

ANNUAL REPORT
[REPORT OF OPERATIONS]
2012 - 2013

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

- 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

- 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
- Implementing policies and programs equitably

Service - providing the best standards of service

- To our customers
- To the government
- To our local and regional community
- To Board Members and Corporation Staff
- To 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
- Commitment to safety in the workplace
- The highest standards of public health will be our priority

| | | | |
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Our Region

South Gippsland – The Region

South Gippsland is located about 2 hours drive from Melbourne and is a popular tourist destination, well known for its coastal resorts, such as Inverloch, Cape Paterson, Venus Bay, Sandy Point and Port Albert. The region has two internationally recognised National Parks: Wilson's Promontory and Tarra Bulga, north east of Yarram.

Dairy farming is the major industry in the region together with a range of other agricultural activities including beef, lamb, wine, cheese and vegetable production.

Based on our vision, mission, core values and functions, South Gippsland Water is a proactive service provider. We aim to contribute to economic development and provide environmentally sustainable water and wastewater services, in a way that benefits our customers and the wider community of the South Gippsland Region.



Nature and Range of Services Provided

South Gippsland Water's total operation in 2012/13 comprised:

Water Supply

- 20,200 water assessments [accounts] over 21 rural centres
- 13 reservoirs and 18 service storages
- 4,719 million litres [ML] annual volume of metered water supplied to customers
- Water catchments with a total area of 1,234 square kilometres
- 10 separate water supply systems
- 10 water treatment plants
- 694 km of water mains
- 17 water pump stations

Wastewater Services

- 17,400 wastewater assessments [accounts] over 12 rural centres
- 3,703 ML of wastewater collected
- 11 conventional wastewater systems
- 1 vacuum wastewater system
- 11 wastewater treatment plants
- 423 km of wastewater mains
- 59 wastewater pump stations

South Gippsland Water's service area covers 4,000 square kilometres.

The Corporation provides services to 22 towns - which are summarised in the following table.

South Gippsland Water & Wastewater Service Localities 30th June 2013

| Centre | Population Served (Permanent) | Water | | Sewerage |
|---|-------------------------------|------------------|----------------------------|------------------|
| | | Customers Billed | Supplied from | Customers Billed |
| Port Franklin | 127 (estimate) | 106 | Agnes River | Not Serviced |
| Port Welshpool | 179 | 273 | Agnes River | 258 |
| Toora/ Agnes, Bennison | 443 | 517 | Agnes River | 284 |
| Welshpool, Hedley | 439 | 206 | Agnes River | 121 |
| Fish Creek | 791 | 209 | Battery Creek | Not Serviced |
| Korumburra | 3,353 | 2,155 | Coalition Creek | 1,849 |
| Foster | 1,090 | 832 | Deep Creek / Foster Dam | 740 |
| Inverloch, Wattle Bank, Lance Creek | 4,454 | 4,427 | Lance Creek | 4,391 |
| Cape Paterson | 718 | 1,127 | Lance Creek | 1,111 |
| Wonthaggi, South Dudley, Glen Alvie, Kongwak, Lance Creek | 6,879 | 4,323 | Lance Creek | 4,077 |
| Loch | 191 (estimate) | 147 | Little Bass | Not Serviced |
| Nyora | 703 | 341 | Little Bass | Not Serviced |
| Poowong | 318 | 207 | Little Bass | Not Serviced |
| Koonwarra | 385 | 80 | Ruby Creek | Not serviced |
| Leongatha, Kardella, Leongatha South, Ruby | 4,849 | 3,031 | Ruby Creek | 2,834 |
| Alberton | 260 | 147 | Tarra River | Not Serviced |
| Devon North, Tarra Valley | 487 | 123 | Tarra River | Not Serviced |
| Port Albert | 246 | 394 | Tarra River | 327 |
| Yarram | 1,740 | 1,185 | Tarra River | 1,070 |
| Dumbalk | 412 | 103 | Tarwin River – East Branch | Not Serviced |
| Meeniyan | 454 | 268 | Tarwin River – West Branch | 233 |
| Waratah Bay | 207 | Not Serviced | N/A | 111 |

Notes:

1. Population Served based on ABS 2011 Census.

2. Water and Sewerage Assessments = Number of Rated Properties at January 2013.

3. The ABS method of calculation of population has changed from Collection District to State Suburb and may not always reflect the exact sewer/water district.

Message from the Managing Director and Chair

The 2012/13 financial year has seen a number of challenges and achievements with the year characterised by drier than average summer and autumn weather conditions across the South Gippsland Region. The majority of water systems performed well with the reduced rainfall and higher demand although Korumburra was subject to staged water restrictions. An alternate water supply was re-initiated which stabilised the supply, allowing the restriction level to be contained to stage two.

The Northern Towns Connection project continues to be a focus for the Corporation with preliminary design works commencing. The project will secure water supply to the townships of Korumburra, Poowong, Loch, Nyora and Leongatha through the interconnection of these supplies with the Lance Creek Reservoir, using the Melbourne Supply System as back up if required. The project will ultimately service 78% of the South Gippsland Water customer base.

South Gippsland Water's Water Plan for the third regulatory period was developed through extensive consultation with the community and relevant stakeholders and was approved by the Essential Services Commission in June 2013. The plan has resulted in modest increases in tariffs (below inflation) for the next five years.

The Meeniyon Sewerage Scheme and Wetlands was commissioned and opened in September 2012 by the Deputy Premier and Member for South Gippsland, the Hon Peter Ryan MLA, while the Alberton Sewer Scheme progresses with the Wellington Shire Council announcing State Government zoning approval. Both schemes will address public health and environmental issues in their areas.

Meanwhile, the Corporation commenced a review of the Poowong, Loch and Nyora Sewerage Scheme. The review will take six to nine months and is expected to result in a more cost efficient solution to meet the public health and environmental needs of these communities.

A regional Biosolids Management Facility has been established at the Leongatha Waste Water Treatment Plant which will aerate and store biosolids that can be re-used on farmlands.

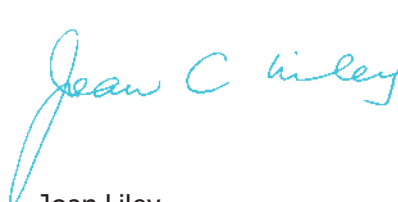
In addition, the Corporation has expended considerable funds in renewal of water and wastewater infrastructure throughout the region in order to increase service reliability and protect the environment. Overall the Corporation spent \$9.6million on capital projects during the year underpinning its mission to secure and manage quality water and wastewater systems in an environmentally sustainable and cost efficient manner.

The Environment and Occupational Health and Safety continue to be a high priority for South Gippsland Water, both areas operating within established structures and the support of staff. All South Gippsland Water employees are to be congratulated on their proactive culture towards these areas.

We would like to thank the Board of Directors and Executive Management Team for the continued leadership and direction over the past year. In particular, we would also like to acknowledge all South Gippsland Water Staff for their dedication, support and professionalism.

The Corporation looks forward to the future as programs and initiatives approved in Water Plan 3 are implemented.

In accordance with the *Financial Management Act 1994* we are pleased to present the Report of Operations for South Gippsland Water for the year ended 30 June 2013.



Joan Liley
Chair



Philippe du Plessis
Managing Director

Accountable Officers Attestation

In accordance with the Financial Management Act 1994, I am pleased to attest that South Gippsland Water's annual report is compliant with all statutory reporting requirements.

Philippe du Plessis
Managing Director
South Gippsland Water
Dated: 30th June 2013



The Board

During 2012/13 the Board consisted of:

Joan Liley - B.Com (Melb) Dip.Ed. (Monash) FAICD

Appointed 1st July 2004 (Chair)

Joan is a fourth generation Gippsland farmer and a former Secondary Teacher. Joan joined the Board of South Gippsland Water in July 2004 and is a past member of the West Gippsland Catchment Management Authority, Southern Rural Water and Gippsland Ports.

She is involved in many community organisations, notably Prom Country Aged Care and the Prom Coast Seachange Festival. And has an abiding interest in the sustainable development of the Gippsland Coastal Region and the responsible management of its resources.

Jim Fawcett - CPA

Appointed 1st October 2007 (Deputy Chair)

Jim is a certified practicing accountant and partner in a local accounting firm for over 30 years. He has also had extensive involvement with local community and sporting groups during that time. He is a former board member and President of Woorayl District Memorial Hospital and its successor Gippsland Southern Health Service. He is a councillor and previously served as Mayor of South Gippsland Shire Council.

Anna Kilborn – BSc, MAICD

Appointed 1st October 2011

Anna is an environmental planner with over 20 years experience in planning for regional development and major infrastructure projects. She holds a Bachelor of Science; is the Managing Director of an engineering and environmental consultancy, ECube Australia; is a partner in a small farming enterprise; and is a member of the Regional Development Australia (RDA) Gippsland Committee. Anna lives in the Strzelecki Ranges, and over recent years has undertaken numerous volunteer and community roles in the Gippsland region, across disciplines of education, science and natural resource management. Anna also recently completed the AICD Company Directors Course.

Chris Badger - BEng (Monash) ADP (London Business School) , LC&OR (Stanford University Business School (USA), CPIEA, MAICD

Appointed 1st October 2011

Mr Badger has over 30 years experience both in Australia and Internationally in the utilities and energy sectors with over 10 years at senior executive level having positions with Loy Yang Power, WestNet Energy, Alinta Asset Management and EON Energy Services. He was formerly Deputy Chair of Trafalgar and District Bendigo Community Bank (2009). Mr Badger has a Bachelor of Engineering and post graduate business training.

David Schultz - MIEAust, CPEng, GAICD

Appointed 1st October 2011

David Schultz is a Civil Engineer and holds a Company Director Diploma. He is an independent member of the Bass Coast Shire Council Audit Committee and a Non Executive Director of Life Saving Victoria. David along with his wife Jan and family have

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 and President of the club from 1999 until 2006. Previously David held various executive roles with GHD Global including Practice Leader of the Management Consulting practice and Senior Project Director Middle East.

Steve Rieniets - BEng(Civil), MBA, GAICD

Appointed 1st October 2012

Steve is Head of Operations and Generation, Loy Yang B for International Power GDF Suez Australia and has had an extensive career in the electricity industry. Steve is a member of Clean Coal Victoria Advisory Committee, Gippsland Emergency Relief Fund and the former Chair of Gippsland VECCI (2007- 2011). Steve is a lifelong Gippslander and enjoys spending time at the family beach house in Waratah Bay. Steve holds a Bachelor of Civil Engineering, a Graduate Diploma of Business and a Masters of Business Administration and has also completed the Williamson Community Leadership Program and the Australian Institute of Company Directors course.

Irene Irvine

Appointed 1st October 2012

Irene operates her own consultancy providing strategic support to the education and not for profit sectors since retiring as Pro Vice Chancellor Deakin University. Irene is a Director of State Trustees Victoria, Karingal and Open Gardens Australia and a past Chair of Phillip Island Nature Parks. Irene 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 has completed the Australian Institute of Company Directors course.

John Anderson - Cert EDP, MACS

Appointed 1st October 2007

Appointment completed 30th September 2012

John brings over 30 years experience in the Information Technology industry to the organisation. In partnership with his wife, he also operates a Dairy farm in West Gippsland. John is currently an independent information technology consultant and is the Deputy Chair of Victrack, a Director of the West Gippsland Healthcare Group and a Director of the West Gippsland Catchment Management Authority. John has a strong interest in community and volunteer groups including Landcare.

Kim McGrath - LLB BA GAICD

Appointed 1st July 2010

Appointment completed 30th September 2012

Kim has over 20 years experience in public policy development and implementation in a range of portfolio areas including governance, sustainability and the water industry. Kim is currently engaged by the United Nations Development Program to assist Steve Bracks AC on his Timor Leste Governance Project.



From left to right: Jim Fawcett, David Schultz, Chris Badger, Philippe du Plessis (MD), Joan Liley (Chair), Steve Rieniets, Anna Kilborn. Absent: Irene Irvine



Meetings Attended

| Director | Date of Commencement on Board | Board Meetings | OHS Committee | Audit and Risk Management Committee | Corporate Governance Committee | Environment Committee | Executive Remuneration Committee | Capital Works Committee |
|--|-------------------------------|----------------|---------------|-------------------------------------|--------------------------------|-----------------------|----------------------------------|-------------------------|
| Joan Liley [Chair of Board] (Chair of Remuneration Committee) | 1/7/2004 | 11 of 13 | 4 of 4 | 3 of 5 | 3 of 4 | 1 of 2 | 4 of 4 | 1 of 1 |
| Jim Fawcett (Chair of Audit and Risk Management Committee) | 1/10/2007 | 9 of 13 | n/a | 5 of 5 | n/a | n/a | 3 of 4 | n/a |
| Chris Badger (Chair of Environment Committee) | 1/10/2011 | 12 of 13 | 4 of 4 | n/a | n/a | 2 of 2 | n/a | 0 of 1 |
| Anna Kilborn (Chair of OHS Committee) | 1/10/2011 | 13 of 13 | 4 of 4 | n/a | n/a | 2 of 2 | n/a | 1 of 1 |
| David Schultz (Chair of Corporate Governance Committee) | 1/10/2011 | 11 of 13 | n/a | 3 of 5 | 4 of 4 | n/a | n/a | 1 of 1 |
| John Anderson To 30th September 2012 [Deputy Chair of Board] | 1/10/2007 | 4 of 4 | n/a | 2 of 2 | n/a | n/a | 1 of 2 | n/a |
| Kim McGrath To 30th September 2012 (Chair of Environment Committee) | 22/7/2010 | 4 of 4 | n/a | n/a | 1 of 1 | 1 of 1 | n/a | n/a |
| Irene Irvine | 1/10/2012 | 9 of 9 | n/a | 3 of 3 | 3 of 3 | n/a | n/a | n/a |
| Steve Rieniets (Chair of Capital Works Committee) | 1/10/2012 | 9 of 9 | 2 of 2 | n/a | n/a | n/a | 3 of 3 | 1 of 1 |
| Number of Meetings Held | | 13 | 4 | 5 | 4 | 2 | 4 | 1 |

Our Management Team

Managing Director

Philippe du Plessis

The Managing Director is responsible for direction of the Senior Management Team and the Corporate and Strategic functions of South Gippsland Water. These include Strategic Relationships, Strategic Marketing, the Corporation's performance and image, awareness of future trends in the water industry and contact with the Corporation's key stakeholders.

Manager Finance & Corporate Services

Justin Wightman

The Manager Finance and Corporate Service role encompasses Finance and Accounting, Revenue Management, Customer Services, Human Resources and Information Technology. The key responsibility of the Manager Finance and Corporate Services is that of custodian of the Corporation's assets & financial resources on behalf of all stakeholders.

Manager Technical Services

Rob McKaige

The Manager of Technical Services is responsible for the planning, direction and management of the Corporation's Capital Works Program incorporating a broad range of Projects. Other functions under Rob's responsibility include developing the Corporations Water Supply Demand Strategy including the Drought Response Program and Engineering & Technical Services.

Manager Operations

Ravi Raveendran

The Manager Operations manages all of the Corporation's operational functions including Water Treatment Plants, Wastewater Treatment Plants, Water and Wastewater services delivery infrastructure. His responsibilities include compliance with Water and Wastewater Quality Guidelines, ongoing Quality Monitoring, Operations improvement, site safety, specialist services to Major Customers and Environment and Catchment Management.

Organisation Structure

| Board of Directors | | |
|---|----------------------------|--------------------------------|
| Managing Director Executive Management Industry Awareness Strategic Relationships Corporate Compliance Strategic Marketing Asset Management | | |
| Manager Finance & Corporate Services | Manager Operations | Manager Technical Services |
| Finance and Accounting | Operations and Maintenance | Capital Works |
| Customer Service | Renewal and Replacement | Planning and Development |
| Human Resources | Water Quality | Works Design and Documentation |
| Information Technology | Water Sampling | Works Construction Services |
| Risk Management including OHS | Environment | Dam Safety |
| | Dam Safety | |

Corporate Governance

Role of the Board

The Board of Directors, who are appointed by the Minister for Water, operate under the provisions of the Water Act 1989 and have responsibility for the governance of the Corporation, to provide 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 Senior Management Team.

Board Membership

The Board comprises a non-executive Chair, the Managing Director and six non-executive Directors. The Minister for Water appoints the Directors under the Water Act 1989.

Remuneration of Directors

Refer to the Notes to Accounts within the Financial Report.

Meetings, Committees & Composition of Committees

The Board meets on the fourth Thursday of each month and on other occasions as required. The Board has established the following committees:

Occupational Health and Safety Board Committee

The Occupational Health and Safety Board Committee met 4 times in 2012/13. The committee assists the Board to discharge its duty of care and fulfil its corporate governance responsibilities with respect to workplace health and safety.

Period of operation

| | |
|----------------------|-----------------------|
| 1/7/2012 – 30/9/2012 | 1/10/2012 – 30/6/2013 |
| Anna Kilborn (Chair) | Anna Kilborn (Chair) |
| Chris Badger | Chris Badger |
| Joan Liley | Joan Liley |
| | Steve Rieniets |

Audit and Risk Management Committee

The Audit and Risk Management Committee met 5 times in 2012/13. The committee reviews the financial accounts, statutory responsibilities, corporate regulations, risk management and delegated Corporation policies and procedures that underpin the operations of South Gippsland Water.

Period of operation

| | |
|----------------------|-----------------------|
| 1/7/2012 – 30/9/2012 | 1/10/2012 – 30/6/2013 |
| Jim Fawcett *(Chair) | Jim Fawcett *(Chair) |
| David Schultz* | David Schultz* |
| Joan Liley | Irene Irvine* |
| John Anderson* | Joan Liley |
| Peter Moloney** | Peter Moloney** |

(*Independent Members)

(**Independent External Member)

Corporate Governance Committee

The Corporate Governance Committee met 4 times in 2012/13, to identify and put in place processes to enhance Board and organisational performance.

Period of operation

| | |
|-----------------------|-----------------------|
| 1/7/12 – 30/9/2012 | 1/10/2012 – 30/6/2013 |
| David Schultz (Chair) | David Schultz (Chair) |
| Kim McGrath | Irene Irvine |
| Joan Liley | Joan Liley |

Environment Committee

The Environment Committee met 2 times in 2012/13. Its objectives include, assisting in establishing environmental management policy, monitoring organisational environmental awareness and performance and advice on environmental issues to the Board.

Period of operation

| | |
|---------------------|-----------------------|
| 1/7/12 – 30/9/2012 | 1/10/2012 – 30/6/2013 |
| Kim McGrath (Chair) | Chris Badger (Chair) |
| Anna Kilborn | Anna Kilborn |
| Chris Badger | Joan Liley |
| Joan Liley | |

Remuneration Committee

The Remuneration Committee meets when required and reviews the performance and remuneration of senior executives and the terms of employment of all South Gippsland Water employees. It met 4 times in 2012/13. The committee ensures compliance with the requirements of the Government Sector Executive Remuneration Panel (GSERP).

Period of operation

| | |
|--------------------|-----------------------|
| 1/7/12 – 30/9/2012 | 1/10/2012 – 30/6/2013 |
| Joan Liley (Chair) | Joan Liley (Chair) |
| Jim Fawcett | Jim Fawcett |
| John Anderson | Steve Rieniets |

Capital Works Committee

The first meeting of the Capital Works Committee took place in June 2013. The objectives of the newly formed Committee are to assist the Board to fulfil its duties and oversee the strategic context, planning, development and delivery of the Capital Works Plan. Good governance with respect to the delivery mechanisms undertaken to deliver the Capital Works projects is also a focus of the Committee.

Period of operation

| | |
|------------------------|--------------|
| 27/6/13 – 30/6/2013 | |
| Steve Rieniets (Chair) | Chris Badger |
| Anna Kilborn | Joan Liley |

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 statement that declarations of pecuniary interests have been duly completed by all relevant officers of the Corporation;
- details of shares held by senior officers as nominee or held beneficially in a statutory Corporation or subsidiary;
- details of publications produced by the Corporation about the activities of the Corporation and where they can be obtained;
- details of changes in prices, fees, charges, rates and levies charged by the Corporation for its services, including services that are administered;
- details of any major external reviews carried out in respect of the operation of the Corporation;
- 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;
- details of overseas visits undertaken including a summary of the objectives and outcomes of each visit;
- details of major promotional, public relations and marketing activities undertaken by the Corporation to develop community awareness of the services provided by the Corporation;
- details of assessments and measures undertaken to improve the occupational health and safety of employees, not otherwise detailed in the Report of Operations;
- 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; and

- (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 58.

Declaration of Pecuniary Interest

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

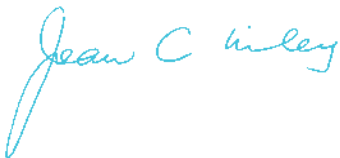
WHK Audit (Vic), as an agent for the Auditor-General Victoria, undertook the external audit for 2012/13.

Risk Management & Chairman'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 process.

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

I, Joan Liley, certify that South Gippsland Water has risk management processes in place consistent with the Australian/New Zealand Risk Management Standard and an internal control system is in place that enables the Executive to understand, manage and satisfactorily control risk exposures. The Audit and Risk Management Committee verifies this assurance and that the risk profile of South Gippsland Water has been critically reviewed within the last 12 months.



Joan Liley
Chair
Board of Directors
South Gippsland Water
Dated: 30th June 2013

Manner of Establishment & 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.

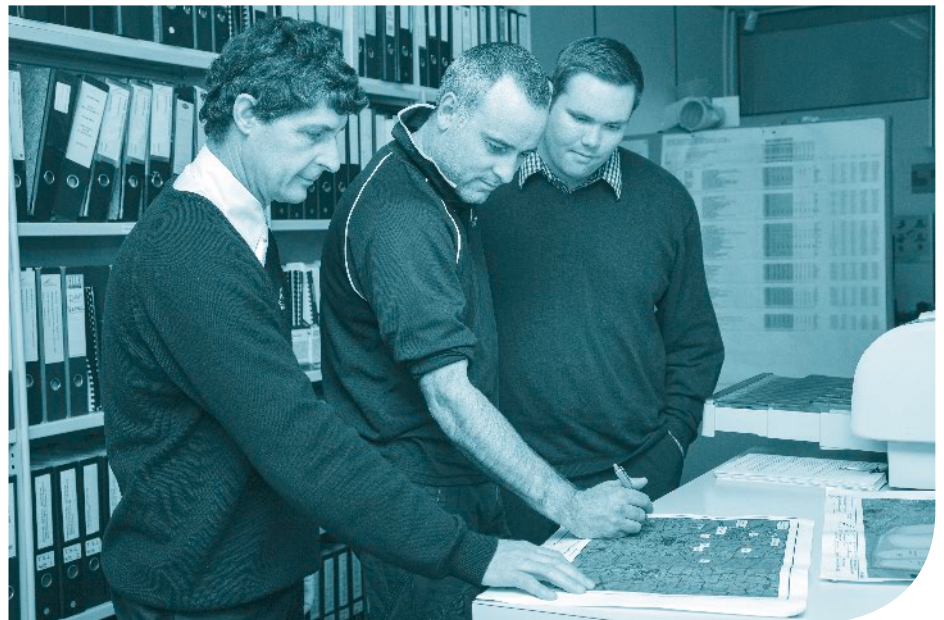
During the 2012/13 reporting period the responsible Minister for South Gippsland Region Water Corporation was Peter Walsh MLA, Minister for Water.

Objectives, Functions, Powers and Duties

Under the Water Act 1989 No. 80, South Gippsland Water is responsible for a range of functions in our service area, relating to water supply and sewerage. These are:-

- 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.
- Sewerage
- 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 waste water.
- 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 sewerage 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 Governance

Employment and Conduct Principles

South Gippsland Water communicates its support of employment and conduct principles by issuing all new employees with a copy of the Code of Conduct of the Victorian Public Service (which is also available to all staff via the intranet) supported by an Induction Manual that reinforces many elements of the Code of Conduct. Both of these documents form part of induction process for new employees and provide guidance for addressing ethical issues such as conflict of interest. Board Directors and Senior Management make pecuniary interest statements annually.

South Gippsland Water is committed to applying merit and equity to recruitment and in all its dealings with staff. The table below summarises all formal staffing grievances such as sexual harassment and unfair dismissal complaints. There were no complaints listed in 2012/13.

Formal Staff Grievances Disclosure Summary

| Year | 2012/13 | 2011/12 |
|-------------|---------|---------|
| Disclosures | 0 | 2 |

Workforce Data

| | Ongoing Employees | | | | Fixed term & Casual Employees | |
|-----------|-----------------------|-----------------------|-----------------------|-------|-------------------------------|--|
| | Employees (Headcount) | Full time (Headcount) | Part time (Headcount) | FTE | FTE | |
| June 2013 | 92 | 85 | 4 | 88.15 | 2.2 | |
| June 2012 | 91 | 84 | 4 | 86.35 | 2.4 | |

| | June 2012/13 | | | June 2011/12 | | |
|-----------------------|----------------------|------|------------------------------|----------------------|-------|------------------------------|
| | Ongoing | | Fixed term & Casual Employee | Ongoing | | Fixed term & Casual Employee |
| | Employee (Headcount) | FTE | FTE | Employee (Headcount) | FTE | FTE |
| Gender | | | | | | |
| Male | 65 | 65.0 | 1 | 65 | 64.8 | 1.0 |
| Female | 24 | 23.1 | 1.2 | 22 | 21.6 | 1.4 |
| Age | | | | | | |
| Under 25 | 6 | 6.0 | 1.0 | 6 | 6.0 | 0.0 |
| 25-34 | 14 | 13.8 | 0.0 | 14 | 14.0 | 1.0 |
| 35-44 | 22 | 21.8 | 0.0 | 24 | 24.0 | 0.2 |
| 45-54 | 32 | 31.7 | 1.0 | 27 | 26.8 | 1.0 |
| 55-64 | 14 | 13.8 | 0.2 | 14 | 13.8 | 0.2 |
| Over 64 | 1 | 1.0 | 0.0 | 2 | 1.8 | 0.0 |
| Classification | | | | | | |
| Trainee | 2 | 2.0 | | 1 | 1.0 | |
| Band 3 | 9 | 9.0 | 1.0 | 10 | 10.0 | |
| Band 4 | 17 | 16.5 | 0.2 | 19 | 18.7 | |
| Band 5 | 19 | 19.0 | | 16 | 16.0 | 2.4 |
| Band 6 | 15 | 14.6 | | 17 | 16.8 | |
| Band 7 | 10 | 10.0 | | 7 | 7.0 | |
| Band 8 | 6 | 6.0 | 1.0 | 5 | 5.0 | |
| SEO | 7 | 7.0 | | 8 | 7.8 | |
| Executives | 3 | 3.0 | | 3 | 3.0 | |
| M/g | 1 | 1.0 | | 1 | 1.0 | |
| Director | | | | | | |
| | 89 | 88.1 | 2.2 | 87 | 86.35 | 2.4 |

Executive officers' remuneration

The number of executive officers, other than responsible persons, whose total remuneration falls within the specified bands above \$100,000 are as follows:

| Income band \$ | Total Remuneration | | Base Remuneration | |
|---|--------------------|-----------|-------------------|-----------|
| | 2013 | 2012 | 2013 | 2012 |
| 90,000 - 99,999 | - | - | - | 1 |
| 100,000 - 119,999 | - | 1 | - | - |
| 150,000 - 159,999 | 1 | - | 1 | - |
| 160,000 - 169,999 | - | - | - | - |
| 170,000 - 179,999 | - | - | 2 | 2 |
| 180,000 - 189,999 | 2 | 2 | - | - |
| Total Amount | \$529,000 | \$474,000 | \$515,000 | \$443,000 |
| Total Numbers | 3 | 3 | 3 | 3 |
| Total annualised employee equivalent (AEE) | 3 | 2.6 | 3 | 2.6 |

(AEE) Annualised employee equivalent is based on working 38 ordinary hours per week over the reporting period.

Freedom of Information (FoI)

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 and 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 that are available.

Applications

No requests were received by South Gippsland Water under the FOI Act during 2012/13.

Protected Disclosure

The Whistleblowers Protection Act 2001 (WB Act) was repealed and replaced with the Protected Disclosure Act 2012 (PD Act) on 10 February 2013. As the change of legislation occurred midway through the 2012-13 financial year, this disclosure complies with the requirements of the PD Act and section 104 of the WB Act, for each of the relevant time periods.

Compliance with the Protected Disclosures Act 2012

The PD Act was part of a package of integrity reforms introduced by the Victorian Coalition Government, which also established the Independent Broad-based Anti-corruption Commission (IBAC).

The PD Act enables people to make disclosures about improper conduct within the public sector without fear of reprisal. It aims to ensure openness and accountability by encouraging people to make disclosures and protecting them when they do.

What is a 'protected disclosure'?

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

South Gippsland Water is a "public body" for the purposes of the PD Act.

What is 'improper or corrupt conduct'?

Improper or corrupt conduct involves substantial:

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

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

How do I make a 'protected disclosure'?

You can make a protected disclosure about South Gippsland Water or its board members, officers or employees by contacting the Department of Environment and Primary Industries (DEPI) or IBAC on the contact details provided below.

Please note that South Gippsland Water is not able to receive protected disclosures.

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

South Gippsland Water has established procedures for the protection of persons from detrimental action in reprisal for making a protected disclosure about South Gippsland Water or its employees. You can access South Gippsland Water's procedures on its website at: www.sgwater.com.au.

Contacts

Department of Environment and Primary Industries

Jennifer Berensen, Senior Advisor, Privacy & Ombudsman
 Department of Environment and Primary Industries
 Address: PO Box 500, East Melbourne Vic 3002
 Ph: 03 9637 8697
 Website: www.depi.vic.gov.au

Independent Broad-Based Anti-Corruption Commission Victoria

Address: Level 1, North Tower, 459 Collins Street, Melbourne Victoria 3001.
 Mail: IBAC, GPO Box 24234, Melbourne Victoria 3000
 Internet: www.ibac.vic.gov.au
 Phone: 1300 735 135
 Email: see the website above for the secure email disclosure process, which also provides for anonymous disclosures.

Disclosures under the Whistleblowers Protection Act 2001 (up to 9 February 2013)

The archived procedures established under the WB Act are available upon request.

The disclosures detailed in the table below relate to the period commencing on 1 July 2012 and ending on 9 February 2013.

| | 2012-13 number | 2011-12 number |
|---|----------------|----------------|
| The number and types of disclosures made to South Gippsland Water during the year (1 July 2012 to 9 February 2013): | | |
| Public interest disclosures | 0 | 0 |
| Protected disclosures | 0 | 0 |
| The number of disclosures referred during the year by the public body to the Ombudsman for determination as to whether they are public interest disclosures | 0 | 0 |
| The number and types of disclosed matters referred to the public body by the Ombudsman for investigation | 0 | 0 |
| The number and types of disclosures referred by the public body to the Ombudsman for investigation | 0 | 0 |
| The number and types of investigations taken over from the public body by the Ombudsman | 0 | 0 |
| The number of requests made by a whistleblower to the Ombudsman to take over an investigation by the public body | 0 | 0 |
| The number and types of disclosed matters that the public body has declined to investigate | 0 | 0 |
| The number and types of disclosed matters that were substantiated upon investigation and the action taken on completion of the investigation | 0 | 0 |
| Any recommendations made by the Ombudsman that relate to the public body: Recommendation regarding file security and management | 0 | 0 |



Corporate Governance

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 \$25.10 from 1st July 2012 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
 Phone: (03) 5682 0444
 At: 14-18 Pioneer Street, Foster, Vic
 By Mail: PO Box 102, Foster, Vic 3960
 By Fax: (03) 5682 1199
 By Email: sgwater@sgwater.com.au

Compliance with the Building Act 1993

The Corporation, complied with the building and maintenance provisions of the Building Act 1993, in regard to building essential services, safety and maintenance activities; and was also in compliance with the Builders Code of Australia.

Victorian Industry Participation Policy - Implementation

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

During 2012/13 there were no contracts awarded or completed to which VIIP applied.

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.

Consultancies for 2012/13 – Greater than \$10,000

| Consultant | Project | Total Approved Project Fee (Excl. GST) | Expenditure 2012/13 (Excl. GST) | Future Expenditure (Excl. GST) |
|----------------------|--|--|---------------------------------|--------------------------------|
| Aerometrex | NTWSP - Aerial Photography Topographical and Feature Survey | \$59,470 | \$25,500 | \$33,970 |
| Ariss | Reuse Opportunities - Nyora Wastewater Treatment Plant Site Investigations | \$28,045 | \$28,045 | \$0 |
| Beveridge Williams | Poowong Loch Nyora Sewer Reticulation Design | \$390,886 | \$51,021 | \$400 |
| Douglas Partners | NTWSP - Geotechnical Investigation | \$62,318 | \$62,300 | \$18 |
| GHD | Wonthaggi Wastewater Treatment Plant Sludge Drying Pan Hydrogeological Assessment | \$10,450 | \$10,450 | \$0 |
| GHD | Wonthaggi Wastewater Treatment Plant sludge drying pan works approval assessment | \$38,860 | \$37,410 | \$1,450 |
| GHD | Meeniyan Water Treatment Plant Capacity upgrades | \$11,800 | \$11,800 | \$0 |
| GHD | Seabank Caravan Park Sewerage Provision Concept Options - Phase 1 | \$11,850 | \$11,850 | \$0 |
| GHD | Poowong Loch Nyora Sewer Wastewater Treatment Plant Design | \$140,985 | \$86,254 | \$0 |
| Halcrow | Leongatha Water Supply Assessment and Future Development Strategy | \$49,373 | \$44,360 | \$5,013 |
| Halcrow | Lohr Avenue Sewerage Pump Station Upgrade | \$59,200 | \$33,046 | \$26,154 |
| KBR | Leongatha WWTP anaerobic digester refurbishment | \$90,596 | \$90,596 | \$0 |
| KBR | NTWSP - Flora & Fauna and EPBC | \$58,000 | \$53,150 | \$4,850 |
| KBR | Pipe Material Selection Assessment for Northern towns Water Supply Pipelines | \$16,385 | \$16,385 | \$0 |
| KBR | Tarraville Wastewater Treatment Plant - Strategic Plan | \$31,518 | \$31,518 | \$0 |
| KBR | Preliminaries / Set Up / Planning | \$369,792 | \$175,216 | \$0 |
| KBR | Foster Wastewater Treatment Plant Site Selection | \$170,588 | \$26,192 | \$0 |
| KBR | Audit of Bulk Entitlements | \$19,667 | \$4,667 | \$0 |
| KBR | Melbourne Supply Connection- Preliminary Environment Assessment | \$22,985 | \$1,985 | \$0 |
| KBR | Leongatha Treated Water Trunk Main "Concept Design" Proposal | \$26,333 | \$7,276 | \$0 |
| KBR | Wonthaggi, Inverloch & Cape Paterson - Fluoridation | \$74,688 | \$10,625 | \$0 |
| Marsden Jacob | Capital Works Program – Review of Information Flow to Board of Directors | \$86,827 | \$86,827 | \$0 |
| Osborne Management | Poowong/ Loch/Nyora Sewerage Scheme Review Support | \$50,000 | \$21,467 | \$28,533 |
| RMCG | Poowong/Loch/Nyora Wastewater Treatment Plant Land Capability Assessment & Water Balance | \$17,100 | \$17,100 | \$0 |
| RMCG | Foster Wastewater Treatment Plant, Irrigations Options Investigation | \$15,827 | \$3,191 | \$0 |
| SKM | Water Resources Technical Support for SGW | \$19,000 | \$2,240 | \$16,760 |
| SKM | Annual Water Security Outlooks | \$23,936 | \$23,936 | \$0 |
| SKM | Monitoring Bores, Andersons Road Leongatha | \$16,858 | \$16,858 | \$0 |
| Tim Stone | Poowong/Loch/Nyora Sewer Scheme - Aboriginal Cultural Heritage Assessment | \$36,640 | \$36,640 | \$0 |
| Tim Stone | Wonthaggi Wastewater Treatment Plant Extension Aboriginal Cultural Heritage Management Plan Complex Assessment - Fieldwork Component | \$35,020 | \$35,020 | \$0 |
| Underwood Management | Poowong/Loch/Nyora Sewerage Scheme Workshop Facilitation | \$20,000 | \$2,005 | \$17,995 |

In 2012/13 South Gippsland Water engaged three consultancies where the total fees payable to the consultants were less than \$10,000 with a total expenditure of \$18,796 (Excl. GST)



Disclosure of Major Contracts

There were no contracts of a value in the order of \$5M during the reporting period 2012/13. There were no contracts of a value greater than \$10M during the reporting period 2012/13.

Corporate Water Consumption 2012/13

The calculation 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.

The following depots, workshops, treatment plants (water and wastewater), pumping stations and infrastructure facilities are specifically not included:

Wonthaggi, Korumburra, Leongatha, Toora, Yarram depots, - Leongatha water treatment plant, Devon North water treatment plant, Dumbalk water treatment plant, Fish Creek basin, Fish Creek water treatment plant, Foster water treatment plant, Foster wastewater treatment plant, Korumburra water treatment plant, Korumburra wastewater treatment plant, Lance Creek Water treatment plant, Wonthaggi, Inverloch & Cape Paterson wastewater treatment plants, Meeniyah water treatment plant, Meeniyah Wastewater treatment plant, Murray Goulburn wastewater facilities, Poowong water treatment plant, Port Albert wastewater treatment plant, Toora water treatment plant, Toora wastewater treatment plant, Port Welshpool wastewater treatment plant and Waratah Bay wastewater treatment plant.

| Indicator | Target | Actual 2012/13 | Variation % | Actual 2011/12 | Actual 2010/11 |
|---|--------|----------------|-------------|----------------|----------------|
| Consumed [Kilolitre (KL) = 1,000 litres] | 260kL | 225kL | -14% | 285kL* | 241kL |
| Kilolitres consumed per full time equivalent staff member | 7.2kL | 4.2kL | -42% | 8.2kL* | 6.2kL |

***Note:** An undetected leak contributed to high water consumption in 2011/12 and has subsequently been repaired.

Water Consumed Per Unit of Office Space

Water consumed per square metre of office space for 2012/13 was 226.6 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; and
- 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.



Our People

We recognise that our staff, are a major strength and we will plan to continue to focus on recruiting, training and retaining staff of the highest calibre. The sound performance of our staff during this year has enabled the Corporation to continue to deliver the services necessary to effectively manage the needs of customers across the region.

Employee Assistance Program

The Corporation operates a voluntary Employee Assistance Program (EAP) to assist staff in times of stress and difficulties. A counsellor, appointed by the Corporation, is available to provide confidential consultations to employees on personal matters should they seek assistance.

The private and confidential nature of this assistance encourages individuals to reach solution based outcomes and assist with their development and well-being.

Enterprise Bargaining Agreement [EBA]

The current South Gippsland Water EBA agreement expired in September 2012; the Consultative Committee has been in the process of negotiating a new agreement for approval through the Department of Treasury and Finance which was achieved in July 2013.

Occupational Health and Safety Management (OH&S)

South Gippsland Water's Occupational Health and Safety unit continued to focus strongly on improving OH&S risk control across the corporation by implementing new procedures and systems. This also involved continued accreditation 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 ensures 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 the employees to safely carry out their duties without impediment.

South Gippsland Water's contractor management has featured highly during the 2012/13 financial year. Systems for handling of contractors have been reviewed against industry best practices including Worksafe Victoria guidelines, ensuring continued compliance against the OH&S Act 2004 and the OH&S 2007 regulations. A number of improvements have been implemented

across the Corporation assisting contractors to meet their safety obligations.

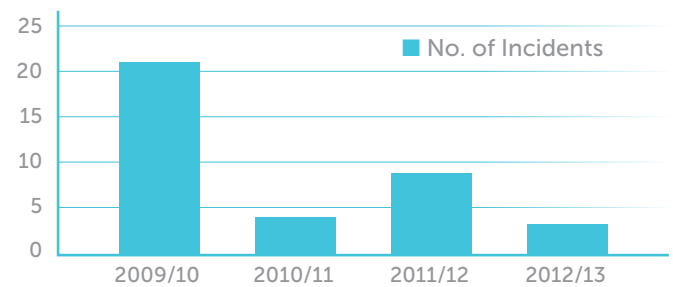
South Gippsland Water focused on the "H" in Occupational Health and Safety during the last financial year providing employees training and information regarding mental health identification and handling as well anti bullying and harassment training. This training provides employees with the knowledge to assist with early identification and avenues available to seek treatment if required.

A slight increase was recorded in Lost Time Injuries (LTI) from one during the 2011/12 to two in this financial year. This has resulted in an increase in the number of lost time days from five in 2011/12 to twenty three during 2012/13. A number of strategies have been implemented to assist in aiming for zero harm throughout the Corporation.

The corporation has had a focus on improving vehicle safety and drivers behaviour over a number of years. A systematic approach was taken to improve a number of areas including purchasing vehicles with high safety ratings and accessories to allow safer use of vehicles, defensive driving training and placing more accountability on the use of corporation vehicles.

South Gippsland Water are very pleased with the results with a noticeable reduction in reportable incidents as shown in the below chart. This program not only improves employee's safety but improves community safety as the majority of employees travel in corporation vehicles on public roads.

South Gippsland Water Vehicle Incidents



Equal Opportunity

South Gippsland Water has continued its commitment to the application of Equal Employment Opportunity principles in managing its staff and in all recruitment processes. No Equal Employment Opportunity queries or cases arose in the 2012/13 period.



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 the Government. The Essential Services Commission monitors South Gippsland Water's performance against these obligations.

Community Service Obligations - Financial Assistance To Eligible Customers & Pensioners

Financial assistance is provided to individuals and organisations as part of the Government's Community Service Obligations.

| Value of Community Service Obligation Provided | 2012/13 \$ | 2011/12 \$ |
|---|------------|------------|
| Provision of concessions to pensioners | 1,290,341 | 1,217,574 |
| Rebates paid to not-for-profit organisations under the water and sewerage rebate scheme | 144,909 | 136,933 |
| Utility Relief Grants Scheme payments | 13,781 | 9,672 |
| Water concessions on Life Support Machines - Haemodialysis | 428 | Nil |
| Hardship Relief Grant Scheme (Sewerage Connection Scheme) | Nil | Nil |

Customer Consultation

South Gippsland Water recognises that engaging, informing and consulting with its customers and stakeholders is pivotal to effective project management and a key aspect of the core business of the Corporation.

As such, South Gippsland Water utilises the International Association of Public Participation's Framework 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 our services and projects directly affecting them.

South Gippsland Water conducts a range of regular customer consultations, including:

- an annual customer satisfaction survey;
- meetings with local community and special interest groups, i.e. Lions, Rotary, Chambers of Commerce, Landcare groups, etc.;
- via the South Gippsland Water website; and
- participation at local events such as environment and water related shows.

In addition, South Gippsland Water consults with its customers and associated stakeholders as required, on issues such as:

- water plan preparation;
- water supply/demand strategy consultation; and
- issue and/or project based groups regarding projects such as sewerage schemes and fluoridation of water supply.

During 2012/13 South Gippsland Water has completed a number of customer consultation initiatives including the release of its Water Plan for 2013/14-2017/18 and consultation on major projects including the Poowong, Loch and Nyora Sewerage Scheme and the Alberton Sewerage Scheme.

This consultation has included;

- Community information sessions
- Focus Group discussions & workshops
- Surveys both electronic and hard copy
- Direct mail materials
- Advertisements and advertorials
- Information available for download on the South Gippsland Water website
- Letters and direct correspondence with customers and stakeholders

Customer Reference Groups and Committees

As set out in previous Annual Reports, in 2001 South Gippsland Waters Customer Consultation Committee [which had been operating for 6 years] reviewed the way it was operating and functioning. As a result of this self initiated review, in which all committee members participated, it was requested that the Corporation change the customer consultation process, from a standing committee format, to issues based groups and project groups. Since that time, issues and major projects with implications for our customers have had their own reference groups.

Customer reference groups are able to interact directly with project staff and influence the total project. They are able to provide information about the local environment and conditions so that these can be taken into account by the design team.

Building Community Capacity - Community and Schools education programs – sustainability and demand reduction

South Gippsland Water has continued to facilitate school education programs throughout 2012/13:-

- "Water Aware" is a dynamic school leadership program offering students insight into the whole water picture in their particular area. Water Aware is an investigative program delivered in partnership with local water related businesses.
- A number of activities are delivered around key days throughout the year including a student expo to celebrate World Environment Day and National Water Week poster competition and activities.
- School visits and excursions have been delivered to both secondary and primary schools supporting water related curriculum.

Meetings with local community and special interest groups

The Corporation seeks 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 Chambers of Commerce, local residents and land care groups, etc.

Social Sustainability cont.

South Gippsland Water Website

South Gippsland Water's website www.sgwater.com.au provides public access to copies of published materials and invitations to comment and at certain times submit online web survey's.

Management of Social and Economic Impacts

Economic Impacts

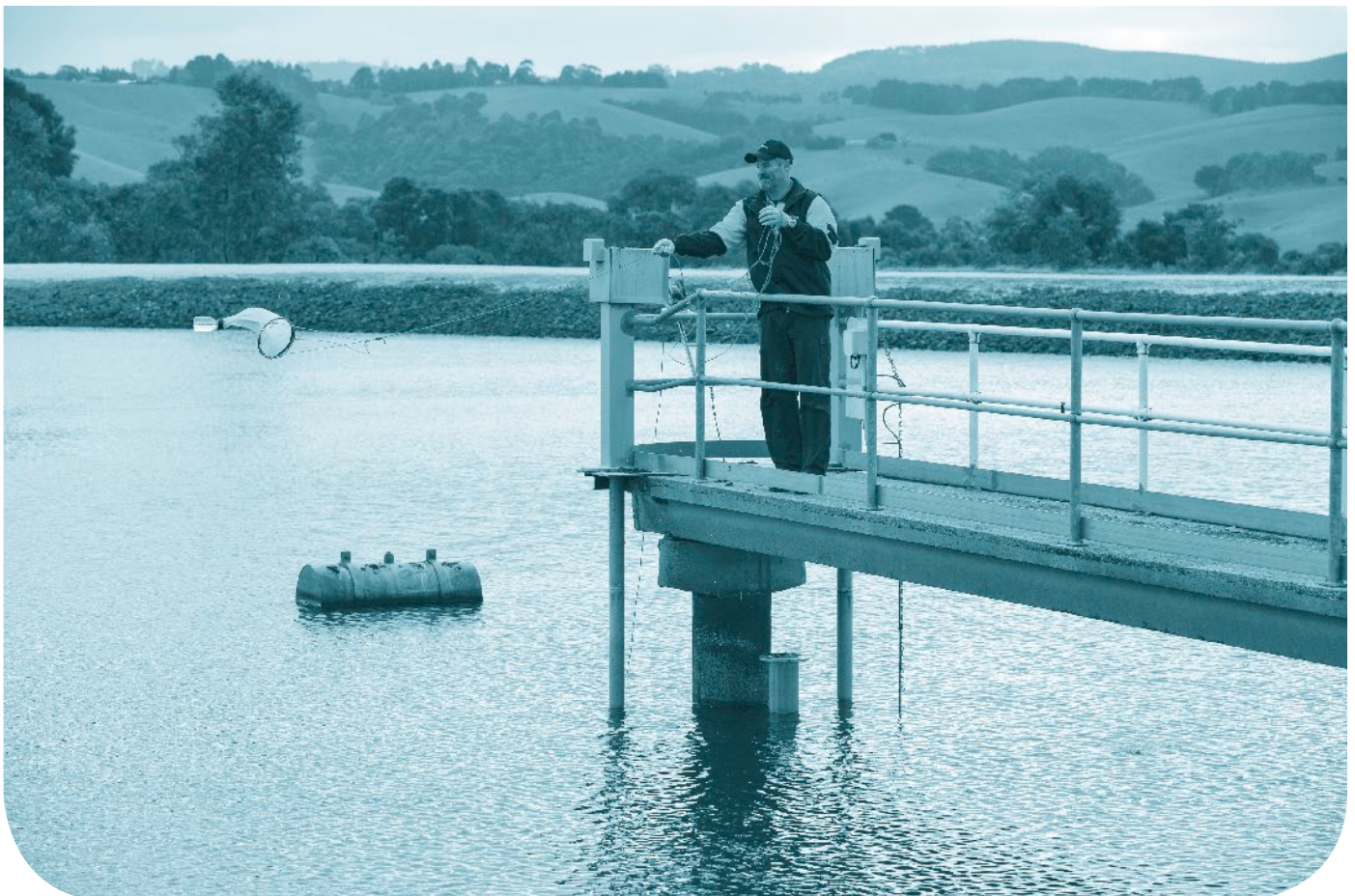
South Gippsland Water offers a wide range of assistance options to customers, in financial difficulties, including free referral to an independent financial counsellor. The Corporation has operated a tariff assistance and relief program since 1996. The policy incorporates the requirements of the Essential Services Commission's Customer Code and South Gippsland Water's Customer Charter. Features of the policy include:-

- Engage in discussions with the customers to determine the best option.
- 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 installment 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 any available free, independent and accredited financial counseling 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.

During 2012/13 the Corporation took part in the Living Victoria Water Rebate Program for Residential Customers and Small Business. The program provides rebates for a wide range of water efficient products.

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, to assist with referrals and support services for customers.



Bulk Entitlement Reporting

The Corporation operates a number of Bulk Entitlements - the following table sets out the entitlement for all South Gippsland Waters' water supply systems for 2012/13.

| System & reference number of relevant Bulk Entitlement | Water supply | Towns serviced | Bulk Entitlement ML/year | Amount taken ML/y ¹ | Storages ² | Water storages ML ³ | Entitlement transfer from | Entitlement transfer to ML/y | Entitlement amendment | New entitlement | Failures to comply ⁴ | Difficulties & remedial action ⁵ | Compliance with making allowances ⁶ | Compliance with environmental obligations ⁷ | Compliance with metering obligations ⁸ |
|---|----------------------------------|---|--------------------------|--------------------------------|-------------------------------|--------------------------------|---------------------------|------------------------------|-----------------------|-----------------|---------------------------------|---|--|--|---|
| BEE049324 Leongatha | Ruby Creek | Leongatha, Koonwarra. | 2,476 | 1,707 | Res 1. | 15 | Nil | Nil | Nil | Nil | Nil | Nil | a | a | a |
| | | | | | Res 2 | 71 | | | | | | | | | |
| | | | | | Hyland | 417 | | | | | | | | | |
| | | | | | Western | 817 | | | | | | | | | |
| BEE049323 Devon North, Alberton, Yarram and Port Albert | Tarra River | Yarram, Alberton, Port Albert, Devon North. | 853 | 429 | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil | a | a | a |
| BEE049327 Fish Creek | Battery Creek | Fish Creek | 251 | 99 | Battery Creek Reservoir | 123 | Nil | Nil | Nil | Nil | Nil | Nil | a | a | a |
| BEE049331 Korumburra | Coalition Creek | Korumburra | 1,000 1,800 | 713 | No. 1 | 135 | Nil | Nil | Nil | Nil | Nil | Nil | a | a | a |
| | Ness Creek | | | | No. 2 | 73.5 | | | | | | | | | |
| | Bellview Creek | | | | No. 3 | 343 | | | | | | | | | |
| | Tarwin River | | | | Nil | Nil | | | | | | | | | |
| BEE049325 Loch, Poowong & Nyora | Little Bass River | Poowong, Loch, Nyora. | 420 | 231 | Little Bass Reservoir | 218.5 | Nil | Nil | Nil | Nil | Nil | Nil | a | a | a |
| BEE049332 Toora, Port Franklin, Welshpool and Port Welshpool Agnes River | Agnes River | Toora, Welshpool, Port Welshpool, Port Franklin. | 1,617 | 513 | Cooks Dam | 58.7 | Nil | Nil | Nil | Nil | Nil | Nil | a | a | a |
| BEE049334 Wonthaggi, Inverloch | Lance Creek | Wonthaggi, Inverloch, Cape Paterson. | 3,800 | 1,822 | Lance Creek Reservoir | 3737 | Nil | Nil | Nil | Nil | Nil | Nil | a | a | a |
| BEE050819 Augmented Melbourne system | Melbourne Headworks System | Wonthaggi, Inverloch, Korumburra, Leongatha. | 1,000 ⁹ | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil | a | a | a |
| BEE049328 Foster | Deep Creek | Foster. | 326 | 175 | Deep Creek Reservoir | 13 | Nil | Nil | Nil | Nil | Nil | Nil | a | a | a |
| BEE049329 Meeniyen | Tarwin River | Meeniyen. | 200 | 66 | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil | a | a | a |
| BEE049326 Dumbalk | Tarwin River East | Dumbalk. | 100 | 31 | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil | a | a | a |

Notes:

- Annual amount of water taken in ML
- Storages included under each Bulk Entitlement
- Water Storage Levels (ML) as at June 30 2013
 - Extraction from the Devon North Groundwater Bore
 - Extraction from the Tarwin River @ Koonwarra Offtake
 - Extraction from the Leongatha Groundwater Bore
- 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 (a indicates compliance has been met)
- Approval, amendment and implementation of programs and proposals for Environmental Obligations (a demonstrates progress towards compliance with environmental obligations)
- Approval, amendment and implementation of programs and proposals for Metering Obligations (a demonstrates compliance with metering obligations)
- The BE for 2012/13 is 1GL. This will increase to 5GL when SGW complete the water connection to Korumburra and Leongatha in the future.

Water Services

Water Quality

During 2012/13, South Gippsland Water maintained its water quality monitoring program consistent with the requirements of the Safe Drinking Water Regulations 2005.

Percentage compliance detailed below is based on the total number of drinking water samples complying with requirements of the regulations. Further details of drinking water compliance for each distribution system are reported annually to the Department of Health and are available on South Gippsland Water's web site, or on request.

| Parameter | Water Quality Standard | Notes | 2012/13 % |
|----------------------------|--|-------|-----------|
| Escherichia coli (E. coli) | At least 98 % of all samples of drinking water collected in any 12 month period to contain no E. coli per 100 mL | | 100.0 |
| Turbidity | 95 % upper confidence limit of the mean of drinking water samples collected in preceding 12 months must be ≤ 5.0 NTU | | 100.0 |
| Aluminium | Must not exceed 0.2 mg/L | | 100.0 |
| Trihalomethanes | Must not exceed 0.25 mg/L | | 100.0 |
| Chloroacetic Acid | Must not exceed 0.15 mg/L | | 100.0 |
| Dichloroacetic Acid | Must not exceed 0.1 mg/L | | 100.0 |
| Trichloroacetic Acid | Must not exceed 0.1 mg/L | | 100.0 |

Drought Response Plan

South Gippsland Water's supply storages and river systems are not large and the region relies on its high annual rain fall to replenish storages prior to the summer draw down.

The drought response plan was invoked on one supply system which was subject to staged water restrictions during the 2012/13 year.

Following low rainfall in the area during the period November 2012 to May 2013. The Coalition Creek system that supplies the Korumburra township began stage one restrictions on 13th January 2013 and moved to stage two on 19th February 2013, which continued until a substantial rain event when they were lifted on 18th June 2013. During the period of restrictions the Corporation provided augmented supply from the Tarwin River, Koonwarra off take.

South Gippsland Water continues to progress the Northern Towns Connection Project to inter-connect existing water supply systems of Coalition Creek and Little Bass (which services Poowong, Loch and Nyora) to the Lance Creek Reservoir which is already connected to the Melbourne Supply System as a back up to use if and when required.

This project will provide the necessary security of supply to support future regional growth (residential and commercial/industrial).

Water Consumption Report

| Water District | Actual Annual Consumption (ML) and Number of Assessments (No.) 2012/13 | | | | | | | | | | | |
|--|--|---------------|---|--------------|--------------|------------|-------------------------|------------|--------------------------|---------------|-------------------|--------------------------------------|
| | Retail Urban Residential | | Retail Urban Non-Residential Include Majors | | Concessional | | Retail Stock & Domestic | | Total Annual Consumption | | Ave Annual Demand | Actual Annual Cons/Ave Annual Demand |
| | ML | No. | ML | No. | ML | No. | ML | No. | ML | No. | ML | % |
| Alberton/Port Albert Yarram/Devon Nth | 145 | 1,235 | 117 | 317 | 23 | 78 | 64 | 131 | 349 | 1,761 | 348 | 0.29 |
| Dumbalk | 10 | 76 | 2 | 9 | 1 | 6 | 2 | 5 | 15 | 96 | 13 | 15.38 |
| Fish Creek | 13 | 99 | 4 | 24 | 3 | 14 | 56 | 64 | 76 | 201 | 74 | 2.70 |
| Foster | 75 | 588 | 38 | 121 | 16 | 40 | 6 | 15 | 135 | 764 | 132 | 2.27 |
| Korumburra | 236 | 1,731 | 324 | 238 | 29 | 68 | 15 | 11 | 604 | 2,048 | 569 | 6.15 |
| Wonthaggi/Cape Paterson/Inverloch | 912 | 8,615 | 309 | 474 | 95 | 194 | 175 | 138 | 1,491 | 9,421 | 1,408 | 5.89 |
| Leongatha/Koonwarra | 357 | 2,417 | 1,066 | 434 | 44 | 136 | 12 | 23 | 1,479 | 3,010 | 1,491 | -0.80 |
| Meenyan | 32 | 196 | 5 | 38 | 3 | 9 | 7 | 12 | 47 | 255 | 42 | 11.90 |
| Poowong/Loch/Nyora | 74 | 516 | 66 | 67 | 8 | 31 | 44 | 44 | 192 | 658 | 163 | 17.79 |
| Toora/Welshpool/Port Welshpool/Port Franklin | 64 | 608 | 193 | 310 | 13 | 37 | 61 | 68 | 331 | 1,023 | 352 | -5.97 |
| Total | 1,918 | 16,081 | 2,124 | 2,032 | 235 | 613 | 442 | 511 | 4,719 | 19,237 | 4,592 | 2.77 |

Average annual demand is calculated as a rolling 3 year average. Non revenue water for the year was 1,003ML which excludes Standpipe Sales, (18 ML), and Wonthaggi Desalination Plant Consumption 36 ML and estimated sales consumption (9ML).

Water Services

Major Non-Residential Water Users

Customers by volume/range for 2012/13

| Volumetric Range ML per year | Number of Customers |
|--|---------------------|
| 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 |
| Total Number of Customers | 2 |

WaterMaps

The WaterMaps program aims to help secure the State's water supplies through consultation with high volume industrial customers.

Non residential water customers with a water usage above 5ML in 2012/13 were asked to take part in a voluntary program to;

- Assess their current water usage
- Identify inefficiencies and opportunities for water savings
- Prepare an action plan to implement water conservation activities
- Annually report on implementation of water conservation activities

South Gippsland Water has provided \$50,000 in funding to 12 business customers to assist in water efficiency through the State Government Business Water Efficiency program.

Water Map Customers & Sustainability Initiatives

| Business type | Participation in Water Conservation Program |
|--|---|
| Murray Goulburn Coop Ltd. Leongatha | Participate in the EREP program [includes both energy and water. Highly active in water conservation. |
| Towang No 1 Pty Ltd. Burra Foods. Korumburra | Processing facilities upgraded; including water conservation measures and community re-use. Received funds under the Small Business and Community Grant Scheme for water conservation improvements. |
| Poowong Pre School | Upgrade of wet area facilities. Received funds under the Small Business and Community Grant Scheme for water conservation improvements. |
| Inverloch Marine | Received funds under the Small Business and Community Grant Scheme for water conservation improvements. |
| Foster Primary School | Connection of water tank to irrigate gardens. Received funds under the Small Business and Community Grant Scheme for water conservation improvements. |
| Wooryal Golf Club | Received funds under the Small Business and Community Grant Scheme for water conservation improvements. |
| Leongatha Cricket Club | Received funds under the Small Business and Community Grant Scheme for water conservation improvements. |
| Rural properties in WattleBank, Foster and Toora | Received funds under the Small Business and Community Grant Scheme for water conservation improvements. |



Wastewater Services

Wastewater Management

During 2012/13, South Gippsland Water was compliant with sewerage treatment quality standards at all ten of its wastewater systems. South Gippsland Water's EPA waste discharge licence compliance for each wastewater system is shown in the table below:

Analysis of performance against CL67907 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. | No ¹ |
| | 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 ² |
| 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 ³ |
| | DW2.4 | You must immediately notify EPA, in writing if practicable, of any exceedence of a notification limit as defined in the 'Notification' table. | Yes |
| | DW3.1 | The mixing zone extends as defined in the 'Mixing Zone' table. | Yes |
| | DW4 | You must install and maintain signage at the discharge point showing, (a) the extend of the mixing zone, (b) your name, (c) the EPA licence number, and (d) the discharge point number. | Yes |
| Land discharges | 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: EPA has recently given verbal advice that a Section 30a emergency discharge approval is a breach of condition G1 of our EPA Licence. This will be confirmed by EPA before the Annual Performance Statement is due (30 September 2013). SGW was issued with a s30a Emergency Discharge Approval for the Tarraville Waste Water Treatment Plant in July 2012.

Note 2: A verified odour complaint was received regarding the Toora Waste Water Treatment Plant. The cause was determined to be a severe blue green algae bloom dying off.

Note 3: Baxter's Beach wastewater system has exceeded its specified discharge annual mean daily flow rate.

Continuous Improvement

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 such as Foster, Inverloch, Port Welshpool and Korumburra;
- Continued improvements to wastewater management systems have been implemented, particularly for monitoring, calibration, documentation and reporting;
- Improvements to the lagoon aeration system at Inverloch with installation of a Low Energy Aeration System to improve treated wastewater quality;
- Optimisation of the chlorine dosing system at Foster, along with a sludge reduction trial using Probiotic dosing of the lagoons.
- Optimisation of treatment processes at the Leongatha Wastewater Treatment Plant.

Treated Effluent

Treated effluent re-use systems are in place at Tarraville, Welshpool, Toora, Inverloch and Waratah Bay, and the Corporation continues to seek innovative methods for disposal of effluent for all of its sewerage treatment plants.

Biosolids

The biosolids management facility, located at the Leongatha Wastewater Treatment Plant, has been upgraded to enable all-weather access for delivering and processing biosolids. Machinery has also been purchased which will enable biosolids to be dried before stockpiling on site, after which time it will be suitable for reuse via land application.

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. These are:-

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 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 & Sustainability Policy Environmental Management System [EMS]

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

South Gippsland Water's commitment to responsible environmental management is also reflected in our Environmental Management System which has been certified to the Australian Standard AS/NZS ISO 14001. The role of the EMS is to identify, manage and reduce the impacts to the environment from our 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 our environmental performance.*
- *Specification of environmental responsibilities*
- *Continual improvement.*

Regional Catchment Strategy

South Gippsland Water continues to work with the West Gippsland Catchment Management Authority and other agencies in implementing the West Gippsland Regional Catchment Strategy [WGRCS] 2012 - 2018. The strategy's overall objectives relate to protecting water, biodiversity, atmosphere and climate; supporting people and communities, infrastructure and production.

South Gippsland Water regards itself as a principle stakeholder in environment and catchment management initiatives within the region. The Corporation recognises the close link between catchment management and its goals to manage and provide, in an environmentally sound and efficient manner, safe high quality drinking water to its customers. South Gippsland Water has a number of programs in place to protect water quality and enhance the environment.

South Gippsland Shire Council

South Gippsland Water is liaising closely with South Gippsland Shire Council in their preparation of a Catchment Policy and associated Domestic Waste Water Management Plan following the release of the Planning Permit Applications in Open Potable Water Supply Catchment Areas Management Guidelines.

EPA Catchment Officer

South Gippsland Water has partnered with EPA Gippsland to fund a Catchment Officer position within the EPA. The main focus of the position is to carry out dairy farm audits to improve water quality within our drinking water supply catchments.

Battery Creek Catchment

Battery Creek supplies drinking water to the township of Fish Creek and surrounds. Over the past 10 years, South Gippsland Water has worked to revegetate around 40 hectares of land within the catchment. The Corporation has purchased a further 88 hectares of land within this catchment area.

Weed Control Program

South Gippsland Water has developed a significant weed control program for its land. Our objectives of managing environmental weeds are 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; and*
- *Prevent adverse social or economic impacts by taking an integrated approach to management*

Weed issues that are noticed within the water supply catchments, but not on our land, by South Gippsland Water are directed to the South Gippsland Pest Plant and Animal Landcare Facilitator.

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, and we are endeavouring to reuse where possible.

Following on from a wetter winter during 2012 which put wastewater storages under pressure, the use of recycled water increased during 2012/13 due to a relatively dry summer irrigation period.

A total of 168 ML of recycled water was used for irrigation, with the majority being used on agricultural land, and a small amount for a recreation reserve.



Environmental Sustainability cont.

Treated wastewater from South Gippsland Water's Tarraville wastewater treatment plant is piped to an adjacent property owner for pasture irrigation and a grazier in Cape Paterson uses a portion of the treated wastewater from the Inverloch wastewater system for irrigation. A neighbouring landholder uses all of the treated wastewater from the Welshpool wastewater treatment plant for pasture irrigation.

The Toora Football Club used treated wastewater from the Toora system during 2012/13 on occasions to irrigate the playing surface of the oval. This re-use arrangement has effectively drought proofed this important community facility.

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

The sewerage scheme recently constructed at Meeniyan has incorporated wetlands as the final treatment process, providing treated effluent that will be available for multiple reuse options within the area including the Stoney Creek Race Club and the Meeniyan Golf Club.

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

Uniform Drought Response Plan and By – Law

South Gippsland Water Drought Response Plan (DRP) was prepared in accordance with State Government guidelines for preparing DRPs 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 and evaluating the effectiveness of the DRP post-drought. The DRP is revised and typically updated every five years.

During 2012/13 South Gippsland Water also undertook a program to promote the revised Permanent Water Savings Plan and Uniform Model Water Restriction By-Law, number seven.

Water Supply Demand Strategy

The Corporation's Water Supply Demand Strategy [WSDS] outlines the use of a pipeline connecting the Melbourne Supply System and the Lance Creek Reservoir as a source of supplementary and long term water supply for 78% of our customers in the southern and northern service areas.

The Corporation has undertaken a community awareness program for the project and has progressed in the preliminary design stage during 2012/13. Currently the Corporation is actively seeking State Government funding opportunities.

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 providing on-ground improvements in our water supply catchments. In addition, 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 these groups either by annual sponsorship or on a case-by-case basis. In many cases, South Gippsland Water also provides in-kind support through use of office facilities, technical advice and committee membership. In 2012/13 the groups and organisations supported by South Gippsland Water are listed in the table below.

Community groups, organisations and activities supported by South Gippsland Water in 2012/13.

| Name | Activities | Type of Support | |
|--------------------------------------|--|-------------------------|---------|
| | | Financial | In-kind |
| West Gippsland Waterwatch | Raises awareness about water issues through educational activities. Involves the community in water quality monitoring of local rivers, streams and estuaries. | ✓ \$10,000 | ✓ |
| Bass Coast Landcare Network | A community-based organisation that facilitates work to improve catchment health, focussed on the Lance Creek water supply catchment with SGW's contribution. | ✓ \$10,000 | ✓ |
| Bunurong Coast Education | A local environmental education service for schools and the general public. | ✓ \$5,000 | ✓ |
| South Gippsland Landcare Network | A community-based organisation that facilitates catchment improvements such as revegetation and streamside fencing. | ✓ \$10,000 | ✓ |
| South Gippsland Conservation Society | A membership-based community group that promotes conservation of the environment in South Gippsland. | ✓ case by case basis | ✓ |
| National Water Week (NWW) | In 2012 ten 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 protecting our streams, wetlands, estuaries and oceans. | ✓ \$8 000 | ✓ |

Victorian Biodiversity Strategy

The Corporation recognises its responsibility in protecting the biodiversity assets in its areas of operation for the benefit of the region and 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 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; and*
- *engage with the community providing involvement for those affected by decisions and seek to involve them in actions to support long term biodiversity.*

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

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



Catchment and Waterway Health

South Gippsland Water extracts water from a number of rivers and small streams to provide high quality drinking water to its customers. The Corporation takes less than 1% of the total historical surface water flows in the region to service the communities, industries and businesses of South Gippsland.

The vision for South Gippsland Water is to continue focusing on managing all SGW activities that may impact on rivers and waterways in an environmentally sustainable fashion.

A key issue in monitoring river health is an understanding of the condition of the river systems in the South Gippsland Water Supply Catchment Areas. Rivers and streams support an enormous diversity of life. A healthy stream is representative of a healthy catchment which is vital for the maintenance of river health, biodiversity and the supply of good quality potable water.

South Gippsland Water is working with the West Gippsland Catchment Management Authority and other agencies in implementing the West Gippsland Regional Water Strategy. South Gippsland Water continue its river health monitoring program that will draw on concepts and requirements to be detailed in the Regional Water Strategy.

The South Gippsland Water river health program involves biennial surveys and monitoring of:

- *Fish populations in the Tarwin, Tarra, Agnes and Powlett Rivers.*
- *Biological (macroinvertebrate) monitoring and assessment of waterways within Declared Water Supply Catchments in the South Gippsland Basin.*
- *Biological monitoring of SGW wastewater outflows into Little Ruby Creek at Leongatha and Foster Creek at Korumburra.*
- *Water quality monitoring of rivers and streams at river and waterway diversions.*

Green House Gas Emissions

The following table sets out Corporate greenhouse gas emissions for the past five years.

| ITEM | 2012/13 [Emissions in Tonnes] | 2011/12 [Emissions in Tonnes] | 2010/11 [Emissions in Tonnes] | 2009/10 [Emissions in Tonnes] | 2008/09 [Emissions in Tonnes] |
|---------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| Water Treatment & Pumping | 2,749 ¹ | 2,618 | 1,919.4 | 2,040.4 | 2,168.1 |
| Wastewater Treatment | 4,908 ¹ | 4,674 | 9,823.3 | 10,348.3 | 9,173.3 |
| Waste Disposal | Not recorded | Not recorded | Not recorded | Not recorded | Not recorded |
| Energy Use – Non-fleet | 208 ¹ | 198 | 203.9 | 190.4 [office] | 171.4 [office] |
| Vehicle Fleet | 703 | 664 | 623 | 620.5 | 726.8 |
| Offsets Purchased | nil | nil | nil | nil | nil |
| Any other activities | - | - | - | - | - |
| Gross Tonnes CO2e | - | - | - | 13,208.7 | 12,246.2 |
| Net CO2E | 8,568 ² | 8,154 | 12,559.6 | 13,208.7 | 11,458.1 |

Note 1: Estimated 5% increase on 2011/12 figures due to absence of 2012/13 data at time of reporting.

Note 2: This figure will change when actual data available as per note 1.

South Gippsland Water aims to reduce greenhouse gas emissions to minimise its contribution to climate change, and be an adaptable business 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



Major Projects

Summary of Major Projects 2012/13

The following table summarises the major projects undertaken by South Gippsland Water during 2012/13, and the progress or results at the end of the financial year.

| TECHNICAL SERVICES - MAJOR PROJECTS | | |
|---|--|--|
| Reason | Project Description | Result / Progress |
| <p>Poowong/Loch/Nyora Sewerage Scheme SGW'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.</p> | <p>Domestic wastewater will be delivered via a trunk main from the reticulation network within each town to a wastewater treatment plant with the capability to accommodate growing population levels.</p> | <p>Assessment of options being undertaken as requested by ESC to determine most cost effective option.</p> |
| <p>Water Renewals/Replacement To rehabilitate/replace inefficient water mains.</p> | <p>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.</p> | <p>Ongoing replacement of troublesome water mains within SGW's region. Approximately 2.5 km of water mains replaced over the year.</p> |
| <p>Reticulation Sewer Rehabilitation/Infiltration Curtailment/Relining To rehabilitate/reline inefficient sewer mains. To identify troublesome areas causing increased groundwater infiltration and stormwater inflows.</p> | <p>Reticulation sewer rehabilitation/ replacement works including pipeline replacement/relining & manhole repairs/ replacement based on established priorities with the Operations group.</p> | <p>Ongoing rehabilitation/replacement of ageing, cracked and broken reticulation sewer pipelines and manholes. Approximately 5 km of sewer pipelines relined and manholes rehabilitated over the year. Smoke testing program established to identify illegal connections, entry points of groundwater infiltration and stormwater inflows.</p> |
| <p>Wonthaggi Sewer System Upgrades Implementation of overall upgrading/ augmentation strategy is required to address the existing deficiencies associated with the Wonthaggi Sewer Reticulation System and to cater for the rapid escalating current and future development within the township.</p> | <p>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.</p> | <p>Third stage of sewer upgrade works completed. Second stage of works near completion. Fourth stage of sewer upgrade works to be tendered in 2013/14.</p> |
| <p>Foster Wastewater Treatment Plant Upgrade (Wetlands) The Foster WWTP discharges into Corner Inlet but does not comply with EPA licence requirements for water quality.</p> | <p>Additional lagoons are required to be installed including a wetland treatment system to achieve reuse on land.</p> | <p>Options assessment completed. Works deferred to commence at end of Water Plan 3.</p> |
| <p>Alberton Sewerage Scheme Implementation of sewerage scheme to provide an effective means of managing sewage within the Alberton township in order to protect public health, public amenity, social, economic and township environmental values.</p> | <p>Construction of a pressure sewer system to manage the collection and transmission of wastewater from the Alberton township to the existing Tarraville WWTP.</p> | <p>Detailed hydraulic design of pressure sewer reticulation system is near completion. Adoption of South East Water's SurePoint network control/ telemetry system. Construction works now scheduled to occur in 2013/2014.</p> |
| <p>Northern Towns Supply Connection Works – Lance Creek to Korumburra & Korumburra to Poowong Connection of existing Korumburra and Little Bass water supply systems to the Melbourne Supply System Pipeline.</p> | <p>Installation of water supply trunk main from Lance Creek to Korumburra and Poowong Loch Nyora.</p> | <p>Preliminary/concept design of proposed alignment completed. Preliminary studies in progress.</p> |
| <p>Venus Bay Outfall Pipe Replacement – Tarwin River Crossing Replace outfall pipeline to prevent sewer spills into the Tarwin River.</p> | <p>Replacement of short section of outfall pipeline under the Tarwin River by horizontal directional drilling (boring).</p> | <p>Project completed.</p> |



| TECHNICAL SERVICES - MAJOR PROJECTS | | |
|---|---|--|
| Reason | Project Description | Result / Progress |
| Foster Sewer System Upgrades Implementation of overall upgrading/ augmentation strategy is required to address the existing deficiencies associated with the Foster Sewer Reticulation System and to cater for current and future development within the township. | Upsizing of critical sections of sewer reticulation pipeline within the Foster township. | Construction works near completion. |
| Inverloch Sewer System Upgrades Implementation of overall upgrading/ augmentation strategy is required to address the existing 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 Inverloch Sewer Reticulation System based on the hydraulic model analysis, flow survey data and comparative risk assessments. | First, second and third stages of sewer upgrade works completed, in line with schedule. Fourth stages of sewer upgrade works to commence in 2013/2014. |
| Leongatha WWTP Digester Existing digester is out of service and in need of upgrade to allow the Leongatha WWTP to meet EPA discharge requirements. | Refurbishment of gas heating and mixing system, secondary digester roof structure, electrical rewiring, SCADA integration, supernatant pit and sludge pump station. | Tenders for design and construction contracts received. Works to commence in 2013/14. |
| Foster Office Upgrade/Purchase Purchase of former kindergarten property to accommodate additional SGW staff resources. | Refurbishment and fit out of kindergarten into new SGW offices. | Project completed. |



Financial Performance

South Gippsland Water's net result for the year was a deficit of \$0.293 million.

Revenue was \$0.675 million higher than 2011/12 mainly due to increases in service charges (\$0.758million) and volumetric charges (\$0.868 million). A government capital grant was received in the previous year for \$483k resulting in a decrease in capital revenue (0.483 million) Developer contributions were also lower than prior year (\$0.200 million).

Expenditure was \$0.152 million lower than 2011/12, however after taking into consideration the underfunding call of the defined benefit superannuation plan (\$1.075 million) included in 2011/12 results expenditure was \$0.952 million higher than 2011/12. This is

mainly due to higher depreciation and amortisation costs (\$0.455 million) as a result of timing of completion of capital projects, higher chemical costs (\$0.236 million) and higher interest costs on borrowings (\$0.059 million).The remaining \$0.202 million increase in expenses reflected general increase in cost of services.

Over \$9 million of new capital investment was undertaken during the year in order to improve services to the Corporations' water and wastewater customers.

This continued high level of capital expenditure has resulted in borrowings increasing \$4.300 million during the year to \$39.400 million.

2012/13 Summary of Financial Results

| Financial Result | 2008/09 (\$'000) | 2009/10 (\$'000) | 2010/11 (\$'000) | 2011/12 (\$'000) | 2012/13 (\$'000) |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|
| Core business revenue | 20,128 | 26,342 | 23,555 | 25,793 | 27,048 |
| Government contributions | 23 | 0 | 50 | 483 | 0 |
| Other revenue | 572 | 1,458 | 1,030 | 967 | 870 |
| Total revenue | 20,723 | 27,800 | 24,635 | 27,243 | 27,918 |
| Operating expenditure | 13,827 | 15,979 | 15,175 | 17,267 | 16,601 |
| Depreciation expenditure | 5,730 | 5,991 | 6,125 | 8,829 | 9,284 |
| Finance costs | 1,373 | 1,698 | 1,953 | 2,267 | 2,326 |
| Other expenditure | 0 | 0 | 0 | 0 | 0 |
| Total expenditure | 20,930 | 23,668 | 23,253 | 28,363 | 28,211 |
| Net result before tax | (207) | 4,132 | 1,382 | (1,120) | (293) |
| Current assets | 3,094 | 7,012 | 7,242 | 4,500 | 8,181 |
| Non-current assets | 158,566 | 165,059 | 298,361 | 297,994 | 298,634 |
| Total assets | 161,669 | 172,071 | 305,603 | 302,494 | 306,815 |
| Current liabilities | 9,136 | 11,754 | 9,888 | 13,553 | 9,203 |
| Non-current liabilities | 16,390 | 20,051 | 66,508 | 63,976 | 71,960 |
| Total liabilities | 25,526 | 31,805 | 76,396 | 77,529 | 81,163 |
| Net cash flows from operations | 3,155 | 7,485 | 10,807 | 5,802 | 6,180 |
| Payments for property, plant and equipment (including infrastructure.) | 9,514 | 14,100 | 13,526 | 12,102 | 8,990 |

Summary of Financial Performance

| Performance Indicator | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 |
|--------------------------|-----------|-----------|-----------|-----------|-----------|
| Internal Financing Ratio | 26.2% | 64.1% | 81.0% | 47.4% | 68.7% |
| Gearing Ratio | 13.1% | 16.0% | 10.8% | 11.6% | 12.8% |
| Interest Cover (EBIT) | 0.8 times | 3.4 times | 1.7 times | 0.5 times | 0.8 times |
| Interest Cover (Cash) | 3.4 times | 4.3 times | 6.0 times | 3.6 times | 3.6 times |
| Return on Assets | 0.7% | 3.5% | 1.4% | 0.4% | 0.7% |
| Return on Equity | (0.2)% | 3.0% | 0.8% | (0.6)% | (0.1)% |



Financial Report

For The Year Ended 30 June 2013

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Comprehensive Operating Statement

For the Year Ended 30 June 2013

| | Notes | 2013 \$'000 | 2012 \$'000 |
|---|-----------------|-----------------|-----------------|
| Revenue from operating activities | | | |
| Service charges | 1(b),4(a) | 17,048 | 16,290 |
| Water usage charges | 1(b) | 8,321 | 7,453 |
| Government grants and contributions | 1(b),4(a) | - | 483 |
| Interest | 1(b) | 17 | 14 |
| Developer contributions | 1(b),4(a) | 1,662 | 1,862 |
| Resources received free of charge | 1(b),4(a) | - | 174 |
| | | <u>27,048</u> | <u>26,276</u> |
| Revenue from non-operating activities | | | |
| Net gain on disposal of non-financial assets | 1(d),4(b) | 246 | 123 |
| Other income | | 624 | 844 |
| | | <u>870</u> | <u>967</u> |
| Total Revenue | | 27,918 | 27,243 |
| Expenses from operating activities | | | |
| Borrowing costs | 1(l),4(c) | (2,326) | (2,267) |
| Depreciation | 1(e),4(c),10(b) | (8,808) | (8,395) |
| Amortisation | 1(e),4(c),11 | (476) | (434) |
| Employee benefits | 1(n), 4(c) | (6,844) | (8,126) |
| Repairs and maintenance expense | 1(d) | (1,021) | (1,226) |
| Environmental contributions | 1(p) | (754) | (754) |
| Inventories distributed | 1(i) | (26) | (29) |
| Electricity | | (819) | (762) |
| Chemicals | | (1,405) | (1,169) |
| Supplies and services | | (5,732) | (5,201) |
| Total Expenses | | (28,211) | (28,363) |
| Net result before tax | | (293) | (1,120) |
| Income Tax expense / (revenue) | 1(q),5 | - | - |
| Net result for the period | | (293) | (1,120) |
| Other comprehensive income | | | |
| Gain/(loss) on revaluation of infrastructure, property, plant and equipment | 1(d),10(b) | - | - |
| Income tax relating to components of other comprehensive income | 1(q),5 | - | - |
| Other comprehensive income for the year, net of income tax | | - | - |
| Comprehensive Result | | (293) | (1,120) |

The above comprehensive operating statement should be read in conjunction with the accompanying notes.



Balance Sheet

As at 30 June 2013

| | Notes | 2013 \$'000 | 2012 \$'000 |
|---|--------------|----------------|----------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 1(g),2,6,26 | 4,633 | 1,783 |
| Receivables | 1(h),2,7,26 | 1,097 | 620 |
| Inventories | 1(i),8 | 386 | 390 |
| Prepayments | | 141 | 146 |
| Other financial assets | 2,9,26 | 1,924 | 1,561 |
| Total current assets | | 8,181 | 4,500 |
| Non-current assets | | | |
| Receivables | 1(h),7,26 | 39 | 63 |
| Infrastructure, property, plant and equipment | 1(d),1(e),10 | 297,500 | 297,176 |
| Intangible assets | 1(j),11 | 1,095 | 755 |
| Total non-current assets | | 298,634 | 297,994 |
| TOTAL ASSETS | | 306,815 | 302,494 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Payables | 1(k),2,12,26 | 2,182 | 2,951 |
| Interest bearing liabilities | 1(l),2,13,26 | 5,000 | 8,700 |
| Employee benefits | 1(n),14 | 2,021 | 1,902 |
| Total current liabilities | | 9,203 | 13,553 |
| Non-current liabilities | | | |
| Interest bearing liabilities | 1(l),2,13,26 | 34,400 | 26,400 |
| Employee benefits | 1(n),14 | 261 | 277 |
| Deferred tax liabilities | 1(q),15 | 37,299 | 37,299 |
| Total non-current liabilities | | 71,960 | 63,976 |
| TOTAL LIABILITIES | | 81,163 | 77,529 |
| NET ASSETS | | 225,652 | 224,965 |
| EQUITY | | | |
| Contributed capital | 1(o),17 | 65,333 | 64,353 |
| Reserves | 1(d),18 | 87,034 | 87,034 |
| Accumulated funds | 19 | 73,285 | 73,578 |
| TOTAL EQUITY | | 225,652 | 224,965 |

The above balance sheet should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

For the Reporting Period Ended 30 June 2013

| | Notes | Contributed Capital \$'000 | Reserves \$'000 | Accumulated funds \$'000 | Total \$'000 |
|--|---------|----------------------------------|--------------------|--------------------------------|-----------------|
| Balance at 1 July 2011 | | 64,353 | 87,034 | 74,698 | 226,085 |
| Total comprehensive income for the year | | - | - | (1,120) | (1,120) |
| Transactions with the State in its capacity as owner: | | | | | |
| Dividends | 1(r) | - | - | - | - |
| Contributions by owners | 1(o),17 | - | - | - | - |
| Balance at 30 June 2012 | | 64,353 | 87,034 | 73,578 | 224,965 |
| Total comprehensive income for the year | | - | - | (293) | (293) |
| Transactions with the State in its capacity as owner: | | | | | |
| Dividends | 1(r) | - | - | - | - |
| Contributions by owners | 1(o),17 | 980 | - | - | 980 |
| Balance at 30 June 2013 | | 65,333 | 87,034 | 73,285 | 225,652 |

The above statement of changes in equity should be read in conjunction with the accompanying notes.



Cash Flow Statement

For the Reporting Period Ended 30 June 2013

| | Notes | 2013 \$'000 | 2012 \$'000 |
|---|--------|---------------------|---------------------|
| Cash flows from Operating Activities | | | |
| Receipts | | | |
| Service and usage charges | | 24,613 | 23,510 |
| Interest received | | 13 | 13 |
| GST received from the ATO | | 1,575 | 2,195 |
| Developers' contributions | | 527 | 663 |
| Other receipts | | 629 | 878 |
| Receipts from government | | - | 483 |
| | | <u>27,357</u> | <u>27,742</u> |
| Payments | | | |
| Payments to suppliers and employees | | (18,029) | (18,887) |
| Interest and other costs of finance paid | | (2,333) | (2,181) |
| GST paid to the ATO | | (61) | (118) |
| Environmental contributions | | (754) | (754) |
| | | <u>(21,177)</u> | <u>(21,940)</u> |
| Net cash inflow from Operating Activities | 20 | <u>6,180</u> | <u>5,802</u> |
| Cash flows from Investing Activities | | | |
| Payments for infrastructure, property, plant and equipment | | (8,174) | (12,028) |
| Proceeds from sale of infrastructure, property, plant and equipment | | 532 | 717 |
| Payments for intangible assets | | (815) | (74) |
| Net cash (outflow) from investing activities | | <u>(8,457)</u> | <u>(11,385)</u> |
| Cash flows from Financing Activities | | | |
| Proceeds from borrowings | | 8,100 | 3,990 |
| Repayments of borrowings | | (3,800) | (1,400) |
| Proceeds from contributions by owners | | 980 | 1,000 |
| Net movements in contractor deposits | | (153) | (61) |
| Net cash inflow from financing activities | | <u>5,127</u> | <u>3,529</u> |
| Net (decrease)/increase in cash and cash equivalents | | 2,850 | (2,054) |
| Cash and cash equivalents at the beginning of the financial year | | 1,783 | 3,837 |
| Cash and cash equivalents at the end of the financial year | 1(g),6 | <u>4,633</u> | <u>1,783</u> |

The above cash flow statement should be read in conjunction with the accompanying notes.

Notes to the Financial Report

for the year ended 30 June 2013

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The financial report includes separate financial statements for South Gippsland Region Water 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. The general purpose financial report has been prepared in accordance with Australian Accounting Standards (AAS's), Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board, and the requirements of the *Financial Management Act 1994* and applicable Ministerial Directions. South Gippsland Region Water Corporation is a not for-profit entity for the purpose of preparing the financial report.

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 27th August 2013.

The principal address is:

South Gippsland Regional Water Corporation
14-18 Pioneer Street
Foster VIC 3960

Accounting policies

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.

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 - see Note 1(n) for a variation in relation to employee benefits.

Rounding

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

Historical cost convention

The financial report has been prepared under the historical cost convention, as modified by the revaluation of financial assets and certain classes of infrastructure, property, plant and equipment.

Accounting estimates

The preparation of the financial report in conformity with AAS's requires the use of certain accounting estimates that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. It also requires management to exercise its judgement in the process of applying the entity's accounting policies.

The most significant accounting estimates undertaken in the preparation of this financial report relate to:

- estimation of useful lives
- the impairment of assets
- unearned revenue
- provisions

(b) Revenue Recognition

Service and usage charges

Rate/tariff and 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 trade waste agreements. The meters are read on a monthly basis with accounts sent out on a monthly basis.

Water 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.

Developer contributions / Fees paid by developers

Water 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 sewerage systems are recognised as revenue when the contributions are received.

Government grants and contributions

Government grants and contributions are recognised as operating revenue on receipt or when the entity obtains control of the contribution and meets certain other criteria as outlined by AASB 1004, whichever is the sooner, and disclosed in the Comprehensive Operating Statement as



government grants and contributions. However, grants and contributions received from the Victorian State Government, which were originally appropriated by the Parliament as additions to net assets or where the Minister for Finance and the Minister for Water have indicated are in the nature of owners' contributions, are accounted for as Equity – Contributions by Owners.

Interest

Interest income is recognised using the effective interest rate method.

Resources Received Free of Charge

Contributions of resources provided and received free of charge or for nominal consideration are recognised at their fair value when the transferee obtains control over them, irrespective of whether restrictions or conditions are imposed over the use of the contributions, unless received from another government department or agency as a consequence of a restructuring of administrative arrangements. In the latter case, such a transfer will be recognised at carrying value.

Lease or rental income

Income from operating leases (i.e. rentals) is recognised in income on a straight-line basis over the lease term.

(c) Borrowing Costs

Borrowing costs are recognised as expenses in the period in which they are incurred. Borrowing costs include interest on bank overdrafts and short-term and long-term borrowings.

(d) Recognition and Measurement of Assets

Infrastructure, property, plant and equipment represent non-current physical assets comprising land, buildings, water and sewerage infrastructure, plant, equipment and motor vehicles, used by the Corporation in its operations. Items with a cost or value in excess of \$1,000 and a useful life of more than one year are recognised as an asset. All other assets acquired are expensed.

Where assets are constructed by the Corporation, the cost at which they are recorded includes an appropriate share of fixed and variable overheads.

Assets acquired at no cost or for nominal consideration by the Corporation are recognised at fair value at the date of acquisition.

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, the cost is capitalised and depreciated.

Measurement of Non-Current Physical Assets

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

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

Depreciated replacement cost has been adopted as an estimate of fair value under the revaluation model adopted for these assets.

Plant, equipment and motor vehicles are measured at fair value.

For the plant, equipment and vehicles asset class, where the Corporation is able to demonstrate that there is no evidence that a reliable market-based fair value (or other fair value indicators) exist for these assets, depreciated replacement cost is used to represent a reasonable approximation of fair value.

Water infrastructure assets, are measured at fair value less accumulated depreciation and impairment in accordance with FRD 103D. These assets comprise substructures or underlying systems held to facilitate harvesting, storage, treatment and transfer of water to meet customer needs. They also include infrastructure assets that underlie sewage and drainage systems.

The initial fair value assessment for water infrastructure was undertaken with involvement from the Valuer General of Victoria (VGV) and under the instructions of Department of Treasury and Finance (DTF). The assessment was performed on a portfolio basis for various categories of water infrastructure. Further details of the valuation exercise are provided in Note 10.

Revaluation of non-current physical assets

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

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

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

Revaluation reserves are not transferred to accumulated funds on derecognition of the relevant asset.

Impairment of Assets

Intangible assets with indefinite useful lives are tested annually as to whether their carrying value exceeds their recoverable amount. All other assets are assessed annually for indicators of impairment, except for:

- Inventories;
- Deferred tax assets; and
- Financial instrument assets

Financial Report for the year ended 30 June 2013

If there is an indication of impairment, the assets concerned are tested as to whether their carrying value exceeds their recoverable amount. Where an asset's carrying amount exceeds its recoverable amount, the difference is written-off by a charge to the Comprehensive Operating Statement except to the extent that the write-down can be debited to an asset revaluation reserve amount applicable to that class of asset.

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. It is deemed that, in the event of the loss of an asset, the future economic benefits arising from the use of the asset will be replaced unless a specific decision to the contrary has been made.

A reversal of an impairment loss on a revalued asset is credited directly to equity under the heading revaluation reserve. However, to the extent that an impairment loss on the same class of asset was previously recognised in the Comprehensive Operating Statement, a reversal of that impairment loss is also recognised in the Comprehensive Operating Statement.

(e) Depreciation and Amortisation of Non-current Assets

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

Depreciation is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, commencing from the time the asset is held ready for use. The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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 in Note 1(j).

Major depreciation periods used are listed below and are consistent with the prior year, unless otherwise stated:

| | Periods | |
|-----------------------|-------------|-------------|
| | 2013 | 2012 |
| Corporate | | |
| Buildings | 50 years | 50 years |
| Plant & Machinery | 7 -10 years | 7 -10 years |
| Motor Vehicle | 2 - 4 Years | 2 - 4 Years |
| Intangible Assets | 3 & 7 years | 3 & 7 years |
| Furniture & Equipment | 10 years | 10 years |
| Infrastructure | | |
| <i>Water</i> | | |
| Fencing | 12.5 years | 12.5 years |
| Headworks/Storages | 150 years | 150 years |
| Distribution Networks | 50 years | 50 years |
| Pump Stations | 44 years | 44 years |
| Water Storage | 50 years | 50 years |
| Reticulation Network | 50 years | 50 years |
| Water Meters | 15 years | 15 years |
| Treatment Plants | 33 years | 33 years |
| <i>Wastewater</i> | | |
| Fencing | 12.5 years | 12.5 years |
| Outfalls | 50 years | 50 years |
| Trunk Sewers | 50 years | 50 years |
| Pump Stations | 50 years | 50 years |
| Distribution Network | 40 years | 40 years |
| Treatment Plants | 40 years | 40 years |

(f) Leased Assets

Operating Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Comprehensive Operating Statement on a straight-line basis over the period of the lease, in the periods in which they are incurred, as this represents the pattern of benefits derived from the leased assets.

(g) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within interest bearing liabilities on the balance sheet, but are included within cash and cash equivalents for cash flow statement presentation purposes.

(h) Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less an allowance for impaired receivables.



Trade receivables are due for settlement no more than 30 days from the date of recognition for water and sewerage debtors, and no more than 30 days for other debtors.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. An allowance for impaired receivables 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. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amounts credited to the allowance are recognised as an expense in the Comprehensive Operating Statement.

(i) Inventories

Inventories comprise stores and materials used in the construction of new works and for the repair and maintenance of existing assets. All inventories held for distribution are measured at the lower of cost and current replacement cost. Costs are assigned to inventory quantities on hand at balance date on the weighted average cost (WAC) basis. Inventories include goods held for distribution at no or nominal cost in the ordinary course of business operations. Inventories held for distribution or for consumption are measured at the lower of cost and current replacement cost.

(j) Intangibles

Intangible assets represent identifiable non-monetary assets without physical substance. Intangible assets are initially recognised at cost. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. Costs incurred subsequent to initial acquisition are capitalised when it is expected that additional future economic benefits will flow to the Corporation.

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

| | Patents and Licences | Development Costs |
|--|--|--|
| Useful lives | Indefinite | Finite |
| Amortisation method used | Not amortised or revalued | 3 and 7 years – straight line |
| Internally generated / acquired | Acquired | Internally generated |
| Impairment test / Recoverable amount testing | Annually and where an indicator of impairment exists | Amortisation method reviewed at each financial year-end / Reviewed annually for indicators of impairment |

(k) Payables

Payables consist predominantly of trade and sundry creditors. These amounts represent liabilities for goods and services provided to the Corporation prior to the end of the financial year, which are unpaid at financial year end. The amounts are unsecured and are usually paid within 30 days of recognition. Payables are initially recognised at fair value, being the cost of the goods and services, and subsequently measured at amortised cost.

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

(l) Interest Bearing Liabilities

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings 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 borrowings, using the effective interest method.

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

(m) Financial Instruments

Financial instruments are initially measured at fair value, plus in the case of a financial asset or financial liability not at fair value, through profit and loss transaction costs that are directly attributable to the acquisition or the issue of the financial asset or liability. Subsequent to initial recognition, the financial instruments are measured as set out below:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet. Loans and receivables are recorded at amortised cost less impairment.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment of financial assets

At each reporting date, the Corporation assesses whether there is objective evidence that a financial instrument has been impaired. Impairment losses are recognised in the Comprehensive Operating Statement.

(n) Employee Benefits

Wages and salaries, annual leave and rostered days off

Liabilities for wages and salaries, annual leave and rostered days off expected to be settled within 12 months of the reporting date are recognised in employee benefits liabilities in respect of employees' service up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled, at their nominal values. Employee benefits which are not expected to be settled within 12 months are measured at the present value of the expected future cash flows to be made by the entity, in respect of services rendered by employees up to the reporting date. Regardless of the expected timing of settlements, liabilities in respect of employees benefits are classified as a current liability, unless there is an unconditional right to defer the settlement of the liability for at least 12 months after the reporting date, in which case it would be classified as a non-current liability.

Long Service Leave (LSL)

Current Liability – unconditional LSL (representing 7 or more years of continuous service) is disclosed as a current liability even where the Corporation does not expect to settle the liability within 12 months because it does not have the unconditional right to defer the settlement of the entitlement should an employee take leave within 12 months.

The components of this current LSL liability are measured at:

- Present value – component that the Corporation does not expect to settle within 12 months; and
- Nominal value – component that the Corporation expects to settle within 12 months.

Non-Current Liability – conditional LSL (representing less than 7 years of continuous service) 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. Conditional LSL is required to be measured at present value.

In calculating present value, consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Superannuation

The amount charged to the Comprehensive Operating Statement in respect of superannuation represents the contributions made or due by the Corporation to the relevant superannuation plans in respect to the services of current entity 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.

Employee Benefit On-Costs

Employee benefit on-costs, including payroll tax and workers compensation, are recognised and included in employee benefit liabilities and costs when the employee benefits to which they relate are recognised as liabilities.

Performance payments

Performance payments for the Corporation's Executive Officers are based on a percentage of the annual salary package provided under their contract(s) of employment. A liability is recognised and is measured as the aggregate of the amounts accrued under the term of the contracts to balance date.

(o) Contributions by Owners

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. Transfers of net assets arising from administrative restructurings are treated as distributions to or contributions by owners.

(p) Environmental Contributions

The Water Industry (Environmental Contributions) Act 2004 (the Act) amended the *Water Industry Act 1994* to make provision for environmental contributions to be paid by water supply corporations. The Act establishes an obligation for corporations to pay into the consolidated fund annual contributions for the first period, from 1 October 2004 to 30 June 2008 in accordance with the pre-established schedule of payments, which sets out the amounts payable by each corporation. The contribution period has been extended to cover the period 1 July 2008 until 30 June 2013, and has since been extended to cover the period 1 July 2013 until 30 June 2016.

The purpose of the environmental contribution is set out in the Act, and the funding may be used for the purpose of funding initiatives that seek to promote the sustainable management of water or address water-related initiatives. The environmental contributions are disclosed separately within expenses.

(q) Taxation

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 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.

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.



No deferred tax assets or liabilities have been recognised for deductible temporary differences, other than revaluations of assets, as the Corporation has carry forward tax losses it is not probable that they will be recouped. A deferred tax liability has been recognised for revalued assets, as future depreciation on revalued assets will not be deductible for tax purposes.

(r) Commitments

Commitments for future expenditure include operating and capital commitments arising from contracts. These commitments are disclosed by way of a note (refer to Note 23) at their nominal value and inclusive of the goods and services tax (GST) payable. In addition, where it is considered appropriate and provides additional relevant information to users, the net present values of significant individual projects are stated. These future expenditures cease to be disclosed as commitments once the related liabilities are recognised in the balance sheet.

(s) Dividend Policy

The Corporation is required to pay a dividend in accordance with a determination of the Treasurer of Victoria under the *Public Authorities (Dividend) Act 1983*, based on a prescribed percentage of the previous year’s adjusted net profit. 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 zero.

(t) Goods and Services Tax

Revenues, expenses and assets are recognised net of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense.

Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from or payable to, the ATO is included as a current asset or liability in the Balance Sheet. Cash flows arising from operating activities are disclosed in the Cash Flow Statement on a gross basis, i.e. inclusive of GST. The GST component of cash flows arising from investing and financing activities which is recoverable or payable to the taxation authority is classified as operating cash flows.

(u) New Accounting Standards and Interpretations issued that are not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2013 reporting period. As at 30 June 2013, the following standards and interpretations had been issued but were not mandatory for financial year ending 30 June 2013. The Corporation has not and does not intend to adopt these standards early.

| Standard / Interpretation | Summary | Applicable for annual reporting periods beginning on or after | Impact on financial statements |
|---|--|---|--|
| AASB 9 <i>Financial Instruments</i> , AASB 2010-7 <i>Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)</i> and AASB 2012-6 <i>Amendments to Australian Accounting Standards - Mandatory Effective Date of AASB 9 and Transition Disclosures</i> | AASB 9 <i>Financial Instruments</i> addresses the classification and measurement of financial assets and is likely to affect the entity’s accounting for its financial assets. The standard is not applicable until 1 January 2015 but is available for early adoption. The derecognition rules have been transferred from AASB 139 <i>Financial Instruments: Recognition and Measurement</i> and have not been changed. The corporation has not yet decided when to adopt AASB 9. | 1 January 2015 | The entity is yet to assess its full impact. However, initial indications are that it may affect the entity’s accounting for its available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss. |

Financial Report for the year ended 30 June 2013

| Standard / Interpretation | Summary | Applicable for annual reporting periods beginning on or after | Impact on financial statements |
|--|--|---|---|
| AASB 119 <i>Employee Benefits</i> , AASB 2012-10 <i>Amendments to Australian Accounting Standards arising from AASB 119</i> and AASB 2012-11 <i>Amendments to AASB 119 (September 2012) arising from Reduced Disclosure Requirements</i> . | These standards require the recognition of all remeasurements of defined benefit liabilities/ assets immediately in other comprehensive income (removed of the so-called 'corridor' method) and the calculation of a net interest expense or income by applying the discount rate to the net defined benefit liability or asset. | 1 July 2013 | The entity is yet to assess its full impact. The entity will apply amended standard for the year ended 30 June 2014. |
| AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 | It explains how to measure fair value and aims to enhance fair value disclosures. | 1 January 2013 | The Corporation has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The group will adopt the new standard from its operative date, which means that it will be applied in the annual reporting period ending 30 June 2014. |



NOTE 2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Corporation's activities expose it to a variety of financial risks: i.e. market risk, credit risk and liquidity risk. This note presents information about the Corporation's exposure to each of these risks, and the objectives, policies and processes for measuring and managing risk. The Corporation's Board has the overall responsibility for the establishment and oversight of the Corporation's risk management framework. The Corporation's overall risk management program seeks to minimise potential adverse effects on the financial performance of the Corporation. The Corporation uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and other price risks, ageing analysis for credit and beta analysis in respect of investment portfolios to determine market risk. Risk Management is carried out by the Board's Audit and Risk Management Committee under policies approved by the Board of Directors. The Finance and Corporate Services department identifies, evaluates and hedges financial risks in close cooperation with the Corporation's operating units. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as interest rate risk, credit risk and liquidity risk including investment of excess liquidity.

(a) Risk Exposures

The main risks the Corporation is exposed to through its financial instruments are as follows:

(i) Market risk

Market risk is the risk that changes in market prices will affect the fair value or future cash flows of the Corporation's financial instruments. Market risk comprises of foreign exchange risk, interest rate risk and other price risk. The Corporation's exposure to market risk is primarily through interest rate risk, there is no exposure to foreign exchange risk and insignificant exposure to other price risks.

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

Interest Rate Risk

The Corporation's exposure to market interest rates relates primarily to the Corporation's long term borrowings and funds invested on the money market.

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 by Treasury Management Guidelines. The Corporation has minimal exposure to interest rate risk and manages its interest rate risk by maintaining a low level of cash and other financial assets which allows the Corporation to meet its short term cash needs.

Foreign Exchange Risk

The Corporation has no exposure to changes in foreign exchange rates.

Other Price Risk

The Corporation has no significant exposure to other price risks.

Market Risk Sensitivity Analysis

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

| 30 June 2013 | Carrying amount \$'000 | Interest rate risk | | | |
|--|---------------------------|--------------------|------------------|------------------|------------------|
| | | 1% | | +1% | |
| | | Result \$'000 | Equity \$'000 | Result \$'000 | Equity \$'000 |
| Financial Assets | | | | | |
| Cash and Cash Equivalents | 4,633 | (46) | (46) | 46 | 46 |
| Financial Liabilities | | | | | |
| Interest Bearing Liabilities (Note 13) | 2,800 | 28 | 28 | (28) | (28) |
| - Variable | | | | | |
| - Fixed | 36,600 | - | - | - | - |
| Total increase/(decrease) | | (18) | (18) | 18 | 18 |

| 30 June 2012 | Carrying amount \$'000 | Interest rate risk | | | |
|--|---------------------------|--------------------|------------------|------------------|------------------|
| | | 1% | | +1% | |
| | | Result \$'000 | Equity \$'000 | Result \$'000 | Equity \$'000 |
| Financial Assets | | | | | |
| Cash and Cash Equivalents | 1,783 | (18) | (18) | 18 | 18 |
| Financial Liabilities | | | | | |
| Interest Bearing Liabilities (Note 13) | 4,900 | 49 | 49 | (49) | (49) |
| - Variable | | | | | |
| - Fixed | 30,200 | - | - | - | - |
| Total increase/(decrease) | | 31 | 31 | (31) | (31) |

(ii) 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 and financial assets available for sale. 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 customers and a smaller number of 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 debt management policy and procedure for the collection of overdue receivables. An analysis of the ageing of the Corporation's receivables at reporting date has been provided in Note 7.

(iii) Liquidity Risk

Liquidity Risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation's policy is to settle financial obligations within 30 days and in the event of dispute make payments within 30 days from the date of resolution. The Corporation manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecasts and actual cash flows and matching the maturity profiles of financial assets and financial liabilities. The Corporation's financial liability maturities have been disclosed in Note 26.1.

(b) Fair Value Estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The carrying value less impairment provision of trade receivables and payables is a reasonable approximation of their fair values due to the short-term nature of trade receivables and payables. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Corporation for similar financial assets. The carrying amounts and aggregate net fair values of financial assets and financial liabilities at balance date have been provided in Note 26.2.

NOTE 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. The entity makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. There are no estimates and/or assumptions that will have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

NOTE 4. COMPREHENSIVE OPERATING STATEMENT – DISCLOSURES

| | Note | 2013 \$'000 | 2012 \$'000 |
|-----------------------------------|------|----------------|----------------|
| (a) Significant Revenues | | | |
| Service Charges | | | |
| Water service charges | | 6,571 | 6,253 |
| Sewerage charges | | 8,107 | 7,651 |
| Trade waste charges | | 2,370 | 2,386 |
| | | <u>17,048</u> | <u>16,290</u> |
| Government contributions | | | |
| Capital | | - | 483 |
| | | <u>-</u> | <u>483</u> |
| Developer contributions | | | |
| Fees paid by developers | | 527 | 632 |
| Assets received from developers | | 1,135 | 1,230 |
| | | <u>1,662</u> | <u>1,862</u> |
| Resources received free of charge | | - | 174 |

(b) Net gains and expenses

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

| | | | |
|--|--|------------|-------------|
| Net surplus on disposal of infrastructure, property, plant and equipment : | | | |
| Proceeds from disposal of motor vehicles | | 532 | 467 |
| Written down amount of motor vehicles disposed | | (286) | (284) |
| | | <u>246</u> | <u>183</u> |
| Proceeds on disposal of land and buildings | | - | 250 |
| Written down amount of land and buildings disposed | | - | (310) |
| | | <u>-</u> | <u>(60)</u> |
| | | <u>246</u> | <u>123</u> |



| | Note | 2013 \$'000 | 2012 \$'000 |
|--|------|----------------|----------------|
| (c) Significant Expenses | | | |
| Depreciation: | | | |
| Buildings | | 72 | 71 |
| Water infrastructure | | 4,412 | 4,276 |
| Wastewater infrastructure | | 3,503 | 3,253 |
| Plant, equipment and motor vehicles | | 821 | 795 |
| Total depreciation | | <u>8,808</u> | <u>8,395</u> |
| Amortisation | | | |
| Intangible assets | 11 | <u>475</u> | <u>434</u> |
| Total amortisation | | <u>475</u> | <u>434</u> |
| Asset write-offs (included in supplies and services) | | 421 | 82 |
| Employee Benefits | | | |
| Salaries and wages | | 5,393 | 5,209 |
| Annual leave | | 408 | 477 |
| Long service leave | | 159 | 376 |
| Superannuation contributions | | 513 | 539 |
| Unfunded Superannuation | 16 | (60) | 1,096 |
| Other | | <u>431</u> | <u>429</u> |
| Total employee benefit costs | | <u>6,844</u> | <u>8,126</u> |
| Borrowing costs | | 2,326 | 2,267 |
| Bad and doubtful debts | | 63 | 29 |
| Rental expense - operating lease | | 22 | 14 |
| Auditors' remuneration | | | |
| Auditor-General for audit of financial statements | | 32 | 31 |
| Internal audit (RSM Bird Cameron) | | <u>37</u> | <u>37</u> |
| | | <u>69</u> | <u>68</u> |

NOTE 5. INCOME TAX

The Corporation made a \$5.219 million tax loss during the financial year (\$5.811 million tax loss in 2011/2012).

Reconciliation of income tax to prima facie tax payable

| | 2013 \$'000 | 2012 \$'000 |
|---|----------------|----------------|
| Net result before income tax expense | <u>(293)</u> | <u>(1,120)</u> |
| Tax at Australian tax rate of 30% (2012:30%) | (88) | (336) |
| Tax effect of amounts which are not deductible/(taxable) in calculating taxable income: | | |
| • Income tax not assessable for income tax purposes | 50 | 10 |
| • Expenditure not allowable for income tax purposes | 2,785 | 2,649 |
| • Expenditure allowable for income tax purposes | (4,313) | (4,066) |
| • Benefit of tax losses not brought to account | <u>1,566</u> | <u>1,743</u> |
| Income tax as reported in the Comprehensive Operating Statement | <u>-</u> | <u>-</u> |

NOTE 6. CASH AND CASH EQUIVALENTS

| | 2013 \$'000 | 2012 \$'000 |
|------------------|----------------|----------------|
| Deposits at call | 4,633 | 1,783 |
| | <u>4,633</u> | <u>1,783</u> |

(a) Reconciliation to cash at the end of year

The above figure is reconciled to cash at the end of the financial year as shown in the Cash Flow Statement, as follows:

| | | |
|------------------------------------|--------------|--------------|
| Balance as above | 4,633 | 1,783 |
| Balance as per Cash Flow Statement | <u>4,633</u> | <u>1,783</u> |

(b) Deposits at call

The deposits are bearing floating interest rates between 0.10% and 4.50% (0.10% to 4.65% in 2011/12)

| | |
|-------|-------|
| 4,633 | 1,783 |
|-------|-------|

NOTE 7. RECEIVABLES

| | | |
|------------------------------------|--------------|------------|
| Current | | |
| Trade receivables | 1,142 | 645 |
| Provision for impaired receivables | (45) | (25) |
| | <u>1,097</u> | <u>620</u> |
| Non Current | | |
| Other receivables | 39 | 63 |
| Total receivables | <u>1,136</u> | <u>683</u> |

(a) Provision for impaired receivables

As at the 30 June 2013, current receivables of the Corporation with a nominal value of \$75,792 (2012 \$21,000) were impaired. The amount of the provision was \$45,000 (2012 \$25,000). For 2013 the individual impaired receivables mainly relate to tenants, whom are in difficult economic situations. It was assessed that a portion of these impaired receivables are expected to be recovered.

The ageing of these receivables is as follows:

| | | |
|---------------|-----------|-----------|
| 3 to 6 months | 45 | 25 |
| Over 6 months | - | - |
| Total | <u>45</u> | <u>25</u> |

Movements in the provision for impaired receivable are as follows:

| | | |
|---|-----------|-----------|
| At 1 July | 25 | 17 |
| Provision for impairment recognised during the year | 63 | 29 |
| Receivable written off during the year as uncollectable | (43) | (21) |
| Unused amount reversed | - | - |
| At 30 June | <u>45</u> | <u>25</u> |

The creation and release of the provision for impaired receivables has been included in "supplies and services" in the Comprehensive Operating Statement. Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash.

(b) Past due but not impaired trade receivables

As at the 30 June 2013, trade receivables of \$207,000 (2012 \$84,000) 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:

| | | |
|---------------|------------|-----------|
| 3 to 6 months | 170 | 48 |
| Over 6 months | 37 | 36 |
| Total | <u>207</u> | <u>84</u> |

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.

(c) Fair Value and Credit Risk

Due to the short term nature of the current receivables, their carrying value is assumed to approximate their fair value.

The maximum exposure to credit risk at the reporting date is the higher of the carrying value and fair value of each class of receivables mentioned above. The Corporation does not hold any collateral as security. Refer to Note 2 for more information on the risk management policy of the Corporation.


NOTE 8. INVENTORIES

| | 2013 \$'000 | 2012 \$'000 |
|----------------------------------|----------------|----------------|
| Current | | |
| Stores and consumables – at cost | 386 | 390 |
| Total current inventories | <u>386</u> | <u>390</u> |

NOTE 9. OTHER FINANCIAL ASSETS

| | | |
|---|--------------|--------------|
| Current | | |
| Accrued revenue | 1,924 | 1,561 |
| Total current other financial assets | <u>1,924</u> | <u>1,561</u> |

NOTE 10. INFRASTRUCTURE, PROPERTY, PLANT AND EQUIPMENT
(a) Classes of infrastructure, property, plant and equipment

| | | |
|--|----------------|----------------|
| Land | | |
| At Fair Value | 8,047 | 8,047 |
| At Cost | 2,211 | 1,941 |
| | <u>10,258</u> | <u>9,988</u> |
| Buildings | | |
| At Fair Value | 1,430 | 1,430 |
| At Cost | 340 | - |
| Less: Accumulated Depreciation | (143) | (71) |
| | <u>1,627</u> | <u>1,359</u> |
| Water infrastructure | | |
| At Fair Value | 158,542 | 158,542 |
| At Cost | 7,828 | 4,986 |
| Less: Accumulated Depreciation | (8,735) | (4,323) |
| | <u>157,635</u> | <u>159,205</u> |
| Wastewater infrastructure | | |
| At Fair Value | 109,757 | 109,757 |
| At Cost | 17,366 | 12,710 |
| Less: Accumulated Depreciation | (6,777) | (3,274) |
| | <u>120,346</u> | <u>119,193</u> |
| Plant and equipment | | |
| At Cost | 8,111 | 7,384 |
| Less: Accumulated Depreciation | (5,391) | (4,856) |
| | <u>2,720</u> | <u>2,528</u> |
| Under construction | | |
| At Cost | 4,914 | 4,903 |
| Total Infrastructure, Property, Plant & Equipment | <u>297,500</u> | <u>297,176</u> |

The asset classes of land and buildings were valued at 30 June 2011 by Egan Nations Valuers (Vic) in accordance with the *Financial Management Act 1994* in conformity with Australian Accounting Standards, Victorian Government Policies and valuation guidelines. The valuation was performed on a fair value basis using market evidence and where this approach was not suitable, using the depreciated replacement cost method.

Infrastructure assets were independently valued at 30 June 2011 by the Valuer General of Victoria, using AECOM valuers. The valuation methodology used was depreciated replacement costs using a Greenfields approach for assessing costs and only included assets that were constructed before 1 July 2011. Cost models were built based on actual construction information complimented by a variety of information sources including capacity, height, material type, length and depth that could be applied broadly across the range of assets in each category. Also refer to Note 1(d) in relation to valuation of the above non-current assets.

NOTE 10. INFRASTRUCTURE, PROPERTY, PLANT AND EQUIPMENT (CONT'D)
(b) Movements during the reporting period

| | 2012 / 2013 | | | | | | Closing WDV at 30 June 2013 \$'000 |
|--|---|---------------------|---------------------|------------------------|--|------------------------|---|
| | Opening WDV at 1 July 2012 \$'000 | Additions \$'000 | Disposals \$'000 | Revaluations \$'000 | Transfers between categories \$'000 | Depreciation \$'000 | |
| | <i>Land</i> | 9,988 | - | - | - | 270 | |
| <i>Building</i> | 1,359 | - | - | - | 340 | (72) | 1,627 |
| <i>Water Infrastructure</i> | 159,205 | 399 | - | - | 2,443 | (4,412) | 157,635 |
| <i>Wastewater Infrastructure</i> | 119,193 | 735 | - | - | 3,921 | (3,503) | 120,346 |
| <i>Equipment & motor vehicles</i> | 2,528 | - | (286) | - | 1,299 | (821) | 2,720 |
| <i>Under construction</i> | 4,903 | 8,284 | - | - | (8,273) | - | 4,914 |
| Total infrastructure, property, plant & equipment | 297,176 | 9,418 | (286) | - | - | (8,808) | 297,500 |

| | 2011 / 2012 | | | | | | Closing WDV at 30 June 2012 \$'000 |
|--|---|---------------------|---------------------|------------------------|--|------------------------|---|
| | Opening WDV at 1 July 2011 \$'000 | Additions \$'000 | Disposals \$'000 | Revaluations \$'000 | Transfers between categories \$'000 | Depreciation \$'000 | |
| | <i>Land</i> | 8,297 | 174 | (250) | - | 1,767 | |
| <i>Building</i> | 1,490 | - | (60) | - | - | (71) | 1,359 |
| <i>Water Infrastructure</i> | 158,497 | 288 | - | - | 4,698 | (4,278) | 159,205 |
| <i>Wastewater Infrastructure</i> | 109,735 | 943 | - | - | 11,767 | (3,252) | 119,193 |
| <i>Equipment and motor vehicles</i> | 2,413 | - | (283) | - | 1,193 | (795) | 2,528 |
| <i>Under construction</i> | 12,343 | 12,067 | - | - | (19,507) | - | 4,903 |
| Total infrastructure, property, plant & equipment | 292,775 | 13,472 | (593) | - | *(82) | (8,396) | 297,176 |



NOTE 11. INTANGIBLE ASSETS

| Movements during the period | Development Costs \$'000 | Patent & licences \$'000 | Total \$'000 |
|--|--------------------------------|--------------------------------|-----------------|
| At 1 July 2012, net of accumulated amortisation | 712 | 43 | 755 |
| Additions | 295 | 520 | 815 |
| Impairment | - | - | - |
| Amortisation | (475) | - | (475) |
| At 30 June 2013, net of accumulated amortisation | <u>532</u> | <u>563</u> | <u>1,095</u> |
| At 1 July 2011, net of accumulated amortisation | 1,072 | 43 | 1,115 |
| Additions | 74 | - | 74 |
| Impairment | - | - | - |
| Amortisation | (434) | - | (434) |
| At 30 June 2012, net of accumulated amortisation | <u>712</u> | <u>43</u> | <u>755</u> |

NOTE 12. PAYABLES

| | 2013 \$'000 | 2012 \$'000 |
|--------------------------------|----------------|----------------|
| Current | | |
| Trade creditors | 1,143 | 2,055 |
| Accrued expenses | 772 | 476 |
| Contractor deposits/retentions | 267 | 420 |
| Total current payables | <u>2,182</u> | <u>2,951</u> |

For an analysis of the sensitivity of payables to foreign currency and interest rate risk, refer to Note 2.

NOTE 13. INTEREST BEARING LIABILITIES

| | 2013 \$'000 | 2012 \$'000 |
|--|----------------|----------------|
| Current | | |
| <i>Secured</i> | | |
| Loans - Treasury Corporation of Victoria (TCV) | 5,000 | 8,700 |
| Total current interest bearing liabilities | <u>5,000</u> | <u>8,700</u> |
| Non-Current | | |
| <i>Secured</i> | | |
| Loans - Treasury Corporation of Victoria (TCV) | 34,400 | 26,400 |
| Total non-current interest bearing liabilities | <u>34,400</u> | <u>26,400</u> |
| Total interest bearing liabilities | <u>39,400</u> | <u>35,100</u> |
| Assets pledged as security | Nil | Nil |
| <p>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 <i>Borrowings & Investment Powers Act 1987</i>.</p> | | |
| Loan facilities - TCV | | |
| Total facilities | 39,400 | 36,200 |
| Used at balance date | 39,400 | 35,100 |
| Unused at balance date | <u>-</u> | <u>1,100</u> |
| <p>For the year ending 30 June 2013 the Corporation had approved financial accommodation of \$39.4 million and utilised \$39.4 million. Any unused portion does not carry forward.</p> | | |
| Fair Value | | |
| <p>Non traded financial liabilities comprise borrowings with the Treasury Corporation of Victoria (TCV). The fair value of these borrowings was \$41.17M (2012: \$37.72M).</p> | | |
| <p>The fair value of borrowings are based on cash flows discounted using borrowing rates varying from 2.92% to 6.71% (2012: 3.66% to 7.44%).</p> | | |
| Foreign exchange risk | | |
| <p>The borrowings are in Australian dollars. There are no foreign currency denominated amounts or foreign currency exposures.</p> | | |
| Interest rate risk | | |
| <p>Exposures arise, predominately from liabilities bearing variable interest rates as the Corporation intend to hold fixed borrowings to maturity.</p> | | |
| TCV borrowings - fixed | 36,600 | 30,200 |
| TCV borrowings - variable | 2,800 | 4,900 |
| | <u>39,400</u> | <u>35,100</u> |



NOTE 14. EMPLOYEE BENEFITS

| | 2013 \$'000 | 2012 \$'000 |
|--|---------------------|---------------------|
| Current | | |
| All rostered days off, annual leave and unconditional long service leave entitlements representing 7+ years of continuous service: | | |
| Employee benefits expected to be settled within 12 months after the end of the period, measured at nominal value | 887 | 832 |
| Employee benefits expected to be settled after 12 months measured at present value | <u>1,134</u> | <u>1,070</u> |
| Total Current | <u>2,021</u> | <u>1,902</u> |
| Non-current | | |
| Conditional long service leave measured at present value | <u>261</u> | <u>277</u> |
| Total Non-Current | <u>261</u> | <u>277</u> |
| Total employee benefits | <u><u>2,282</u></u> | <u><u>2,179</u></u> |
| <i>The following assumptions were adopted in measuring the present value of long service leave entitlements:</i> | | |
| Weighted average increase in employee costs | 4.500% | 4.3125% |
| Weighted average discount rates | 3.790% | 3.058% |
| Weighted average settlement period | 12 yrs | 12 yrs |

NOTE 15. DEFERRED TAX LIABILITIES

| | | |
|--|---------------|---------------|
| Movements: | | |
| Opening balance at 1 July | 37,299 | 37,299 |
| Credited / (debited) to other comprehensive income | - | - |
| Closing balance at 30 June | <u>37,299</u> | <u>37,299</u> |
| Deferred tax liabilities to be recovered after more than 12 months | 37,299 | 37,299 |

NOTE 16. SUPERANNUATION

South Gippsland Water makes the majority of its employer superannuation contributions in respect of its employees to the Local Authorities Superannuation Fund (the Fund). The Fund has two categories of membership, accumulation and defined benefit, each of which is funded differently. The defined benefit section provides lump sum benefits based on years of service and final average salary. The defined contribution section receives fixed contributions from South Gippsland Water and South Gippsland Water's legal or constructive obligation is limited to these contributions. Obligations for contributions are recognised as an expense in the Statement of Comprehensive Income when they are due.

Accumulation

The Fund's accumulation category, 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 2013, this was 9% required under Superannuation Guarantee Legislation). No further liability accrues to the employer as the superannuation benefits accruing to employees are represented by their share of the net assets of the Fund. Effective from 1 July 2013, the Superannuation Guarantee contribution rate will increase to 9.25%, and will progressively increase to 12% by 2019.

Defined Benefit

The Fund's Defined Benefit category is a multi-employer sponsored plan. As the Plan's assets and liabilities are pooled and are not allocated by employer, the Actuary is unable to allocate benefit liabilities, assets and costs between employers. As provided under Paragraph 32 (b) of AASB 119, South Gippsland Water does not use defined benefit accounting for these defined benefit obligations.

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. On the basis of the most recent full actuarial investigation conducted by the Fund's Actuary as at 31 December 2011, South Gippsland Water makes contributions to the Fund's Defined Benefit category at rates determined by the Fund's Trustee. This rate is currently 9.25% of members' salaries (9.25% in 2011/12).

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 (the funded resignation or retirement benefit is calculated as the Vested Benefit Index multiplied by the benefit).

South Gippsland Water is also required to make additional contributions to cover the contribution tax payable on contributions referred to above. Employees are also required to make member contributions to the Fund. As such, asset accumulate in the Fund to meet member benefits, as defined in the Trust Deed, as they accrue.

Shortfall Amounts

The Local Authorities Superannuation Fund's latest actuarial investigation as at 31 December 2011 identified an unfunded liability of \$406 million (excluding contributions tax) in the defined benefit category of which South Gippsland Water is a contributing employer. South Gippsland Water was made aware of the expected shortfall during 2011/12 year and was informed of its share of the shortfall on 2 August 2012.

South Gippsland Water has not been advised of any further adjustments.

The projected value of South Gippsland Water's contribution to the shortfall at 30 June 2012 (excluding Contributions tax) amounted to \$1,096,092 which was accounted for in the Comprehensive Operating Statement within Employee Benefits (see Note 4) and in the Balance Sheet in Current Liabilities Trade Creditors (See Note 12). South Gippsland Water received an early payment discount of \$59,652 and this has been accounted for in the 2012/13 Comprehensive Operating Statement within Employee Benefits (see Note 4).

The Fund surplus or deficit (ie the difference between fund assets and liabilities) is calculated differently for funding purposes (ie calculating required contributions) and for the calculation of accrued benefits as required in AAS 25 to provide the values needed for the AASB 119 disclosure in the South Gippsland Water's financial statements. AAS 25 requires that the present value of the defined benefit liability be calculated based on benefits that have accrued in respect of membership of the plan up to the measurement date, with no allowance for future benefits that may accrue.

The amount of unpaid shortfall at 30 June 2013 is \$0 (2011/12 \$1,096,092).

Retrenchment increments

During 2012/13 South Gippsland Water was not required to make payments to the Fund in respect of retrenchment increments (2011/12 \$0). South Gippsland Water's liability to the Fund as at 30 June 2013, for retrenchment increments, accrued interest and tax is \$0 (2011/12 \$0).

Accrued Benefit

The Fund's liability for accrued benefits was determined in the 31 December 2011 actuarial investigation pursuant to the requirements of Australian Accounting Standard AAS25 as follows:

| | 31-Dec-11 \$'000 |
|--|---------------------|
| Net Market Value of Assets | 4,315,324 |
| Accrued Benefits | 4,642,133 |
| Difference between Assets and Accrued Benefits | <u>(326,809)</u> |
| Vested Benefits (Minimum sum which must be paid to members when they leave the fund) | <u>4,838,503</u> |

The financial assumptions used to calculate the Accrued Benefits for the defined benefit category of the Fund were:

| | |
|-----------------------|------------|
| Net Investment Return | 7.50% p.a. |
| Salary Inflation | 4.25% p.a. |
| Price Inflation | 2.75% p.a. |

Superannuation Contributions

Contributions by South Gippsland Water (excluding any unfunded liability payments) to the above superannuation plans for the financial year ended 30 June 2013 are detailed below:

| Scheme | Type of Scheme | Rate | 2013 \$'000 | 2012 \$'000 |
|-------------------------------|-------------------|-------|----------------|----------------|
| Vision Super | Defined Benefits | 9.25% | 52 | 71 |
| Vision Super | Accumulation Plan | 9.00% | 444 | 439 |
| Various Employee Choice Funds | Accumulation Plan | 9.00% | 17 | 25 |


NOTE 17. CONTRIBUTED CAPITAL

| | 2013 \$'000 | 2012 \$'000 |
|--|----------------|----------------|
| Opening balance at 1 July | 64,353 | 64,353 |
| Capital transactions with the State in its capacity as owner arising from: | | |
| Capital contributions | 980 | - |
| Closing balance at 30 June | <u>65,333</u> | <u>64,353</u> |

NOTE 18. RESERVES

| | | |
|--|---------------|---------------|
| Composition of reserves | | |
| Asset revaluation reserve surplus/(deficit) | | |
| Land | 3,323 | 3,323 |
| Buildings | 642 | 642 |
| Infrastructure | <u>83,069</u> | <u>83,069</u> |
| Total Reserves | <u>87,034</u> | <u>87,034</u> |
| Movement in reserves | | |
| Asset Revaluation reserve | | |
| Opening balance at 1 July | 87,034 | 87,034 |
| Revaluation increment / decrement on non-current assets: | | |
| Land | - | - |
| Buildings | - | - |
| Infrastructure | - | - |
| Closing balance at 30 June | <u>87,034</u> | <u>87,034</u> |

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

NOTE 19. ACCUMULATED FUNDS

| | | |
|----------------------------|---------------|----------------|
| Opening balance at 1 July | 73,578 | 74,698 |
| Net surplus/(deficit) | <u>(293)</u> | <u>(1,120)</u> |
| Closing balance at 30 June | <u>73,285</u> | <u>73,578</u> |

NOTE 20. RECONCILIATION OF NET RESULTS FOR THE PERIOD AFTER RELATED INCOME TAX TO NET CASH FLOWS FROM OPERATING ACTIVITIES

| | | |
|--|--------------|--------------|
| Net result for the period after income tax | (293) | (1,120) |
| Add/(less) non-cash flows in Net Result | | |
| (Profit)/Loss on disposal of non-current assets | (246) | (123) |
| Depreciation and amortisation | 9,284 | 8,829 |
| Provision for impaired receivables | 63 | 29 |
| Developer contributions | (1,135) | (1,230) |
| Assets received free of charge | - | (174) |
| Asset Write-offs | - | 82 |
| Changes in Assets and Liabilities | | |
| Decrease/(Increase) in trade receivables | (473) | (97) |
| (Increase)/Decrease in inventories | 4 | (61) |
| (Increase)/Decrease in prepayments | 5 | (17) |
| (Increase)/Decrease in accrued revenue | (363) | (198) |
| (Decrease)/Increase in payables | (1,065) | (470) |
| (Decrease)/Increase in employee benefits liabilities | 103 | 476 |
| (Decrease)/Increase in accrued expenses | 296 | (124) |
| Net cash inflows from Operating Activities | <u>6,180</u> | <u>5,802</u> |

NOTE 21. RESPONSIBLE PERSONS AND EXECUTIVE OFFICER DISCLOSURES

(a) Responsible persons

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

Peter Walsh MLA, Minister for Water (1 July 2012 to 30 June 2013)

The names of Board Members of South Gippsland Water for the Year to 30 June 2013 were:

| | |
|---------------------------------|------------------------------------|
| J Liley (Chairperson) | (1 July 2012 to 30 June 2013) |
| J Anderson (Deputy Chairperson) | (1 July 2012 to 30 September 2012) |
| J Fawcett (Director) | (1 July 2012 to 30 September 2012) |
| J Fawcett (Deputy Chairperson) | (1 October 2012 to 30 June 2013) |
| K McGrath (Director) | (1 July 2012 to 30 September 2012) |
| C Badger (Director) | (1 July 2012 to 30 June 2013) |
| A Kilborn (Director) | (1 July 2012 to 30 June 2013) |
| D Schultz (Director) | (1 July 2012 to 30 June 2013) |
| I Irvine (Director) | (1 October 2012 to 30 June 2013) |
| S Rieniets (Director) | (1 October 2012 to 30 June 2013) |

The Accountable Officer of South Gippsland Water for the year to 30 June 2013 was:

Philippe du Plessis (1 July 2012 to 30 June 2013)

Remuneration of responsible persons

Remuneration paid to Ministers is reported in the Annual Report of the Department of Premier and Cabinet. Other relevant interests are declared in the Register of Members' Interests which each member of the Parliament completes.

Remuneration received, or due and receivable from the Corporation in connection with the management of the Corporation (includes termination payments and bonuses paid):

| | 2013 \$'000 | 2012 \$'000 |
|--|----------------|----------------|
| | 416 | 419 |

Remuneration received, or due and receivable from the Corporation in connection with the management of any related party entity is nil (2012 nil). The number of responsible persons whose remuneration from the Corporation was within the specified bands were as follows:

| Income band (\$) | 2013 No. | 2012 No. |
|-------------------|-------------|-------------|
| 0 - 9,999 | 2 | 2 |
| 10,000 - 19,999 | 2 | 4 |
| 20,000 - 29,999 | 4 | 3 |
| 40,000 - 49,999 | 1 | 1 |
| 110,000 - 119,999 | - | 1 |
| 120,000 - 129,999 | - | 1 |
| 230,000 - 239,999 | 1 | - |
| Total Numbers | 10 | 12 |

Retirement benefits of responsible persons

The retirement benefits paid by the Corporation in connection with the retirement of responsible persons of the Corporation amounted to:

| | 2013 \$'000 | 2012 \$'000 |
|--|----------------|----------------|
| | 32 | 31 |

Other related party transactions

There were no loans in existence by the Corporation to responsible persons or related parties at the date of this report.

There were no other transactions between the Corporation and responsible persons and their related parties including contractors with significant responsibilities during the financial year.

There were no contractors with significant management responsibility during the financial year.

(b) Executive officers' remuneration

The number of executive officers, other than responsible persons, whose total remuneration falls within the specified bands above \$100,000 are disclosed in the table below. There was a movement in executive officer positions during the prior year with a position being vacant from 1 January 2012 until 7th May 2012. This resulted in increased salaries and annualised employee equivalents compared to the prior year.

| Income band \$ | Total Remuneration | | Base Remuneration | |
|--|--------------------|-----------|-------------------|-----------|
| | 2013 | 2012 | 2013 | 2012 |
| 90,000 - 99,999 | - | - | - | 1 |
| 100,000 - 119,999 | - | 1 | - | - |
| 150,000 - 159,999 | 1 | - | 1 | - |
| 160,000 - 169,999 | - | - | - | - |
| 170,000 - 179,999 | - | - | 2 | 2 |
| 180,000 - 189,999 | 2 | 2 | - | - |
| Total Amount | \$529,000 | \$474,000 | \$515,000 | \$443,000 |
| Total Numbers | 3 | 3 | 3 | 3 |
| Total annualised employee equivalent (AEE) (a) | 3.0 | 2.6 | 3.0 | 2.6 |

Note: (a) Annualised employee equivalent is based on working 38 ordinary hours per week over the reporting period.



NOTE 22. DIVIDENDS

The process to determine the 2012/13 dividend has not yet been completed at the reporting date. The Board's preliminary dividend estimate for this period is zero.

NOTE 23. COMMITMENTS

| | 2013 \$'000 | 2012 \$'000 |
|--|----------------|----------------|
|--|----------------|----------------|

The following commitments are exclusive of GST.

(a) Finance lease commitments

At 30 June 2013 the Corporation had no finance lease commitments.

(b) Capital commitments

At 30 June 2013, the Corporation had the following significant capital commitments:

- Poowong/Loch/Nyora sewerage scheme – planning and design
- Alberton Sewer Scheme – detailed design and planning
- Wonthaggi sewer reticulation upgrades
- Lohr Avenue Pump Station Upgrades
- Foster sewer augmentation

Outstanding capital commitments are to be paid as follows:

| | | |
|-----------------|-------|-------|
| within one year | 1,204 | 1,473 |
| | 1,204 | 1,473 |

(c) Operating lease commitments

At 30 June 2013, the Corporation had the following operating lease commitments:

- Photocopier
- Office Accommodation

Outstanding lease commitments are to be paid as follows:

| | | |
|-------------------|----|----|
| within one year | 12 | 24 |
| one to five years | 22 | 14 |
| | 34 | 38 |

(d) Environmental Contribution commitments

At 30 June 2013, the Corporation had outstanding environmental contribution commitments to be paid as follows:

| | | |
|-------------------|-------|-------|
| within one year | 1,101 | 754 |
| one to five years | 2,202 | 3,303 |
| | 3,303 | 4,057 |

NOTE 24. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

At 30 June 2013 South Gippsland Water was not aware of any Contingent Assets or Contingent Liabilities relating to the Corporation.

NOTE 25. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

No matters or circumstances have arisen since the end of the reporting period which significantly affected or may significantly affect the operations of the Corporation, the results of those operations, or the state of affairs of the Corporation in future financial years.

NOTE 26. FINANCIAL INSTRUMENTS

26.1 Interest rate risk exposures

The following table sets the Corporation's exposure to interest rate risk, including the contractual repricing dates and the effective weighted average interest rates by maturity periods. Exposures arise predominantly from liabilities bearing variable interest rates as the Corporation intends to hold fixed rate liabilities to maturity.

| | Non-interest bearing \$'000 | Fixed interest rate \$'000 | Floating interest rate \$'000 | Contractual repricing or maturity periods | | | | | | Total \$'000 |
|--|--------------------------------|-------------------------------|----------------------------------|---|-----------------------------|-----------------------------|-----------------------------|-----------------------------|------------------------|-----------------|
| | | | | 1 year or less \$'000 | Over 1 to 2 years \$'000 | Over 2 to 3 years \$'000 | Over 3 to 4 years \$'000 | Over 4 to 5 years \$'000 | Over 5 years \$'000 | |
| 2013 | | | | | | | | | | |
| <i>Financial assets</i> | | | | | | | | | | |
| Cash | - | - | 4,633 | - | - | - | - | - | - | 4,633 |
| Receivables | 3,060 | - | - | - | - | - | - | - | - | 3,060 |
| Total financial assets | 3,060 | - | 4,633 | - | - | - | - | - | - | 7,693 |
| <i>Financial liabilities</i> | | | | | | | | | | |
| Payables | 2,182 | - | - | - | - | - | - | - | - | 2,182 |
| Interest bearing liabilities | - | 36,600 | 2,800 | 5,000 | 4,400 | 1,000 | 2,480 | 4,500 | 22,020 | 39,400 |
| Total financial liabilities | 2,182 | 36,600 | 2,800 | 5,000 | 4,400 | 1,000 | 2,480 | 4,500 | 22,020 | 41,582 |
| <i>Net financial assets/ (liabilities)</i> | 878 | (36,600) | 1,833 | (5,000) | (4,400) | (1,000) | (2,480) | (4,500) | (22,020) | (33,889) |
| Weighted average interest rate | | 5.32% | 2.92% | 4.32% | 5.53% | 6.03% | 5.58% | 6.13% | 4.97% | 5.15% |

| | Non-interest bearing \$'000 | Fixed interest rate \$'000 | Floating interest rate \$'000 | Contractual repricing or maturity periods | | | | | | Total \$'000 |
|----------------------------------|--------------------------------|-------------------------------|----------------------------------|---|-----------------------------|-----------------------------|-----------------------------|-----------------------------|------------------------|-----------------|
| | | | | 1 year or less \$'000 | Over 1 to 2 years \$'000 | Over 2 to 3 years \$'000 | Over 3 to 4 years \$'000 | Over 4 to 5 years \$'000 | Over 5 years \$'000 | |
| 2012 | | | | | | | | | | |
| <i>Financial assets</i> | | | | | | | | | | |
| Cash | - | - | 1,783 | - | - | - | - | - | - | 1,783 |
| Receivables | 2,244 | - | - | - | - | - | - | - | - | 2,244 |
| Total financial assets | 2,244 | - | 1,783 | - | - | - | - | - | - | 4,027 |
| <i>Financial liabilities</i> | | | | | | | | | | |
| Payables | 2,951 | - | - | - | - | - | - | - | - | 2,951 |
| Interest bearing liabilities | - | 30,200 | 4,900 | 8,700 | 2,200 | 4,400 | 1,000 | 2,300 | 16,500 | 35,100 |
| Total financial liabilities | 2,951 | 30,200 | 4,900 | 8,700 | 2,200 | 4,400 | 1,000 | 2,300 | 16,500 | 38,051 |
| <i>Net financial liabilities</i> | (707) | (30,200) | (3,117) | (8,700) | (2,200) | (4,400) | (1,000) | (2,300) | (16,500) | (34,024) |
| Weighted average interest rate | - | 5.83% | 3.66% | 5.38% | 6.12% | 5.66% | 6.03% | 5.75% | 5.88% | 5.53% |

26.2 Fair Value

The carrying amounts and fair values of financial liabilities at balance date are:

| | 2013 | | 2012 | |
|------------------------------|-----------------|------------|-----------------|------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Payables | 2,182 | 2,182 | 2,951 | 2,951 |
| Interest Bearing Liabilities | 39,400 | 41,172 | 35,100 | 37,021 |
| Total Financial Liabilities | 41,582 | 43,354 | 38,051 | 40,672 |

None of the classes of interest bearing liabilities are readily traded on organised markets in standardised form. The fair value of borrowings is based upon market prices, where a market exists or by discounting the expected future cash flows by the current interest rates for liabilities with similar risk profiles. Fair value is inclusive of costs which would be incurred on settlement of a liability.



Statutory Certification

South Gippsland Region Water Corporation

FOR THE YEAR ENDED 30 JUNE 2013

We certify the attached Financial Statements for South Gippsland Region Water Corporation have been prepared in accordance with Standing Directions 4.2 of the *Financial Management Act 1994*, applicable Australian Accounting Standards, interpretations and other mandatory professional reporting requirements.

We further state that, in our opinion, the information set out in the Comprehensive Operating Statement, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement and notes to and forming part of the Financial Statements, presents fairly the financial transactions during the year ended 30 June 2013 and the financial position of the Corporation as at 30 June 2013.

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

Handwritten signature of Jim Fawcett, written in black ink, positioned above a horizontal dotted line.

Jim Fawcett
Acting Chairperson

Handwritten signature of Philippe du Plessis, written in black ink, positioned above a horizontal dotted line.

Philippe du Plessis
Managing Director

Handwritten signature of Justin Wightman, written in black ink, positioned above a horizontal dotted line.

Justin Wightman
Chief Finance & Accounting Officer

Handwritten signature of Justin Wightman, written in black ink, followed by the text "August 2013".

VAGO

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INDEPENDENT AUDITOR'S REPORT

To the Board Members, South Gippsland Region Water Corporation

The Financial Report

The accompanying financial report for the year ended 30 June 2013 of the South Gippsland Region Water Corporation which comprises the comprehensive operating statement, balance sheet, statement of changes in equity, cash flow statement, notes comprising a summary of significant accounting policies and other explanatory information, and the statutory certification has been audited.

The Board Members' Responsibility for the Financial Report

The Board Members of the South Gippsland Region Water Corporation are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards, and the financial reporting requirements of the *Financial Management Act 1994*, and for such internal control as the Board Members determine is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

As required by the *Audit Act 1994*, my responsibility is to express an opinion on the financial report based on the audit, which has been conducted in accordance with Australian Auditing Standards. Those standards require compliance with relevant ethical requirements relating to audit engagements and that the audit be planned and performed to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The audit procedures selected depend on judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, consideration is given to the internal control relevant to the entity's preparation and fair presentation of the financial report 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 entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Board Members, as well as evaluating the overall presentation of the financial report.

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

Auditing in the Public Interest

Independent Auditor's Report (continued)

Independence

The Auditor-General's independence is established by the *Constitution Act 1975*. The Auditor-General is not subject to direction by any person about the way in which his powers and responsibilities are to be exercised. In conducting the audit, the Auditor-General, his staff and delegates complied with all applicable independence requirements of the Australian accounting profession.


Opinion

In my opinion, the financial report presents fairly, in all material respects, the financial position of the South Gippsland Region Water Corporation as at 30 June 2013 and of its financial performance and its cash flows for the year then ended in accordance with applicable Australian Accounting Standards, and the financial reporting requirements of the *Financial Management Act 1994*.

Matters Relating to the Electronic Publication of the Audited Financial Report

This auditor's report relates to the financial report of the South Gippsland Region Water Corporation for the year ended 30 June 2013 included both in the South Gippsland Region Water Corporation's annual report and on the website. The Board Members of the South Gippsland Region Water Corporation are responsible for the integrity of the South Gippsland Region Water Corporation's website. I have not been engaged to report on the integrity of the South Gippsland Region Water Corporation's website. The auditor's report refers only to the subject matter described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in the website version of the financial report.

MELBOURNE
29 August 2013


for John Doyle
Auditor-General

Performance Report

For the year ended 30 June 2013

**TABLE 1A - FINANCIAL PERFORMANCE INDICATORS
(Whole of Business)**

| Performance indicator | | Notes | 2011/12 Result | 2012/13 Result | 2012/13 Target | Variance % |
|-----------------------|---|-------|----------------|----------------|----------------|------------|
| F1 | Internal Financing Ratio Net operating cash flow less dividends Capital expenditure | 1 | 47.2% | 68.7% | 58.9% | 16.6% |
| F2 | Gearing Ratio Total debt (including finance leases) Total assets | | 11.6% | 12.8% | 13.2% | (3.0%) |
| F3 | Interest Cover (EBIT) Earnings before net interest and tax expense Net interest expense | 2 | 0.5 times | 0.8 times | 0.6 times | 33.3% |
| F4 | Interest Cover (Cash) Cash flow from operations before net interest and tax payments Net interest payments | 3 | 3.6 times | 3.6 times | 3.2 times | 12.5% |

Notes:

- The actual result was favourable to target due to reduced capital expenditure as a result of delays in the Aliberto project of \$1.7m. The actual result was favourable to 2011/12 as a result of the reduced capital spend in 2012/13.
- The actual result was favourable to target mainly due to increased water sales during the extended summer/autumn 2013 dry period. The actual result was favourable to 2011/12 due to defined benefit unfunded superannuation call in 2011/12.
- The actual result was favourable to target as a result of a combination of the lower interest rate environment and timing of borrowings during 2012/13

**TABLE 1B - SERVICE AND ENVIRONMENTAL PERFORMANCE INDICATORS
(Whole of Business)**

| Performance indicator | | Notes | 2011/12 Result | 2012/13 Result | 2012/13 Target | Variance % |
|-----------------------|---|-------|----------------|----------------|----------------|------------|
| S1 | Water Supply Interruptions | | | | | |
| S1.1 | Number of customers receiving more than 5 unplanned interruptions in the year | | 0 | 0 | 0 | 0.0% |
| S2 | Interruption time indicators | | | | | |
| S2.1 | Average duration of unplanned water supply interruptions | 1 | 95 minutes | 83 minutes | 100 minutes | 17.0% |
| S3 | Restoration of water supply | | | | | |
| S3.1 | Unplanned water supply interruptions restored within 5 hours | | 99.0% | 100.0% | 99.0% | 1.0% |
| S4 | Reliability of sewerage collection services indicators | | | | | |
| S4.1 | Sewer spills from reticulation and branch sewers (priority 1 & 2) | | 56 | 48 | 50 | 4.0% |
| S5 | Containment of sewer spillages | | | | | |
| S5.1 | Sewerage spills contained within 5 hours | 2 | 100.0% | 93.8% | 100.0% | (6.2%) |
| S6 | Customer complaints indicators | | | | | |
| S6.1 | Water quality complaints per 1000 customers | 3 | 2.7 | 9.0 | 8.0 | (12.5%) |
| S6.2 | Sewerage service quality and reliability complaints per 1000 customers | 4 | 0.0 | 0.0 | 0.1 | 100.0% |
| S6.3 | Billing complaints per 1000 customers | 5 | 0.6 | 1.8 | 1.0 | (80.0%) |
| S6.4 | Sewage odour complaints per 1000 customers | 6 | 0.1 | 0.0 | 0.1 | 100.0% |

Notes:

- The actual result was favourable to target and prior year results due to prevailing weather conditions and an increased preventative maintenance program.
- The actual result was unfavourable to target and prior year results due to a significant 1 in 20 year rainfall event in late June which caused significant infiltration over an extended period. Target was exceeded due to this one event.
- The actual result was unfavourable to target and prior year results due to a large mains break in Korumburra which caused dirty water together with a reduced ability to flush due to water restrictions in that area.
- The actual result was favourable to target. There were 0 sewerage quality and reliability complaints for the year against a target of 2. The nature of the indicator and the magnitude of the target mean that minor changes to complaint numbers can result in significant variations to targets. The zero complaints was due to exemplary service provision
- The actual result was unfavourable to target and prior year results as a result of the change in definition of the target from 1 July 2012. Previously the target only included billing complaints and now includes both billing and affordability complaints. Targets for 2013/14 have been adjusted to reflect both billing and affordability complaints.
- The actual result was favourable to target and prior year results. There were 5 sewerage odour complaints for the year against a target of 13. The nature of the indicator and the magnitude of the target mean that minor changes to complaint numbers can result in significant variations to targets. The lower complaints were due to exemplary service provision.

**TABLE 1B - SERVICE AND ENVIRONMENTAL PERFORMANCE INDICATORS
(Whole of Business)**

| Performance indicator | | Notes | 2011/12 Result | 2012/13 Result | 2012/13 Target | Variance % |
|-----------------------|--|-------|----------------|----------------|----------------|------------|
| E1 | Reuse indicators | | | | | |
| E1.1 | Effluent reuse (volume) | 1 | 2.0% | 4.2% | 2.0% | 110.0% |
| E1.2 | Biosolids reuse (dry mass) | | 0.0% | 0.0% | 0.0% | 0.0% |
| E2 | Sewage treatment standards | | | | | |
| E2.1 | Number of analyses complying with licence agreements as % of samples | | 99.5% | 100.0% | 100.0% | 0.0% |

Notes:

- The actual result was greater than target due to favourable irrigation conditions in the region due to the dry summer/autumn of 2013. This was also impacted by the prior year commissioning of irrigation equipment at the Waratah Bay Waste Water Treatment Plant.



Statutory Certification

South Gippsland Region Water Corporation

Certification of Performance Report for 2012/13

We certify that the accompanying Performance Report of South Gippsland Region Water Corporation in respect of the 2012/13 financial year is presented fairly in accordance with the *Financial Management Act 1994*.

The report outlines the relevant performance indicators as determined by the responsible Minister, the actual results achieved for the financial year against pre-determined performance targets and these indicators, and an explanation of any significant variance between the actual results and performance targets.

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

A handwritten signature in black ink, appearing to read "Jim Fawcett", written over a horizontal dotted line.

Jim Fawcett
Acting Chairperson

A handwritten signature in black ink, appearing to read "Philippe du Plessis", written over a horizontal dotted line.

Philippe du Plessis
Managing Director

27 August 2013

VAGO

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INDEPENDENT AUDITOR'S REPORT

To the Board Members, South Gippsland Region Water Corporation

The Performance Report

The accompanying performance report for the year ended 30 June 2013 of the South Gippsland Region Water Corporation which comprises the performance indicators, the related notes and the statutory certification has been audited.

The Board Members' Responsibility for the Performance Report

The Board Members of the South Gippsland Region Water Corporation are responsible for the preparation and fair presentation of the performance report in accordance with the *Financial Management Act 1994* and for such internal control as the Board Members determine is necessary to enable the preparation and fair presentation of the performance report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

As required by the *Audit Act 1994*, my responsibility is to express an opinion on the performance report based on the audit, which has been conducted in accordance with Australian Auditing Standards. Those standards require compliance with relevant ethical requirements relating to audit engagements and that the audit be planned and performed to obtain reasonable assurance about whether the performance report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the performance report. The audit procedures selected depend on judgement, including the assessment of the risks of material misstatement of the performance report, whether due to fraud or error. In making those risk assessments, consideration is given to the internal control relevant to the entity's preparation and fair presentation of the performance report 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 entity's internal control. An audit also includes evaluating the overall presentation of the performance report.

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

Auditing in the Public Interest

Independent Auditor's Report (continued)

Independence

The Auditor-General's independence is established by the *Constitution Act 1975*. The Auditor-General is not subject to direction by any person about the way in which his powers and responsibilities are to be exercised. In conducting the audit, the Auditor-General, his staff and delegates complied with all applicable independence requirements of the Australian accounting profession.

Opinion

In my opinion, the performance report of the South Gippsland Region Water Corporation in respect of the 30 June 2013 financial year presents fairly, in all material respects, and in accordance with the *Financial Management Act 1994*.

Matters Relating to the Electronic Publication of the Audited Performance Report

This auditor's report relates to the performance report of the South Gippsland Region Water Corporation for the year ended 30 June 2013 included both in the South Gippsland Region Water Corporation's annual report and on the website. The Board Members of the South Gippsland Region Water Corporation are responsible for the integrity of the South Gippsland Region Water Corporation's website. I have not been engaged to report on the integrity of the South Gippsland Region Water Corporation's website. The auditor's report refers only to the subject matter described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of the performance report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited performance report to confirm the information contained in the website version of the performance report.

MELBOURNE
29 August 2013

T. Doyle
for John Doyle
Auditor-General

Appendix A – Disclosure index

The 2012/13 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 |
|--|--|----------------|
| Ministerial Reporting Directions | | |
| MRD 1 | Performance Reporting | 24 & 54 |
| MRD 2 | Reporting on Water Consumption & Drought Response | 16 |
| MRD 3 | Environmental & Social Sustainability Reporting | 14-19 & 20 |
| MRD 4 | Bulk Entitlements | 15 |
| MRD 5 | Annual Reporting – Major Non-residential Water Users | 17 |
| Financial Reporting Directions | | |
| Report of Operations | | |
| <i>Charter and purpose</i> | | |
| FRD 22D | Manner of establishment and the relevant Ministers | 7 |
| FRD 22D | Objectives, functions, powers and duties | 7 |
| FRD 22D | Nature and range of services provided | 2 |
| <i>Management and structure</i> | | |
| FRD 22D | Organisational structure | 5 |
| FRD 22D | Names of Board Members Major Committees | 4 & 6 |
| <i>Financial and other information</i> | | |
| FRD 22D | Statement of workforce data | 8 |
| FRD 22D | Employment and conduct principles | 8 |
| FRD 22D | Summary of financial results [5 year] | 24 |
| FRD 22D | Significant changes in financial position during the year | 24 |
| FRD 22D | Operational & budgetary objectives and performance against objectives | 24 |
| FRD 22D | Major changes or factors affecting performance | 24 |
| FRD 22D | Subsequent events | 10 |
| FRD 22C | Details of consultancies >\$100,000 | 10 |
| FRD 22C | Details of consultancies – total No. and cost <\$100,000 | 10 |
| FRD 12A | Disclosure of major contracts | 11 |
| FRD 22D | Application and operation of Freedom of Information Act 1982 | 8 |
| FRD 22D | Application and operation of the Whistleblowers Protection Act 2001 | 9 |
| FDR 22D | Compliance with the Protected Disclosures Act 2012 | 8 |
| FRD 22D | Compliance with building and maintenance provisions of Building Act 1993 | 10 |
| FRD 22D | Statement on National Competition Policy | 11 |
| FRD 22D | Occupational Health and Safety Policy | 12 |
| FRD 24D | Environmental Reporting [Office] | 19-21 |
| FRD 25 | Victorian Industry Participation Policy disclosures | 10 |
| FRD 10 | Disclosure index | 58 |
| FRD 22D | Statement of availability of other information | 6 |
| FRD 121 | Infrastructure Assets (Water/Rail) | 27 |
| FRD 27B | Presentation & reporting of performance information | 54 |
| Financial Statements | | |
| <i>Financial statements required under Part 7 of the Financial Management Act 1994</i> | | |
| SD 4.2(b) | Operating Statement | 26 |
| SD 4.2(b) | Balance Sheet | 26 |
| SD 4.2(b) | Statement of Changes in Equity | 27 |
| SD 4.2(b) | Cash Flow Statement | 28 |
| SD 4.2(c) | Compliance with Australian accounting standards and other authoritative pronouncements | 29-35 |
| SD 4.2(c) | Compliance with Ministerial Directions | 57 |
| SD 4.2(d) | Rounding of amounts | 25 |
| SD 4.2(c) | Accountable officer's declaration | 3 |
| SD 4.2(g) | General information requirements | 2 |
| SD 4.2(j) | Sign-off requirements | 3 |
| SD 4.5.5 | Risk Management Compliance Attestation | 7 |
| <i>Other disclosures in notes to the financial statements</i> | | |
| FRD 9A | Departmental Disclosure of Administered Assets and Liabilities | None |
| FRD 11 | Disclosure of ex-gratia payments | None |
| FRD 13 | Disclosure of Parliamentary Appropriations | None |
| FRD 21B | Disclosure of Responsible Persons, Executive Officers and other Personnel (Contractors with Significant Management Responsibilities) | 48 |
| FRD 102 | Inventories | 41 |
| FRD 103D | Non current Physical Assets | 31 |
| FRD 106 | Impairment of Assets | 31 |
| FRD 109 | Intangible Assets | 33 |
| FRD 110 | Cash Flow Statements | 29 |
| FRD 112C | Defined Benefit Superannuation Obligations | 46 |
| FRD 114A | Financial Instruments | 50 |
| FRD 119 | Contributions by Owners | 34 |
| Legislation | | |
| Freedom of Information Act 1982 | | 8 |
| Building Act 1983 | | 10 |
| Financial Management Act 1994 | | 50-52, 54-56 |
| Audit Act 1994 | | 50-52, 54-56 |
| Whistleblowers Protection Act 2001 | | 9 |
| Victorian Industry Participation Policy Act 2003 | | 10 |
| Multicultural Victoria Act 2004 | | none |
| Copyright | | |
| ISSN1838-3173 | | |



| | |
|-----------------------|---|
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| RESPONSIBLE MINISTER | Peter Walsh MLA. |
| BANKERS | Westpac Bank 28 Bair Street LEONGATHA VIC 3953 |
| AUDITORS | Auditor General, Victoria By Agent WHK Audit (Vic) |
| INSURERS | Marsh Insurance Brokers |
| SOLICITORS | Oakleys White Russell Kennedy |
| INDUSTRY ASSOCIATIONS | Australian Water & Wastewater Association Institute of Water Administration Victorian Water Industry Association |
| CHARITY | WaterAid Australia |