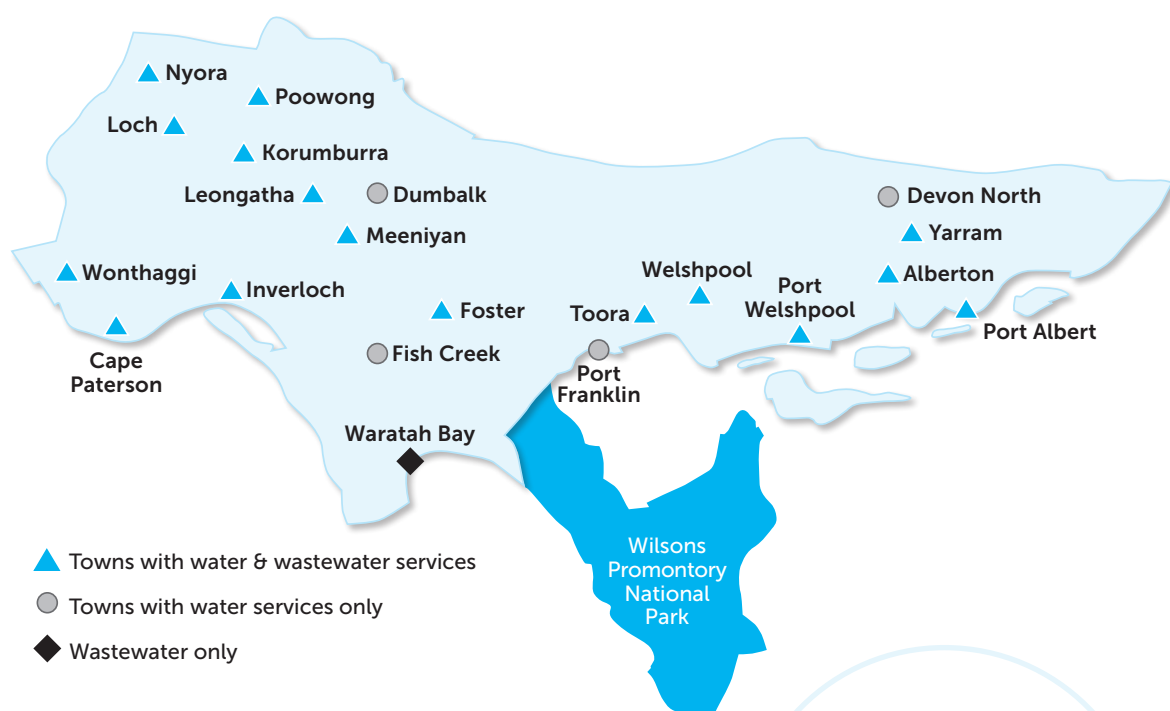
- Water catchments with a total area of 1,234 square kilometres

### Water Services

- 10 separate water supply systems
- 10 water treatment plants
- 706km of water mains
- 15 water pump stations
- 13 reservoirs and 18 service storages
- 4,604 million litres (ML) annual volume of metered water supplied to customers
- servicing 20,986 water assessments (accounts) over 22 rural centres.

### Sewerage Services

- 10 conventional wastewater collection systems
- 1 vacuum wastewater system
- 2 pressure sewer systems
- 11 sewerage treatment plants
- 1 dedicated saline tradewaste system
- 480km of wastewater mains
- 67 wastewater pump stations
- 506 residential pressure pump stations
- 4 marine environment outfalls
- 2 inland water discharge points
- collecting and treating around 4026ML of wastewater
- servicing 18,752 wastewater assessments (including trade waste) in over 16 towns.



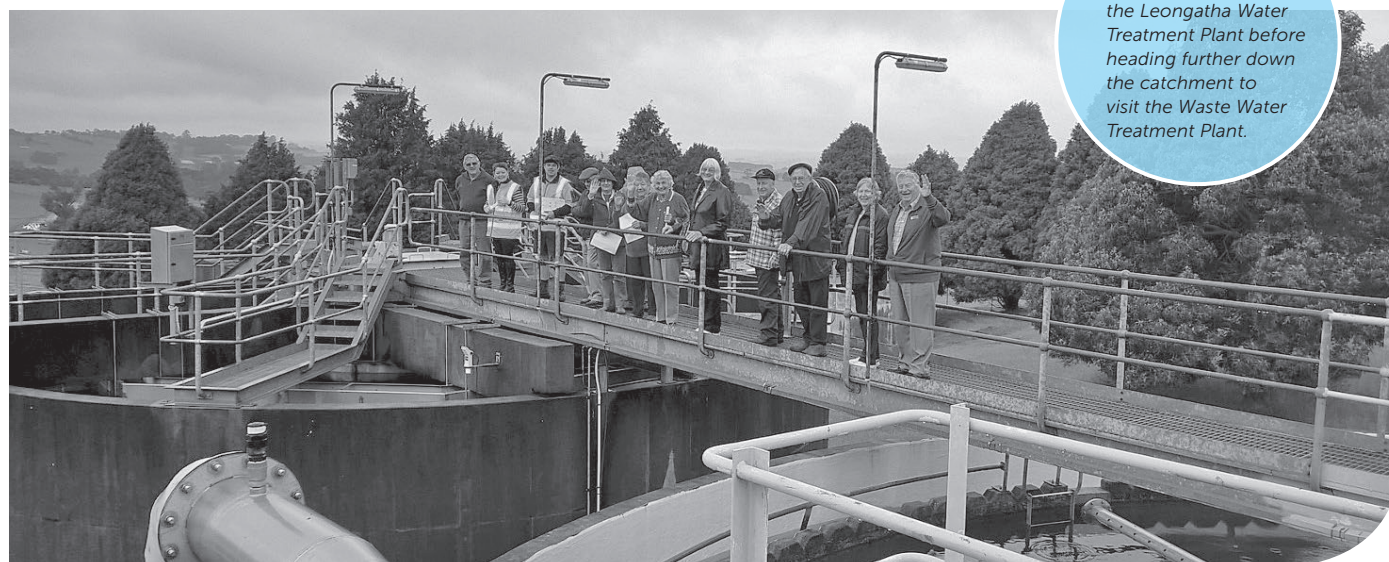


## South Gippsland Water and Sewerage Service Localities

Centres	Population Served (Permanent)	Water		Sewerage Customers Billed
		Customers Billed	Supplied From	
Port Franklin	134	107	Agnes River	Not serviced
Port Welshpool	209	281	Agnes River	264
Toora, Agnes, Bennison	781	517	Agnes River	288
Welshpool, Hedley	331	206	Agnes River	121
Fish Creek	827	208	Battery Creek	Not serviced
Korumburra	4,469	2,252	Coalition Creek	1,941
Foster	1,842	872	Deep Creek / Foster Dam	785
Inverloch, Wattle Bank	5,437	4,604	Lance Creek	4,566
Cape Paterson	891	1,150	Lance Creek	1,136
Wonthaggi, South Dudley, Glen Alvie, Kongwak, Lance Creek	8,730	4,588	Lance Creek	4,353
Loch	638	152	Little Bass	115
Nyora	1,527	357	Little Bass	136
Poowong	643	205	Little Bass	191
Koonwarra	404	82	Ruby Creek	Not serviced
Leongatha, Kardella, Leongatha South, Ruby	5,654	3,162	Ruby Creek	2,982
Alberton	262	145	Tarra River	101
Devon North, Tarra Valley	344	124	Tarra River	Not serviced
Port Albert	293	399	Tarra River	331
Yarram	2,135	1,196	Tarra River	1,084
Dumbalk	413	104	Tarwin River	Not serviced
Meenyan	771	275	Tarwin River	243
Waratah Bay	216	Not serviced	N/A	115
<b>Total</b>	<b>36,819</b>	<b>20,986</b>		<b>18,752</b>

### Notes:

1. Population Served based on ABS 2017 Census data. The ABS method of calculation of population is based on State Suburbs (SSC) and may not always reflect the exact sewer/water district.
2. Water and Sewerage Assessments = Number of Rated Properties at June 2017.



The Leongatha Probus Club toured the Leongatha Water Treatment Plant before heading further down the catchment to visit the Waste Water Treatment Plant.

# Statement by the Managing Director and Chair

We are pleased to present the Report of Operations for South Gippsland Water for the year ending 30 June 2017.

The Corporation has seen some substantial achievements throughout the year with a major focus on engaging with customers and finalising key planning documents.

A comprehensive customer engagement program has assisted in the development of the Corporation's long-term Urban Water Supply Strategy and our 2018 five-year Pricing Submission to the Essential Services Commission. These plans will position South Gippsland Water to enhance the liveability of our region, its townships and industries who rely on access to safe, dependable and affordable water supplies and wastewater services.

The environment remains a key focus for the Corporation, with planning and construction of a range of solar projects underway. We are proud to have made a greenhouse gas emissions reduction pledge of 15% by 1 July 2025 and will also continue planning toward achieving net zero carbon emissions by 2050.

Parts of the region experienced dry summer and autumn conditions during 2016/17 which culminated in Stage One water restrictions placed on the Coalition Creek water supply system. Commencing at the beginning of February, water was sourced from the Tarwin River to augment the water supply for the township of Korumburra. A total volume of 145ML to mid-May 2017 was utilised to meet the town's water needs including demand from major customer Burra Foods. All other towns continued to abide by Permanent Water Saving Rules.

The State Government backed Lance Creek Water Connection project will secure water supply for townships located in the north of South Gippsland Water's region, including Poowong, Loch, Nyora and Korumburra. The project involves the interconnection of smaller surface water supplies to the corporation's largest reservoir, Lance Creek. The project utilises an existing connection to the non-rain dependent Melbourne Supply System to access as required, including Cardinia Reservoir and the Wonthaggi Desalination Plant.

The Corporation will receive \$30M of State Government funding for this important \$43M project. Delivery of the Lance Creek Water

Connection has progressed with contracts awarded in June 2017 and construction set to commence in September 2017.

South Gippsland Water also continues to be an active member of the Gippsland Regional Water Alliance with neighboring water corporations, Westernport Water, Gippsland Water, East Gippsland Water and Southern Rural Water. The partnership continues to provide the opportunity to work together in areas such as procurement, contracts, information technology, fleet management and capability sharing. The Alliance has resulted in significant collaboration, information sharing and savings through efficiency.

During 2016/17, South Gippsland Water's continued its significant investment in capital works across the region, delivering some \$7.93M in projects. Customer engagement undertaken as part of the 2018 Pricing Submission supports further investment in capital expenditure in the coming years in order to strengthen and increase asset capacity and service delivery capability.

The financial result (before tax) for the financial year is an operating deficit of \$5.23M which is unfavorable to budget by \$1.32M. Changes in accounting for government contributions resulted in a revision of the initial budget surplus to a deficit.

South Gippsland Water employs 96 staff, serving a permanent population of approximately 37,000. During summer and peak holiday periods this number increases by tens of thousands. We continue to secure and manage quality water and wastewater systems in an environmentally sustainable and cost efficient manner, providing safe, reliable services to our customers.

The People and Culture Committee has been instrumental in developing and progressing the Corporation's Diversity and Inclusion Plan to increase gender equality and Aboriginal inclusion, participation and engagement. We are proud of the year's achievements and would like to thank all South Gippsland Water staff for their continued dedication and professionalism.

In accordance with the *Financial Management Act 1994*, we are pleased to attest that the South Gippsland Water Annual Report is compliant with all statutory reporting requirements.

David Schultz  
Chair

Philippe du Plessis  
Managing Director

South Gippsland Water  
Dated: 30th June 2017



# The Board

From the 1st July 2016 to 30th June 2017 the Board consisted of:



**David Schultz – MIEAust, CPEng, GAICD**

*Appointed 1st October 2011*

**Chair**

David Schultz is a Civil Engineer and is a graduate of the Australian Institute of Company Directors course. He is a non-Executive Director of Life Saving Victoria. David, along with his wife Jan and family, has owned a holiday house in Inverloch for over 30 years. He has been actively involved with the Inverloch Surf Life Saving Club since it started in 1998, being a member of the first patrol, President of the club from 1999 until 2006 and now a life member. Previously, David held various executive roles with GHD Global including Practice Leader of the management consulting practice and Senior Project Director Middle East.



**Anna Kilborn – BSc, GAICD**

*Appointed 1st October 2011*

**Deputy Chair**

Anna Kilborn is an environmental scientist with over 25 years' experience in integrated planning and stakeholder engagement. She holds a Bachelor of Science and is a graduate of the Australian Institute of Company Directors course. Anna is currently a member of the Victorian Environmental Assessment Council and has previously served as a member of the Regional Development Australia Gippsland Committee. She is committed to promoting integrated planning and sustainability in the Gippsland region.



**Chris Badger – BEng(AUS), CPIEA(AUS), ADP (LBS UK), LC&OR (SUBS USA), LDP (WUBS UK) & FAICD (AUS)**

*Appointed 1st October 2011*

Chris Badger has over 30 years' experience both in Australia and internationally in the utilities, energy and infrastructure sectors. He has over 10 years at senior executive level, having held positions with Loy Yang Power, WestNet Energy, Alinta Asset Management, E.ON Ag and Powergen plc. Chris is currently a skilled-based non-Executive Director with Gippsland Waste and Resource Recovery Group, external non-Executive Director with ACA, independent member of Wellington Shire Audit and Risk Committee, and was formerly Independent non-Executive Director with MIL and Deputy Chair of Trafalgar and District Bendigo Community Bank (2009). He is a Superannuation Trustee Director (2012) and is a Director of his own consultancy business (2012).



**Jim Fawcett CPA**

*Appointed 1st October 2007*

Jim Fawcett is a Certified Practicing Accountant and partner in a local accounting firm for over 30 years. During that time, he has also had extensive involvement with local community and sporting groups. He is a former Board Member and President of Woorayl District Memorial Hospital and its successor Gippsland Southern Health Service. He is a past Councillor and Mayor of South Gippsland Shire Council.



**Dr Irene Irvine**

*Appointed 1st October 2012*

Irene Irvine operates her own consultancy providing strategic support to the education and not-for-profit sectors since retiring as Pro Vice Chancellor Deakin University. An experienced company director, Irene currently chairs South Gippsland Shire's Audit Committee and is Deputy Chair of Karingal Disability Services. Her past roles have included Chair of Phillip Island Nature Parks, Deputy Chair of Zoos Victoria and Director of State Trustees, Open Gardens Australia and Craft Victoria. Irene has lived part time in South Gippsland for over 20 years. She holds a Bachelor of Science (Honours), a Graduate Diploma Administration, a Doctor of Philosophy, a Diploma of Education, is a graduate of Leadership Victoria (Williamson Community Leadership Program) and is a graduate of the Australian Institute of Company Directors course.



**Geoff Lake**

*Appointed 1st October 2015*

Geoff Lake is a Councillor at Monash City Council and has served four terms as Mayor. He is a Director and deputy chair of Vision Super and chairs its Investment Committee. Geoff is also a Director of the Australian Institute of Superannuation Trustees and the Municipal Association of Victoria. Geoff has a Bachelor of Laws and Bachelor of Arts.



**Kate Young**

*Appointed 1st October 2015*

Kate Young is a town planner at Crowther & Sadler. Kate serves on the Board of Gippsland Grammar, and is a former Director of the East Gippsland Catchment Management Authority. Kate also served on the Gippsland Lakes Ministerial Advisory Committee and East Gippsland Shire Inundation and Adaption Management Project Steering Group Committee. Kate has a Bachelor of Arts (Psychology), post graduate qualifications in Planning and Environment, Arts (Criminology) and is a graduate of the Australian Institute of Company Directors course.



**Michelle Blackburn**

*Appointed 1st October 2015*

Michelle Blackburn is a Member of the Victorian Civil and Administrative Tribunal and former partner at Corrs Chambers Westgate Lawyers. She is a Director at Interchange Central Gippsland. Michelle has a Master of Social Science, Bachelor of Law, Bachelor of Arts and is a graduate of the Australian Institute of Company Directors course.

# The Board

## Director Attendance at Board and Committee Meetings

1st July 2016 to 30th June 2017

Director	Board	Audit and Risk Management Committee	Infrastructure, Service Delivery and Customers Committee	People and Culture Committee	Health, Safety, Environment and Special Tasks Committee
<b>David Schultz</b> <i>Chair of Board</i>	7 of 7	5 of 5	5 of 6	3 of 3	4 of 4
<b>Anna Kilborn</b> <i>Chair of Health, Safety, Environment and Special Tasks Committee</i>	6 of 7	5 of 5	n/a	n/a	4 of 4
<b>Chris Badger</b> <i>Chair of Infrastructure, Service Delivery and Customers Committee</i>	7 of 7	5 of 5	6 of 6	n/a	n/a
<b>Jim Fawcett</b> <i>Chair of Audit and Risk Management Committee</i>	7 of 7	5 of 5	n/a	3 of 3	n/a
<b>Irene Irvine</b> <i>Chair of People and Culture Committee</i>	6 of 7	n/a	6 of 6	3 of 3	n/a
<b>Geoff Lake</b>	7 of 7	n/a	5 of 6	n/a	4 of 4
<b>Kate Young</b>	6 of 7	n/a	n/a	3 of 3	4 of 4
<b>Michelle Blackburn</b>	6 of 7	n/a	5 of 6	n/a	4 of 4



South Gippsland Water regularly conducts Emergency Exercises at its different sites. In June 2017, staff at Wonthaggi participated in a mock emergency scenario to test staff, policies & procedures in the event of an emergency.

Established in July 2016, the community-based Pricing Review Advisory Panel has been an instrumental part of South Gippsland Water's community consultation program.

L-R Clara Mandaletti, Frank Gill, Meg Edwards, Bridget Crowe, Philippe du Plessis (SGW), Deidre Griepsma, Brian Hess, Ros Griggs (SGW), David Sutton, Peter Hamilton, Chris Howard.

Not pictured - Ron Paice, Ed Hanley.



# Organisational Structure

Board of Directors			
Board Committees including the Audit and Risk Management Committee			
Managing Director			
Executive Management Industry Awareness Strategic Relationships Corporate Compliance		Strategic Marketing Information Technology OH&S Company Secretary	
General Manager Corporate Services	General Manager Operations	General Manager Infrastructure and Planning	General Manager People Culture and Customer
Finance and Accounting	Operations and Maintenance	Capital Works	Customer Service
Risk Management	Renewal and Replacement	Planning and Development	People and Culture
	Water Quality	Works Design and Documentation	
	Water Sampling	Works Construction Services	
	Environment	Dam Safety	
	Dam Safety	Asset Management	

## The Executive Management Team

### Managing Director

#### Philippe du Plessis

Philippe is responsible for direction of the Management Team and the corporate and strategic functions of South Gippsland Water. These include strategic relationships, strategic marketing, the Corporation's performance and image, information technology, OH&S, awareness of future trends in the water industry and contact with the Corporation's key stakeholders.

### General Manager Corporate Services

#### Jessica Armstrong

Jessica manages finance and accounting and risk management. The key responsibility of the General Manager Corporate Services is that of custodian of the Corporation's assets and financial resources on behalf of all stakeholders.

### General Manager Infrastructure and Planning

#### Mark Lynch

Mark is responsible for the planning, direction and management of the Corporation's Capital Works Program incorporating a broad range of projects. Other functions under this role include asset management, managing the Corporation's Urban Water Strategy including the Drought Response Program, and engineering and technical services.

### General Manager Operations

#### Ravi Raveendran

Ravi manages the Corporation's operational functions including Water Treatment Plants, Waste Water Treatment Plants, and water and wastewater services delivery infrastructure. His responsibilities include compliance with water and wastewater quality guidelines, ongoing quality monitoring, operations improvement, site safety, environment and catchment management, and specialist services to major customers.

### General Manager People, Culture and Customer

#### Annette Katiforis from 20th April 2017

Newly established in April 2017, the General Manager People, Culture and Customer role provides strategic advice and programs relating to: leadership and management capability, diversity and inclusion and other cultural focuses; workforce planning and design; contemporary human resources operations; and, contemporary and attuned customer service strategy and operations.



# Corporate Information

## Role of the Board and Membership

The Board of Directors, appointed by the Minister for Water, operate under the provisions of the *Water Act 1989* and has responsibility for the governance of the Corporation, providing strategic direction and accountability for the performance of South Gippsland Water.

Responsibility for the ongoing operation and implementation of strategy is delegated to the Managing Director and Executive Management Team. The Board comprises of a non-Executive Chair, the Managing Director and seven non-Executive Directors.

## Remuneration of Directors and Executive Officers

Refer to the Notes to Accounts within the Financial Report.

## Meetings, Committees and Composition of Committees

The Board generally meets on the fourth Thursday of nominated months and as required. In order to effectively carry out its responsibility the Board has established the following committees:

### 1st July 2016 – 30th June 2017

#### Audit and Risk Management Committee

The Audit and Risk Management Committee reviews the financial accounts, statutory responsibilities, corporate regulations, risk management and delegated Corporation policies and procedures that underpin the financial operations of South Gippsland Water.

The Committee meets with the internal and external auditors.

For the period 1st July 2016 to 30th June 2017 the committee comprised of five non-executive independent Directors – Jim Fawcett (Chair), Chris Badger, Anna Kilborn, Geoff Lake and David Schultz.

The independent external member term held by Peter Moloney expired on the 23rd February 2017. Following a recruitment process, Vito Giudice was appointed to the position on the 22nd June 2017.

#### Infrastructure, Service Delivery and Customers Committee

The primary objective of the Infrastructure Service Delivery and Customers Committee is to assist the Board to fulfil its duties and oversee the strategic context, planning, development and delivery of the Corporation's community and stakeholder management. The Committee provides oversight to the Capital Works Plan including asset management and delivery of services to South Gippsland Water customers.

For the period 1st July 2016 to 30th June 2017 the committee comprised of five non-executive independent Directors – Chris Badger (Chair), Michelle Blackburn, Irene Irvine, Geoff Lake and David Schultz.

#### Health, Safety, Environment and Special Tasks Committee

The primary objective of the Health, Safety, Environment and Special Tasks Committee is to assist the Board to fulfil its duties to provide a safe, healthy and environmentally sound workplace at South Gippsland Water.

For the period 1st July 2016 to 30th June 2017 the committee comprised of five non-executive independent Directors – Anna Kilborn (Chair), Michelle Blackburn, Geoff Lake, Kate Young and David Schultz.

#### People and Culture Committee

The primary objective of the People and Culture Committee is to assist the Board to fulfil its governance responsibilities in relation to organisational development and employee related activities. It also manages executive remuneration, performance management and review processes.

For the period 1st July 2016 to 30th June 2017 the committee comprised of four non-executive independent Directors – Irene Irvine (Chair), Jim Fawcett, Kate Young and David Schultz.

Foster Water  
Treatment  
Plant basin



# Corporate Information

## Statement of Availability of Other Information

In compliance with the requirements of the Ministerial Directions of the Minister for Finance, Financial Reporting Direction (FRD) 22C, details in respect of the information items below have been retained by the Corporation and are available to the relevant Ministers, Members of Parliament and the public (subject to Freedom of Information requirements, if applicable). However, in adopting best practice disclosure policies and to ensure the Corporation discharges its accountability obligations, where relevant, details about some of the following matters have been disclosed within this Report of Operations:

- a. a statement that declarations of pecuniary interests have been duly completed by all relevant officers of the Corporation
- b. details of shares held by senior officers as nominee or held beneficially in a statutory Corporation or subsidiary
- c. details of publications produced by the Corporation about the activities of the Corporation and where they can be obtained
- d. details of changes in prices, fees, charges, rates and levies charged by the Corporation for its services, including services that are administered
- e. details of any major external reviews carried out in respect of the operation of the Corporation
- f. details of any other research and development activities undertaken by the Corporation that are not otherwise covered either in the Report of Operations or in a document which contains the Financial Report and Report of Operations
- g. details of overseas visits undertaken including a summary of the objectives and outcomes of each visit
- h. details of major promotional, public relations and marketing activities undertaken by the Corporation to develop community awareness of the services provided by the Corporation
- i. details of assessments and measures undertaken to improve the occupational health and safety of employees, not otherwise detailed in the Report of Operations
- j. a general statement on industrial relations with the Corporation and details of time lost through industrial accidents and disputes, which is not otherwise detailed in the Report of Operations
- k. a list of major committees sponsored by the Corporation, the purposes of each committee and the extent to which the purposes have been achieved.

## Disclosure Index

An index identifying the Corporation's compliance with statutory disclosure requirements is contained in Appendix A, page 75.

## Declaration of Pecuniary Interests

In addition to complying with the disclosure and conflict of interest requirements under the *Corporations Act 2001*, each Director, the Managing Director and Senior Managers are required to disclose any pecuniary interests under the provisions of the *Water Act 1989*.

## External Auditors

Crowe Horwath Australasia Ltd, as an agent for the Auditor-General Victoria, undertook the external audit for 2016/17.

## Risk Management and Chair's Statement

South Gippsland Water is committed to the identification of risks and the responsible management of those risks. The implementation of South Gippsland Water's risk management program is carried out by the Senior Management Team with oversight through the Audit and Risk Management Committee and through the Board's governance processes.

In accordance with the Standing Directions, the Chair of South Gippsland Water provides the following statement:

I, David Schultz certify that South Gippsland Water has complied with the Ministerial Standing Direction 3.7.1 – Risk Management Framework and Processes. The South Gippsland Water Audit Committee has verified this.



**David Schultz**

Chair

**Board of Directors**

**South Gippsland Water**

**Dated: 30th June 2017**

## Manner of Establishment and the Relevant Minister

South Gippsland Region Water Corporation (trading as South Gippsland Water) was constituted on 22nd December 1994, under the *Water Act 1989*, by order of the Hon. Geoff Coleman, Minister for Natural Resources (Order No S102 published in the Government Gazette). The order took effect from 1st January 1995.

During the 2016/17 reporting period the responsible Minister for the reporting period was *The Hon Lisa Neville MP, Minister for Water for the period from 1st July 2016 to 30th June 2017*.

## Objectives, Functions, Powers and Duties

Under the *Water Act 1989*, South Gippsland Water is responsible for a range of functions in its service area relating to water supply and sewerage. These are:

### Water Supply

- To provide, manage, operate and protect water supply systems, including the collection, storage, treatment, transfer and distribution of water.
- To identify community needs relating to water supply and to plan for the future needs of the community relating to water supply.
- To develop and implement programs for the conservation and efficient use of water.
- To investigate, promote and conduct research into any matter related to its functions, powers and duties in relation to water supply.
- To educate the public about any aspect of water supply.

### Wastewater

- To provide, manage, and operate systems for the conveyance, treatment and disposal of sewerage and, if the Corporation so decides, trade waste.
- To identify community needs relating to sewerage services and to plan for the future needs of the community relating to sewerage services.
- To develop and implement programs for the recycling and reuse of treated wastewater.
- To investigate, promote and conduct research into any matter related to its functions, powers and duties in relation to sewerage services.
- To educate the public about any aspect of sewerage.

Both the water and wastewater functions must be performed in an environmentally sound way, having regard to the need to preserve aspects which have landscape and fauna and flora values.

# Corporate Information

## Freedom of Information (Fol)

### Operation

The *Freedom of Information Act 1982* allows the public a right of access to documents held by the Corporation. South Gippsland Water is considered to be a "Government Agency" under the terms of the *Freedom of Information Act 1982*. Accordingly, it is required to comply with the procedures that have been prescribed along with the Corporation's Freedom of Information policy guidelines. Decisions to release information are made by an Authorised Officer.

All applicants are advised of the internal review and appeal provisions available.

### Applications

One application was received by South Gippsland Water under the *Freedom of Information Act 1982* during 2016/17. Full access to the information was provided.

## Contact for Requests

Requests under the *Freedom of Information Act 1982*, describing the documents requested, must be made in writing. A Freedom of Information (Fol) application fee of \$28.40 from 1st July 2017 is payable. Depending on the circumstances, further charges may also be payable. Fol fees and charges are not subject to GST.

### Requests should be addressed to:

The Fol Contact Officer  
14-18 Pioneer Street, Foster, Vic 3960  
PO Box 102, Foster, Vic 3960  
Phone: (03) 5682 0444  
Fax: (03) 5682 1199  
Email: [sgwater@sgwater.com.au](mailto:sgwater@sgwater.com.au)

## Compliance with the Building Act 1993

The Corporation has identified a partial compliance with the *Building Act 1993*, whereby inspection and monitoring at a number of facilities had lapsed during 2016/17. This will be corrected during 2017/18 reporting period.

## Events Subsequent to Balance Date

There were no events that have arisen subsequent to balance date to the reporting date that may have a significant on the operations of the entity in future years.

## Protected Disclosures Act 2012

### Compliance with the Protected Disclosure Act 2012 (formerly the Whistleblowers Protection Act 2001)

The *Protected Disclosure Act 2012* 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 taken.

South Gippsland Water does not tolerate improper conduct by employees, nor the taking of reprisals against those who come forward to disclose such conduct. The Corporation is committed to ensuring transparency and accountability in its administrative and management practices and supports 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.

The Corporation 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.

### Reporting procedures

Disclosures of improper conduct or detrimental action by South Gippsland Water or any of its employees and/or officers may be made to the General Manager People, Culture and Customer Service as the Protected Disclosures Officer.

Alternatively, disclosures of improper conduct or detrimental action by South Gippsland Water or any of its employees and/or officers may also be made directly to the Independent Broad-based Anti-corruption Commission (IBAC):

Level 1, North Tower, 459 Collins Street  
Melbourne, VIC 3000  
Phone: 1300 735 135  
[www.ibac.vic.gov.au](http://www.ibac.vic.gov.au)

### Further information

The Protected Disclosure Policy and Procedures, which outline the system for reporting disclosures of improper conduct or detrimental action by South Gippsland Water or any of its employees and/or officers, are available on South Gippsland Water's website.

### Disclosures under the Protected Disclosure Act 2012

	2016-17	2015-16
The number of disclosures made by an individual to the Department and notified to the Independent Broad-based Anti-corruption Commission	0	0
Assessable disclosures	0	0

## Jobs First: Victorian Industry Participation Policy - Implementation

In October 2003, the Victorian Parliament passed the *Victorian Industry Participation Policy Act 2003*, (VIPP), which requires public bodies and departments to report on the implementation of the policy. Departments and public bodies are required to apply the VIPP in all tenders over \$3M in metropolitan Melbourne and \$1M in regional Victoria.

There were six contracts awarded on the Lance Creek Water Connection project with a total tender cost of \$1M or more in 2016/17:

- Supply of mild steel cement lined pipe
- Supply of high density polyethylene pipe
- Construction of high density polyethylene water main - Korumburra to Poowong
- Construction of mild steel cement lined water main - Lance Creek to Korumburra
- Construction of high density polyethylene water main - Lance Creek to Korumburra
- Construction of pump stations and associated works.

The objectives and fundamentals of VIPP were applied to each of these tenders in accordance with the VIPP guidelines.



# Corporate Information

## Consultancies for 2016/17 – Greater than \$10,000

Consultant	Project /Task	Start Date	End Date	Total Approved Project Fee (Excl. GST)	Expenditure 2016/17 (Excl. GST)	Future Expenditure (Excl. GST)
AECOM	• Annual dam safety inspections and surveillance	July 2016	June 2017	\$47,600	\$20,195	\$27,405
acQuis	• Lance Creek Water Connection easement acquisition and compensation	January 2017	October 2017	\$90,909	\$51,030	\$39,879
Clive Steele Partners	• Facilities strategy and concept design	February 2017	October 2017	\$116,300	\$42,420	\$73,880
Cobbitty Consulting	• Poowong Water Supply pressure boosting design	December 2016	February 2017	\$22,727	\$5,810	\$0
Douglas Partners	• Geotechnical report	December 2016	January 2017	\$27,500	\$27,500	\$0
GHD	• Strategic asset management plan • Planning scheme amendment	January 2016	May 2017	\$67,074	\$38,382	\$0
KBR	• Design and tender documentation of Lance Creek Water Connection pipeline • Pipeline alignment changes • Pump station upgrade program • Korumburra sewer upgrade design • Options investigation to reduce suspended solids at Foster Waste Water Treatment Plant	July 2016	June 2019	\$647,814	\$292,009	\$355,805
Fiegl & Newell	• Title property searches	July 2016	March 2017	\$12,727	\$10,822	\$0
Jacobs	• Urban Water Strategy • WTP concept design upgrades and renewals	July 2016	May 2017	\$292,084	\$248,741	\$43,343
Psi Delta	• Yanakie water supply options	September 2016	March 2017	\$65,455	\$65,455	\$0
RMCG	• Agronomy services	October 2016	November 2016	\$25,482	\$25,482	\$0
Russell Kennedy	• Legal advice on easement acquisition	August 2016	December 2018	\$184,700	\$118,565	\$66,135
SJ Progressive	• Water Plan 4 planning • Asset class plans	July 2016	June 2017	\$139,857	\$139,857	\$0
Safe Group Automation	• Lance Creek Water Treatment Plant code standardisation	October 2016	February 2017	\$65,686	\$65,686	\$0
SMEC	• Gantry audit and assessment • Korumburra water main design • Site survey and easement plans	August 2016	June 2017	\$143,316	\$143,316	\$0
Tim Stone	• Cultural Heritage Management Plan	July 2016	December 2016	\$37,900	\$37,900	\$0
Universal Network Design	• Lance Creek Water Treatment Plant power supply upgrade design	May 2017	October 2017	\$24,657	\$0	\$24,657

In 2016/17 South Gippsland Water engaged eight consultancies where the total fees payable to the consultants were less than \$10,000, with a combined total expenditure of \$33,945 (excl. GST).

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:

- Provision of expert analysis and advice; and/or
- Development of a written report of another intellectual output.

## Disclosure of Major Contracts

There were two new contracts of a value of \$5M or greater awarded during the reporting period 2016/17.

- The construction of pump stations and associated works for the Lance Creek Water Connection project was awarded to Simpson Construction Company Pty Ltd.
- The construction of mild steel cement lined water mains, Lance Creek to Korumburra, was awarded to Jaydo Construction Pty Ltd.

Both of these contracts are part of the Lance Creek Water Connection project and are in the early preparation stages following the award of contracts in June 2017.

# Corporate Information

## Details of Information and Communication Technology (ICT) Expenditure

For the 2016/17 reporting period, South Gippsland Water spent \$2,824,803 on Information Communication and Technology, with the details shown below.

Business As Usual (BAU) ICT Expenditure	Non-Business As Usual (non-BAU) ICT Expenditure	Operational Expenditure	Capital Expenditure
	(Total = Operational Expenditure and Capital Expenditure)		
(Total)			
\$2,397,871	\$426,932	\$48,577	\$378,355

Information Communication and Technology (ICT) expenditure relates to South Gippsland Water's costs in providing business-enabling ICT services. It comprises Business As Usual ICT expenditure and Non-Business As Usual ICT expenditure. Non-Business as Usual ICT expenditure relates to extending or enhancing South Gippsland Water's current ICT capabilities. Business as Usual ICT expenditure is all remaining ICT expenditure which primarily relates to ongoing activities to operate and maintain the current ICT capability.

South Gippsland Water is working towards the implementation of mobile solutions, including full mobility of all field and office staff. This has resulted in an increase in ICT expenditure by the Corporation over the reporting period which is expected to continue.

## Corporate Water Consumption 2016/17

The calculation below is based on the Foster head office and annex, accommodating 54 full-time equivalent staff (including contractors) and includes Foster head office and annex consumption only.

All other depots, workshops, treatment plants (water and wastewater), pumping stations and infrastructure facilities are specifically not included.

Indicator	Target	Actual 2016/17	Variation %	Actual 2015/16	Actual 2014/15
Consumed [Kilolitre (kL) = 1,000 litres]	260kL	<b>213kL</b>	-18%	223kL	185kL
Kilolitres consumed per full-time equivalent staff member	4.8kL	<b>3.9kL</b>	-18%	4.1kL	3.4kL

## Water Consumed Per Unit of Office Space

Water consumed per unit of office space for 2016/17 was 191.4 litres.

## National Competition Policy

Under agreements reached in 1995 by the Council of Australian Governments, all Australian Governments (Federal, State and Territory) agreed to review and where appropriate, reform all existing legislative restrictions on competition. Under the National Competition Policy the guiding legislative principle is that legislation, including future legislative proposals, should not restrict competition unless it can be demonstrated that:

- The benefits of the restriction to the community as a whole outweigh the costs
- The objectives of the legislation can only be achieved by restricting competition.

South Gippsland Water continues to implement and apply this principle in all its business undertakings.

## Goods and Service Tax (GST)

South Gippsland Water received a ruling from the Australian Taxation Office that establishes that our basic services ... "supply of water, sewerage (and sewerage-like) services ... (are) ... GST-free," to our customers. South Gippsland Water put in place appropriate accounting arrangements to manage all other aspects of GST.

## Details of Government Advertising Expenditure

South Gippsland Water's advertising expenditure does not exceed \$100,000.



### YOUNG VICTORIAN OPERATOR OF THE YEAR

Will Egan, Lance Creek Water Treatment Plant Operator, was awarded with the Young Victorian Operator of the Year for 2016.

The award was presented by the Water Industry Operators Association (WIOA) and is designed to provide encouragement to young water industry employees by recognising excellent performance, initiative and all round attention to detail.

# Our People

South Gippsland Water recognises its staff play a vital role in delivering outcomes for our customers. Throughout the year, broad organisational structural changes were implemented that, in turn, saw an increased rate of recruitment. These included setting up the Lance Creek Water Connection Project team in Korumburra, and realigning structures within corporate functions to add greater strategic focus to existing operational capacity. Throughout this period of change, the sound performance of our staff has enabled the Corporation to continue to deliver quality services to our customers across the region.

The structural changes of the past year, and new Executive members, set the foundation for increased strategic workforce capability to be delivered in 2017/18, including development of a leadership program, extending workforce diversity, implementing an organisation-wide skills and capability matrix, and reviewing the employee performance appraisal program.

## Employment and Conduct Principles

South Gippsland Water is committed to applying merit and equity principles to its recruitment processes and in staff management practices. Selection processes ensure applicants are assessed and evaluated fairly and equitably on the basis of the key selection criteria and other accountabilities, without discrimination. South Gippsland Water communicates its adherence to employment and conduct principles by issuing all new employees with a copy of the Code of Conduct for Victorian Public Sector Employees, induction processes that reinforce many elements of the Code of Conduct, and by having an aligned set of policies.

These mechanisms collectively address ethical issues such as conflict of interest, integrity, respect and human rights. Board Directors and senior management make pecuniary interest statements annually.

Employees have been correctly classified in workforce data collections.

## Diversity and Inclusion

South Gippsland Water recognises that a diverse and inclusive workforce brings skills, experiences, backgrounds and attitudes that together create and encourage innovation, agility and better decision making. This commitment is demonstrated in targets being set mid-2016, with progress against them as set out in the table below.

This year the Corporation adopted a policy aimed at extending the diversity and strength of inclusion for employees and potential employees. Members of the Board, General Managers and most of the Senior Leadership Group participated in a program aimed at raising awareness of Unconscious Bias, initially focusing on gender.

During the next year, while continuing to ensure recruitment approaches maximise diverse participation, a key focus will be initiatives aimed at improving indigenous cultural awareness and cultural safety as an employer.

## Employee Assistance Program (EAP)

The Corporation offers a confidential Employee Assistance Program to assist staff and their immediate family in times of stress and difficulty. The program provides employees and family members with counselling, coaching and support for workplace and personal issues. The Corporation receives non-identifiable reports to assist it in recognising and proactively addressing any potential themes that might present for the workforce.

## Enterprise Agreement

A new enterprise agreement came into effect December 2016. A review of the Employee Consultative Committee planned for 2017/18 will ensure continuing and strong engagement of the Corporation's workforce in proposed organisational changes.

Workforce Inclusion Policy Initiative	Target	Actual Progress in 2016/17	Baseline 2015/16*
Gender diversity	1. General Managers and Executive Officers <ul style="list-style-type: none"> <li>• 67% male</li> <li>• 33% female by June 2017</li> </ul>	81% male 19% female	80% male 20% female
	2. All staff <ul style="list-style-type: none"> <li>67% male</li> <li>33% female by Dec 2018</li> </ul>	71% male 29% female	73% male 27% female
Cultural and linguistic diversity	3. One Aboriginal trainee by June 2017	Nil	Nil
	4. 2.5% of workforce will identify as Aboriginal or Torres Strait Islander by 2020	Data not available	Data not available
	5. 20% of workforce will speak a language other than English by 2020	Data not available	Data not available
Age diversity	6. 10% increase in number of staff under age 25 by June 2018. Benchmark June 2016: 5 employees	4 staff (3.8% employees by FTE)	5 staff (5% employees by FTE)
Flexible work arrangements	7. Increase in flexible work arrangements by June 2017	Data not available	Data not available
	8. 25% of workforce will work flexibly by 2020	Data not available	Data not available
Caring responsibilities	9. 35% of the workforce will have caring responsibilities outside of workplace by 2020	Data not available	Data not available
LGBTI diversity	10. 7% of the workforce will identify as belonging to LGBTI communities by 2020	5% of staff responding to People Matters Survey May 2017	6% of staff responding to People Matters Survey 2016
All abilities	11. One person will be employed with long-term disability by Dec 2017	6 people (8%) of staff responding to People Matters Survey May 2017	One person (2%) of staff responding to People Matters Survey May 2017

\* Note targets were not in place in 2015/16. Comparative data is shown for illustrative purposes where applicable and where data is available.



# Our People

## Workforce Data

Ongoing Employees					Fixed Term & Casual Employees	
	Employees (Headcount)	Full Time (Headcount)	Part Time (Headcount)	FTE	Headcount	FTE
June 2017	96	91	5	93.4	14	10.7
June 2016	103	87	10	93.2	6	3.5

	June 2016/17			June 2015/16		
	Ongoing		Fixed Term and Casual Employees	Ongoing		Fixed Term and Casual Employees
	Employee (Headcount)	FTE	FTE	Employee (Headcount)	FTE	FTE
<b>Gender</b>						
Male	68	67.4	6.0	74	69.2	1.8
Female	28	26.0	4.7	29	24	1.7
<b>Age</b>						
Under 25	4	4	0	5	5	0
25-34	18	17.6	2.4	17	15.2	0.6
35-44	21	20.4	2.2	23	22.6	0
45-54	33	32.3	5.0	38	35.2	1.6
55-64	17	16.1	1.1	16	12.2	1.1
Over 64	3	3	0	4	3	0.2
<b>Classification</b>						
Trainee	0	0	0	0	0	0
Band 3	5	5	2	7	7	0
Band 4	16	16	2.3	18	16.8	0.5
Band 5	21	19.3	1.4	23	19.3	0.8
Band 6	17	16.8	0.6	16	13.8	0.6
Band 7	16	16	2	18	16	1.6
Band 8	7	6.5	0.8	6	5.8	0
SEO	10	9.8	1.6	11	10.6	0
Executives	3	3	0	3	3	0
Managing Director	1	1	0	1	1	0
	<b>96</b>	<b>93.4</b>	<b>10.7</b>	<b>103</b>	<b>93.2</b>	<b>3.5</b>

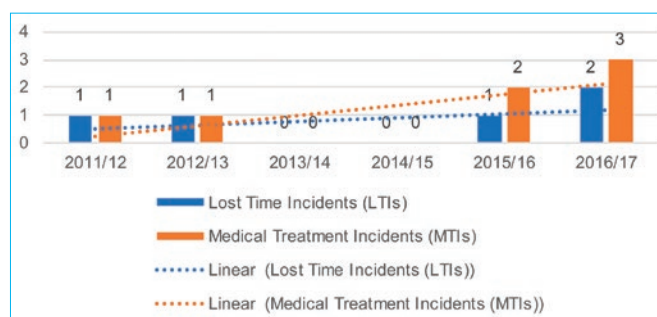
## Occupational Health and Safety Management (OH&S)

South Gippsland Water's Occupational Health and Safety unit continued its strong focus on improving Occupational Health and Safety (OH&S) risk control across the corporation by continuous improvement of procedures and systems. This involved recertification of South Gippsland Water's Occupational Health and Safety Management System with AS 4801:2001 the Australian Standard for OH&S management systems.

Accreditation and compliance to this standard helps ensure South Gippsland Water is addressing the critical and key criteria of both State and National OH&S legislation. In maintaining accreditation of its OH&S Management System to the national standard, numerous systems have been created for capturing risks, assessments and actions. These systems assist employees to safely carry out their duties without impediment.

The Corporation targeted focus on contractor compliance during 2016/17, resulting in 21 field-based audits being completed. The Corporation also acquired an on-line contractor induction system during the last quarter of 2016/17 which will be implemented during 2017/18. The Corporation recorded two Lost Time Incidents (LTI) during 2016/17 and three Medical Treatment Injuries (MTI). The equivalent lost time of seven days, had minimal impact with no work cover claim forthcoming.

## South Gippsland Water LTI / MTI Performance



All scheduled audits were completed within allocated timeframes, resulting in improvement in site safety and compliance.

Employees continue to demonstrate a high understanding of OH&S requirements, the hazards related to their working environment, and the safety systems put in place through the continuous improvement process.

		Lost Time Injury Frequency Rate		Medical Injury Frequency Rate	
Year	Total Hours Worked	Number of LTIs	LTIFR / Million Hour	Number of MTIs	MTIFR / Million Hour
2012/13	200,845	1	5	1	5
2013/14	202,684	0	0	0	0
2014/15	205,694	0	0	0	0
2015/16	209,460	1	4.8	2	9.5
2016/17	223,871	2	8.9	3	13.4
Average over five years			3.7		5.6

# Social Sustainability

South Gippsland Water operates within the framework set out by the Essential Services Commission, which has responsibility for economic regulation, determining pricing and assessing the service delivery performance of water, gas and electricity providers in Victoria.

The State Government sets out its requirements for water service providers in the Statement of Obligations which forms a direct relationship between the Corporation and government. The Essential Services Commission monitors South Gippsland Water's performance against many of these obligations.

## Collaboration Within the Water Sector

South Gippsland Water, in partnership with East Gippsland Water, Gippsland Water, Westernport Water, and Southern Rural Water, continues to proactively engage in delivering efficiencies and service improvements for water customers across the region as part of the partnership's industry-leading Gippsland Regional Water Alliance. Since its formation in 2013 the five Gippsland water corporations have identified efficiencies and improvements across areas such as procurement, fleet management, customer services and meter reading.

In addition, South Gippsland Water, in line with the State Government Water Rebate Initiative, continues to apply savings identified in a review of capital and operational costs to customers' water and sewerage accounts. For each year of the four years 2014-2017 customers have received an average reduction of approximately \$50 off their bills.

To deliver these discounts, a range of savings have been identified across the organisation including:

- *Partnering with South East Water to deliver the Poowong, Loch and Nyora Sewerage Scheme, which will result in capital and operational expenditure efficiencies*
- *Reduced chemical costs through process improvements resulting in more efficient chemical use at water and wastewater treatment plants*
- *Reduce power costs as a result of a shared contract with the Gippsland Regional Water Alliance*
- *Lower fleet management costs due to technology and scheduling initiatives*
- *A review of water sampling and testing frequency across the South Gippsland region*
- *Ongoing collaboration with the Gippsland Regional Water Alliance.*

## Community Service Obligations - Financial Assistance to Eligible Customers and Pensioners

The Corporation's Customer Service Team includes a dedicated Credit Manager to identify and assist customers who may be experiencing hardship. Financial assistance is provided to individuals and organisations as part of the Government's Community Service Obligations.

Value of Community Service Obligation Provided	2016/17	2015/16
Provision of concessions to pensioners	\$1,519,025	\$1,431,272
Rebates paid to not-for-profit organisations under the water and sewerage rebate scheme	\$145,805	\$146,096
Utility Relief Grants Scheme payments (33 cancelled customers did not send their information)	\$11,942	\$12,555
Water concessions on Life Support Machines - Haemodialysis	\$1,013	\$816
Hardship Grants applied	\$9,000	\$1,730
Hardship Relief Grant Scheme (Sewerage Connection Scheme)	Unknown*	Unknown*

\*The Corporation does not have access to this figure.

## Customer Consultation

South Gippsland Water recognises that engaging, informing and consulting with its customers and stakeholders is pivotal to the effectiveness of its services and ensures that water management and planning delivers outcomes for resilient and liveable communities.

As such, South Gippsland Water utilises the International Association for Public Participation's Framework (IAP2) for Effective Public Participation, with all major projects having a communications and engagement plan prepared in accordance with the framework.

South Gippsland Water consults with customers, community groups, major regional industries, small businesses and their associations, schools and sporting clubs in order to ascertain their views and preferences regarding services and projects directly affecting them.

During 2016/17 South Gippsland Water completed consultation initiatives on major projects, including the Lance Creek Water Connection and the Pricing Submission to the Essential Services Commission.

## Lance Creek Water Connection Engagement

The largest capital project for the Corporation, the Lance Creek Water Connection project has required detailed and focused engagement with the community.

In April 2016, the Corporation was successful in gaining \$30M State Government funding for the project. The Lance Creek Water Connection will secure water supplies for the Corporation's northern region townships via a pipeline to link Korumburra, Poowong, Loch and Nyora with the Lance Creek Water Supply System.

With this significant water security project progressing, the Lance Creek reservoir, which currently services Cape Paterson, Wonthaggi and Inverloch, will supply water to 60% of the Corporation's customer base. To communicate and engage effectively with the broad range of individuals and stakeholders associated with or interested in the project, a community engagement strategy was developed in-line with the International Association for Public Participation's Framework (IAP2) for Effective Public Participation.

A key component of the engagement process has been dedicated one-on-one engagement by project team members with the 39 affected land owners and a number of farmers with Crown land leases along the pipeline. This has provided an opportunity for relationships to be fostered, negotiations progressed and questions answered, and has also allowed the project team to hear directly from individual land owners about their concerns and preferences relating to the project, their property and business.

Engagement has involved a formal easement acquisition and compensation process as set out under the *Water Act (1989)* and the *Land Acquisition and Compensation Act (1986)*, and has included close liaison and consultation with key stakeholders including Department of Environment, Land, Water and Planning (DELWP) and the Minister for Water.

A broad range of communication and awareness raising mechanisms have been utilised to maximise reach within the general community and, specifically, the communities and businesses associated with Korumburra, Poowong, Loch and Nyora, including:

# Social Sustainability

-  • Media releases, journal articles and advertisements with general project information and updates, reaching some 50,000 people across the service region
-  • Community presentation and discussion sessions
-  • Dedicated one-to-one engagement process with affected land owners
-  • Direct mail information leaflets and community updates to interested persons, key stakeholders and all customers
-  • Information available for review and download on the corporate website [www.sgwater.com.au](http://www.sgwater.com.au)
-  • Social media posts

## Pricing Submission Engagement

As part of the process of developing a five-year plan and pricing submission for the regulatory period 2018/19 to 2022/23, the Corporation has placed a greater emphasis on customer consultation with respect to preparing a submission based on customer outcome and priorities. This has been demonstrated through an extensive consultative approach.

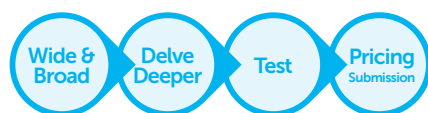
Consultation with individuals, groups, local businesses and industry has enabled the Corporation to focus on community preferences, concerns and priorities regarding water and wastewater pricing and service provision.

A key objective of the pricing review was to listen to the community; to provide a range of opportunities for people to help influence and shape the future of the Corporation by having their say.

Over the period of 2016/17, South Gippsland Water has undertaken a staged process of consultation for the Pricing Submission.

A community engagement strategy was developed within the International Association for Public Participation (IAP2) framework which has guided a four-phase process for engagement.

### Engagement Process



#### 1. Wide and Broad

Engagement parameters were set early in the planning process to enable broad engagement with the wider community on all aspects of the organisation. A key component of this phase was utilising traditional and social media tools to facilitate awareness raising within the community.

#### 2. Delve Deeper

Information gathered during the Wide and Broad phase was reviewed and key areas of customer interest and concern were identified to form the basis of more detailed and focussed consultation.

#### 3. Test

Create South Gippsland Water's draft pricing submission utilising data and information obtained via community engagement processes and reviews, and test key outcomes with the community and stakeholders.

#### 4. Pricing Submission

Finalise the plan, based on robust and fit-for-purpose community engagement, for submission to the Essential Services Commission.

Throughout the phases of consultation, numerous engagement activities have been undertaken, including:

-  • Establishment of a Customer Advisory Panel who met several times over 2016/17
-  • Community presentation and discussion sessions with local community groups
-  • 'Your Town' visits and street stalls to capture qualitative and quantitative feedback
-  • In-depth telephone interviews with key customers and stakeholder representatives
-  • Face to face, online and direct mail surveys in excess of 700 respondents
-  • Direct mail and email communications and information leaflets to all customers
-  • Information available for review and download on the corporate website [www.sgwater.com.au](http://www.sgwater.com.au)
-  • Traditional and social media advertisements, media releases and posts, reaching some 50,000 people across the service region

At the time of preparing the 2016/17 annual report, consultation was ongoing to inform the preparation of the final Pricing Submission to the Essential Services Commission due in September 2017. Feedback provided by customers has been embedded into plans with customer outcomes at the forefront of the planning process.

## Schools Education Programs

South Gippsland Water has continued to facilitate school education programs throughout 2016/17, including:

- Visits to many secondary and primary schools in support of their water related aspects of their curriculum and the hosting excursions at a variety of locations.
- Celebrating National Water Week through a school poster competition and related activities.
- Sponsorship and funding of some 20 customer schools to participate in the state government's Schools Water Efficiency Program, which involves students in monitoring and the online reporting of water use.
- The South Gippsland Water website includes a dedicated education section featuring teaching resources and activities.

## Meetings with Local Community and Special Interest Groups

The Corporation values meetings of this type and is keen to provide speakers to address special interest groups on common interest topics, e.g. Shire Councils, Lions, Rotary, various business and community development groups, local residents and Landcare groups, etc.

## Social Media and the South Gippsland Water Website

South Gippsland Water maintains profiles on Facebook, Twitter and Linked In. The platforms provide an avenue of consistent activity and communication, keeping customers and stakeholders informed with respect to services and projects. They also provide an avenue for community comment and reporting of system faults and issues.

South Gippsland Water's website [www.sgwater.com.au](http://www.sgwater.com.au) provides public access to copies of published materials, system alerts and updates, avenues for bill payment and reporting faults, and invitations to comment, and at certain times, submit online surveys.



# Water Services

## Management of Social and Economic Impacts

South Gippsland Water offers a wide range of assistance programs to customers facing financial difficulties. These include a tariff assistance and relief program, free referral to an independent financial counsellor, and the provision of payment options and instalment amounts to ease the payment path for customers. Features of the program include, for the Corporation to:

- Engage in discussions with the customers to determine suitable payment options available.
- Treat all customers sensitively and on a case-by-case basis.
- Ensure customers circumstances are kept confidential.
- Provide customers with information about assistance programs and government concessions, including the Utility Relief Grant Scheme.
- Provide assistance in negotiating instalment amounts if the customers' circumstances change.
- Offer a range of payment options recognising that the financial hardship may be short or long term.
- Refer the customer to an available free, independent and accredited financial counselling service.
- Provide interpreter services on request.
- Suspend debt processes while negotiating a suitable arrangement with a customer.
- Not engage in legal action, restriction of water supply, and additional debt recovery actions against customers who meet the necessary criteria and continue to make payments according to an agreed schedule.
- Provide information about how to reduce water consumption, and invite customers to seek further assistance from the Corporation in reducing water usage.
- Advise customers about their right to lodge a complaint with the Energy and Water Ombudsman if their affordability issue is not resolved with the Corporation.

In addition, during 2016/17 the Corporation undertook an extensive consultation program with the view of further extending the Corporation's Customer Assistance program. The result of the consultation program was that customers were in favour of delivering further social obligations and contributing towards customer hardship programs. This focus will include an interest free loan scheme for business customers, water efficiency audits, and debt reduction/elimination programs.

The Corporation also follows the guidelines as set down by the Victorian Water Industry, under its "Industry Guide on Residential Hardship". Good relationships are maintained with government departments, voluntary support agencies and counselling services in the region in order to assist with referrals and support services for customers.

During 2016/17 the Corporation received funds for the establishment of the Community Water Rebate program. A water efficiency program designed to target hardship customers and provide no or low cost water efficiency improvements such as fixing leaks, replacing inefficient or faulty toilet cisterns and hot water systems. South Gippsland Water has received \$50,000 which will be rebated over 2016/17 and into 2017/18.

To date the Corporation has contacted some 45 customers regarding rebates and water efficiency improvements.

## Water Conservation Initiatives

South Gippsland Water promotes and is part of the Target Your Water Use program. A water efficiency program to assist and encourage the community to use their water wisely. Target Your Water Use is about taking a longer-term view about water usage habits by ensuring customers have access to the information they need to make informed decisions about the amount of water they use.

In addition, South Gippsland Water, through collaboration within the Victorian water sector, has also supported the development of the Victorian Water Efficiency Strategy (VWES). This strategy has been developed to enhance water efficiency across the state through innovative and collaborative water industry practices. The strategy has been developed for implementation during the period 2017 to 2022.

## Water Quality

South Gippsland Water maintained its water quality monitoring program consistent with the requirements of the *Safe Drinking Water Act 2003* and the *Safe Drinking Water Regulations 2015*.

Percentage compliance detailed in the table below is based on the number of water sampling localities complying with requirements of the *Safe Drinking Water Regulations 2015* in the period 1st July 2016 to 30th June 2017. Further details of drinking water compliance for each distribution system are reported annually to the Department of Health and Human Services and are available on South Gippsland Water's website, or on request.

### Compliance with Safe Drinking Water Regulations 2015

Parameter	Water Quality Standard	Percentage of localities receiving compliant water in 2016/17
<i>Escherichia coli</i> ( <i>E. coli</i> )	All samples of drinking water collected to contain no <i>E. coli</i> per 100 millilitres of drinking water with the exception of any false positive sample	100%
Turbidity	The 95th percentile of results for samples in any 12-month period must be less than or equal to 5.0 Nephelometric Turbidity Units	100%
Trihalomethanes (Total)	Less than or equal to 0.25mg/L of drinking water	100%
All other parameters as detailed in South Gippsland Water's drinking water monitoring program	Drinking water is not to contain an algal toxin, pathogen, or any substance or chemical in such amounts as may pose a risk to human health	100%

### Average Annual Drinking Water Consumption ML

Year	2016/2017	2015/2016	2014/2015	2013/2014	2012/2013
Alborton/Port Albert Yarram/Devon North	359	356	346	341	348
Dumbalk	15	15	14	14	13
Fish Creek	79	75	78	72	74
Foster	133	137	130	134	132
Korumburra	587	577	598	584	569
Wonthaggi/Cape Paterson/Inverloch	1,447	1,487	1,490	1,458	1,408
Leongatha/Koonwarra	1,510	1,478	1,453	1,481	1,491
Meenyan	49	47	44	43	42
Poowong/Loch/Nyora	161	173	181	181	163
Waratah Bay	0	0	0	0	0
Toora/Welshpool/Port Welshpool/Port Franklin	311	323	325	329	352
<b>Total</b>	<b>4,651</b>	<b>4,668</b>	<b>4,659</b>	<b>4,637</b>	<b>4,592</b>

# Water Services

## Water Consumption

District Name	Residential Customers				Non-residential Customers				Total number of customers	Total potable water volume (ML)	Total recycled water volume (ML)	Total consumption (ML)	Average annual consumption (ML)	Weekly residential potable water consumption ML	Daily residential Drinking water per capita (KL)	Non-revenue Water			Total non-revenue water (ML)	Total all water sources (ML)
	Number	Potable water volume (ML)	Recycled wastewater volume (ML)	Recycled stormwater volume (ML)	Number	Potable water volume (ML)	Recycled wastewater volume (ML)	Recycled stormwater volume (ML)								Leakage (ML)	Firefighting (ML)	Other (ML)		
Devon North Alberton Yarram Port Albert	1,272	146	N/A	N/A	487	201	120	N/A	1,788	347	120	467	359	2.8	93	72	-	36	108	575
Dumbalk	77	10	N/A	N/A	19	5	0	N/A	97	15	0	15	15	0.19	114	3	-	1	4	19
Fish Creek	102	12	N/A	N/A	99	58	0	N/A	201	70	0	70	79	0.2	68	46	-	4	50	120
Foster	629	71	N/A	N/A	176	53	0	N/A	807	125	0	125	133	1.36	97	36	-	5	41	166
Korumburra	1,821	247	N/A	N/A	277	382	0	N/A	2,149	628	0	628	587	4.75	130	81	-	18	99	727
Wonthaggi Inverloch CapePaterson	9,064	968	N/A	N/A	821	387	0	N/A	9,887	1,354	0	1,354	1,447	18.6	118	130	-	34	164	1,518
Leongatha Koonwarra	2,529	391	N/A	N/A	552	1,165	0	N/A	3,128	1,556	0	1,556	1,510	7.5	143	56	-	96	152	1,708
Meeniyian	205	33	N/A	N/A	47	16	5	N/A	263	49	5	54	49	0.63	142	10	-	1	11	65
Loch Poowong Nyora	540	80	N/A	N/A	139	78	0	N/A	681	159	0	159	161	1.53	133	60	-	12	72	231
Waratah Bay	0	0	N/A	N/A	0	0	9	N/A	0	0	9	9	0	0	N/A	N/A	-	N/A	N/A	9
Toora Port Franklin Welshpool Port Welshpool	634	70	N/A	N/A	407	210	2	N/A	1,047	280	2	282	311	1.34	75	140	-	89	229	511
<b>Total</b>	<b>16,873</b>	<b>2,028</b>	<b>-</b>	<b>-</b>	<b>3,024</b>	<b>2,555</b>	<b>136</b>	<b>-</b>	<b>20,048</b>	<b>4,583</b>	<b>136</b>	<b>4,719</b>	<b>4,651</b>	<b>39</b>	<b>1,113</b>	<b>634</b>	<b>-</b>	<b>296</b>	<b>930</b>	<b>5,649</b>

Note: Average annual demand is calculated as a rolling 3-year average. Revenue water excludes standpipe sales (17ML), desalination plant site consumption of (4ML) and estimated sales consumption (9ML). : Population calculated on customer base and VIF (2016) sourced household numbers.

## Drought Response Plan

South Gippsland Water's supply storages and river systems are relatively small, relying on the region's generally high annual rainfall to replenish storages prior to the summer draw down.

One water system, the Coalition Creek System (Korumburra), was subject to staged water restrictions during the 2016/17 year.

South Gippsland Water was successful in securing State Government funding of \$30 million in the 2016 State Government Budget to be allocated towards a \$43 million project to secure the water supply to Korumburra, Poowong, Loch and Nyora.

The Lance Creek Water Connection will construct connecting pipelines from the Little Bass and Coalition Creek water supply systems to the Lance Creek Reservoir and Melbourne Supply System. This is a three year project and in the interim, South Gippsland Water will rely on a combination of water sources, including surface and ground water to secure the Coalition Creek Water Supply System over the summer months. This means utilising a temporary pump station and a network of aged pipeline and pump infrastructure to augment the supply to Korumburra.

## Major Non-Residential Water Users

Name of Customer	Information as to customer participation in water conservation programs
Murray Goulburn Co-Operative Co Ltd (Leongatha)	Highly active in water conservation
Burra Foods Pty Ltd (Korumburra)	Processing facilities upgraded; including water conservation measures and community re-use

## Customers by Volume/Range for 2016/17

Volumetric Range ML per year	Number of Customers
Equal to or greater than 100ML and less than 200ML	0
Equal to or greater than 200ML and less than 300ML	1
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	1
Greater than 1,000ML	0
<b>Total Number of Customers</b>	<b>2</b>

# Bulk Entitlement Compliance Reporting

South Gippsland Water holds eleven Bulk Water Entitlements for surface water in the South Gippsland Basin that define the Corporation's legal right to extract water to supply its 10 water supply systems. These systems are reported on as follows for 2016/17 reporting period:

Reference number of relevant Bulk Entitlement and water system	Water supply	Towns serviced	Bulk Entitlement ML/year	Raw water volume taken ML <sup>1</sup>	Storages <sup>2</sup>	Volume in storages at 30 June 2017 (ML)	Entitlement transfer from (ML/y)	Entitlement transfer to (ML/y)	Entitlement amendment	New entitlement	Failures to comply <sup>4</sup>	Difficulties & remedial action <sup>5</sup>	Compliance with making allowances <sup>6</sup>	Compliance with environmental obligations <sup>7</sup>	Compliance with metering obligations <sup>8</sup>
<b>BEE049323</b> Devon North Alberton Yarram Port Albert	Tarra River	Devon North Alberton Yarram Port Albert	853 <sup>9</sup>	459	N/A	N/A	Nil	Nil	Nil	Nil	Nil	Nil	✓	✓	✓
<b>BEE049324</b> Leongatha	Ruby Creek	Leongatha Koonwarra	2,476	1,715	Res. 1	15	Nil	Nil	Nil	Nil	Nil	Nil	✓	✓	✓
					Res. 2	83									
					Hyland	328									
					Western	437									
	Coalition Creek		1,800		N/A	N/A									
<b>BEE049325</b> Loch Poowong Nyora	Little Bass River	Loch Poowong Nyora	420	230	Little Bass Reservoir	82	Nil	Nil	Nil	Nil	Nil	Nil	✓	✓	✓
<b>BEE049326</b> Dumbalk	Tarwin River East	Dumbalk	100	20	N/A	N/A	Nil	Nil	Nil	Nil	Nil	Nil	✓	✓	✓
<b>BEE049327</b> Fish Creek	Battery Creek	Fish Creek	251	120	Battery Creek Reservoir	93	Nil	Nil	Nil	Nil	Nil	Nil	✓	✓	✓
<b>BEE049328</b> Foster	Deep Creek	Foster	326	170	Deep Creek Reservoir	14	Nil	Nil	Nil	Nil	Nil	Nil	✓	✓	✓
<b>BEE049329</b> Meeniyan	Tarwin River	Meeniyan	200	60	N/A	N/A	Nil	Nil	Nil	Nil	Nil	Nil	✓	✓	✓
<b>BEE049331</b> Korumburra	Coalition Creek	Korumburra	1,000	732	No. 1	135	Nil	Nil	Nil	Nil	Nil	Nil	✓	✓	✓
	Ness Creek				No. 2	21									
	Bellview Creek				No. 3	130									
	Tarwin River		1,800	145 <sup>3</sup>	N/A	N/A									
<b>BEE049332</b> Toora Port Franklin Welshpool Port Welshpool	Agnes River	Toora Port Franklin Welshpool Port Welshpool	1,617	511	Cooks Dam	58	Nil	Nil	Nil	Nil	Nil	Nil	✓	✓	✓
<b>BEE049334</b> Wonthaggi Inverloch	Lance Creek	Wonthaggi Inverloch Cape Paterson	5,600	1,527	Lance Creek Reservoir	3089	Nil	Nil	Nil	Nil	Nil	Nil	✓	✓	✓
<b>BEE050819</b> Augmented Melbourne system	Melbourne Headworks System	Wonthaggi Inverloch Korumburra Leongatha	1,000 <sup>10</sup>	Nil	Nil	Nil	Nil	Nil	Yes <sup>11</sup>	Nil	Nil	Nil	✓	✓	✓

## Notes:

- Annual amount of water taken in ML for 2016/17 reporting period.
- Storages included under each Bulk Entitlement.
- Extraction from the Tarwin River at the diversion point on the Tarwin River.
- Any failure by the Corporation in complying with the Bulk Entitlement.
- Any difficulties experienced or anticipated in complying with the Bulk Entitlement and remedial action taken or proposed.
- Approval, amendment and implementation of programs and proposals for Making Allowances (tick indicates compliance has been met).
- Approval, amendment and implementation of programs and proposals for Environmental Obligations (tick demonstrates progress towards compliance with environmental obligations).
- Approval, amendment and implementation of programs and proposals for Metering Obligations (tick demonstrates compliance with metering obligations).
- 249 ML of the total amount taken for Devon North System was extracted under groundwater license BEE051808.
- The Bulk Entitlement from Melbourne Head Works (Greater Yarra System – Thomson River Pool) for 2016/17 is 1GL. This may increase to 5GL when South Gippsland Water purchases an additional 4 GL from the Greater Yarra System – Thomson River Pool following the completion of the water connections to Korumburra, Poowong, Loch and Nyora in the future.
- The Bulk Entitlement from Melbourne Head Works (Greater Yarra System – Thomson River Pool) was amended on 1 June 2017 to account for the transfer of water from the three Melbourne retail water corporations to create an additional 8 GL environmental entitlement in Thomson Reservoir.

# Wastewater Services

## Wastewater Management

During 2016/17, South Gippsland Water was compliant with sewerage treatment quality standards at all ten of its wastewater systems. One wastewater treatment plant was non-compliant for the amenity licence condition due to an odour complaint, and it also exceeded the mean daily flow discharge limit. The details of the non-compliance to the Environment Protection Authority waste discharge licence is shown in the table below:

### Analysis of performance against EPA Licence 74240 environmental performance conditions

Condition Area	Condition Reference	Condition Description	Condition complied with?
General	G1	Waste from the premises must not be discharged to the environment except in accordance with this licence.	Yes
	G2	You must immediately notify EPA of non-compliance with any condition of this licence.	Yes
	G3	By 30 September each year you must submit an annual performance statement to EPA for the previous financial year in accordance with the Annual Performance Statement guidelines (EPA Publication 1320).	Yes
	G4	Documents and monitoring records used for preparation of the annual performance statement must be retained at the premises for seven years from the date of each statement.	Yes
	G5	You must implement a monitoring program that enables you and EPA to determine compliance with this licence.	Yes
Amenity	A1	Offensive odours must not be discharged beyond the boundaries for the premises.	No <sup>1</sup>
Water Discharges	DW1	Stormwater discharged from the premises must not be contaminated with waste.	Yes
	DW2	Discharge of waste to surface waters must be in accordance with the 'Discharge to Water' table.	No <sup>2</sup>
	DW2.8	Discharge of treated wastewater during wet weather conditions must be in accordance with specifications in "Discharge to Water" section of EPA Publication 1322 'Licence Management Guidelines'.	Yes
	DW3	The mixing zone extends as defined in the licence.	Yes
	DW4	You must install and maintain signage at the discharge point showing, (a) the extent of the mixing zone, (b) your name, (c) the EPA licence number, and (d) the discharge point number.	Yes
Land Discharges	DL1	You must not contaminate land or groundwater.	Yes
	DL2	Discharge of wastewater to land must not adversely affect the land.	Yes
	DL4	Deposit of biosolids to land must not adversely affect the land.	Yes

Note 1: The Wonthaggi Waste Water Treatment Plant breached licence condition A1 when an odour complaint was received in November 2016. The odour was verified as originating from the premises, and was caused by a combination of desludging of the primary lagoon, along with failure of the aeration system.

Note 2: The Baxter's Beach wastewater system was non-compliant with licence condition DW2 as the annual mean daily flow limit was exceeded for the year 2016/17. An Ecological Risk Assessment for the discharge is underway, and this will underpin a licence amendment application to be submitted to EPA seeking an increase in the licensed flow rate.

### Improvements in wastewater management implemented during the year included:

- A number of sewerage pumping stations have been upgraded to improve efficiency and reduce the risk of spills from occurring.
- Targeted relining of sewer pipelines has been undertaken to reduce blockages, spills and infiltration in higher risk areas including Inverloch, Toora, Wonthaggi, Leongatha, Welshpool and Port Welshpool.
- Continued improvements to wastewater management systems have been implemented, particularly for monitoring, calibration, documentation and reporting.
- Improvements have been made to the aeration system at the Korumburra Waste Water Treatment Plant with the replacement of the dissolved oxygen monitoring system which has increased aeration efficiency.
- Optimisation of treatment processes and chemical use at the Leongatha and Korumburra Waste Water Treatment Plants.

The Corporation practices are in compliance with the State Environment Protection Policy (Waters of Victoria).

## Treated Effluent

Treated effluent re-use systems are in place at Tarraville, Welshpool, Toora, Inverloch, Waratah Bay, Meeniyan, Leongatha and Korumburra. A total of 136ML (3.5%) of treated effluent was re-used during 2016/17.

South Gippsland Water also transports wastewater from Poowong, Loch and Nyora to South East Water's Lang Lang Recycling Plant for treatment and reuse. Effluent is treated to Class A standard, and the recycled water scheme services industry and agriculture in the Lang Lang, Koo Wee Rup and Nyora areas.

South Gippsland Water continues to seek innovative methods for disposal of effluent for all of its sewerage treatment plants.

## Biosolids

A total of 1,280 tonnes from a stockpile of stored biosolids has been removed from the Biosolids Management Facility at the Leongatha Waste Water Treatment Plant and transferred to the Soil and Organic Recycling Facility at Dutson Downs to be processed for re-use. This comprises 74% of the Corporation's biosolids production for 2016/17.



# Environmental Sustainability

## Corporate Sustainability Strategy

To deliver our vision *"to be widely recognised as an exemplary service provider and valued as an essential contributor to regional development and resource sustainability"*, South Gippsland Water is focused on four key sustainability priorities.

### Water and wastewater services

We will provide water resources to a diverse region for a range of uses and accommodate the impacts of population growth and climate change, this will include identifying alternative water supplies such as recycled water.

### Water and wastewater quality

We will provide a quality product to the region and contribute to public health through the delivery of safe drinking water and the collection and treatment of wastewater.

### Natural environment

We will protect, conserve and enhance our community's natural assets to ensure that our water resources are managed appropriately, to minimise the impact of our operations on the surrounding environment, and protect our natural assets for future generations.

### Greenhouse Gases

We will reduce our greenhouse gas emissions to minimise our contribution to climate change and will be an adaptable business to enable our services to be delivered in a changing climate.

## Environment and Sustainability

South Gippsland Water's Environment and Sustainability Policy defines its commitment to undertaking activities in an environmentally responsible manner, taking into account resource availability, environmental values, legislative obligations, community expectations and "Better Practice" protocols. The Environment and Sustainability Policy forms the basis upon which the Corporation sets its objectives and targets and reflects its commitment to comply with the relevant legal requirements.

## Policy Environmental Management System

South Gippsland Water's commitment to responsible environmental management is also reflected in the Environmental Management System (EMS) which has been certified to the Australian Standard AS/NZS ISO 14001. The role of the EMS is to identify, manage and reduce impacts to the environment from the Corporation's activities.

Some of the key areas of the EMS include:

- *Identifying impacts that the Corporation may be having on the environment*
- *Operational and incident management procedures*
- *Objectives and targets to improve environmental performance*
- *Specification of environmental responsibilities*
- *Continual improvement.*

### Weed Control Program

South Gippsland Water has developed an extensive weed control program for its land. Objectives of managing environmental weeds include to:

- *Maintain indigenous biodiversity, particularly ecosystems of high conservation value*
- *Maintain the viability of threatened species and communities*
- *Promote ecological sustainability and the provision of ecosystem services*
- *Prevent adverse social or economic impacts by taking an integrated approach to management.*

## Sustainable Water Use

South Gippsland Water recognises that with appropriate management, by-products of wastewater treatment (e.g. treated effluent) can be a resource rather than a waste product.

A total of 136ML (3.5%) of recycled water was used for irrigation during 2016/17, with the majority being used on agricultural land, and a small amount for recreation/sporting grounds.

Treated wastewater from South Gippsland Water's Tarraville Waste Water Treatment Plant is piped to an adjacent property for pasture irrigation by a neighboring landholder and a grazier in Cape Paterson uses a portion of the treated wastewater from the Inverloch wastewater system for irrigation.

The Toora Football Club uses treated wastewater from the Toora wastewater system to irrigate the playing surface of the recreation oval. This re-use arrangement has effectively drought-proofed this important community facility.

All treated wastewater from the Waratah Bay Waste Water Treatment Plant is used onsite for pasture irrigation, and occasionally by a neighboring landholder for crop and pasture irrigation.

Following an extensive upgrade of the Leongatha and Korumburra Waste Water Treatment facilities, stand pipes have been installed enabling reuse for applications such as road works and weed control.

The sewerage scheme constructed at Meenyan has incorporated wetlands as the final treatment process. This provides treated effluent to multiple reuse sites within the area including the Stony Creek Football Oval, the Meenyan Football Oval and the Meenyan Golf Course, and provides for irrigation on South Gippsland Water's land surrounding the treatment plant.

A collaborative approach with South East Water sees 100% of effluent from the Poowong, Loch and Nyora Sewerage Scheme treated at the Lang Lang Waste Water Treatment Plant and utilised by industry and agriculture in the Lang Lang, Koo Wee Rup South and Nyora areas.

South Gippsland Water continues to look for further opportunities to establish wastewater re-use schemes where beneficial and cost-effective outcomes can be secured.

The Corporation practices are in compliance with the *Use of Reclaimed Water Guidelines for Environmental Management*.

## Catchment Planning and Protection

South Gippsland Water is responsible for providing statutory and strategic land use planning engagement with municipalities where sewer is not connected, and is a determining referral authority under Section 55 of the *Planning and Environment Act 1987*.

As part of South Gippsland Water's role in declared water supply catchments, we have provided responses to planning permit applications referred from local government under clause 66.02-5 – *'Special Water Supply Catchment'* of the Victorian Planning Provisions and relevant municipal planning schemes.

Where appropriate, responses provide support to local government by recommending conditions to applications for the use and development of privately-owned land in open water supply catchments, so as to ensure minimal impacts on the quality and quantity of water to the environment.

## Regional Catchment Management Strategy

The West Gippsland Regional Catchment Strategy 2013-2019 is the main strategic framework for land, water and biodiversity management in our region. South Gippsland Water continues to support the implementation of the objectives of the strategy and operates in accordance with this strategy and principles thereof.

South Gippsland Water recognises the close link between catchment management and the Corporation's goals to manage and provide environmentally sound, safe, high quality drinking water to its customers. The Corporation regards itself as a key stakeholder in environment and catchment management initiatives and continues to work with the West Gippsland Catchment Management Authority, South Gippsland Landcare and local councils in implementing programs to manage and protect catchment areas.

# Environmental Sustainability

Support has been provided for water quality projects including the regulation of point source discharges in Foster and Little Ruby Creeks and, in conjunction with GippsDairy, programs to reduce sediment and nutrient losses from agricultural land through the Core 4 project. South Gippsland Water has supported riparian fencing and revegetation remediation of gullies and slips through its H2O Grants. There has been ongoing support of programs including the Corner Inlet Connections project and the recognition of significant cultural values of Traditional Land Owners, the Gunaikurnai, Bunurong and Boon Wurrung people.

Statutory planning permits continued to be assessed against the Ministerial Guidelines for planning permits in open potable water supply catchments. South Gippsland Water worked with the South Gippsland, Baw Baw and Wellington Shires in the completion of Municipal Domestic Wastewater Management Plans. The completion of this work resulted in the processing of 36 planning applications within potable water supply catchments.

## Victorian Waterway Management Strategy

The corporation actively works to ensure that compliance with its Bulk Entitlements and Environmental Watering Programs is consistent with the Victorian Waterway Management Strategy and in particular the West Gippsland Waterway Strategy 2014-2022. The corporation supports ecological outcomes from the available passing flows from reservoirs, as well as supporting the economic values of waterways, their community use, participation, advocacy and stewardship in the region's waterways. Planning applications within potable water supply catchments.

## Urban Water Strategy

South Gippsland Water completed a review of its Urban Water Strategy during 2016/17. The detailed strategy document was approved by the Board of Directors and submitted to the Minister for Water.

The 50-year strategy sets out the Corporation's approach for managing the water supply and demand balance to its customers over the next 50 years. Included in the review process are:

- *planning for drought response*
- *financial expenditure*
- *asset management*
- *water quality*
- *wastewater.*

The Urban Water Strategy takes into account regional River Health Strategies and works within sustainable diversion limits for water resource development set by the State Government. The strategy is important in the context of the Gippsland Region Sustainable Water Strategy, which considers the needs of other agricultural water users and the environment.

## Uniform Drought Response Plan

The South Gippsland Water Drought Response Plan (DRP) was prepared in accordance with State Government guidelines during 2011. The DRP is a dynamic document which is periodically refined based on actual drought experience and as more supply system information becomes available.

The requirements specified in the DRP guidelines include:

- *defining the legal and institutional context*
- *describing the supply system and changes since the last drought*
- *setting objectives for drought management*
- *identifying and evaluating drought response options*
- *developing a sequential plan of action*
- *identifying pre-drought activities*
- *evaluating the effectiveness of the DRP post-drought.*

The DRP is due to be reviewed during 2017/18.

## Community Partners in Environment and Sustainability

South Gippsland Water supports local organisations and groups involved in catchment improvement and environmental education. These organisations provide benefits to South Gippsland Water by raising awareness and understanding of water issues and by providing on-ground improvements in our water supply catchments. By supporting these organisations, South Gippsland Water is strengthening partnerships and providing wider benefits to the South Gippsland community.

South Gippsland Water provides financial contributions to groups either by annual sponsorship or on a case-by-case basis.

### Community groups, organisations and activities supported by South Gippsland Water in 2016/17

Name	Activities	Type of Support	
		Financial	In-kind
National Water Week (NWW)	Local primary schools participated in the NWW Poster Competition with all families of participating schools receiving a calendar of posters promoting water conservation and raising awareness about the many and varied water sources	-	\$7,000
Schools Water Efficiency Program (SWEP)	South Gippsland Water will fund Year 2/Year 3 program payments for 20 schools	\$3,000	-
H4O – Help For Water Efficient Organisations Grants	Community grants for water efficiency projects	\$990	-
H2O – Hills To Oceans Grants	Landholder and community grants to improve catchment health and environment	\$2,000	-
Public Water Bottle and Drinking Water Fountains or Water Trailer	Donation of water or loan of portable water bottle refill stations, drinking fountains, or water trailer to community events	-	✓
South Coast Primary Care Water Partnership	A partnership of health and community based organisations that aims to improve health outcomes for local communities by promoting the health benefits of drinking water over sugary beverages	-	✓
Water Audits	Water efficiency audits conducted by the South Gippsland Shire Council Volunteer Program	-	✓

*Fish Creek Kindergarten applied for a H4O grant to install a rainwater tank to service their chicken coup (particularly during staged water restrictions). It will also form the basis for the children to learn about water conservation.*



# Environmental Sustainability

## Biodiversity

South Gippsland Water recognises its responsibility in protecting the biodiversity assets in its areas of operation for the benefit of the region. The Corporation is committed to integrating biodiversity conservation and management into operating and management systems.

Accordingly, South Gippsland Water will:

- integrate social, environmental and economic factors into decision-making and seek to maximise net beneficial outcomes
- apply the precautionary principle in evaluating the decisions and policies we make
- act to conserve or reinstate the biodiversity and ecological integrity of land, aquatic and other natural assets that we manage
- maintain biodiversity registers for land and aquatic systems in the vicinity of our operating areas and take these into account during planning and approval processes
- ensure staff appreciate and respect biodiversity values and recognise their role in protecting biodiversity from detrimental impacts as a result of their work activities
- cooperate with other agencies in the development and implementation of biodiversity conservation initiatives.

South Gippsland Water has developed profiles for all systems that contain a wealth of biodiversity information, including:

- Bioregion designation
- Flora, fauna and threatened species
- Planning scheme zones and overlays

South Gippsland Water is supporting the implementation of the Victorian Government's biodiversity plan, Protecting Victoria's Environment – Biodiversity 2037 by:

- Undertaking environmental risk assessment for all capital works projects to ensure the protection of biodiversity.
- Referral of the Lance Creek Water Connection project under the *Environment Protection and Biodiversity Conservation Act 1999* due to the presence of the endangered Gippsland Giant Earthworm.
- Detailed assessments and management plans developed to avoid impact to the endangered species' *Gippsland Giant Earthworm* and *Eucalyptus strzeleckii* during the Lance Creek Water Connection project.

## Net Energy Consumption

1,248 MJ/ML potable water and 2,227 MJ/ML wastewater.

South Gippsland Water aims to reduce greenhouse gas emissions to minimise its contribution to climate change, and to be an adaptable business in order to enable services to be delivered in a changing climate.

The Corporation has identified around 50 options for energy savings. The key energy efficiency improvement opportunities are:

- Reduction of treatment volumes in wastewater and water treatment
- Efficiency improvement of pumping systems
- Investigating use of the potential energy in water, sun and wind
- Motivation of employees to be efficient with their energy use.

## Greenhouse Gas Emissions

The following table sets out Corporate Greenhouse Gas Emissions and energy consumption for the past five years.

Greenhouse Gas Emissions (tonnes of CO <sub>2</sub> equivalent)							
Performance Indicator	2012/13	2013/14	2014/15	2015/16	2016/17	% Variance	Commentary
Water treatment and supply	2,133	1,664	2,058	2,268	2,136	-5.8%	Less water treated in 2016/17 compared to 2015/16
Sewerage treatment and management	4,550	4,421	4,673	4,251	5,049	+18.7%	More wastewater treated in 2016/17 compared to 2015/16. Increase in Scope 1 emissions (methane and nitrous oxide)
Transport	703	652	523	698	698	0%	
Other activities	165	135	157	168	161	-4.5%	Lower electricity and gas consumption for offices and depots in 2016/17 compared to 2015/16
Offsets	0	0	0	0	0	0%	
Total	7,551	6,872	7,411	7,385	8,044	+8.9%	Increase in total emissions due to more Scope 1 emissions from wastewater treatment

Energy Consumption (kWh/ML)							
Performance Indicator	2012/13	2013/14	2014/15	2015/16	2016/17	% Variance	Commentary
Water treatment and supply	297.2	240	298.7	345.5	346.8	+0.4%	
Sewerage treatment and management	670	499.5	669.9	655.7	618.6	-5.6%	Better efficiency due to more wastewater treated in 2016/17 compared to 2015/16.

Energy Generation (MWh)							
Performance Indicator	2012/13	2013/14	2014/15	2015/16	2016/17	% Variance	Commentary
Water treatment and supply	-	-	-	-	-	-	
Sewerage treatment and management	-	-	-	-	20	N/A	New solar system at Wonthaggi WWTP
Other	31.7	46.4	46.4	46.4	46.4	0%	Solar systems at Toora depot, Korumburra depot, Leongatha depot and Wonthaggi depot

# Summary of Major Projects 2016/17

The following table summarises the major projects undertaken by South Gippsland Water during 2016/17, and the progress or results at the end of the financial year.

SOUTH GIPPSLAND WATER - MAJOR PROJECTS		
Reason	Description	Result / Progress
<b>Poowong, Loch &amp; Nyora Sewerage Scheme</b> South Gippsland Water's region has a number of small towns without adequate wastewater management facilities. Unsuitable soil types and smaller size allotments mean that current septic systems are unable to retain effluent on these individual allotments. In many locations, grey water finds its way directly to the street drainage system with resultant health, environment and amenity issues.	A pressure sewer system installed in each town. A main pump station in each town transfers wastewater to Nyora and then to the existing South East Water (SEW) Lang Lang WWTP. Individual pumps installed on each property. The Transfer System has a capacity of the equivalent to 2,000 residential properties.	The sewer scheme construction is now complete with 435 properties connected to the system.
<b>Water Renewals/Replacement</b> To rehabilitate/replace inefficient water mains.	Water main replacement program based on established priorities with the Operations Group. Works include the progressive replacement of asbestos cement (AC) pipes installed up to the 1970s.	Ongoing replacement of troublesome water mains within South Gippsland Water's region. Approximately 2.7km of water mains, including trunk mains were replaced over the year.
<b>Reticulation Sewer Rehabilitation/Infiltration Curtailment/Relining</b> To rehabilitate/reline inefficient sewer mains. Identify troublesome reticulation pipeline locations with increased groundwater infiltration and stormwater inflows.	Reticulation sewer rehabilitation/ replacement works including pipeline replacement/relining and manhole repairs/ replacement based on established priorities with the Operations Group.	Ongoing rehabilitation/replacement of ageing, cracked and broken reticulation sewer pipelines and manholes. Approximately 100 property connections were relined over the year. Ongoing infiltration and inflow program deployed to identify illegal connections, entry points of groundwater infiltration and stormwater inflows. 5km of sewer had CCTV works completed in preparation for future works.
<b>Wonthaggi Sewer System Upgrades</b> Implementation of overall upgrading/ augmentation strategy is required to address the existing system capacity deficiencies associated with the Wonthaggi Sewer Reticulation System and to cater for the rapid escalating current and future development within the township.	A staged improvement implementation program over a 50 year horizon for augmenting the Wonthaggi Sewer Reticulation System based on the hydraulic model analysis, flow survey data and comparative risk assessments for existing system capacities.	Approximately 250m of sewer was upgraded in Wonthaggi. Planning and Design has been undertaken for future stages of works.
<b>Lance Creek Water Connection Project – Lance Creek to Korumburra and Korumburra to Poowong</b> Connection of existing Korumburra and Little Bass Water Supply systems to the Lance Creek Reservoir and Melbourne Supply System Pipeline.	Installation of water supply trunk main and pumping stations from Lance Creek to Korumburra and Poowong, Loch and Nyora.	Detailed design and preparation of tender documents for supply and construction contracts was completed in 2016. Tenders were evaluated and contracts negotiated during the first half of 2017 with letters of acceptance for the contracts issued in June 2017. Construction is due to start in September 2017 with completion expected early in 2019. To facilitate the pipeline construction, consultation and negotiation with the owners of private land affected by the pipeline has progressed. Access to the entire pipeline easement will be available from September 2017 and, at the time of writing, easement compensation agreements have been settled with 75% of the affected landowners.
<b>Inverloch Sewer System Upgrades</b> Implementation of overall upgrading/ augmentation strategy is required to address the existing capacity deficiencies associated with the Inverloch Sewer Reticulation System and to cater for the rapid escalating current and future development within the township.	A staged improvement implementation program over a 50 year horizon for augmenting the Inverloch Sewer Reticulation System based on the hydraulic model analysis, flow survey data and comparative risk assessments.	150m of the trunk sewer main in Inverloch was upgraded. Another stage of works has commenced consisting of 300m of sewer.
<b>Korumburra Water Main</b> To rehabilitate/replace inefficient and failing water mains.	Water main replacement program based on established priorities with the Operations Group. Works include the progressive replacement of asbestos cement (AC) and concrete pipes.	Detailed design has been completed and construction contract awarded on approximately 500m of transfer pipeline.
<b>Urban Water Strategy</b> Develop plans to meet future water demand to facilitate development of our region in the context of forecast population growth and future climate variability.	The project involved updating water demand and supply plans for the next 50 years. The project involved: <ul style="list-style-type: none"> <li>• a review of growth and demand forecasts</li> <li>• modelling of catchment and storage yield for a range of climate scenarios</li> <li>• development of water supply augmentation options</li> <li>• implementation dates based on forecast demand/yield changes.</li> </ul>	The 50 year supply/demand strategy was a completed based on a number of potential future climate scenarios. The strategy identified that supply augmentation is needed for Leongatha and Fish Creek. The need to purchase an additional Bulk Entitlement for the Greater Yarra / Thompson System was forecast to service our southern and northern towns.
<b>Purchase of Hydraulic Models</b> The business has purchased software so that sewerage and water system planning can be partially self-performed in future years. This will allow for efficient delivery of a core business function.	Hydraulic modelling is an essential component of water supply and sewerage system planning work. It allows planning that balances capacity with whole of life costs to minimise charges to customers. Historically, the business has outsourced all modelling activities. A combination of self-performing with some outsourcing is the most effective way to deliver this service but required the purchase of modelling software.	Models with training were purchased. A modelling plan for water and sewerage systems has been developed based on current system performance, capacity and catchment growth.



# Report of Operations

## Financial Performance

The full year operating result for 2016-17 was a loss before tax of \$5.2M.

Total revenue for the year was \$27.9M being \$1.1M lower than the previous year. The reduction in revenue was attributable to the one off revenue recognition in 2015-16 of \$1.4M for the Poowong Loch Nyora sewer scheme. Customer water usage also declined during the year by \$1.1M due to the cooler summer conditions. Partially offsetting these declines were increases in service charges of \$0.4M and an improvement in developer activity across the region of \$0.8M.

Total expenses for the year increased by \$2.4M to \$33.2M. At 30 June 2016 infrastructure, property, plant and equipment were revalued, as part of the revaluation process an assessment of the remaining useful life of the assets was also conducted. The remaining useful lives of the Corporation's assets were reduced with the effect of increasing the depreciation charge to profit and loss by \$1.8M over the previous year. Following a detailed review of the outstanding customer balances at 30 June 2017, a

further \$0.1M was added to the provision for doubtful debts. While preparing the recent ten year capital expenditure plan, three capital projects currently in Work in Progress, were deferred to the back half of the ten year plan. As a consequence, the feasibility and option study costs held for these three projects were written off to profit and loss at \$0.6M.

Total assets for 2016-17 were \$420.6M compared to \$424.1M in 2015-16. The reduction of \$3.5M resulted mainly from a decline in the infrastructure, property, plant and equipment assets, due to the higher cost of depreciation and asset impairments. This offset the new asset additions for the year by \$2.8M. Borrowing also reduced in line with the lower asset additions for the year and the Corporation received an equity contribution from Government of \$5.5M for the Lance Creek Water Connection project.

Cash on hand at 30 June 2017 was \$0.6M higher than the previous year. Total outstanding borrowings were reduced by \$3.0M during the year funded by the equity contribution of \$5.5M.

### 2016/17 Summary of Financial Results

Financial Result	2016/17 (\$'000)	2015/16 (\$'000)	2014/15 (\$'000)	2013/14 (\$'000)	2012/13 (\$'000)
<b>Profit &amp; Loss - Summary</b>					
Core revenue	25,491	26,156	24,578	24,823	25,386
Developer contributions and gifted assets	1,414	605	2,310	1,981	1,662
Other revenue	1,043	2,288	2,400	950	870
<b>Total revenue</b>	<b>27,948</b>	<b>29,049</b>	<b>29,288</b>	<b>27,754</b>	<b>27,918</b>
Operating expenditure	17,946	18,035	16,848	16,366	16,601
Depreciation and amortisation	11,684	9,311	9,279	9,389	9,284
Finance costs	2,861	2,873	2,561	2,351	2,326
Other	685	603	-	-	-
<b>Total expenditure</b>	<b>33,176</b>	<b>30,822</b>	<b>28,688</b>	<b>28,106</b>	<b>28,211</b>
<b>Net profit before tax</b>	<b>(5,228)</b>	<b>(1,773)</b>	<b>600</b>	<b>(352)</b>	<b>(293)</b>
<b>Balance Sheet - Summary</b>					
Current assets	9,755	10,187	9,253	6,321	8,181
Non-current assets	410,800	413,943	334,536	319,982	298,634
<b>Total assets</b>	<b>420,555</b>	<b>424,130</b>	<b>343,789</b>	<b>326,303</b>	<b>306,815</b>
Current liabilities	9,837	8,945	9,348	11,894	9,203
Non-current liabilities	134,826	141,484	114,175	94,712	71,960
<b>Total liabilities</b>	<b>144,663</b>	<b>150,429</b>	<b>123,523</b>	<b>106,606</b>	<b>81,163</b>
<b>Net Assets</b>	<b>275,892</b>	<b>273,701</b>	<b>220,266</b>	<b>219,697</b>	<b>225,652</b>
Net cash flows from operations	7,996	5,045	6,298	8,443	6,180
Payments for infrastructure, property, plant and equipment	10,124	8,180	18,292	12,471	8,990

### Summary of Financial Performance

Performance Indicator	2016/17	2015/16	2014/15	2013/14	2012/13
Internal financing ratio	81.5%	71.9%	38.4%	68.6%	68.7%
Gearing ratio	12.7%	13.3%	15.8%	12.5%	12.8%
Interest cover (cash) - Times	3.9 Times	2.8 Times	3.9 Times	4.6 Times	3.6 Times
Return on assets	-0.6%	0.3%	0.9%	0.6%	0.7%
Return on equity	-1.4%	-0.4%	0.2%	-0.1%	0.8%
Current ratio - Times	1.2 Times	1.3 Times	1.2 Times	0.6	*

\* New reportable ratio from 1 July 2013

# Water Security for South Gippsland

## Urban Water Strategy

A 50 year water demand and supply strategy has been developed to underpin future expansion, upgrade and renewal projects.

The strategy balances the volume of water available to a forecast demand that will support the region's residential, business and community water needs.

The Urban Water Strategy used detailed analysis of water demand and regional growth to forecast future demand. This analysis included consideration of past and predicted future population growth and regional development. Water demand forecasts were balanced with the available supply from the region's catchments and storages. Supply was forecast based on three climate change scenarios, low impact, medium impact and high impact. Demand and supply forecasts were used to predict the frequency that customers will be subjected to water restrictions. Our customers were consulted on the tolerable frequency of different levels of restrictions and the consensus was for:

- *Stage 1/2 restrictions are imposed one year in ten or less frequently*
- *Stage 3/4 restrictions are imposed one year in fifteen or less frequently.*

Modelling work identified that a number of the region's systems do not meet this level of service, including:

- *Leongatha and Koonwarra - Ruby Creek system*
- *Fish Creek - Battery Creek system*
- *Toora - Agnes River system*
- *Korumburra - Coalition Creek system*
- *Poowong, Loch and Nyora - Little Bass system.*

To improve water security, water supply augmentation options and timing were evaluated for each of the above systems. Augmentation to secure supplies for Korumburra, Poowong, Loch and Nyora is already underway as part of the Lance Creek Water Connection Project (see below). The Urban Water Strategy reinforced the need for urgent water supply augmentation works to secure supplies for these towns. The strategy also predicted when additional Bulk Entitlements would be needed from Melbourne's Greater Yarra and Thompson systems to accommodate growth in all towns connected to the Lance Creek system.

Supply augmentation for Leongatha and Koonwarra is needed and detailed planning and design work will be carried out in the 2018/19 to 2022/23 regulatory period. Although supply doesn't meet the agreed level of service for Fish Creek, it is highly likely that essential renewal work on the treated water main between the dam and township will reduce leakage sufficiently to balance future supply and demand. This renewal work is planned for the forthcoming regulatory period.

The Urban Water Strategy was published following noting by the State Government.

## The Lance Creek Water Connection Project

The Lance Creek Water Connection will secure water supplies for the towns of Korumburra, Poowong, Loch and Nyora for the next 50 years. The project has already connected the Lance Creek Reservoir to the Melbourne Supply System and increased water security for the towns of Wonthaggi, Inverloch and Cape Paterson.

Once complete the project will connect seven towns and over 60% of our region's population to the Lance Creek and Melbourne Supply Systems. Future water supply for the connected towns will be drawn from either Lance Creek Reservoir or South Gippsland Water's Bulk Entitlement for water from the Greater Yarra / Thompson River System.

The project was designed to provide water security to the region at the lowest possible cost to customers.

## Project Progress

Over the past year progress has been made in three key areas:

- *completion of detailed design*
- *tendering and award of contracts for delivery of the project infrastructure*
- *the acquisition of easements through privately owned and Crown land affected by the project.*

Design work in the past year has focused on finalising details of project's infrastructure such as pump stations and pipelines. Design changes have been made based on suggestions from expert engineering design contractors, our internal delivery team and suggestions and requests from landholders. In December 2016 contracts for supply of materials and construction of the project infrastructure were tendered. Contractor response to the tenders was enthusiastic and 20 competitive bids were received for the work. Letters of acceptance were issued in June 2017 with all the construction work awarded to Victorian companies.

The project involves construction of about 30km of buried pipeline and this will largely be installed along fence lines in privately owned property. About 40 landholders are being affected. Development of easements through the properties has been underway over the past year and about 75% of the easements have been created and compensation settled at the time of writing.

## Project Activities Planned for the Forthcoming Years

Construction of the project infrastructure will largely happen during the 2017/18 financial year with completion expected in early 2019. The project team will be working on a number of different fronts; construction of the new pump stations at Lance Creek and Korumburra, pipeline construction and rectification work on affected properties.

After the new pump station and pipelines are complete, work will begin on decommissioning of Korumburra and Poowong Water Treatment Plants. Significant planning, consultation and design work is planned for the period 2018/19 to 2022/23 for the repurposing or decommissioning of two of the three dams near Korumburra and the dam that serves Poowong, Loch and Nyora.



*Geotechnical survey work and a range of other assessments have guided the design and alignment of the Lance Creek Water Connection pipeline.*

# Financial Report

For The Year Ended 30 June 2017

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# Comprehensive Operating Statement

For the Financial Year Ended 30 June 2017

	Notes	2017 \$'000	2016 \$'000
<b>Revenue</b>			
Service Charges	2.2.1	14,649	14,218
Usage Charges	2.2.1	10,842	11,938
Interest Income	2.2.2	119	71
Developer Contributions	2.2.3	1,414	605
Net Gain / Loss on Disposal of Non Financial Assets	4.1.4	64	(98)
Other Income	2.2.4	860	2,315
<b>Total Revenue</b>		<b>27,948</b>	<b>29,049</b>
<b>Expenses</b>			
Interest Expense	6.1.2	2,861	2,873
Depreciation and Impairment Expense	4.1.1	11,400	8,875
Amortisation Expense	4.1.1	284	436
Environmental Contribution	8.2	1,101	1,101
Employee Benefits	3.2.1	9,311	8,976
Direct Operational Expenses	3.3	4,588	5,500
Other Expenses	3.4	3,631	3,061
<b>Total Expenses</b>		<b>33,176</b>	<b>30,822</b>
Net Result before Income Tax Equivalents Expense		(5,228)	(1,773)
Income Tax Equivalents Expense / (Benefit)	8.1.1	(1,245)	(875)
<b>Net Result for the period</b>		<b>(3,983)</b>	<b>(898)</b>
<b>Other Comprehensive Income</b>			
<i>Items that will not be reclassified to profit or loss</i>			
Net gain on revaluation of land, buildings and infrastructure		-	77,619
Income tax relating to other comprehensive income	8.1.2	674	(23,286)
<b>Total Other Comprehensive Income for the Period</b>		<b>674</b>	<b>54,333</b>
<b>Comprehensive Result</b>		<b>(3,309)</b>	<b>53,435</b>

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



# Balance Sheet

As at 30 June 2017

	Notes	2017 \$'000	2016 \$'000
<b>Current Assets</b>			
Cash and Cash Equivalents	6.2	5,125	4,497
Receivables	5.1	1,762	2,582
Inventories	5.3	583	499
Other non financial assets	5.5	430	324
Other Financial Assets	5.4	1,855	2,285
<b>Total Current Assets</b>		<b>9,755</b>	<b>10,187</b>
<b>Non-current Assets</b>			
Receivables	5.1	464	523
Infrastructure, Property, Plant and Equipment	4.1	385,365	388,439
Intangibles	4.2	3,466	3,721
Deferred Tax Assets	8.1.2	21,505	21,260
<b>Total Non-current Assets</b>		<b>410,800</b>	<b>413,943</b>
<b>Total Assets</b>		<b>420,555</b>	<b>424,130</b>
<b>Current Liabilities</b>			
Payables	5.2	3,423	4,710
Interest Bearing Liabilities	6.1	3,880	1,899
Employee Benefits	3.2.2	2,482	2,286
Other		52	50
<b>Total Current Liabilities</b>		<b>9,837</b>	<b>8,945</b>
<b>Non-current Liabilities</b>			
Interest Bearing Liabilities	6.1	49,420	54,400
Employee Benefits	3.2.2	285	289
Deferred Tax Liabilities	8.1.2	85,121	86,795
<b>Total Non-current Liabilities</b>		<b>134,826</b>	<b>141,484</b>
<b>Total Liabilities</b>		<b>144,663</b>	<b>150,429</b>
<b>Net Assets</b>		<b>275,892</b>	<b>273,701</b>
<b>Equity</b>			
Contributed Capital	9.1.1	70,833	65,333
Asset Revaluation Reserve	9.1.2	142,174	141,500
Accumulated Surplus	9.1.3	62,885	66,868
<b>Total Equity</b>		<b>275,892</b>	<b>273,701</b>

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

# Statement of Cash Flows

For the Financial Year Ended 30 June 2017

	Notes	2017 \$'000	2016 \$'000
<b>Cash Flows from Operating Activities</b>			
Receipts from Customers		26,366	26,647
Receipts from Other Sources		1,659	1,246
Payments to Suppliers and Employees		(18,049)	(20,779)
Net Goods and Services Tax Received from ATO <sup>1</sup>		1,924	1,873
Interest Received		66	28
Interest Paid		(2,869)	(2,869)
Environmental Contribution Levy Paid		(1,101)	(1,101)
<b>Net Cash Inflow from Operating Activities</b>	6.2.1	<b>7,996</b>	<b>5,045</b>
<b>Cash Flows from Investing Activities</b>			
Payments for Infrastructure, Property, Plant and Equipment		(10,124)	(8,180)
Payments for Intangible Assets		(65)	(94)
Proceeds from Sale of Infrastructure, Property, Plant and Equipment		372	1,259
<b>Net Cash (Outflow) from Investing Activities</b>		<b>(9,817)</b>	<b>(7,015)</b>
<b>Cash Flows from Financing Activities</b>			
Proceeds from Borrowings		700	7,899
Repayment of Borrowings		(3,699)	(5,899)
Proceeds from Contributions by State in its Capacity as Owner		5,500	-
Net Movements in Contractor Deposits		(52)	(196)
<b>Net Cash Inflow from Financing Activities</b>		<b>2,449</b>	<b>1,804</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>		<b>628</b>	<b>(166)</b>
<b>Cash and Cash Equivalents at the Beginning of the Year</b>		<b>4,497</b>	<b>4,663</b>
<b>Cash and Cash Equivalents at the End of the Year</b>	6.2	<b>5,125</b>	<b>4,497</b>

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

<sup>1</sup>Goods and Services Tax received from the ATO is expressed net of the amount payable and receivable.

## Statement of Changes in Equity

For the Financial Year Ended 30 June 2017

	Notes	Contributed Capital \$'000	Asset Revaluation Reserve \$'000	Accumulated Surplus \$'000	Total Equity \$'000
<b>Balance as at 1 July 2015</b>		<b>65,333</b>	<b>87,167</b>	<b>67,766</b>	<b>220,266</b>
Total Comprehensive Income for the Year (net of tax)		-	-	(898)	(898)
Infrastructure Revaluation Adjustments					-
Revaluation of Land (net of tax)	4.1.3	-	2,023	-	2,023
Revaluation of Buildings (net of tax)	4.1.3	-	(356)	-	(356)
Revaluation of Infrastructure (net of tax)	4.1.3	-	52,666	-	52,666
Total Comprehensive Income for the Year (net of tax and revaluations)		-	54,333	(898)	53,435
<b>Balance as at 30 June 2016</b>		<b>65,333</b>	<b>141,500</b>	<b>66,868</b>	<b>273,701</b>
Total Comprehensive Income for the Year					
Transfers from Accumulated Surplus	9.1.3	-	-	(3,983)	(3,983)
Other Comprehensive Income net of tax		-	674	-	674
Transfer from Accumulated Surplus		-	-		-
Transactions With the State in its Capacity as Owner					
Contributed Equity	9.1.1, 9.6	5,500	-	-	5,500
<b>Balance as at 30 June 2017</b>		<b>70,833</b>	<b>142,174</b>	<b>62,885</b>	<b>275,892</b>

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

## NOTE 1. ABOUT THIS REPORT

### Basis of accounting

The financial report includes separate financial statements for South Gippsland Region Water Corporation (the Corporation) as an individual reporting entity. This financial report is a general purpose financial report, that consists of a Comprehensive Operating Statement, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement and notes accompanying these statements for the period ending 30 June 2017. The general purpose financial report has been prepared in accordance with Australian Accounting Standards (AASs), Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board, and the requirements of the *Financial Management Act 1994* and applicable Ministerial Directions. The Corporation is a not for-profit entity for the purpose of preparing the financial statements.

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

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

The annual financial statements were authorised for issue by the Board on **12th September 2017**.

The principal address is:

South Gippsland Region Water Corporation

14 - 18 Pioneer Street

Foster Vic 3960

### Accounting policies

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

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

Where appropriate, comparative figures have been amended to align with current presentation and disclosure, and a third balance sheet and related notes have been added to present the impact on adoption.

### Functional and presentation currency

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

### Classification between current and non-current

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

### Rounding

Unless otherwise stated, amounts in the report have been rounded to the nearest thousand dollars. Figures in the financial statements may not equate due to rounding.

### Historical cost convention

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

### Accounting estimates

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

- *The fair value of land, buildings, infrastructure, plant and equipment (Note 7.3)*
- *Estimation of useful life (Note 4.1)*
- *Impairment of assets (Note 4.1)*
- *Deferred tax assets and liabilities (Note 8.1.2)*
- *Accruals for revenue (Note 5.4) and expenses (Note 5.2)*
- *Employee benefit provisions (Note 3.2)*
- *Actuarial assumptions for employee benefit provisions based on likely tenure of existing staff, patterns of leave claims, future salary movements and future discount rates (refer to (Note 3.2)).*

### Financial statement presentation

The Corporation has applied the revised AASB 101 *Presentation of Financial Statements* which became effective for periods beginning on or after, 1 July 2014, and AASB 1054 Australian Additional Disclosures which became effective for reporting periods beginning on, or after 1 July 2014.

To improve the consistency and quality of water industry financial reporting the 2016/17 South Gippsland Water Financial Statements have been updated in a streamlined format, consistent with the new format adopted for 2016/17 by all government departments. No significant reclassifications or presentations have occurred since the 2015/16 financial statements.



**NOTE 2. FUNDING DELIVERY OF OUR SERVICES**

This note provides additional information about how the Corporation is funded and the accounting policies that are relevant for an understanding of the items recognised in the financial statements.

To enable the Corporation to fulfil its objectives under the *Water Act 1989* (to supply water and wastewater), it receives income predominately from customers for the supply of water and wastewater services.

**Structure**

- 2.1 Summary of income that funds the delivery of our services
- 2.2 Income from transactions
  - 2.2.1 Service and usage charges
  - 2.2.2 Interest
  - 2.2.3 Developer contributions
  - 2.2.4 Other income

**Details**

2.1 Summary of income that funds the delivery of our services	2017 \$'000	2016 \$'000
<b>Revenue</b>		
Service Charges	14,649	14,218
Usage Charges	10,842	11,938
Interest Income	119	71
Developer Contributions		
- Fee income	711	359
- Assets received from developers	703	246
Other Income	860	2,315
<b>Total</b>	<b>27,884</b>	<b>29,147</b>

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

**2.2 Income from transactions****2.2.1 Service and usage charges**

Service charges		
- Water service charges	5,990	5,969
- Wastewater service charges	8,444	7,975
- Trade waste service charges	215	274
<b>Total</b>	<b>14,649</b>	<b>14,218</b>
Usage charges		
- Water usage charges	8,157	9,111
- Wastewater usage charges	287	437
- Trade waste usage charges	2,398	2,390
<b>Total</b>	<b>10,842</b>	<b>11,938</b>

Service charges are recognised as revenue when levied or determined. Major trade waste charges are recognised as revenue at the end of the service delivery period. Volume meters are read and appropriate charges levied as per the trade waste agreements. The meters are read on a cyclical basis with accounts sent on a four monthly basis.

Water, wastewater and tradewaste usage charges by measure are recognised as revenue when the water is provided. Meter readings are undertaken progressively during the year. An estimation, calculated by multiplying the number of days since the last reading by each customer's average service usage, is made at the end of each accounting period in respect of meters which have not been read at balance date.

## NOTE 2. FUNDING DELIVERY OF OUR SERVICES (CONTINUED)

	2017 \$'000	2016 \$'000
<b>2.2.2 Interest income</b>		
Interest from customers	46	44
Interest from financial institutions	73	27
<b>Total</b>	<b>119</b>	<b>71</b>

Interest income is recognised using the effective interest rate method, in the period in which it is incurred.

<b>2.2.3 Developer contributions</b>		
Fee income	711	359
Developer contributed assets	703	246
<b>Total</b>	<b>1,414</b>	<b>605</b>

Water and wastewater infrastructure assets built by developers in new land subdivisions that on completion are provided to the Corporation or 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.

Developer contributed assets are recognised on the issue by the Corporation of the relevant declaration of serviced areas. The value of these assets is based on fair value. Fair value is based on a replacement cost matrix that allows for various asset types, locations and depths (pipes). The fair value of these assets is recognised as revenue in the accounts when the Corporation gains control of the assets, irrespective of whether restrictions or conditions are imposed over the use of the contributions.

<b>2.2.4 Other Income</b>		
Sundry fees and charges - customers	510	1,851
Other sundry income	350	464
<b>Total</b>	<b>860</b>	<b>2,315</b>

Sundry fees and charges to customers included services such as Information Statements, Water Meter Tapping and Inspections, which are recognised as revenue as levied or determined.

Other sundry income includes non-regulated income such as rent and other reimbursements for services provided which is applied as determined for the period.

## NOTE 3. THE COST OF DELIVERING SERVICES

This note 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.

<b>Structure</b>	
3.1 Expenses incurred in delivery of services	
3.2 Our people	
3.2.1 Employee benefits - Comprehensive Operating Statement	
3.2.2 Employee benefits - Balance Sheet	
3.2.3 Superannuation	
3.3 Direct operational expenses	
3.4 Other operating expenses	

<b>3.1 Expenses incurred in delivery of services</b>	<b>2017 \$'000</b>	<b>2016 \$'000</b>
Employee benefit expenses	9,311	8,976
Direct operational expenses	4,588	5,500
Other operating expenses	4,215	3,061
<b>Total</b>	<b>18,114</b>	<b>17,537</b>
<b>3.2 Our people</b>		
<b>3.2.1 Employee benefits - Comprehensive Operating Statement</b>		
Salaries and Wages	6,958	6,704
Annual Leave Benefits	715	653
Long Service Leave Benefits	166	272
Superannuation Contributions	626	616
Other Employee Costs	846	731
<b>Total</b>	<b>9,311</b>	<b>8,976</b>

**NOTE 3. THE COST OF DELIVERING SERVICES (CONTINUED)**

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

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

**3.2.2 Employee benefits - Balance Sheet**

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

	2017 \$'000	2016 \$'000
<b>Current</b>		
Provision for Employee Benefits		
Rostered Days Off	79	63
<i>Annual Leave</i>		
Unconditional and expected to settle within 12 months	761	694
Unconditional and expected to settle after 12 months	63	20
<i>Long Service Leave</i>		
Unconditional and expected to settle within 12 months	103	125
Unconditional and expected to settle after 12 months	1,195	1,064
	<u>2,201</u>	<u>1,966</u>
Provision for On-costs		
Unconditional and expected to be settled within 12 months	91	118
Unconditional and expected to be settled after 12 months	190	202
	<u>281</u>	<u>320</u>
<b>Total Current Employee Benefits</b>	<u><u>2,482</u></u>	<u><u>2,286</u></u>
<b>Non-current</b>		
Provision for Employee Benefits		
Conditional long service leave, measured at present value	251	256
Provision for On-costs	34	33
<b>Total Non-current Employee Benefits</b>	<u><u>285</u></u>	<u><u>289</u></u>
<b>Total Employee Benefits</b>	<u><u>2,767</u></u>	<u><u>2,575</u></u>
Employee Benefits		
Current Employee Benefits	2,201	1,966
Non-current Employee Benefits	251	256
<b>Total Employee Benefits</b>	<u><u>2,452</u></u>	<u><u>2,222</u></u>
Current On-costs	281	320
Non-current On-costs	34	33
<b>Total On-costs</b>	<u><u>315</u></u>	<u><u>353</u></u>
<b>Total Provisions</b>	<u><u>2,767</u></u>	<u><u>2,575</u></u>
Movement in Provision for On-costs		
Opening balance	353	343
Additional provisions recognised	1	12
Reductions arising from payments	(39)	(2)
<b>Closing balance</b>	<u><u>315</u></u>	<u><u>353</u></u>
Current	281	320
Non-current	34	33
<b>Total</b>	<u><u>315</u></u>	<u><u>353</u></u>

## NOTE 3. THE COST OF DELIVERING SERVICES (CONTINUED)

### 3.2.2 Employee benefits - Balance Sheet (continued)

#### Employee Provisions

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave for services rendered to the reporting date.

##### (i) Annual leave and rostered days off

Liabilities for annual leave and rostered days off, are all recognised in the provision for employee benefits as 'current liabilities', because the Corporation does not have an unconditional right to defer settlements of these liabilities.

Measurement depends on the expectation of the timing of settlement, liabilities for wages and salaries, rostered days off, annual leave and sick leave are measured at:

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

##### (ii) Long Service Leave (LSL)

Liability for LSL is recognised in the provision for employee benefits. Unconditional LSL is disclosed as a current liability, even where the Corporation does not expect to settle the liability within 12 months because it will not have the unconditional right to defer the settlement of the entitlement should an employee take leave within 12 months.

The components of this current LSL liability are measured at:

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

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

Any gain or loss following revaluation of the present value of non-current LSL liability is recognised as a transaction.

##### (iii) On-costs

Employee benefit on-costs, including payroll tax, superannuation and workers compensation, are recognised separately from the provision of employee benefits as they do not represent benefits to employees.

### 3.2.3 Superannuation

South Gippsland Water makes majority of its employer superannuation contributions in respect of its employees to the Local Authorities 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.

#### Accumulation

The Fund's accumulation categories, Vision MySuper/Vision Super Saver, receives 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% required under Superannuation Guarantee legislation (for 2016, this was 9.5%).

#### Defined Benefit

South Gippsland Water does not use defined benefit accounting for its defined benefit obligations under the Fund's Defined Benefit category. This is because the Fund's Defined Benefit category is a pooled multi-employer sponsored plan. There is no proportional split of the defined benefit liabilities, assets or costs between the participating employers 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 South Gippsland Water 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.

#### Funding Arrangements

South Gippsland Water makes employer contributions to the defined benefit category of the Fund at rates determined by the Trustee on the advice of the Fund's Actuary. As at 30 June 2016, an interim 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 South Gippsland Water is a contributing employer was 102.0%. To determine the VBI, the Fund Actuary used the following long-term assumptions:

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



**NOTE 3. THE COST OF DELIVERING SERVICES (CONTINUED)**

Vision Super has advised that the estimated VBI at 30 June 2017 was 103.1%. The VBI is to be used as the primary funding indicator. Because the VBI was above 100%, the 2016 interim actuarial investigation determined the Defined Benefit category was in a satisfactory financial position and that no change was necessary to the Defined Benefit category's funding arrangements from prior years.

**Employer Contributions****Regular contributions**

On the basis of the results of the 2016 interim actuarial investigation conducted by the Fund's Actuary, South Gippsland Water 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% of members' salaries (2016: 9.5%). This rate will increase in line with any increase to the Superannuation Guarantee contribution rate. In addition, South Gippsland Water reimburses the Fund to cover the excess of the benefits paid as a consequence of retrenchment above the funded resignation or retirement benefit.

**Funding calls**

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

In the event that the Fund Actuary determines that there is a shortfall based on the above requirement, the Fund's participating employers (including South Gippsland Water) are required to make an employer contribution to cover the shortfall. Using the agreed methodology, the shortfall amount is apportioned between the participating employers based on the pre-1 July 1993 and post-30 June 1993 service liabilities of the Fund's defined benefit category, together with the employer's payroll at 30 June 1993 and at the date the shortfall has been calculated.

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

If there is a surplus in the Fund, the surplus cannot be returned to the participating employers.

In the event that a participating employer is wound-up, the defined benefit obligations of that employer will be transferred to that employer's successor.

**The 2016 interim actuarial investigation surplus amounts**

The Fund's interim actuarial investigation as at 30 June 2016 identified the following in the Defined Benefit category of which South Gippsland Water is a contributing employer:

- VBI surplus of \$40.3 million; and
- 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. South Gippsland Water was notified of the 30 June 2016 VBI during August 2016.

**The 2017 full triennial actuarial investigation**

A full actuarial investigation is being conducted for the Fund's position as at 30 June 2017. It is anticipated that this actuarial investigation will be completed in December 2017.

**Superannuation contributions**

Contributions by South Gippsland Water (excluding any unfunded liability payments) to the above superannuation plans for the financial year ended 30 June 2017 are detailed below:

Scheme Name	Type of Scheme	Rate 2017	2017 \$'000	Rate 2016	2016 \$'000
Vision Super	Defined Benefits	9.50%	41	9.50%	38
Vision Super	Accumulation	9.50%	422	9.50%	410
Other	Accumulation	9.50%	329	9.50%	168

Total super contributions include additional salary sacrificed amounts reported as salary and wages in Other Employee Costs (Note 3.2.1).

South Gippsland Water was not required to pay for any unfunded liability payments to Vision Super in 2016-17 (2015-16: Nil).

There were no contributions outstanding and no loans issued from or to the above schemes as at 30 June 2017 (2016: Nil).

The expected contributions to be paid to the Defined Benefit category of Vision Super for the year ending 30 June 2018 is \$38,000 (2017: \$39,000).

**NOTE 3. THE COST OF DELIVERING SERVICES (CONTINUED)**

<b>3.3 Direct Operational Expenses</b>	<b>2017</b>	<b>2016</b>
	<b>\$'000</b>	<b>\$'000</b>
Repairs and Maintenance	1,380	1,480
Chemicals	960	1,027
Electricity	786	848
Testing and Sampling	445	498
Other Operational Costs	1,017	1,647
<b>Total</b>	<b>4,588</b>	<b>5,500</b>

**Repairs and Maintenance**

Routine maintenance, repair costs and minor renewal costs are expensed as incurred. Where the repair relates to the replacement of a component of an asset and the cost exceeds the capitalisation threshold (\$1,000 refer note 4), the cost is capitalised and depreciated.

**3.4 Other Operating Expenses**

Administration Expenses	1,864	1,560
Customer Services Expenses	397	215
Training and Travel	238	241
Vehicle and Fleet Costs	447	442
Miscellaneous Expenses	685	603
<b>Total</b>	<b>4,215</b>	<b>3,061</b>

Other operating expenses generally represent the day-to-day running costs incurred in normal operations. Administration, customer services, training and travel, vehicle and fleet and miscellaneous expenses are recognised as an expense in the reporting period in which they are incurred.

**NOTE 4. KEY ASSETS AVAILABLE TO SUPPORT OUTPUT DELIVERY**

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

Structure			
4.1	Infrastructure, property, plant and equipment at carrying amount:		
4.1.1	Depreciation and impairment		
4.1.2	Carrying values by class		
4.1.3	Reconciliation of movements in carrying values of infrastructure, property, plant and equipment		
4.1.4	Net gain/(loss) on disposal of non-current assets		
4.1.5	Capital commitments		
4.2	Intangible assets		
<b>4.1</b>	<b>Infrastructure, property, plant and equipment at carrying amount</b>	<b>2017</b>	<b>2016</b>
		<b>\$'000</b>	<b>\$'000</b>
	Freehold Land		
	At Fair Value	11,909	11,909
		<u>11,909</u>	<u>11,909</u>
	Buildings		
	At Fair Value	1,422	1,308
	Accumulated Depreciation	(76)	(1)
		<u>1,346</u>	<u>1,307</u>
	Water - Infrastructure Assets		
	At Fair Value	214,108	212,085
	Accumulated Depreciation	(5,803)	(8)
		<u>208,305</u>	<u>212,077</u>
	Wastewater - Infrastructure Assets		
	At Fair Value	158,488	155,175
	Accumulated Depreciation	(4,153)	(167)
		<u>154,335</u>	<u>155,008</u>
	Equipment and Motor Vehicles		
	At Fair Value	6,133	5,444
	Accumulated Depreciation	(3,083)	(2,470)
		<u>3,050</u>	<u>2,974</u>
	Work In Progress		
	At Cost	6,420	5,164
		<u>6,420</u>	<u>5,164</u>
	<b>Total</b>	<b>385,365</b>	<b>388,439</b>

**NOTE 4. KEY ASSETS AVAILABLE TO SUPPORT OUTPUT DELIVERY (CONTINUED)****Initial recognition**

Infrastructure, property, plant and equipment represent non-current physical assets comprising land, buildings, water, wastewater infrastructure, equipment and motor vehicles, used by the Corporation in its operations. Items with a cost or value in excess of the Corporation's asset capitalisation threshold (\$1,000) and a useful life of more than one year are recognised as an asset. All other assets acquired are expensed. Items of infrastructure, property, plant and equipment, are measured initially at cost and subsequently revalued at fair value less accumulated depreciation and impairment. Where an asset is acquired for no or nominal cost, the cost is its fair value at the date of acquisition.

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

**Subsequent measurement**

Infrastructure, property, plant and equipment are subsequently measured at fair value less accumulated depreciation and impairment. Fair value is determined with regard to the asset's highest and best use (considering legal or physical restrictions imposed on the asset, public announcements or commitments made in relation to the intended use of the asset). Refer to Note 7.3.2 for fair value disclosures. Infrastructure, property, plant and equipment are measured at fair value based on depreciated replacement cost, as there is no evidence that a reliable market based fair value exist for these assets.

**Revaluation of infrastructure property plant and equipment**

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

Revaluation increments are credited directly to equity in the asset revaluation reserve, except that, to the extent that an increment reverses a revaluation decrement in respect of the same asset previously recognised as an expense in the net result, the increment is recognised as revenue in determining the net result. Revaluation decrements are recognised immediately as an expense in the net result, except that, to the extent that a credit balance exists in the asset revaluation reserve in respect of the same asset, they are debited to the asset revaluation reserve.

**4.1.1 Depreciation and impairment**

Charge for the period	2017 \$'000	2016 \$'000
Buildings	76	96
Water Infrastructure	4,757	3,378
Wastewater infrastructure	3,986	3,643
Water headworks	1,038	659
Motor vehicles	519	622
Furniture and equipment	40	57
IT and IT equipment	290	315
Plant and equipment	110	105
Asset Impairment	584	-
<b>Total</b>	<b>11,400</b>	<b>8,875</b>

All infrastructure assets, buildings, plant and equipment and other non-financial physical assets that have finite useful lives, are depreciated. Where assets have separate identifiable components that have distinct useful lives and/or residual values, a separate depreciation rate is determined for each component. Depreciation is generally calculated on a straight-line basis, at rates that allocate the asset's value, less any estimated residual value, over its estimated useful life, commencing from the time the asset is held ready for use. The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

**NOTE 4. KEY ASSETS AVAILABLE TO SUPPORT OUTPUT DELIVERY (CONTINUED)****4.1.1 Depreciation and impairment (continued)**

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

ASSET	USEFUL LIFE
<b>Corporate</b>	
Buildings	50 years
Furniture and Equipment	10 years
Plant and Machinery	7 -10 years
Motor Vehicle	2 - 4 Years
<b>Water Infrastructure</b>	
Water Harvesting	350 years
Water Quality	10 to 350 years
Mains and Reticulation	40 to 110 years
Pump Stations	18 to 75 years
Water Meters	15 years
<b>Wastewater Infrastructure</b>	
Sewer Collection	50 to 100 years
Pump Stations	10 to 75 years
Sewer Treatment Plants	5 to 350 years

**Indefinite life assets**

Land assets, which are considered to have an indefinite life, are not depreciated. Depreciation is not recognised in respect of these assets because their service potential has not, in any material sense, been consumed during the reporting period.

**Impairment**

Non-financial assets, including items of Infrastructure, Property, Plant and Equipment, are tested for impairment whenever there is an indication that the asset may be impaired. The assets concerned are tested as to whether their carrying value exceeds their recoverable amount. Where an asset's carrying value exceeds its recoverable amount, the difference is written off as an impairment, except to the extent that it can be debited to an asset revaluation surplus amount applicable to that class of asset.

If there is an indication that there has been a reversal in impairment, the carrying amount shall be increased to its recoverable amount. However this reversal should not increase the asset's carrying amount above what would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised in prior years. The recoverable amount for most assets is measured at the higher of depreciated replacement cost and fair value less costs to sell. Recoverable amount for assets held primarily to generate net cash inflows is measured at the higher of the present value of future cash flows expected to be obtained from the asset and fair value less costs to sell.

**4.1.2 Carrying Values by asset class**

	2017 \$'000	2016 \$'000
Land at fair value	11,909	11,909
Buildings at fair value	1,346	1,307
Infrastructure at fair value:		
- Water distribution	109,187	110,865
- Water harvesting and major transfers	69,606	70,624
- Water quality	29,512	30,616
- Sewer collection	99,473	99,444
- Sewer treatment and disposal	54,862	55,535
Plant and equipment at fair value	3,050	2,974
Capital works in progress at fair value	6,420	5,164
<b>Net carrying amount</b>	<b>385,365</b>	<b>388,438</b>



## NOTE 4. KEY ASSETS AVAILABLE TO SUPPORT OUTPUT DELIVERY (CONTINUED)

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

2017 Asset Class \$'000	Opening WDV	Additions	Fair value of assets received free of charge or for nominal consideration	Disposals	Impairment	Transfer	Depreciation	Closing WDV
Land	11,909	-	-	-	-	-	-	11,909
Buildings	1,307	-	-	-	-	115	(76)	1,346
Water distribution	110,865	-	201	-	-	1,415	(3,294)	109,187
Water harvesting and major transfer	70,624	-	-	-	-	83	(1,101)	69,606
Water quality	30,616	-	-	-	-	301	(1,405)	29,512
Sewer collection	99,444	-	502	-	-	2,569	(3,042)	99,473
Sewer treatment and disposal	55,535	-	-	-	-	266	(939)	54,862
Plant equipment and other	2,974	-	-	(274)	-	1,308	(959)	3,050
Capital works in progress	5,164	7,925	-	-	(584)	(6,085)	-	6,420
<b>Total</b>	<b>388,438</b>	<b>7,925</b>	<b>703</b>	<b>(274)</b>	<b>(584)</b>	<b>(28)</b>	<b>(10,816)</b>	<b>385,365</b>

2016 Asset Class \$'000	Opening WDV	Additions	Fair value of assets received free of charge or for nominal consideration	Disposals	Revaluation	Transfer	Depreciation	Closing WDV
Land	10,274	-	-	(1,257)	2,892	-	-	11,909
Buildings	1,882	-	-	-	(511)	32	(96)	1,307
Water distribution	61,570	-	65	-	49,328	1,793	(1,891)	110,865
Water harvesting and major transfer	59,921	-	-	-	11,007	367	(671)	70,624
Water quality	31,667	-	-	-	173	251	(1,475)	30,616
Sewer collection	71,087	99	182	-	12,748	17,319	(1,991)	99,444
Sewer treatment and disposal	54,926	-	-	-	1,982	279	(1,652)	55,535
Plant equipment and other	3,324	-	-	(201)	-	951	(1,099)	2,974
Capital works in progress	15,844	10,312	-	-	-	(20,992)	-	5,164
<b>Total</b>	<b>310,495</b>	<b>10,411</b>	<b>247</b>	<b>(1,458)</b>	<b>77,619</b>	<b>-</b>	<b>(8,875)</b>	<b>388,438</b>

## 4.1.4 Net gain / (loss) on disposal of non-current assets

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

	2017 \$'000	2016 \$'000
Net gain / (loss) on disposal Property, plant and equipment	64	(98)

**NOTE 4. KEY ASSETS AVAILABLE TO SUPPORT OUTPUT DELIVERY (CONTINUED)****4.1.5 Capital commitments**

Capital commitments arise from contracts mainly attributable to the construction of new infrastructure. Otherwise commitments are reported at their nominal value and inclusive of GST.

These future expenditures cease to be disclosed as commitments once the related liabilities are recognised in the Balance Sheet.

	Less than 1 year \$'000	Between 1 - 5 years \$'000	Over 5 years \$'000	Total \$'000
<b>2017</b>				
Buildings	-	-	-	-
Infrastructure	25,115	1,324	-	26,439
Total commitment inclusive of GST	25,115	1,324	-	26,439
Less GST recoverable	(2,115)	(120)	-	(2,235)
<b>Total commitment exclusive of GST</b>	<b>23,000</b>	<b>1,204</b>	<b>-</b>	<b>24,204</b>

	Less than 1 year \$'000	Between 1 - 5 years \$'000	Over 5 years \$'000	Total \$'000
<b>2016</b>				
Buildings	-	-	-	-
Infrastructure	2,705	-	-	2,705
Total commitment inclusive of GST	2,705	-	-	2,705
Less GST recoverable	(271)	-	-	(271)
<b>Total commitment exclusive of GST</b>	<b>2,434</b>	<b>-</b>	<b>-</b>	<b>2,434</b>

**4.2 Intangible Assets**

Intangibles - Movement Reconciliation

	Opening WDV	Additions	Reclass	Transfer	Amortisation	Closing WDV
<b>2016-17</b>						
Software	188	-	-	-	(142)	46
Access rights	2,970	-	-	-	(142)	2,828
Water entitlements	563	-	-	-	-	563
Work in progress	-	82	-	(53)	-	29
<b>Net Book Value as at 30 June 2017</b>	<b>3,721</b>	<b>82</b>	<b>-</b>	<b>(53)</b>	<b>(284)</b>	<b>3,466</b>

	Opening WDV	Additions	Reclass	Transfer	Amortisation	Closing WDV
<b>2015-16</b>						
Software	389	91	-	-	(292)	188
Access rights	3,115	-	-	-	(145)	2,970
Water entitlements	563	-	-	-	-	563
Work in progress	-	-	-	-	-	-
<b>Net Book Value as at 30 June 2016</b>	<b>4,067</b>	<b>91</b>	<b>-</b>	<b>-</b>	<b>(437)</b>	<b>3,721</b>

**Recognition of intangible assets**

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

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

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

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

**NOTE 4. KEY ASSETS AVAILABLE TO SUPPORT OUTPUT DELIVERY (CONTINUED)**

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

Intangible Asset	Water Share Entitlements	Access Rights	Software Costs
Useful lives	Indefinite	Finite	Finite
Amortisation method used	Not amortised or revalued	22 years straight line	3 and 7 years – straight line
Internally generated / acquired	Acquired	Acquired	Internally generated / Acquired
Impairment test / Recoverable amount testing	Tested annually and where an indicator of impairment exists	Amortisation method reviewed at each financial year-end / Reviewed annually for indicators of impairment	Amortisation method reviewed at each financial year-end / Reviewed annually for indicators of impairment

**Permanent Water Entitlements**

Permanent water entitlements purchased after 1 July 2011 are treated as an intangible asset on the Balance Sheet at cost (in accordance with AASB 138 Intangible Assets and FRD 109 Intangible Assets), and will not be subject to amortisation, as the permanent water entitlements have an indefinite life. Permanent entitlements purchased after 1 July 2011 will be tested annually for impairment. Bulk permanent water entitlements prior to 1 July 2011 are not recorded on the Balance Sheet as an intangible asset, as they cannot be reliably measured.

**Access Rights**

The Corporation has a contract to access South East Water's Lang Lang water recycling plant, transfer main and reuse facility, which is amortised over 22 years.

**Amortisation  
Charge for the period**

	2017 \$'000	2016 \$'000
Software	142	292
Access Rights	142	145
<b>Total</b>	<b>284</b>	<b>437</b>

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

**Impairment of intangible assets**

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

The policy in connection with testing for impairment is outlined in Note 5.1.1

**NOTE 5. OTHER ASSETS AND LIABILITIES**

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

**Structure**

5.1	Receivables
5.1.1	Movement in provision for doubtful contractual receivables
5.1.2	Ageing analysis of contractual liabilities
5.1.3	Past due but not impaired trade receivables
5.2	Payables
5.2.1	Ageing analysis of contractual payables
5.3	Inventories
5.4	Other financial assets
5.5	Other non financial assets

**5.1 Receivables**

	2017 \$'000	2016 \$'000
<b>Current</b>		
<b>Contractual</b>		
Trade receivables	1,490	1,522
Provision for doubtful contractual receivables	(101)	(45)
Unbilled water and sewerage income		
Sewer scheme receivables	171	460
<b>Total</b>	<b>1,560</b>	<b>1,937</b>
<b>Statutory</b>		
GST recoverable	202	645
<b>Total current receivables</b>	<b>1,762</b>	<b>2,582</b>
<b>Non-current</b>		
<b>Contractual</b>		
Sewer scheme receivables	510	523
Provision for doubtful contractual receivables	(46)	-
<b>Total</b>	<b>464</b>	<b>523</b>
<b>Total receivables</b>	<b>2,226</b>	<b>3,105</b>

Receivables consist of:

Contractual receivables, classified as financial instruments and categorised as 'loans and receivables'. They are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial measurement they are measured at amortised cost using the effective interest method, less any impairment. Trade receivables are due for settlement no more than 30 days from the date of recognition for water utility debtors, and no more than 30 days for other debtors.

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

**5.1.1 Movements in the provision for doubtful contractual receivables**

As at 30 June 2017, current receivables of the Corporation with a nominal value of \$150,871 were impaired. The amount of the provision was \$101,176. The individually impaired receivables mainly relate to rental and vacated properties. It was assessed that a portion of the receivables is expected to be recovered. Non-current receivables with a nominal value of \$50,600 were impaired. The amount of the provision was \$46,000. The provision is for sewer schemes.



**NOTE 5. OTHER ASSETS AND LIABILITIES (CONTINUED)****5.1.1 Movement in the provision for doubtful contractual receivables (continued)**

	2017 \$'000	2016 \$'000
Balance at beginning of year	45	53
Provision for doubtful recognised during the year	124	34
Receivables written off during the year as uncollectable	(20)	(42)
<b>Balance at end of year</b>	<b>149</b>	<b>45</b>

Collectability of contractual receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful debts is established when there is objective evidence that the Corporation will not be able to collect all amounts due according to the original terms of receivables. In assessing impairment of statutory (non-contractual) financial assets, which are not financial instruments, professional judgement is applied in assessing materiality using estimates, averages and other computational methods in accordance with AASB 136 Impairment of Assets.

A provision is made for estimated irrecoverable amounts from the sale of goods when there is objective evidence that an individual receivable is impaired. The increase in the provision for the year is recognised in the net result. Bad debts considered as written off by mutual consent are classified as a transaction expense. Bad debts not written off, are included in the provision for doubtful debts.

**5.1.2 Ageing analysis of contractual receivables**

The ageing of receivables is as follows:

	2017 \$'000	2016 \$'000
1 to 3 months	474	522
Over 3 months	440	314
<b>Balance at end of year</b>	<b>914</b>	<b>836</b>

There are no material financial assets that are individually determined to be impaired. Interest starts accruing when the amount is due. Thereafter, interest is charged at 5.5 per cent on the outstanding balance. There are no financial assets that have had their terms renegotiated so as to prevent them from being past due or impaired, and they are stated at the carrying amounts as indicated.

**5.1.3 Past due but not impaired trade receivables**

As of 30 June 2017, trade receivables of \$777,000 were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

The ageing analysis of these receivables is as follows:

	2017 \$'000	2016 \$'000
3 to 6 months	128	17
Over 6 months	649	159
<b>Balance at end of year</b>	<b>777</b>	<b>176</b>

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.

**5.2 Payables**

	2017 \$'000	2016 \$'000
<b>Current</b>		
<b>Contractual</b>		
Trade creditors	2,432	1,745
Accrued expenses	582	2,475
Accrued borrowing expense	158	166
Security deposits / retentions	112	164
<b>Total</b>	<b>3,284</b>	<b>4,550</b>
<b>Statutory</b>		
Taxes payable	139	160
<b>Total</b>	<b>3,423</b>	<b>4,710</b>

Payables consist of:

Contractual payables, classified as financial instruments and measured at amortised cost. Trade creditors represent liabilities for goods and services provided to the Corporation prior to the end of the financial year that are unpaid; and Statutory payables, that are recognised and measured similarly to contractual payables, but are not classified as financial instruments and not included in the category of financial liabilities at amortised cost, because they do not arise from contracts.

Payables for supplies and services have an average credit period of 30 days, (2016: 30 days). No interest is charged on the 'other payables'.

**NOTE 5. OTHER ASSETS AND LIABILITIES (CONTINUED)**

## 5.2.1 Ageing analysis of contractual payables

	Less than one month \$'000	1-3 months \$'000	3 months- 1 year \$'000	Over 1 year \$'000	Total \$'000
<b>2017</b>					
Supplies and services	1,883	79	1	-	1,963
Other payables	1,057	-	265	-	1,322
<b>Total</b>	<b>2,939</b>	<b>79</b>	<b>266</b>	<b>-</b>	<b>3,284</b>

	Less than one month \$'000	1-3 months \$'000	3 months- 1 year \$'000	Over 1 year \$'000	Total \$'000
<b>2016</b>					
Supplies and services	1,209	6	3	-	1,218
Other payables	3,002	-	330	-	3,332
<b>Total</b>	<b>4,211</b>	<b>6</b>	<b>333</b>	<b>-</b>	<b>4,550</b>

**5.3 Inventories**

	2017 \$'000	2016 \$'000
Current		
Stores and consumables at cost	583	499
<b>Total</b>	<b>583</b>	<b>499</b>

Inventories comprise stores and materials used in the construction of new works and for the repair and maintenance of existing assets.

**5.4 Other financial assets**

	2017 \$'000	2016 \$'000
Current		
Accrued revenue	1,855	2,285
<b>Total</b>	<b>1,855</b>	<b>2,285</b>

Accrued revenue is an estimation of average water usage of the customer since the last reading of the customer's water meter to the 30th of June 2017.

**5.5 Other non financial assets**

	2017 \$'000	2016 \$'000
Current		
Prepayments	430	324
<b>Total</b>	<b>430</b>	<b>324</b>

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.

**NOTE 6. HOW WE FINANCED OUR OPERATIONS**

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

This section includes disclosures of balances that are financial instruments (such as borrowings and cash balances). Note 7.1 provides additional specific financial instrument disclosures.

**Structure**

- 6.1 Interest bearing liabilities
  - 6.1.1 Maturity analysis of interest bearing liabilities
  - 6.1.2 Interest expense
- 6.2 Cash flow information
  - 6.2.1 Reconciliation of net result to cash flow from operating activities
- 6.3 Commitments for expenditure
- 6.4 Assets pledged as security

**6.1 Interest bearing liabilities**

	2017 \$'000	2016 \$'000
All borrowings have been transacted through Treasury Corporation Victoria (TCV).		
Borrowings:		
Current	3,880	1,899
Non-current	49,420	54,400
<b>Total</b>	<b>53,300</b>	<b>56,299</b>

The borrowings are secured by a guarantee signed by the Treasurer of Victoria in favour of TCV as lender in respect to financial accommodation obtained by the Corporation under Section 8 of the *Borrowings and Investment Powers Act 1987*.

There were no defaults of principal or interest payments on any outstanding loans during the period.

Interest bearing liabilities are initially recognised at the fair value of the consideration received less directly attributable transaction costs incurred. Interest bearing liabilities are subsequently measured at amortised cost. Any difference between the initial amount recognised (net of transaction costs) and the redemption amount is recognised in the Comprehensive Operating Statement over the period of the interest bearing liabilities, using the effective interest method.

Interest bearing liabilities are classified as current liabilities unless the Corporation has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

South Gippsland Water has classified borrowings which mature within 12 months as non-current liabilities on the basis that the entity will and has discretion to refinance or rollover these loans with the Treasury Corporation of Victoria, pursuant to section 8 of the *Borrowings and Investment Powers Act 1987*. Borrowings known as 11am debt are classified as current borrowings.

**6.1.1 Maturity analysis of interest bearing liabilities**

	Carrying Amount \$'000	Nominal Amount \$'000	3 months or less \$'000	3 - 12 months \$'000	1 - 2 years \$'000	2 - 5 years \$'000	> 5 years \$'000
<b>2017</b>							
Borrowings - TCV	53,300	53,300	3,880	4,500	6,000	19,620	19,300
Contractual Payables	3,284	3,284	3,284	-	-	-	-
<b>Total</b>	<b>56,584</b>	<b>56,584</b>	<b>7,164</b>	<b>4,500</b>	<b>6,000</b>	<b>19,620</b>	<b>19,300</b>
<b>2016</b>							
Borrowings - TCV	56,299	56,299	1,899	4,980	4,500	20,120	24,800
Contractual Payables	4,550	4,550	4,550	-	-	-	-
<b>Total</b>	<b>60,849</b>	<b>60,849</b>	<b>6,449</b>	<b>4,980</b>	<b>4,500</b>	<b>20,120</b>	<b>24,800</b>

**6.1.2 Interest expense**

	2017 \$'000	2016 \$'000
Interest expense	2,242	2,248
Financial accommodation levy (FAL)	619	625
<b>Total</b>	<b>2,861</b>	<b>2,873</b>

Interest expense is the cost incurred in connection with the borrowing of funds. Interest expense includes interest on bank overdrafts, short term and long term borrowings. The FAL which is a cost associated with the arrangement of the borrowings from TCV and authorised by the Treasurer of Victoria administered by the Department of Treasury and Finance. Interest expense and the FAL are recognised as expenses in the period in which they are incurred.

**NOTE 6. HOW WE FINANCED OUR OPERATIONS (CONTINUED)****6.2 Cash flow information and balances**

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

	2017	2016
	\$'000	\$'000
Cash at bank and on hand	187	121
Deposits at call - TCV	4,938	4,376
<b>Total</b>	<b>5,125</b>	<b>4,497</b>

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

	Notes	2017	2016
		\$'000	\$'000
<b>Net Loss after Income Tax Equivalents</b>		<b>(3,983)</b>	<b>(898)</b>
<b>Non-Cash Items</b>			
Income Tax Expense	8.1.1	(1,245)	(875)
Depreciation and Amortisation Expense	4.1.1	11,100	9,312
Loss (Profit) on Sale of Non-current Assets	4.1.4	(64)	98
Contributed Assets	2.2.4	(703)	(246)
<b>Provision for Receivables Impairment Expense</b>	5.1.1	104	(8)
Impairment of Non-current Assets	3.5	583	-
<b>Changes in Assets and Liabilities</b>			
(Increase) Decrease in Receivables	5.1	(73)	(28)
(Increase) Decrease in Inventory	5.4	(67)	(81)
(Increase) Decrease in Other Financial Assets	5.5	2,236	(555)
(Increase) Decrease in Prepayments	5.5	(105)	(69)
Increase (Decrease) in Payables	5.2	399	(71)
Increase (Decrease) in Employee Benefits	3.2.2	191	91
Increase (Decrease) in Accrued Expenses	5.2	(377)	(1,625)
<b>Net cash inflows from operating activities</b>		<b>7,996</b>	<b>5,045</b>

**6.3 Commitments for expenditure**

Commitments for future operating expenditure arise from contracts to provide goods or services. Commitments recorded below are at their nominal value and inclusive of GST. These future expenditures cease to be disclosed as commitments once the related liabilities are recognised in the balance sheet.

Please refer to Note 4.1.5 and Note 8.2.1 for details on capital and environmental commitments, respectively.

	2017	2016
	\$'000	\$'000
<b>Operating Lease Commitments Payable <sup>(1)</sup></b>		
Payments within 1 year	4	11
Payments 1 - 5 years	-	7
Payments longer than 5 years	-	-
<b>Total</b>	<b>4</b>	<b>18</b>
<b>Other Commitments Payable</b>		
Payments within 1 year	-	-
Payments 1 - 5 years	-	-
Payments longer than 5 years	-	-
<b>Total</b>	<b>-</b>	<b>-</b>
Total commitments (inclusive of GST)	4	18
Less GST recoverable from the Australian Tax Office	-	2
<b>Total commitments (exclusive of GST)</b>	<b>4</b>	<b>16</b>

*(1) Lease commitments represent payments due on current operating leases for office equipment. The leases are cancellable but incur a penalty of the present value of future lease payments.*

**6.4 Assets pledged as security**

The Corporation has not pledged any assets as security for liabilities or contingent liabilities. 2016: Nil.

**NOTE 7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS**

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

**Structure**

- 7.1 Financial instruments specific disclosures
  - 7.1.1 Financial instruments: categorisation
  - 7.1.2 Financial risk management objectives and policies
- 7.2 Contingent assets and contingent liabilities
- 7.3 Fair value determination
  - 7.3.1 Fair value determination: financial assets and liabilities
  - 7.3.2 Fair value determination: non financial physical assets

**7.1 Financial instruments specific disclosures**

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 (including term 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.*

**Derecognition of financial assets**

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

- *the rights to receive cash flows from the asset have expired*
- *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.



**NOTE 7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)****7.1 Financial instruments specific disclosures (continued)****Impairment of financial assets**

At the end of each reporting period, the Corporation assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. All financial instrument assets, are subject to annual review for impairment. The allowance is the difference between the financial asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. In assessing impairment of statutory (non-contractual) financial assets, which are not financial instruments, professional judgement is applied in assessing materiality using estimates, averages and other computational methods in accordance with AASB 136 Impairment of Assets. Impairment losses are recognised in the Comprehensive Operating Statement.

**7.1.1 Financial instruments: Categorisation**

	2017 Carrying Amount \$'000	2016 Carrying Amount \$'000
<b>Financial Instruments</b>		
<b>Financial Assets</b>		
Cash and cash equivalents	5,125	4,497
Contractual receivables	2,024	2,460
Other financial assets	1,855	2,285
<b>Total Financial Assets</b>	<b>9,004</b>	<b>9,242</b>
<b>Financial Liabilities</b>		
Contractual payables at amortised cost	3,284	4,550
Borrowings at amortised cost	53,300	56,299
<b>Total Financial Liabilities</b>	<b>56,584</b>	<b>60,849</b>

**7.1.2 Financial risk management objectives and policies**

The Corporation's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. As a whole, the Corporation's financial risk management program seeks to manage these risks and the associated volatility of its financial performance. The main purpose in holding financial instruments is to prudentially manage the Corporation's financial risks within the government policy parameters. The Corporation's main financial risks include credit risk, liquidity risk, interest rate risk, with less exposure to foreign currency risk and other price risk.

Risk management is carried out by the Finance and Corporate Services department under policies approved by the Board of Directors. Finance and Corporate Services identifies, evaluates and may hedge financial risks in close co-operation with the Corporation's operating units. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

**Credit risk**

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

The Corporation's exposure to credit risk is influenced by the individual characteristics of each customer. The receivable balance consists of a large number of residential and business customers which are spread across a diverse range of industries. Receivable balances are monitored on an on-going basis to ensure that exposure to bad debts is not significant. The Corporation has in place a policy and procedure for the collection of overdue receivables.

**Credit quality of contractual financial assets that are neither past due nor impaired**

	Financial Institutions \$'000	Government Agency (AAA Credit Rating) \$'000	Other (Minimum BBB Credit Rating) \$'000	Total \$'000
<b>2017</b>				
Cash and cash equivalent	187	4,938	-	5,125
Contractual receivables	-	-	2,024	2,024
Other financial assets	-	-	1,855	1,855
<b>Total</b>	<b>187</b>	<b>4,938</b>	<b>3,879</b>	<b>9,004</b>

	Financial Institutions \$'000	Government Agency (AAA Credit Rating) \$'000	Other (Minimum BBB Credit Rating) \$'000	Total \$'000
<b>2016</b>				
Cash and cash equivalent	121	4,376	-	4,497
Contractual receivables	-	-	2,460	2,460
Other financial assets	-	-	2,285	2,285
<b>Total</b>	<b>121</b>	<b>4,376</b>	<b>4,745</b>	<b>9,242</b>

**NOTE 7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)****Liquidity risk**

Liquidity risk arises from being unable to meet financial obligations as they fall due. The Corporation's policy is to settle financial obligations within 30 days and in the event of dispute make payments within 30 days from the date of resolution.

The Corporation manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecasts and actual cash flows and matching the maturity profiles of financial assets and financial liabilities.

**Market risk**

Market risk is the risk that changes in market prices will affect the fair value or future cash flows of the Corporation's financial instruments. Market risk comprises of interest rate risk, foreign exchange risk and other price risk. The Corporation's exposure to market risk is primarily though interest rate risk, there is insignificant exposure to foreign exchange risk and insignificant exposure to other price risks.

Objectives, policies and processes used to manage these risks are disclosed in the paragraphs below:

**(a) Interest rate risk**

The Corporation minimises its exposure to interest rate changes on its long term borrowings by holding a mix of fixed and floating rate debt. Debt is sourced from Treasury Corporation Victoria and is managed within a range of Board approved limits with debt levels and interest rates being monitored regularly. The Corporation manages its debt and interest rate risk within the ranges set using the Treasury Management Guidelines set by the Audit and Risk Management Committee and approved by the Board.

The Corporation has minimal exposure to interest rate risk through its holding of cash assets and other financial assets. The Corporation may hold cash investment accounts with TCV, usually for a short term ahead of a planned repayment of a maturing term loan. These investments are normally made on a variable rate basis.

**(b) Foreign exchange risk**

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

**(c) Other price risk**

The Corporation has no significant exposure to other price risks.

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.

**Interest rate exposure of financial instruments**

	Variable Interest Rate \$'000	Fixed Interest Rate \$'000	Non-interest Bearing \$'000	Total Carrying Amount \$'000	Weighted Average Interest Rate %
<b>2017</b>					
<b>Financial Assets</b>					
Cash at Bank	5,125	-	-	5,125	0.15%
Contractual Receivables	681	-	1,343	2,024	-
Other Financial Assets	-	-	1,855	1,855	-
<b>Total</b>	<b>5,125</b>	<b>-</b>	<b>3,879</b>	<b>9,004</b>	<b>-</b>
<b>Financial Liabilities</b>					
Borrowings - TCV	3,880	49,420	-	53,300	4.13%
Contractual Payables	-	-	3,284	3,284	-
<b>Total</b>	<b>3,880</b>	<b>49,420</b>	<b>3,284</b>	<b>56,584</b>	<b>-</b>
<b>Net Financial (Liabilities) Assets</b>	<b>1,245</b>	<b>(49,420)</b>	<b>595</b>	<b>(47,580)</b>	<b>-</b>
<b>2016</b>					
<b>Financial Assets</b>					
Cash at Bank	4,497	-	-	4,497	0.40%
Contractual Receivables	983	-	2,122	3,105	-
Other Financial Assets	-	-	2,285	2,285	-
<b>Total</b>	<b>4,497</b>	<b>-</b>	<b>5,390</b>	<b>9,887</b>	<b>-</b>
<b>Financial Liabilities</b>					
Borrowings - TCV	1,899	54,400	-	56,299	3.40%
Contractual Payables	-	-	4,550	4,550	-
<b>Total</b>	<b>1,899</b>	<b>54,400</b>	<b>4,550</b>	<b>60,849</b>	<b>-</b>
<b>Net Financial (Liabilities) Assets</b>	<b>2,598</b>	<b>(54,400)</b>	<b>840</b>	<b>(50,962)</b>	<b>-</b>

## NOTE 7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

## Interest rate sensitivity

	Carrying Amount \$ 000	Net Result (-100) basis points \$ 000	Equity (-100) basis points \$ 000	Net Result (+100) basis points \$ 000	Equity (+100) basis points \$ 000
<b>2017</b>					
Cash and Cash Equivalents	5,125	(36)	(36)	36	36
Interest Bearing Liabilities -Variable	3,880	27	27	(27)	(27)
<b>Total</b>	<b>9,005</b>	<b>(9)</b>	<b>(9)</b>	<b>9</b>	<b>9</b>
<b>2016</b>					
Cash and Cash Equivalents	4,497	(31)	(31)	31	31
Interest Bearing Liabilities -Variable	1,899	13	13	(13)	(13)
<b>Total</b>	<b>6,396</b>	<b>(18)</b>	<b>(18)</b>	<b>18</b>	<b>18</b>

**7.2 Contingent assets and contingent liabilities**

Contingent assets and contingent liabilities are not recognised in the Balance Sheet but are disclosed and, if quantifiable are measured at nominal value. The Corporation was not aware of any contingent assets or contingent liabilities at the time of finalising the financial report (2016: \$Nil).

**7.3 Fair value determination**

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

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

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

**Fair value hierarchy**

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

**Level 1** - 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** - 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 of input that is significant to the fair value measurement is unobservable.

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

**7.3.1 Fair value determination - 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.

With the exception of borrowings, the Corporation currently holds a range of financial instruments that are recorded in the financial statements where the carrying amounts are a reasonable approximation of fair value, either due to their short-term nature or with the expectation that they will be paid in full by the end of the 2017-18 reporting period.

These financial instruments include:

Financial Assets	Financial Liabilities
Cash and deposits	Contractual payables
Contractual receivables	
Other financial assets	

Due to the short-term nature of the financial assets and liabilities held by the Corporation, their carrying value is assumed to approximate their fair value, apart from borrowings where the fair value will be separately disclosed.

## NOTE 7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

## 7.3.2 Fair value determination - Non financial physical assets

2017	Carrying Amount \$'000	Fair Value Measurement <sup>(i)</sup>		
		Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
<b>Land at Fair Value</b>				
Non Specialised Land	1,323	-	1,323	-
Specialised Land	10,586	-	-	10,586
<b>Total land at fair value</b>	<b>11,909</b>	<b>-</b>	<b>1,323</b>	<b>10,586</b>
<b>Buildings at Fair Value</b>				
Specialised Buildings	1,346	-	-	1,346
<b>Total buildings at fair value</b>	<b>1,346</b>	<b>-</b>	<b>-</b>	<b>1,346</b>
<b>Infrastructure at Fair Value</b>				
Infrastructure - water distribution	109,187	-	-	109,187
Infrastructure - water harvesting and major transfers	69,606	-	-	69,606
Infrastructure - water quality	29,512	-	-	29,512
Infrastructure - sewer collection	99,473	-	-	99,473
Infrastructure - sewer treatment and major disposal	54,862	-	-	54,862
<b>Total infrastructure at fair value</b>	<b>362,640</b>	<b>-</b>	<b>-</b>	<b>362,640</b>
<b>Plant and Equipment at fair value</b>	<b>3,050</b>	<b>-</b>	<b>-</b>	<b>3,050</b>
<b>Total Non Physical Assets at Fair Value</b>	<b>378,945</b>	<b>-</b>	<b>1,323</b>	<b>377,622</b>

(i) Classified in accordance with the fair value hierarchy, see Note 7.3.1

2016	Carrying Amount \$'000	Fair Value Measurement <sup>(i)</sup>		
		Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
<b>Land at Fair Value</b>				
Non Specialised Land	1,323	-	1,323	-
Specialised Land	10,586	-	-	10,586
<b>Total land at fair value</b>	<b>11,909</b>	<b>-</b>	<b>1,323</b>	<b>10,586</b>
<b>Buildings at Fair Value</b>				
Specialised Buildings	1,307	-	-	1,307
<b>Total buildings at fair value</b>	<b>1,307</b>	<b>-</b>	<b>-</b>	<b>1,307</b>
<b>Infrastructure at Fair Value</b>				
Infrastructure - water distribution	110,865	-	-	110,865
Infrastructure - water harvesting and major transfers	70,624	-	-	70,624
Infrastructure - water quality	30,616	-	-	30,616
Infrastructure - sewer collection	99,444	-	-	99,444
Infrastructure - sewer treatment and major disposal	55,535	-	-	55,535
<b>Total infrastructure at fair value</b>	<b>367,084</b>	<b>-</b>	<b>-</b>	<b>367,084</b>
<b>Plant and Equipment at fair value</b>	<b>2,975</b>	<b>-</b>	<b>-</b>	<b>2,975</b>
<b>Total Non Physical Assets at Fair Value</b>	<b>383,275</b>	<b>-</b>	<b>1,323</b>	<b>381,952</b>

(i) Classified in accordance with the fair value hierarchy, see Note 7.3.1

There have been no transfers between the levels during the period. There were no changes in valuation techniques throughout the period to 30 June 2017. For all assets measured at fair value, the current use is considered the highest and best use.

The Valuer General Victoria (VGV) is the Corporation's independent valuation agency in relation to valuation of property, plant and equipment and infrastructure.

The Corporation, in conjunction with VGV monitors changes in the fair value of land and buildings through relevant data sources to determine whether revaluation is required. The fair value of infrastructure is monitored by the Corporation with reference to relevant data to identify whether an interim revaluation is required.

**Non-specialised land**

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

An independent valuation was performed by Eagan National Valuers (Vic) to determine fair value using the market approach. Valuation of the assets was determined by analysing comparable sales and allowing for share, size, topography, location and other relevant factors specific to the asset being valued. From this analysis, an appropriate rate per square metre has been applied to the subject asset. The effective date of the valuation was 30 June 2016.

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

South Gippsland Water conducted an assessment at 30 June 2017 with no material movement identified since the 2016 valuation.

**NOTE 7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)****Specialised land and buildings**

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

For the majority of the Corporation's specialised buildings, the depreciated replacement cost method is used, adjusting for the associated depreciation. As depreciation adjustments are considered as significant, unobservable inputs in nature, specialised buildings are classified as Level 3 fair value measurements.

An independent valuation of the Corporation's specialised land and specialised buildings was performed by the Valuer General Victoria. The valuation was performed using the market approach adjusted for CSO. The effective date of the valuation was 30 June 2016.

South Gippsland Water conducted an assessment at 30 June 2017 with no material movement identified since the 2016 valuation.

**Water and sewer infrastructure**

Water and sewer infrastructure are valued using the depreciated replacement cost method. This cost represents the replacement cost of the building/component after applying depreciation rates on a useful life basis. Replacement costs relate to costs to replace the current service capacity of the asset. Economic obsolescence has also been factored into the depreciated replacement cost calculation. Where it has not been possible to examine hidden works such as structural frames and floors, the use of reasonable materials and methods of construction have been assumed bearing in mind the age and nature of the building. The estimated cost of reconstruction includes structure services and finishes as applicable.

An independent valuation of the Corporation's water and sewer infrastructure was carried out by the Valuer General Victoria. The valuation was performed based on the depreciated replacement cost of the assets. The effective date of the valuation was 30 June 2016. These assets are classified as Level 3 fair value as the lowest level input, the absence of an active market, has a significant impact on the fair value which is unobservable.

The Corporation conducted an assessment at 30 June 2017 with no material movement identified since the 2016 valuation.

**Plant and equipment**

Plant and equipment is held at fair value. When plant and equipment is specialised in use, such that it is rarely sold other than as part of a going concern, fair value is determined using the depreciated replacement cost method. As depreciation adjustments are considered as significant, unobservable inputs in nature, plant and equipment is classified as Level 3 fair value measurements. There were no changes in valuation techniques throughout the period to 30 June 2017.

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

**Reconciliation of Level 3 fair value movements**

A reconciliation from the opening balances to the closing balances for fair value measurements categorised within Level 3 of the fair value hierarchy, disclosing separately changes during the period. Closing balances for 2016 have been restated to include the transfer in of land and buildings from Level 2 to Level 3.

Asset Class 2017	Opening Balance \$'000	Additions \$'000	Disposals \$'000	Revaluation \$'000	Transfers In/ Out of Level 3	Depreciation \$'000	Closing Balance \$'000
Land - Specialised	10,586	-	-	-	-	-	10,586
Buildings - Specialised	1,307	115	-	-	-	(76)	1,346
Water distribution	110,865	1,616	-	-	-	(3,294)	109,187
Water harvesting and major transfer	70,624	83	-	-	-	(1,101)	69,606
Water quality	30,616	301	-	-	-	(1,405)	29,512
Sewer collection	99,444	3,071	-	-	-	(3,042)	99,473
Sewer treatment and disposal	55,535	266	-	-	-	(939)	54,862
Plant equipment and other	2,974	1,308	(274)	-	-	(958)	3,050
<b>Total</b>	<b>381,951</b>	<b>6,760</b>	<b>(274)</b>	<b>-</b>	<b>-</b>	<b>(10,815)</b>	<b>377,622</b>

Asset Class 2016	Opening Balance \$'000	Additions \$'000	Disposals \$'000	Revaluation \$'000	Transfers In/ Out of Level 3	Depreciation \$'000	Closing Balance \$'000
Land - Specialised	6,710	-	(1,257)	2,892	2,241	-	10,586
Buildings - Specialised	718	33	-	(511)	1,163	(96)	1,307
Water distribution	61,570	1,858	-	49,328	-	(1,891)	110,865
Water harvesting and major transfer	59,921	367	-	11,007	-	(671)	70,624
Water quality	31,668	250	-	173	-	(1,475)	30,616
Sewer collection	71,087	17,600	-	12,748	-	(1,991)	99,444
Sewer treatment and disposal	54,926	279	-	1,982	-	(1,652)	55,535
Plant equipment and other	3,324	951	(201)	-	-	(1,100)	2,974
<b>Total</b>	<b>293,328</b>	<b>21,338</b>	<b>(1,458)</b>	<b>77,619</b>	<b>3,404</b>	<b>(8,876)</b>	<b>381,951</b>



## NOTE 7. RISKS, CONTINGENCIES AND VALUATION JUDGEMENTS (CONTINUED)

## Significant unobservable inputs to Level 3 valuations for 2017

Asset Class	Fair Value 2017 \$'000	Valuation Technique	Significant Unobservable Inputs	Weighted Average Cost Per Unit 2016-17 <sup>(1)</sup>
<b>Land and Buildings</b>				
Specialised Land	10,586	Market approach	Community Service Obligation (CSO) Average	\$1,000-\$1,427,000 \$81,014
Specialised Buildings	1,346	Depreciated replacement cost	Cost per unit Average Useful life	\$89 -\$448,292 per unit \$64,108 9-50 years
<b>Plant, Equipment and Vehicles</b>				
Plant and Equipment	1,466	Depreciated replacement cost approach	Cost per unit Average Useful life	\$6-\$140,566 per unit \$3,074 3-30 years
Vehicles	1,583	Depreciated replacement cost approach	Cost per unit Average Useful life	\$127-\$41,612 per unit \$14,386 4-10 years
<b>Water Infrastructure</b>				
Storage	54,417	Depreciated replacement cost	Cost per unit (Qty 14 Reservoirs) Average Useful life	\$100-\$13,287,543 per unit \$3,044,723 10-350 years
Treatment Plants	32,227	Depreciated replacement cost.	Cost per unit (Qty 10) Average Useful life	\$1,097,991-\$7,758,500 per plant \$3,222,736 10-350 years
Mains and Reticulation	100,630	Depreciated replacement cost.	Cost per metre Average Useful life	42 - \$3,157 per metre \$144 40-110 years
Pump Stations	1,333	Depreciated replacement cost.	Cost per unit (Qty 18) Average Useful life	\$1,337- \$283,583 per pump station \$73,244 18-75 years
<b>Wastewater Infrastructure</b>				
Treatment Plants	38,102	Depreciated replacement cost.	Cost per unit (Qty 11) Average Useful life	\$1,273,484-\$6,348,923 per plant \$3,463,884 5-350 years
Mains and Reticulation	79,827	Depreciated replacement cost.	Cost per metre Average Useful life	\$3-\$893 per metre \$141 50-100 years
Pump Stations	8,074	Depreciated replacement cost	Cost per unit (Qty 48) Average Useful life	\$1,200-\$897,033 per pump station \$51,426 10-75 years

(1) There were no changes from 2016 weighted average cost per unit for fair value assessment of unobservable inputs.

## Significant unobservable inputs to Level 3 valuations for 2016

Asset Class	Fair Value 2016 \$'000	Valuation Technique	Significant Unobservable Inputs	Weighted Average Cost Per Unit 2016-17 <sup>(1)</sup>
<b>Land and Buildings</b>				
Specialised Land		Market approach	Community Service Obligation (CSO) Average	\$1,000-\$1,427,000 \$81,014
Specialised Buildings		Depreciated replacement cost	Cost per unit Average Useful life	\$1,000 -\$454,000 \$63,750 9-50 years
<b>Plant, Equipment and Vehicles</b>				
Plant and Equipment	1,189	Depreciated replacement cost approach	Cost per unit Average Useful life	\$20-\$118,000 \$3,449 3-30 years
Vehicles	1,605	Depreciated replacement cost approach	Cost per unit Average Useful life	\$260-\$56,000 \$19,000 4-10 years
<b>Water Infrastructure</b>				
Storage	42,971	Depreciated replacement cost	Cost per unit (Qty 14 Reservoirs) Average Useful life	\$9,600-\$13,788,440 \$3,069,344 10-350 years
Treatment Plants	33,522	Depreciated replacement cost.	Cost per unit (Qty 10) Average Useful life	\$1,170,820-\$8,069,230 \$3,352,165 10-350 years
Mains and Reticulation	102,233	Depreciated replacement cost.	Cost per metre Average Useful life	\$10 - \$1,325 \$1,325 40-110 years
Pump Stations	1,422	Depreciated replacement cost.	Cost per unit (Qty 18) Average Useful life	\$2,560 \$298,330 \$78,989 18-75 years
<b>Wastewater Infrastructure</b>				
Treatment Plants	38,935	Depreciated replacement cost.	Cost per unit (Qty 11) Average Useful life	\$1,297,100-\$6,415,590 \$3,539,563 5-350 years
Mains and reticulation	75,554	Depreciated replacement cost.	Cost per metre Average Useful life	\$6-\$893 \$128 50-100 years
Pump Stations	7,827	Depreciated replacement cost	Cost per unit (Qty 48) Average Useful life	\$2,400-\$897,150 \$52,883 10-75 years

(1) The significant unobservable inputs have changed from 30 June 2015 due to the asset revaluation at 30 June 2016

**NOTE 8. STATUTORY OBLIGATIONS**

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

## Structure

## 8.1 Tax

## 8.1.1. Income tax

## 8.1.2 Deferred tax assets and liabilities

## 8.2 Environmental contribution

## 8.2.1 Environmental contribution commitments

## 8.3 Dividends

**8.1 Tax****8.1.1 Income tax**

The Corporation is subject to the National Tax Equivalent Regime (NTER), which is administered by the Australian Taxation Office. The income tax expense or revenue for the period is the expected tax payable or receivable on the current period's taxable income based on the national corporate income tax rate of 30%, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

The income tax expense for the financial year differs from the amount calculated on the net result. The differences are reconciled as follows:

**Income tax recognised in the Comprehensive Operating Statement**

	2017 \$'000	2016 \$'000
Current tax		
In respect to the current year	-	-
Deferred tax		
In respect to the current year	(1,245)	(875)
<b>Total income tax expense recognised in the current year</b>	<b>(1,245)</b>	<b>(875)</b>

The income tax expense for the year can be reconciled to the accounting profit as follows:

Profit (Loss) before tax from continuing operations	(5,228)	(1,773)
Current Year Income tax equivalents (benefits) calculated at 30% (2016: 30%)	(1,568)	(532)
Tax effect amount - Non-deductible expenses	4	(343)
Tax effect amount - Overclaimed expense	531	-
Tax effect amount - Capital losses	(85)	-
Tax effect amount - Opening balance adjustment, depreciation	(127)	-
<b>Income tax as reported in the Comprehensive Operating Statement</b>	<b>(1,245)</b>	<b>(875)</b>

As there is no tax payable from the current year trading result, there is no current tax equivalent asset or liability.

Gross cumulative tax equivalent losses at 30 June 2017 are \$68,381K (2016: \$67,465K), tax effect 2017 \$20,514K, (2016: \$20,240K).

**8.1.2 Deferred tax assets and liabilities**

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantially enacted.

The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction that at the time of the transaction did not affect either accounting profit or taxable profit or loss. Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

A deferred tax liability has been recognised for revalued assets, as future depreciation on revalued assets will not be deductible for tax purposes.

## NOTE 8. STATUTORY OBLIGATIONS (CONTINUED)

2017	Opening Balance \$'000	Charged to Income \$'000	Charged to Equity \$'000 <sup>(1)</sup>	Other \$'000	Closing Balance \$'000
<b>Deferred tax equivalent assets</b>					
Provisions	1,020	(114)	-	-	906
Tax losses	20,240	274	-	-	20,514
Capital losses	-	85	-	-	85
<b>Total</b>	<b>21,260</b>	<b>245</b>	<b>-</b>	<b>-</b>	<b>21,505</b>
<b>Deferred tax equivalent liabilities</b>					
Receivables	-	-	-	-	-
Infrastructure, property, plant and equipment	(86,795)	1,000	674	-	(85,121)
Intangibles	-	-	-	-	-
Other	-	-	-	-	-
<b>Total</b>	<b>(86,795)</b>	<b>1,000</b>	<b>674</b>	<b>-</b>	<b>(85,121)</b>

2016	Opening Balance \$'000	Charged to Income \$'000	Charged to Equity \$'000	Other \$'000	Closing Balance \$'000
<b>Deferred tax equivalent assets</b>					
Provisions	670	350	-	-	1,020
Tax losses	18,708	1,532	-	-	20,240
<b>Total</b>	<b>19,378</b>	<b>1,882</b>	<b>-</b>	<b>-</b>	<b>21,260</b>
<b>Deferred tax equivalent liabilities</b>					
Receivables	-	-	-	-	-
Infrastructure, property, plant and equipment	(62,502)	(1,007)	(23,286)	-	(86,795)
Intangibles	-	-	-	-	-
Other	-	-	-	-	-
<b>Total</b>	<b>(62,502)</b>	<b>(1,007)</b>	<b>(23,286)</b>	<b>-</b>	<b>(86,795)</b>

(1) Correction to previous treatment of revalued land.

## 8.2 Environmental contribution

Environmental contributions are funds collected from water supply authorities under the *Water Industry Act 1994* (the Act). Under a 2004 amendment to the Act, environmental contributions are collected to fund initiatives that seek to promote the sustainable management of water or address adverse water related environmental impacts.

The Victorian Government has committed to a fourth round or ('tranche') of the environmental contribution. The four-year tranche commenced on 1 July 2016. The Act establishes an obligation for authorities to pay into the consolidated fund annual contributions for the first period, from 1 July 2016 to 30 June 2020 in accordance with the pre-established schedule of payments, which sets out the amounts payable by each water corporation.

The Corporation has a statutory obligation to pay an environmental contribution to the Department of Environment, Land, Water and Planning. This contribution is recognised as an expense during the reporting period as incurred.

	2017 \$'000	2016 \$'000
<b>Environmental Contribution</b>	<b>1,101</b>	<b>1,101</b>

### 8.2.1 Environmental contribution commitment

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

	2017 \$'000	2016 \$'000
Payments within 1 year	1,101	1,101
Payments 1 - 5 years	2,460	3,561
Payments longer than 5 years	-	-
<b>Total</b>	<b>3,561</b>	<b>4,662</b>
Total commitments (inclusive of GST)	3,561	4,662
Less GST recoverable from the Australian Tax Office <sup>(1)</sup>	-	-
<b>Total commitments (exclusive of GST)</b>	<b>3,561</b>	<b>4,662</b>

(1) GST is not levied against the Environmental Contribution Levy as it arises from an Act and is not a taxable supply.

## 8.3 Dividends

An obligation to pay a dividend only arises after consultation with the portfolio Minister and the Treasurer and a formal determination is made by the Treasurer. The Corporation's preliminary estimate for the reporting period is no dividend being payable, (2016: Nil).

**NOTE 9. OTHER DISCLOSURES**

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

**Structure**

- 9.1 Equity
  - 9.1.1 Contributed capital
  - 9.1.2 Asset revaluation reserve
  - 9.1.3 Accumulated surplus
- 9.2 Events occurring after the balance date
- 9.3 Remuneration of executives
- 9.4 Responsible persons
- 9.5 Remuneration of auditors
- 9.6 Related parties
- 9.7 Assets received as collateral
- 9.8 Ex-gratia payments
- 9.9 Australian Accounting Standards issued that are not yet effective

**9.1 Equity****9.1.1. Contributed capital**

	Notes	2017 \$'000	2016 \$'000
Opening balance		65,333	65,333
Capital contributions	9.6	5,500	-
<b>Closing balance</b>		<b>70,833</b>	<b>65,333</b>

Contributions by owners (that is, contributed capital and its repayment) are treated as equity transactions and, therefore, do not form part of the income and expense of the Corporation. Additions to net assets which have been designated as contributions by owners are recognised as contributed capital. Other transfers that are in the nature of contributions or distributions have also been designated as contributions by owners.

**9.1.2 Reserves****Asset revaluation reserve**

Opening balance	141,500	87,167
Revaluation increment for year		
- Land	674	2,023
- Buildings	-	(356)
- Infrastructure	-	52,666
<b>Closing balance</b>	<b>142,174</b>	<b>141,500</b>

The asset revaluation reserve is used to record asset revaluation increments and decrements in the value of non-current physical assets.

**9.1.3 Accumulated surplus**

Opening balance	66,868	67,766
Profit after income tax expense	(3,983)	(898)
<b>Closing balance</b>	<b>62,885</b>	<b>66,868</b>

**9.2 Events occurring after the balance date**

There have been no matters or circumstances that have arisen since the end of the financial year which significantly affected, or may significantly affect the operations of the Corporation, the results of those operations, or state of affairs of the Corporation in future financial years.

## NOTE 9. OTHER DISCLOSURES (CONTINUED)

## 9.3 Remuneration of executives

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

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

Short-term employee benefits include amounts such as wages, salaries, annual leave or sick leave that are usually paid or payable on a regular basis. Executives are not eligible to receive non-monetary benefits. The Corporation does not provide post-employment benefits or share based payments.

Other long-term benefits only refers to long service leave. There are no other long-service benefits or deferred compensation. Termination benefits include termination of employment payments, such as severance packages.

Remuneration	2017 \$'000	2016 <sup>(i)</sup> \$'000
Short term employee benefits	514	-
Post-employment benefit	49	-
Other long term benefits	12	-
Termination benefits	-	-
<b>Total remuneration <sup>(ii)</sup></b>	<b>575</b>	<b>-</b>
 <b>Total number of executives</b>	 <b>4</b>	 <b>-</b>
 <b>Total annualised employee equivalents <sup>(iii)</sup></b>	 <b>3.1</b>	 <b>-</b>

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

(ii) The total number of executive officers excludes persons who meet the definition of Key Management Personnel (KMP) of the entity under AASB 124 Related Party Disclosures. KMP's are reported within the related parties note disclosure (Note 9.6).

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

## 9.4 Responsible persons

In accordance with the Ministerial Directions issued by the Minister for Finance under the *Financial Management Act 1994*, the following disclosures are made regarding responsible persons for the reporting period.

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

The Hon. Lisa Neville MP	Minister for Water	1 July 2016 - 30 June 2017
Mr David Schultz	Chairman	1 July 2016 - 30 June 2017
Ms Anna Kilborn	Deputy Chair	1 July 2016 - 30 June 2017
Mr Philippe du Plessis	Managing Director	1 July 2016 - 30 June 2017
Mr Chris Badger	Director	1 July 2016 - 30 June 2017
Ms Michelle Blackburn	Director	1 July 2016 - 30 June 2017
Mr Jim Fawcett	Director	1 July 2016 - 30 June 2017
Dr Irene Irvine	Director	1 July 2016 - 30 June 2017
Mr Geoff Lake	Director	1 July 2016 - 30 June 2017
Ms Kate Young	Director	1 July 2016 - 30 June 2017

The Accountable Officer of South Gippsland Water for the year to 30 June 2017 was Philippe du Plessis, (2015-16: Philippe du Plessis).

## Remuneration

Remuneration received, or due and receivable from the Corporation in connection with the management of the Corporation (includes termination payments and bonuses paid) was \$434K, (2016: \$398K). The number of responsible persons whose remuneration from the Corporation was within the specified bands as follows:

Income band (\$)	2017 \$'000	2016 \$'000
0 - 9,999	-	1
10,000 - 19,999	-	4
20,000 - 29,999	8	4
40,000 - 49,999	-	1
270,000 - 279,999	-	1
290,000 - 299,999	1	-
<b>Total</b>	<b>9</b>	<b>11</b>

The compensation detailed above excludes the salaries and benefits the Portfolio Minister receives. The Minister's remuneration and allowances are set by the *Parliamentary Salaries and Superannuation Act 1968* and are reported within the Department of Parliamentary Services' Financial Report.



## NOTE 9. OTHER DISCLOSURES (CONTINUED)

9.5	Remuneration of auditors	2017 \$'000	2016 \$'000
	Audit Services - Victorian Auditor-General's Office (VAGO)		
	Annual external audit fee	35	37
	Non-VAGO audit and assurance services		
	Internal audit	62	52
	<b>Total Remuneration of Auditors</b>	<b>97</b>	<b>89</b>

## 9.6 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 have been entered into on an arm's length basis.

**Significant transactions with government - related entities**

The Corporation received funding of \$5.5 million (2016: \$ Nil) as contributed from owners. The funding was made in the form of contributed equity, refer Note 9.1.1.

The Corporation has other significant transactions with Government which are listed below. The Corporation has other significant transactions with Government which are listed below. In some instances, these transactions are separately disclosed and explained in these financial statements (refer reference to note). Otherwise, a reference to the amount for FY 2016/17 has been provided.

Transaction Type	Department	Note Reference	2017 \$'000
Borrowings from TCV	Treasury Corporation Victoria	6.1	-
Interest Expense	Treasury Corporation Victoria	6.1.2	-
Financial Accommodation Levy	Department of Treasury & Finance	6.1.2	-
Deposits at Call with TCV	Treasury Corporation Victoria	6.2	-
Pension and Concession Rebate	Department of Health and Human Services	-	\$1,505
Not for Profit Rebate	State Revenue Office	-	\$146
Environmental Contribution	Department of Environment, Land, Water & Planning	8.2	-

Key management personnel of the Corporation includes:

The Hon. Lisa Neville	Minister for Water
Mr David Schultz	Chairman
Ms Anna Kilborn	Deputy Chair
Mr Philippe du Plessis	Managing Director
Mr Chris Badger	Director
Ms Michelle Blackburn	Director
Mr Jim Fawcett	Director
Dr Irene Irvine	Director
Mr Geoff Lake	Director
Ms Kate Young	Director

For the year ending 30 June 2017, no member of the Key Management Personnel of the Corporation declared any disclosable material related party transaction or association.

**Compensation for related party transactions**

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

The Corporation does not provide or share based payments.

	2017 \$'000
Short term employee benefits	391
Post-employment benefits	37
Other long term benefits	6
Termination benefits	-
<b>Total remuneration</b>	<b>434</b>

**NOTE 9. OTHER DISCLOSURES (CONTINUED)****Transactions with key management personnel and other related parties**

Given the breadth and depth of Corporation activities, related parties transact with the Victorian public sector in a manner consistent with other members of the public e.g. water, wastewater and related services.

Further employment of processes within the Victorian public sector occur on terms and conditions consistent with the *Public Administration Act 2004* and Codes of Conduct and Standards issued by the Victorian Public Sector Commission. Procurement processes occur on terms and conditions consistent with the Victorian Government Procurement Board requirements. Outside of normal citizen type transactions with the Corporation, there were no related party transactions that involved Key Management Personnel and their close family members.

No provision has been required, nor any expense recognised, for impairment of receivables from related parties.

All other transactions that have occurred with Key Management Personnel and their related parties have been trivial or domestic in nature. In this context, transactions are only disclosed when they are considered of interest to users of the financial report in making decisions and evaluating the allocation of scarce resources.

**9.7 Assets received as collateral**

The Corporation does not hold any assets as collateral, 2016: \$Nil.

**9.8 Ex-gratia payments**

The Corporation did not make any ex-gratia payments during 2017, 2016: \$Nil for both individual items and in aggregate that were greater than or equal to \$5,000.

**9.9 Australian Accounting Standards issued that are not yet effective**

The following Australian Accounting Standards (AAS) become effective for reporting periods commencing after the operative dates stated:

Certain new AAS have been published that are not mandatory for the 30 June 2017 reporting period. The Department of Treasury and Finance assesses the impact of all these new standards and advises the Corporation of their applicability and early adoption where applicable.

To improve the consistency and quality of water industry financial reporting the 2016-17 South Gippsland Water Financial Statements have been updated in a streamlined format, consistent with the new format adopted for 2016-17 by all government departments and agencies.

Standard / Interpretation	Summary	Applicable for annual reporting periods beginning on or after	Impact on financial statements
AASB 9 <i>Financial Instruments</i>	The key changes include the simplified requirements for the classification and measurement of financial assets, a new hedging accounting model and a revised impairment loss model to recognise impairment losses earlier, as opposed to the current approach that recognises impairment only when incurred.	01-Jan-18	The change to the basis for recognising impairment losses over the life time rather than at a trigger point on the outstanding receivables, is probable that it will have a financial impact on implementation but has not been fully assessed.  The initial assessment has indicated that there are no other significant expected impacts on the corporation, noting the Corporation does not have exposures with hedges.
AASB 15 <i>Revenue from Contracts with Customers</i>	The core principle of AASB 15 requires an entity to recognise revenue when the entity satisfies a performance obligation by transferring a promised good or service to a customer.	01-Jan-18	The changes in revenue recognition requirements in AASB 15 may result in changes to the timing and amount of revenue recorded in the financial statements.  The Standard will also require additional disclosures on service revenue and contract modifications.
AASB 16 <i>Leases</i>	The key changes introduced by AASB 16 include the recognition of most operating leases (which are currently not recognised) on balance sheet.	01-Jan-19	The assessment has indicated that as most operating leases will come on balance sheet, recognition of the right-of-use assets and lease liabilities will cause net debt to increase.  Rather than expensing the lease payments, depreciation of right-of-use assets and interest on lease liabilities will be recognised in the income statement with marginal impact on the operating surplus.  No change for lessors.

## NOTE 9. OTHER DISCLOSURES (CONTINUED)

AASB 2010-7 <i>Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 5, 7, 101, 102, 108, 112, 118, 120, 127, 131, 132, 136, 137 &amp; 139 and Interpretations 2, 5, 10, 12, 19 &amp; 127]</i>	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"> <li>the change in fair value attributable to changes in credit risk is presented in Other Comprehensive Income</li> <li>other fair value changes are presented in profit or loss. If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.</li> </ul>	01-Jan-18	The assessment has identified that the financial impact of available for sale (AFS) assets will now be reported through other comprehensive income (OCI) and no longer recycled to the profit and loss.  Changes in own credit risk in respect of liabilities designated at fair value through profit and loss will now be presented within other comprehensive income (OCI). As the Corporation does not enter into any hedges, changes to hedge accounting will have no impact on the Corporation.
AASB 2014-1 <i>Amendments to Australian Accounting Standards [Part E Financial Instruments]</i>	Amends various AASs to reflect the AASB's decision to defer the mandatory application date of AASB 9 to annual reporting periods beginning on or after 1 January 2018 as a consequence of Chapter 6 Hedge Accounting, and to amend reduced disclosure requirements.	01-Jan-18	This amending standard will defer the application period of AASB 9 to the 2018- 19 reporting period in accordance with the transition requirements.
AASB 2015-8 <i>Amendments to Australian Accounting Standards - Effective Date of AASB 15</i>	This Standard defers the mandatory effective date of AASB 15 from 1 January 2017 to 1 January 2018.	01-Jan-18	This amending standard will defer the application period of AASB 15 for for- profit entities to the 2018-19 reporting period in accordance with the transition requirements.
AASB 2016-3 <i>Amendments to Australian Accounting Standards – Clarifications to AASB 15</i>	This Standard amends AASB 15 to clarify the requirements on identifying performance obligations, principal versus agent considerations and the timing of recognising revenue from granting a licence. The amendments require: <ul style="list-style-type: none"> <li>A promise to transfer to a customer a good or service that is 'distinct' to be recognised as a separate performance obligation</li> <li>For items purchased online, the entity is a principal if it obtains control of the good or service prior to transferring to the customer</li> <li>For licences identified as being distinct from other goods or services in a contract, entities need to determine whether the licence transfers to the customer over time (right to use) or at a point in time (right to access).</li> </ul>	1-Jan-18	The assessment has indicated that there will be no significant impact for the public sector, other than the impact identified for AASB 15 above.
AASB 2016-7 <i>Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities</i>	This Standard defers the mandatory effective date of AASB 15 for not-for-profit entities from 1 January 2018 to 1 January 2019.	1-Jan-19	This amending standard will defer the application period of AASB 15 for not-for-profit entities to the 2019- 20 reporting period.
AASB 2016-4 <i>Amendments to Australian Accounting Standards – Recoverable Amount of Non-Cash-Generating Specialised Assets of Not-for-Profit Entities</i>	The standard amends AASB 136 Impairment of Assets to remove references to using depreciated replacement cost (DRC) as a measure of value in use for not-for- profit entities.	1-Jan-17	The assessment has indicated that there is minimal impact. Given the specialised nature and restrictions of public sector assets, the existing use is presumed to be the highest and best use (HBU), hence current replacement cost under AASB 13 Fair Value Measurement is the same as the depreciated replacement cost concept under AASB 136.
AASB 1058 <i>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 to not-for-profit entity to further its objectives.	1-Jan-19	The assessment has indicated that revenue from capital grants that are provided under an enforceable agreement that have sufficiently specific obligations, will now be deferred and recognised as performance obligations are satisfied. As a result, the timing recognition of revenue will change.



## Statutory Certification

### SOUTH GIPPSLAND REGION WATER CORPORATION

#### Accountable officer's and chief finance and accounting officer's declaration

The attached financial statements for South Gippsland Region Water Corporation have been prepared in accordance with Direction 5.2 of the Standing Directions of the Minister for Finance under the *Financial Management Act 1994*, 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 accompanying Notes, presents fairly the financial transactions during the year ended 30 June 2017 and the financial position of the Corporation as at 30 June 2017.

At the time of signing we are not aware of any circumstance which would render any particulars included in the financial statements to be misleading or inaccurate.

We authorise the attached financial statements for issue on 12th September 2017.

A handwritten signature in dark ink, appearing to read 'D Schultz'.

David Schultz  
Chairman

A handwritten signature in dark ink, appearing to read 'P du Plessis'.

Philippe du Plessis  
Managing Director

A handwritten signature in dark ink, appearing to read 'G Rocke'.

Graeme Rocke  
Chief Financial Officer



Victorian Auditor-General's Office

## Independent Auditor's Report

### *To the Board of the South Gippsland Region Water Corporation*

<b>Opinion</b>	<p>I have audited the financial report of the South Gippsland Region Water Corporation (the corporation) which comprises the:</p> <ul style="list-style-type: none"><li>• balance sheet as at 30 June 2017</li><li>• comprehensive operating statement for the year then ended</li><li>• statement of changes in equity for the year then ended</li><li>• statement of cash flows for the year then ended</li><li>• notes to the financial statements</li><li>• accountable officer's and chief finance and accounting officer's declaration.</li></ul> <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>
<b>Basis for Opinion</b>	<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>
<b>Board's responsibilities for the financial report</b>	<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>



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

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

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

- identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the corporation's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board
- conclude on the appropriateness of the Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the corporation to cease to continue as a going concern
- evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

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

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MELBOURNE  
13 September 2017



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

# Performance Report

For the year ended 30 June 2017

**TABLE 1 - FINANCIAL PERFORMANCE INDICATORS**

KPI No.	Key Performance Indicators	2015-16 Result	2016-17 Result	2016-17 Target	Variance to Prior Year %	Notes	Variance to Target %	Notes
F1	<b>Cash Interest Cover</b> Net operating cash flows before net interest and tax / net interest payments	2.8	3.9	4.0	39.3%	1	-2.5%	-
F2	<b>Gearing Ratio (%)</b> Total debt (including finance leases) / Total assets x 100	13.3%	12.7%	13.2%	-4.5%	-	-3.8%	-
F3	<b>Internal Financing Ratio (%)</b> (Net operating cash flow less dividends) / Net capital expenditure x 100	71.9%	81.5%	75.9%	13.4%	2	7.4%	-
F4	<b>Current Ratio</b> Current assets / current liabilities (excluding long term employee provisions and revenue in advance)	1.3 times	1.2 times	1.3 times	-7.7%	-	-7.7%	-
F5	<b>Return on Assets (%)</b> Earnings before net interest and tax / average assets x 100	0.3%	-0.6%	-0.2%	-300%	3 (a)	-200%	3 (b)
F6	<b>Return on Equity (%)</b> Net profit after tax / average total equity x 100	-0.4%	-1.4%	-1.5%	-250%	4	-6.7%	-
F7	<b>EBITDA Margin (%)</b> Earnings before interest tax, depreciation and amortisation / Total revenue x 100	35.4%	31.0%	30.9%	-12.4%	5	0.03%	-

## Notes - Variances Greater Than 10%

- The improved result in the current year is due to payments to suppliers and employees decreasing to previous levels after the aberrations in 2016, mainly due to one off cost to fund plumbing connections for the Poowong, Loch, Nyora sewer scheme.
- The improved ratio has resulted from a reduction in the payments during the year to suppliers and employees, which offset the increase in net capital expenditure during 2016/17.
- (a) The actual result for the 2016/17 declined from the previous year, mainly due to lower revenues from usage charges and private schemes. This was partially offset by an increase in developer income. Higher depreciation resulting from the asset revaluation conducted as at 30 June 2016 also contributed to the lower financial result for 2016/17. The corporation has implemented budgetary initiatives for a stronger net financial result for 2017/18.
- (b) The actual result for the 2016/17 was less than target, mainly due to lower revenues from usage charges and developer income. Higher depreciation resulting from the asset revaluation conducted as at 30 June 2016 also contributed to the unfavourable result. The corporation has implemented initiatives for a stronger net financial result for 2017/18.
- The movement in the ratio between 2015/16 and 2016/17 is due to the decline in profitability for 2016/17. This was mainly due to lower revenues from usage charges and private schemes. This was partially offset by an increase in developer income. Higher depreciation resulting from the asset revaluation conducted as at 30 June 2016 also contributed to the lower financial result for 2016/17. The corporation has implemented budgetary initiatives for a stronger net financial result for 2017/18.
- The 2015/16 result included a one off gain from income recognition of the Poowong, Loch, Nyora sewer scheme. Revenues in 2016/17 returned to more consistent levels, no further action required.

## Financial Indicators:

Interest Financial Ratio - Low ratio indicates less operating cash available to fund the capital investment program

Gearing Ratio - Low ratio indicates less reliance on debt to finance assets

Interest Cover (EBIT) - Ability to meet ongoing interest expense and service debt from earnings

Interest Cover (Cash) - Ability to meet ongoing interest expense and service debt from operating cash inflows

Current Ratio (working capital) - The higher the current ratio, the more capacity to pay obligations in the short term.

Return on Assets - indicates how profitable a company is relative to its total assets. The higher the ROA indicates that more money is being earned on less investment.

Return on Equity - profitability indicator. A higher result indicates a better use of equity to generate profits.

EBITDA Margin - a measure of how much cash profit is made during the year.

# Performance Report

For the year ended 30 June 2017

**TABLE 2 - WATER AND SEWERAGE SERVICE PERFORMANCE INDICATORS**

KPI No.	Key Performance Indicators	2015-16 Result	2016-17 Result	2016-17 Target	Variance to Prior Year %	Notes	Variance to Target %	Notes
WS1	<b>Unplanned Water Supply Interruptions</b> No. of customers receiving 5 or more unplanned interruptions in the year / total number of water (domestic and non-domestic) customers * 100.	0%	0%	0%	0%	-	0%	-
WS2	<b>Interruption Time</b> Average duration of unplanned water supply interruptions (minutes).	96	91	100	5.2%	6 (a)	9%	6 (b)
WS3	<b>Restoration of Unplanned Water Supply</b> Unplanned water supply interruptions restored within five hours / total unplanned water supply interruptions * 100.	99.2%	99%	99%	0.2%	-	0%	-
SS1	<b>Containment of Sewer Spills</b> Sewer spills from reticulation and branch sewers contained within five hours / total sewer spills from reticulation and branch sewers.	100%	100%	100%	0%	-	0%	-
SS2	<b>Sewer Spills Interruptions</b> No. of residential sewerage customers affected by sewerage interruptions restored within five hours.	1.1%	0.7%	0%	36.4%	7 (a)	0%	7 (b)

**Notes:**

- 6 (a) The average interruption time varies according to the specific circumstances of each water interruption event. The reduced interruption time over the target does not reflect any specific trend.
- 6 (b) The average interruption time varies according to the specific circumstances of each water interruption event. The reduced interruption time over the target does not reflect any specific trend.
- 7 (a) The reduction in the number of sewer spills from 2015/16 to 2016/17 is due to the preventative maintenance program using cameras to identify pipe blockages and the subsequent removal of tree roots and the slightly drier spring weather conditions in 2016.
- 7 (b) The Corporation did not set a specific target in 2016/17 for this measure.

**TABLE 3 - CUSTOMER RESPONSIVENESS PERFORMANCE INDICATORS**

KPI No.	Key Performance Indicators	2015-16 Result	2016-17 Result	2016-17 Target	Variance to Prior Year %	Notes	Variance to Target %	Notes
CR1	<b>Water Quality Complaints</b> No. of complaints per 100 customers	0.3	0.45	0.8	50%	8 (a)	-43.8%	8 (b)
CR2	<b>Sewerage Service Quality Complaints</b> No. of complaints per 100 customers	0	0	0	0%	-	0%	-
CR3	<b>Sewage Odour Complaints</b> No. of complaints per 100 customers	0	0.02	0	0%	-	0%	-
CR4	<b>Billing Complaints</b> No. of complaints per 100 customers	0.1	0.02	0.2	-80%	9 (a)	90%	9 (b)

**Notes:**

- 8 (a) Manganese issues at the Foster and Toora water treatment plants caused a higher level of customer complaints in 2016/17. Operational optimisation to remove manganese has been implemented with the aim of reducing the number of customer complaints in 2017/18.
- 8 (b) Close monitoring and early intervention strategies to control blue green algae outbreaks in the summer are being effective in reducing taste and odour complaints. The target has not been reduced until the evidence of these intervention strategies has become substantive. The Corporation remains confident that taste and odour issues associated with blue green algae are reducing.
- 9 (a) There was no real increase above CPI in tariffs in 2016/17, which is attributed to reducing the number of customer billing complaints.
- 9 (b) The actual results over the last three years indicate the target has been conservatively set, given tariffs have not been increasing above CPI.

**TABLE 4 - ENVIRONMENTAL PERFORMANCE INDICATORS**

KPI No.	Key Performance Indicators	2015-16 Result	2016-17 Result	2016-17 Target	Variance to Prior Year %	Notes	Variance to Target %	Notes
E1	<b>Effluent Reuse Volume (end use)</b>	6.4%	3.5%	4%	-45.3%	10 (a)	-12.5	10 (b)
E2	<b>Total Net CO2 Emissions</b> Net tonnes CO2 equivalent	7,385	8,347	8,170	-13.0%	11	-2.2%	-

**Notes:**

- 10 (a) The unfavorable result compared to the prior year is due to the cooler conditions of summer and autumn in 2016/17, compared to 2015/16. This caused a decreased re-use water demand from customers.
- 10 (b) The unfavorable result compared to the target is due to cooler conditions of summer and autumn in 2016/17. This caused a decreased re-use water demand from customers.
- 11 More wastewater was treated in 2016/17 compared to the previous year, increasing Scope 1 emissions (methane and nitrous oxide). A more accurate method for calculating Scope 1 emissions was used in 2016/17 compared to previous year, also slightly increasing these emissions.



## Statutory Certification

### SOUTH GIPPSLAND REGION WATER CORPORATION

#### Certification of Performance Report for 2016-17

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

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

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

A handwritten signature in black ink, appearing to read "D Schultz".

David Schultz  
Chairman

A handwritten signature in black ink, appearing to read "PDP".

Philippe du Plessis  
Managing Director

A handwritten signature in black ink, appearing to read "GR".

Graeme Rocke  
Chief Financial Officer

Dated this 12<sup>th</sup> day of September 2017



Victorian Auditor-General's Office

## Independent Auditor's Report

### *To the Board of the South Gippsland Region Water Corporation*

#### **Opinion**

I have audited the accompanying performance report for the year ended 30 June 2017 of the South Gippsland Region Water Corporation (the corporation) which comprises the:

- financial performance indicators
- water and sewerage service performance indicators
- customer responsiveness performance indicators
- environmental performance indicators
- certification of performance report for 2016–17.

In my opinion, the performance report of the 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 *Financial Management Act 1994*.

#### **Basis for Opinion**

I have conducted my audit in accordance with the *Audit Act 1994* which incorporates the Australian Standards on Assurance Engagements. My responsibilities under the Act are further described in the *Auditor's responsibilities for the audit of the performance report* section of my report.

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


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

#### **Board's responsibilities for the performance report**

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

<b>Auditor’s responsibilities for the audit of the performance report</b>	<p>As required by the <i>Audit Act 1994</i>, my responsibility is to express an opinion on the performance report based on the audit. My objectives for the audit are to obtain reasonable assurance about whether the performance report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Standards on Assurance Engagements will always detect a material misstatement when it exists. 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.</p> <p>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:</p> <ul style="list-style-type: none"><li>• identify and assess the risks of material misstatement of the performance report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control</li><li>• 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</li><li>• 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.</li></ul> <p>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.</p>
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MELBOURNE  
13 September 2017



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



# Appendix A – Disclosure index

The 2016/17 Annual Report of the South Gippsland Water is prepared in accordance with all relevant Victorian legislations. This index has been prepared to facilitate identification of the Authority's compliance with statutory disclosure requirements.

Direction	Requirement	Page Reference
<b>Ministerial Reporting Directions</b>		
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MRD 2	Reporting on Water Consumption & Drought Response	21-22
MRD 3	Environmental & Social Sustainability Reporting	19-21, 25-27
MRD 4	Bulk Entitlements	23
MRD 5	Major Non-residential Water Users	22
<b>Financial Reporting Directions</b>		
<b>Report of Operations</b>		
<i>Charter and purpose</i>		
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FRD 22H	Objectives, functions, powers and duties	13
FRD 22H	Nature and range of services provided	6
<i>Management and structure</i>		
FRD 22H	Organisational structure	11
FRD 22H	Names of Board Members and Major Committees (inc. Audit Committee)	9 & 10
<i>Financial and other information</i>		
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FRD 22H	Significant changes in financial position during the year	29
FRD 22H	Operational & budgetary objectives and performance against objectives	29
FRD 22H	Major changes or factors affecting performance	29
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FRD 22H	Details of consultancies – total No. and cost <\$10,000	15
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FRD 22H	Application and operation of <i>Freedom of Information Act 1982</i>	14
FDR 22H	Compliance with the <i>Protected Disclosures Act 2012</i>	14
FRD 22H	Compliance with building and maintenance provisions of <i>Building Act 1993</i>	14
FRD 22H	Statement on National Competition Policy	16
FRD 22H	Occupational Health and Safety Policy	18
FRD 22H	Workforce Inclusion Policy Initiative	17
FRD 24C	Environmental Reporting [Office]	25-27
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FRD 22H	Statement of availability of other information	13
FRD 121	Infrastructure Assets (Water/Rail)	-
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<i>Financial statements required under Part 7 of the Financial Management Act 1994</i>		
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SD 3.7.1	Risk Management Compliance Attestation	13
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<i>Other disclosures in notes to the financial statements</i>		
FRD 9B	Departmental Disclosure of Administered Assets and Liabilities	None
FRD 11A	Disclosure of ex-gratia payments	65
FRD 13	Disclosure of Parliamentary Appropriations	62 & 64
FRD 15D & 21C	Disclosure of Responsible Persons, Executive Officers and other Personnel (Contractors with Significant Management Responsibilities)	63 & 64
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FRD 106A	Impairment of Assets	42
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#### RESPONSIBLE MINISTER

The Hon Lisa Neville MP

#### BANKERS

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#### AUDITORS

Auditor General, Victoria  
By Agent Crowe Horwath Australasia Ltd

#### INSURERS

Jardine Lloyd Thompson (JLT)

#### SOLICITORS

Oakleys White  
Russell Kennedy

#### INDUSTRY ASSOCIATIONS

Australian Water & Wastewater Association  
Institute of Water Administration  
Victorian Water Industry Association

#### OTHER ASSOCIATIONS

Business Management Health Services  
Candowie-Lance Creek Catchment Management Group  
South Gippsland Landcare Network  
Victorian Employers Chamber of Commerce & Industry  
Waterwatch  
West Gippsland Catchment Management Authority  
Gunaikurnai Land and Water Aboriginal Corporation (GLaWAC)  
Gunaikurnai Traditional Owner Land Management Board (GKTOLMB)  
Bunurong Land Council

#### CHARITY

WaterAid Australia

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COVER IMAGES:  
NATIONAL WATER WEEK – WELSHPOOL AND DISTRICT PRIMARY SCHOOL  
LAGOON AERATOR – WONTHAGGI WASTE WATER TREATMENT PLANT  
DRINKING WATER TRAILER – FOSTER AND DISTRICT AGRICULTURAL SHOW  
SOLAR PANELS – WONTHAGGI WATER TREATMENT PLANT  
DAIRY COWS – SOUTH GIPPSLAND  
WILL EGAN – YOUNG OPERATOR OF THE YEAR 2016  
MEGAN HOSKINS - WATER QUALITY TESTING  
BACK COVER IMAGE:  
AN EARLY MORNING VISITOR TO THE FISH CREEK WATER TREATMENT PLANT.