

# Annual Report 2012

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City West Water  
Limited



City West Water



# Annual Report

for the year ended  
30 June **2012**

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City West Water  
Limited

ABN 70 066 902 467



City West Water



# Contents

A Foreword from the Chairman.....	1
Company highlights 2011-12.....	2
Performance measures 2011-12 .....	4
Corporate governance .....	6
Freedom of Information .....	10
Whistleblowers Protection Act .....	10
Additional information.....	11
Major non residential water users .....	12
Bulk water entitlements .....	13
Directors' report.....	16
Attestation on compliance with the Australian/New Zealand Risk Management Standard .....	18
Auditor-General's Independence Declaration.....	19
Statement of Comprehensive Income.....	20
Balance Sheet.....	21
Statement of Changes in Equity .....	22
Cash Flow Statement .....	23
Notes to and forming part of the Financial Statements.....	24
1. Summary of significant accounting policies.....	24
2. Financial risk management objectives and policies.....	34
3. Revenue and other income.....	37
4. Expenses other than finance costs.....	38
5. Income tax.....	39
6. Deferred tax assets and deferred tax liabilities reconciliation .....	40
7. Dividends .....	41
8. Current assets - Cash and cash equivalents .....	41
9. Current assets - Receivables .....	42
10. Current assets - Prepayments .....	42
11. Non current assets - Receivables .....	43
12. Non current assets - Infrastructure, property, plant and equipment .....	43
13. Non current assets - Intangible assets.....	45
14. Non current assets - Deferred tax assets .....	46
15. Current liabilities - Payables .....	46
16. Current liabilities - Borrowings .....	46
17. Current liabilities - Tax liabilities .....	46
18. Current liabilities - Provisions.....	47
19. Current liabilities - Other .....	48
20. Non current liabilities - Borrowings .....	48

21.	Non current liabilities - Deferred tax liabilities .....	48
22.	Non current liabilities - Provisions .....	48
23.	Non current liabilities - Unearned income.....	48
24.	Equity .....	48
25.	Key management personnel .....	49
26.	Remuneration of auditors.....	51
27.	Contingent assets and liabilities .....	51
28.	Commitment for expenditure.....	52
29.	Employee benefits.....	53
30.	Related party disclosure .....	57
31.	Economic dependency .....	61
32.	Reconciliation of profit after income tax to net cash inflow from operating activities .....	61
33.	Financial instruments .....	62
	Directors' Declaration.....	65
	Independent Auditor's Report.....	66

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## A Foreword from the Chairman

I am pleased to present the Annual Report for City West Water for the year ended 30 June 2012.

Overall, the company performed very well across its triple bottom line key performance indicators. Profit before tax was \$71.7m compared to budget of \$63.1m and last year's profit before tax of \$87.7m. Growth in sales revenue of 17.8 per cent has been offset by increases in bulk charges (33.9 per cent), depreciation and finance charges as well as a reduction in developer related revenues.

Total borrowings increased by 23.4 per cent (\$142.4m) during 2011-12, mainly to fund the required capital expenditure to support growth in our licence area as well as investment in the company's existing infrastructure assets. At the same time, finance charges increased by 15.5 per cent to \$45.9m.

Bulk water purchased for the year was 96.3 gigalitres (GL) compared to last year's 92.6 GL, an increase of 4 per cent. Growth in our customer base of 2.9 per cent, as well as the easing of water restrictions to Stage 1 contributed to increased demand.

The Ministerial Advisory Council's (MAC) Living Melbourne Living Victoria Implementation Plan, as well as the Government's response has been released. Central to the implementation plan is the development of a Metropolitan Integrated Water Cycle Management Strategy as well as the establishment of the Office of Living Victoria. City West Water is actively participating in the implementation of the Metropolitan Integrated Water Cycle Management Strategy.

As at 1 July 2012 the business held by City West Water Limited transfers to a statutory corporation known as City West Water Corporation under the *Water Amendment (Governance and Other Reforms) Act 2012 (Vic)*. The other two metropolitan water retailers, South East Water and Yarra Valley Water, also become statutory corporations on this date. The entities' governing legislation changes from the *Water Industry Act 1994 (Vic)* to the *Water Act 1989 (Vic)*. While the change in form is not expected to have a significant impact on the company's operations, it is expected that the water retailers will be provided with additional revenue collection powers. The extent of these additional collection powers will be regulated by the Essential Services Commission (ESC). It is expected that the ESC will issue a draft Customer Code in coming months as part of its consultation process.

City West Water has completed the Enterprise Design and Release One Design phases of its business transformation program (The Arrow Program), which involves the phased replacement of the company's disparate IT systems with an integrated Oracle software solution. When the program is fully implemented over the next few years, the company's operations will be simplified, efficiency improved and customer service capability strengthened. The build phase of Release One will begin in 2012-13.

Early in the year, the business experienced management and staff problems in its contact centre, which resulted in missed targets for time to answer phone calls and complaints to the Energy & Water Ombudsman of Victoria. Corrective processes were implemented, but improved performance could not achieve year end targets. The business did, however, achieve a customer satisfaction rating of 95.6 per cent.

During the year, three members of the Board of Directors retired from their positions. On behalf of the Board, I would like to acknowledge the contributions of Alan E. Seale, Chairman for six years, Deborah Radford, director and Chairman of the Risk Management and Audit Committee for six years, and Peter Hansen, director for six and a half years.



**The Hon. Alan Stockdale**  
Chairman

Melbourne  
29 August 2012

## Company highlights 2011-12

In 2011-12, City West Water continued to operate successfully across the triple bottom line:

### Economic

- City West Water achieved a profit before tax of \$71.7m (2010-11 \$87.7m). An increase in sales revenue has been offset by increases in bulk charges, depreciation and finance costs as well as a reduction in developer related revenues.
- Sales revenue increased by \$65.0m (17.8 per cent), mainly as a result of increases in water and sewage prices (average of 13.5 per cent) in line with the Essential Services Commission's price determination for 2011-12 and growth in the company's customer base of 2.9 per cent.
- The company made total dividend payments of \$45.2m (2010-11 \$15.7m) and paid equivalent income tax of \$34.0m (2010-11 \$27.7m).
- Total borrowings increased by 23.4 per cent (\$142.4m) in 2011-12, mainly to fund the required capital expenditure to support growth in our licence area as well as continued investment in infrastructure assets. At the same time, finance costs increased by 15.5 per cent to \$45.9m.
- Return on shareholder equity (measured as profit after tax/average shareholder equity) was 6.1 per cent (2010-11 7.9 per cent); return on assets (measured as earnings before interest and tax/average assets) was 6.0 per cent (2010-11 7.3 per cent); and interest cover (earnings before interest and tax/finance costs) was 2.6 times (2010-11 3.2 times).
- City West Water has completed the Enterprise Design and Release One Design phases of its business transformation program (The Arrow Program), which involves the phased replacement of the company's disparate IT systems with an integrated Oracle software solution. When the program is fully implemented over the next few years, the company's operations will be simplified, efficiency improved and customer service capability strengthened. The build phase for Release One will begin in 2012-13.

### Social

- Bulk water purchases of 96.3 GL for the year was four per cent above last year's record low of 92.6 GL. This result can be attributed to the easing of water restrictions and growth in the company's customer base of 2.9 per cent.
- Effective from 1 December 2011, water restrictions were eased from Stage 2 to Stage 1, allowing greater residential watering.
- Early in the year, the business experienced management and staff problems in its contact centre, which resulted in missed targets for time to answer phone calls and complaints to the Energy & Water Ombudsman of Victoria. Corrective processes were implemented, but improved performance could not achieve year end targets. The business did, however, achieve a customer satisfaction rating of 95.6 per cent.
- As at 1 July 2012 the business held by City West Water Limited transfers to a statutory corporation known as City West Water Corporation under the *Water Amendment (Governance and Other Reforms) Act 2012 (Vic)*. The entity's governing legislation changes from the *Water Industry Act 1994 (Vic)* to the *Water Act 1989 (Vic)*.
- The Ministerial Advisory Council's (MAC) Living Melbourne Living Victoria Implementation Plan, as well as the Government's response has been released. Central to the implementation plan is the development of a Metropolitan Integrated Water Cycle Management Strategy as well as the establishment of the Office of Living Victoria. The company believes its strategic plan is a good match to the objectives of the Office of Living Victoria.
- In May 2012, City West Water released its draft consultation Water Plan covering the period of 2013-14 to 2017-18. The draft consultation plan seeks community responses to a number of possible changes to tariff structures, particularly a move to a single rate for water consumption charges.
- City West Water started work on renewing the company's William Street water mains. Nearly four kilometres of water mains were replaced in William Street/Howard Street between Flinders Street and Queensberry Street in Melbourne. The project was delivered under budget, one month ahead of schedule, and with very few complaints about the necessary disruption to traffic.
- The company's Community Support Program approved grants worth \$35,000 to seven applicants. City West Water's Community Support Grants give not for profit organisations the opportunity to fund water efficiency projects as well as encouraging conservation and environmental responsibility in their communities.
- City West Water received the Program Innovation Award for the company's Steam System Efficiency Program at the 2011 Australian Water Industry (AWA) Victorian Water Awards in October 2011.

## Company highlights 2011-12 (continued)

### Environmental

- The company's unaccounted for water result of 9.3 per cent was slightly above the target of 9.2 per cent for the year.
- Construction of the West Werribee Dual Water Supply Scheme is continuing as planned. The project will supply drinking and recycled water for 19,200 customers in existing and new residential estates of West Werribee.
- Showerhead exchanges exceeded the target of 5,000 for the year, with a total of 5,972 showerheads exchanged.
- A steering committee was formed to oversee development of the company's Greening the West initiative. A draft strategic plan was prepared to guide Greening the West which sets out a series of actions to achieve the initiative's vision to 'enable sustainable, liveable and healthy communities through urban greening.' The Healthy Urban Habitat website went live on 19 December 2011. The [healthyurbanhabitat.com.au](http://healthyurbanhabitat.com.au) website is dedicated to creating thriving, sustainable gardens and community spaces.
- In conjunction with Choice magazine, the company undertook a study of laundry detergents to identify which brands performed best in terms of wash performance and intermittent use on gardens, as well as releasing the lowest levels of salts into the sewer system.
- The company's Environmental Sustainability Plan 3 (2011 – 2013) was approved. The plan sets out the company's strategy for environmental management.
- Operational difficulties were experienced with the recycled water plant at the company's Altona Treatment Plant. Ultrafiltration membranes have been experiencing fouling and the plant has been taken off line for full investigation.
- City West Water developed a Trade Waste Customer Charter as part of a requirement of the ESC Trade Waste Customers Service Code. The charter outlines the responsibilities of the company and its trade waste customers.

## Performance measures 2011-12

## Economic targets

	2012 Actual	2012 Target	2011 Actual
Profit before tax (\$m)	71.7	63.1	87.7
Debt > 90 days overdue (\$m)	1.85	1.90	1.65
Operating expenditure (\$m) - (excluding depreciation and Environmental Contributions)	95.0	100.5	92.8
Capital expenditure (\$m)	144.9	170.5	122.6
ISO 9001:2008 (Quality)	Retained	Retain	Retained
ISO 14001: 2004 (Environmental Management)	Retained	Retain	Retained
ISO 4801: 2001 (OH&S)	Retained	Retain	Retained
HACCP (Water Quality)	Retained	Retain	Retained
Internal financing ratio (%) - (Net operating cash flow - dividends)/capital expenditure	1.0	12.4	47.2
Gearing ratio (%) - Total debt/(debt + equity)	47.3	52.1	42.2
Gearing ratio (%) - Total debt (including finance leases)/total assets	37.2	42.4	32.5
Interest cover (Profit) (times) - Earnings before net interest and tax expense/net interest expense	2.6	2.2	3.2
Interest cover (Cash) (times) - Cash flow from operations before net interest and tax payments/net interest payments	2.9	2.4	3.5
Return on assets (%) - Earnings before net interest and tax expense/average total assets	6.0	6.4	7.3
Return on equity (%) - Net profit after tax/average total equity	6.1	5.9	7.9

## Social targets

**ESC regulated standards**

Customers receiving more than five unplanned water supply interruptions in a year (No.)	0	64	0
Customers receiving more than three unplanned sewerage interruptions in a year (No.)	0	0	0
Unplanned water supply interruptions (per 100km)	27.2	60.3	36.6
Water main breaks per 100km of water main (No.)	35.7	71.5	41.8
Unplanned water supply interruptions restored within five hours (%)	97.2	86.1	94.5
Average time to rectify a sewer blockage (mins)	123.9	115.9	128.5
Planned water supply interruptions restored within 5 hours (%)	97.9	93.3	96.0
Average unplanned customer minutes off water supply (minutes)	15.4	47.6	24.3
Average planned customer minutes off water supply (minutes)	8.8	7.8	8.3
Average frequency of unplanned water supply interruptions (No.)	0.120	0.310	0.160
Average frequency of planned water supply interruptions (No.)	0.065	0.060	0.057
Correspondence answered within 10 working days (%)	100.0	100.0	99.5
Water quality complaints (per 1000 customers)	0.726	1.100	0.616
Average time taken to attend bursts and leaks (priority 1) (minutes)	20.8	24.3	24.3
Average time taken to attend bursts and leaks (priority 2) (minutes)	29.3	34.2	33.3
Average time taken to attend bursts and leaks (priority 3) (minutes)	114.3	233.8	196.7
Average time to rectify water faults (days)	0.8	1.0	0.9
Average duration of unplanned water supply interruptions (mins)	134.5	175.5	146.5
Average duration of planned water supply interruptions (mins)	134.3	137.2	143.1

## Performance measures 2011-12 (continued)

	2012 Actual	2012 Target	2011 Actual
Complaints to the Energy and Water Ombudsman Victoria (EWOV) (per 1000 customers)	0.780	0.550	0.540
Priority 1 bursts responded to within one hour (%)	100.0	99.8	100.0
Sewer spills within a house contained within one hour of notification (%)	100.0	100.0	100.0
Emergency calls answered within 30 seconds (%)	91.9	93.3	91.9
Account enquiries answered within 30 seconds (%)	55.0	74.5	80.3
Total telephone calls answered within 30 seconds (%)	62.4	80.0	82.7
<b>Other targets</b>			
Number of customers receiving three sewer blockages in a year (No.)	1	7	5
Number of customers receiving five unplanned water supply interruptions in a year (No.)	0	516	0
<i>E.coli</i> compliance	100.0	98.0	99.9
Safe drinking water standards	100.0	100.0	100.0
Recycled water standards - Class A	100.0	100.0	100.0
Recycled water standards - Class B	100.0	100.0	n/a
Customer satisfaction (%)	95.6	>90.0	95.7
Customers receiving five unplanned water supply interruptions in a year (%)	0	n/a	0
Sewerage service, quality and reliability complaints per 1000 customers (%)	0.08	n/a	0.08
Billing complaints per 1000 customers (%)	1.50	n/a	1.66
Sewage odour complaints per 1000 customers (%)	0.33	n/a	0.39
<b>Environmental targets</b>			
<b>ESC regulated standards</b>			
Sewer blockages per 100km of sewer main (No.)	14.9	27.6	20.9
Interruptions to sewerage services restored within five hours (%)	97.6	97.6	97.2
Unaccounted for water (%)	9.3	9.2	9.1
Average time to attend sewer spills and blockages (minutes)	25.0	23.4	27.3
Sewer spills per 1000 properties (No.)	0.55	1.80	0.55
Sewer spills contained within five hours (%)	100.0	100.0	100.0
<b>Other targets</b>			
Response to sewer spills within one hour (%)	99.5	99.8	100.0
Spills due to pump station equipment failure (No.)	0	0	1
Non food waste customers non compliant with trade waste agreements (%)	1.11	≤ 2.0	1.01
Compliance with EPA licence for discharge from the Altona Treatment Plant (%)	100.0	100.0	100.0
Sewer spills from reticulation and branch sewers (priority 1 and 2) (number)	129	n/a	193
Effluent reuse (volume) (%)	100.0	n/a	100.0
Biosolids reuse (dry mass) (%)	100.0	n/a	100.0
Number of analyses complying with licence agreements as a percentage of samples (%)	100.0	n/a	100.0

## Corporate governance

City West Water is incorporated under the *Corporations Act 2001 (Cth)* and is a state owned company for the purposes of the *State Owned Enterprises Act 1992 (Vic)*. The Board of Directors is appointed by the State Government in its capacity as shareholder. The Board is responsible for setting and overseeing the policies, objectives and strategies of City West Water.

The Board meets 11 times per year, with additional meetings on an as needed basis. It is committed to performing its role in accordance with the highest standards of corporate governance. There are four sub committees of the Board. The Risk Management and Audit Committee and the Occupational Health and Safety Committee meet four times per year, and the Environment and Social Sustainability Committee meets twice per year. The Executive Remuneration Committee meets as required. The Board approves budgets and significant projects, reviews company policies and strategies, and oversees progress on key issues affecting the company.

The Board comprises seven non executive directors and the Managing Director. Each director brings specialist skills to City West Water.

The Board reviews its own performance on a regular basis and reports to the Treasurer of Victoria on the outcomes of these reviews.

Director	Experience	Committee membership
<b>The Hon. Alan Stockdale</b> Chairman LLB, BA, FAICD.	The Hon. Alan Stockdale was appointed Chairman of City West Water on 1 October 2011. Alan Stockdale is an employee of Maddocks, Metro Trains Melbourne, and Yarris Pty Ltd. He is a director of NSW Treasury Corporation; a member of the Advisory Board of Lazard Australia Pty Ltd and Chairman of the Medical Research Commercialisation Fund and the Master Builders of Victoria Foundation. He consults to a number of other entities and is the Federal President of the Liberal Party of Australia. He has extensive corporate experience including roles with Macquarie Infrastructure Group and Macquarie Bank and as Chairman or a director of several ASX-listed companies. Mr Stockdale was a member of the Victorian Parliament (1985 - 1999) and was Victorian Treasurer (1992 - 1999) and Minister for IT and Multimedia (1996 -1999). He holds Bachelor of Laws and Bachelor of Arts degrees and is a Fellow of the Australian Institute of Company Directors.	Executive Remuneration Committee (Chairman)  Ex-officio member of all other Board committees
<b>Anne Barker</b> Managing Director LLB, MAICD.	Anne Barker was appointed as City West Water's Managing Director in November 2002. Ms Barker practised law before gaining broad management experience with Myer Stores and the ANZ Banking Group. Prior to joining City West Water, Ms Barker was the Executive Manager of the Commercial and Revenue divisions at SPI Powernet where she gained extensive experience working in a regulated utility environment. She is currently Chairman of Whitelion and Open Family Australia, a director of LeadWest, and a member of the Plumbing Industry Advisory Council.	Environment and Social Sustainability Committee  Occupational Health and Safety Committee

## Corporate governance (continued)

Director	Experience	Committee membership
<b>Debbie Goodin</b> B.Ec, FCA.	Debbie Goodin was appointed as a director on 1 October 2011. Debbie is self employed as a management consultant as well as a non executive director on a number of boards. Debbie has held senior operations, finance, project delivery and general administrative positions in both the public and private sectors. More recently, she was Group Executive Operations with Coffey International Ltd (2005 - 2010) managing the organisation's international operational performance and risk. She is a Deputy Chairman of Mt Hotham Resort Management and Chairman of its Audit and Risk Committee (2007 - current) and is a director of Community CPS Australia Limited and Chairman of its Audit and Finance Committee (2011 - current). Ms Goodin has a Bachelor of Economics, is a Chartered Accountant, qualified company secretary and insolvency practitioner.	Risk Management and Audit Committee (Chairman)
<b>Marilyn Anderson</b> B.Sc (Hons), PhD FAA, FTSE, FAICD.	Professor Marilyn Anderson was appointed as a director on 1 July 2008. With over 30 years experience in scientific research in the areas of diabetes, cancer and plant biochemistry, Professor Anderson is a Professor of Biochemistry at LaTrobe University. She was a founding director of Hexima Limited, and is currently Hexima's Chief Science Officer. Professor Anderson was a director of South East Water Limited for over 10 years, prior to her appointment at City West Water. Professor Anderson is a Fellow of the Australian Academy of Sciences, a Fellow of the Academy of Technological Sciences and Engineering and a Fellow of the Australian Institute of Company Directors.	Occupational Health and Safety Committee (Chairman)  Environment and Social Sustainability Committee  Risk Management and Audit Committee
<b>Jan Begg</b> B.Sc (Hons), MBA FAICD.	Jan Begg was appointed as a director on 1 October 2011. Jan Begg is the Managing Director of Azulin Pty Ltd, an independent business and government consultancy. She is a non executive director of the Royal District Nursing Services, a non executive director of South Eastern Melbourne Medicare Local, a member of the Monash University Department of Management Advisory Board and a member of Melbourne Business School. Ms Begg previously had senior executive roles in Australia, UK and USA. She is the AICD representative on the Standards Australia committee on IT Governance and an Australian representative on the international standards committee. She has undertaken research and authored an academic paper in the area of project governance. Ms Begg has a Bachelor of Science (Honours) and a Master of Business Administration and is a Fellow of the Australian Institute of Company Directors.	Occupational Health and Safety Committee  Environment and Social Sustainability Committee
<b>Jan Boxall</b> LLB, FAICD.	Jan Boxall was appointed as a director in January 2007. She is a practising lawyer and a former partner of the national law firm, Corrs Chambers Westgarth, where she advised clients in the property, infrastructure, health, statutory corporation and government sectors. Ms Boxall is the Chairman of the Board of Directors of the Royal Victorian Eye and Ear Hospital Board and was Chair of the Board of Cabrini Health from 2002 to 2006. Ms Boxall is a Fellow of the Australian Institute of Company Directors.	Occupational Health and Safety Committee  Risk Management and Audit Committee

## Corporate governance (continued)

Director	Experience	Committee membership
<b>John Miller AO</b> B.A., B.Com, Ph.D, FCPA, FAICD.	Dr John Miller was appointed as a director in January 2007. Dr Miller is a company director and management consultant in the areas of strategy, marketing, sustainability and finance. He is an Adjunct Professor at Victoria University and was previously head of the management schools at Monash and Swinburne. An FCPA, Dr Miller was senior partner in two international accounting firms - PKF and a predecessor firm of KPMG. He is an honorary life member of CPA Australia and the AICD. John is also a Director of charitable trusts involved with disability and the environment. John is a life member of the John Button Literary Foundation a bipartisan group supporting public policy sponsorship. He has been awarded the AO and the Australian Centenary Medal.	Environment and Social Sustainability Committee Executive Remuneration Committee
<b>Derek Skues</b> Dip Arch, ARAIA, MAIPM.	Derek Skues was appointed as a director on 1 July 2008. With a background in architecture and project management, he was a director of Atkinson Project Management, a specialist project management firm, for 20 years. He has undertaken the project management of a variety of complex building projects in Australia, Hong Kong and Saudi Arabia, including hospitals, tertiary education institutions, commercial buildings and a diplomatic quarter. Most recently he has been an executive consultant for the multi disciplinary global company Aurecon, undertaking advisory and management consulting assignments.	Environment and Social Sustainability Committee (Chairman) Occupational Health & Safety Committee Executive Remuneration Committee
<b>Alan E. Seale</b> Chairman BE Chem (Hons), FIE Aust, MAICD.	Alan Seale was appointed Chairman of City West Water on 1 September 2005. Mr Seale has had 38 years experience in the chemical industry, 13 of those at general management level. He worked for several years in the USA and Hong Kong. Mr Seale was a director of South East Water from January 2004 to August 2005. He was an Honorary Professor at Monash University, teaching in the Department of Chemical Engineering from 2000 to 2006.  Ceased as a director 30 September 2011.	Executive Remuneration Committee (Chairman) Ex officio member of all other Board committees
<b>Deborah Radford</b> B.Ec, Grad. Dip. Finance and Investment.	Deborah Radford was appointed as a director on 1 September 2005. Ms Radford is a director of Bendigo and Adelaide Bank Limited and of Forestry Tasmania. She ran her own consulting business between 2001 and 2007 providing advice to government agencies on commercial transactions. Her experience includes seven years in the Victorian State Treasury and various roles in merchant banking.  Ceased as a director 30 September 2011.	Risk Management and Audit Committee (Chairman) Executive Remuneration Committee
<b>Peter Hansen</b> B.Ec, FAICD.	Peter Hansen was appointed as a director in February 2005. He is a director of PALTECH Pty Ltd, a people management and corporate affairs consultancy, and Southern Health. Mr Hansen was the Agent-General for Victoria in London from 2000 to 2004. Previously, he held a range of senior management positions at ACI including responsibility for the company's environmental and corporate affairs programs.  Ceased as a director 30 September 2011.	Environment and Social Sustainability Committee (Chairman) Executive Remuneration Committee Risk Management and Audit Committee

## Corporate governance (continued)

### Board Committees

<b>Risk Management &amp; Audit Committee</b>	The Risk Management and Audit Committee assists the Board of Directors to fulfil its corporate governance responsibilities by reviewing the financial reports and other financial information produced by the company. In addition, it provides oversight and direction on the company's internal control systems, legal and regulatory compliance processes, auditing and reporting processes, and risk management systems.
<b>Occupational Health and Safety Committee</b>	The Occupational Health and Safety Committee assists the Board to fulfil its corporate governance responsibilities in relation to workplace health and safety. It does this by providing oversight and direction on the company's occupational health and safety policies and procedures and related audit and reporting processes. In addition it encourages the continuous improvement of the company's policies and procedures for workplace health and safety.
<b>Environment and Social Sustainability Committee</b>	The Environment and Social Sustainability Committee assists the Board in driving the uptake of more sustainable practices through the company. It does this through enhancing the understanding of social and environmental issues and overseeing the development and implementation of sustainability, environmental and social policies. The Committee also provides input into the development of key environmental and social strategies, plans, reports and practices.
<b>Executive Remuneration Committee</b>	The Executive Remuneration Committee is responsible for setting the company's policy on executive remuneration and reviewing individual remuneration for senior executives.

### Attendance at Board and Committee meetings

	Board of Directors meetings		Risk Management and Audit Committee meetings		Occupational Health and Safety Committee meetings		Environment and Social Sustainability Committee meetings		Executive Remuneration Committee meetings	
	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
<b>Alan Stockdale <sup>1</sup></b>	9	8	3	3	3	3	2	2	1	1
<b>Anne Barker</b>	12	12	5 <sup>3</sup>	5	4	4	2	2	1 <sup>3</sup>	1
<b>Debbie Goodin <sup>1</sup></b>	9	9	3	3	n/a	n/a	n/a	n/a	n/a	n/a
<b>Marilyn Anderson</b>	12	11	3	3	3	3	2	2	n/a	n/a
<b>Jan Begg <sup>1</sup></b>	9	9	n/a	n/a	3	2	2	1	n/a	n/a
<b>Jan Boxall</b>	12	11	3	3	4	4	n/a	n/a	n/a	n/a
<b>John Miller</b>	12	10	2	2	n/a	n/a	2	2	1	1
<b>Derek Skues</b>	12	11	2	1	4	4	2	2	1	1
<b>Alan E. Seale <sup>2</sup></b>	3	2	2	1	1	1	0	0	0	0
<b>Deborah Radford <sup>2</sup></b>	3	2	2	2	1	1	n/a	n/a	0	0
<b>Peter Hansen <sup>2</sup></b>	3	3	2	2	1	1	0	0	0	0

<sup>1</sup> began as a director on 1 October 2011.

<sup>2</sup> ceased as a director on 30 September 2011.

<sup>3</sup> the director attended but was not a member of the committee.

## Freedom of Information

City West Water is subject to the *Freedom of Information Act 1982 (Vic)*.

### Access to documents

In 2011-12, City West Water received five requests for access to documents under the *Freedom of Information Act 1982 (Vic)*.

Request	No.
Access in full	1
Access in part	3
Access denied	0
Other – no documents	0
Not finalised	1
<b>Total</b>	<b>5</b>

Requests for access to City West Water documents under the *Freedom of Information Act 1982 (Vic)* may be made in writing to:

#### Freedom of Information Officer

City West Water  
Locked Bag 350  
Sunshine VIC 3020

Each application for information attracts a \$24.40 fee (\$25.10 from 1 July 2012). Applications must identify clearly the documents required.

General enquiries relating to Freedom of Information may be made by contacting the Freedom of Information Officer on (03) 9313 8320. City West Water staff authorised to make decisions on requests for access to documents are:

Sean Crees (Principal Officer)  
General Manager, Corporate Services

Andrew Jessop (Authorised Officer)  
Manager, Corporate Administration

## Whistleblowers Protection Act

The *Whistleblowers Protection Act 2001 (Vic)* came into effect on 1 January 2002. The main objective of the Act is to encourage and facilitate the making of disclosures of improper conduct by public officers and public bodies, and establish a system for matters that are disclosed to be investigated.

A member of the public or an employee of City West Water can make a disclosure under the Act if he or she believes that one or more employees of the company have engaged in improper conduct.

To provide clarity and consistency in dealing with disclosures, and to establish a system for the matters disclosed to be investigated and for rectifying action to be taken, City West Water has developed whistleblower procedures in line with Ombudsman Victoria's guidelines. A copy of the procedures is available at the company's registered office.

Disclosures of improper conduct by City West Water or its employees may be made to the following:

The Company Secretary, Protected Disclosure Coordinator  
City West Water

Locked Bag 350  
Sunshine 3020  
Telephone: (03) 9313 8461  
Fax: (03) 9313 8014  
email: [screes@citywestwater.com.au](mailto:screes@citywestwater.com.au)

or

Ombudsman Victoria  
Level 29, 459 Collins Street (North Tower)  
Melbourne 3000  
Telephone: (03) 9613 6222  
Toll free: 1800 806 314  
Fax: (03) 9614 0246  
email: [ombudvic@ombudsman.vic.gov.au](mailto:ombudvic@ombudsman.vic.gov.au)  
DX: 210174, Melbourne

In accordance with the *Whistleblowers Protection Act 1982 (Vic)*, the following information is provided for the 2011-12 year:

Number of protected disclosures made to the company	2 <sup>1</sup>
Number of disclosures referred to the Ombudsman for determination	0
Number of disclosures referred to the company by the Ombudsman	0
Number of disclosures referred to the Ombudsman by the company for investigation	0
Number of investigations taken over by the Ombudsman from the company	0
Number of requests from a whistleblower to the Ombudsman to take over an investigation by the company	0
Number of disclosed matters that the company had declined to investigate	0
Number of disclosures that were substantiated and action taken	0
Number of recommendations made by the Ombudsman that relate to the company	0

<sup>1</sup> One disclosure was determined not to be a public interest disclosure. One disclosure is yet to be finalised.

## Additional information

The Department of Sustainability and Environment has requested that City West Water report on greenhouse gas emissions and office water use per employee.

Greenhouse gas emissions by City West Water and its maintenance contractor (Programmed Facility Management) are:

<b>2011-12</b>	<b>2010-11</b>
Net zero tonnes of CO <sub>2</sub> equivalent per employee	Net zero tonnes of CO <sub>2</sub> equivalent per employee

Litres of water used at head office site <sup>1</sup>

<b>2011-12</b>	<b>2010-11</b>
4.74kL per employee	4.75kL per employee

<sup>1</sup> Includes all water used in head office and canteen. Does not include water used by third party contractors.

## Major non residential water users

Table 1: Customer by volume range

<b>Volumetric Range – ML per year</b>	<b>Number of customers</b>
Equal to or greater than 200ML and less than 300ML	5
Equal to or greater than 300ML and less than 400ML	6
Equal to or greater than 400ML and less than 500ML	2
Equal to or greater than 500ML and less than 750ML	4
Equal to or greater than 750ML and less than 1000ML	1
Greater than 1000ML	2
<b>Total number of customers</b>	<b>20</b>

Table 2: Names of major customers and their participation in Water Management Action Plans

<b>Name of customer</b>	<b>waterMAP status</b>	<b>Name of customer</b>	<b>waterMAP status</b>
Australian Vinyls Corporation Ltd	Yes, waterMAP developed	Nufarm Chemicals	Yes, waterMAP developed
Baiada Poultry Pty Ltd	Yes, waterMAP developed	Onesteel	Yes, waterMAP developed
BPL Melbourne Pty Ltd	Yes, waterMAP developed	Peerless Holdings Pty Ltd	Yes, waterMAP developed
Schweppes Australia Pty Ltd	Yes, waterMAP developed	Qenos Olefins	Yes, waterMAP developed
Coogee	Yes, waterMAP developed	Melbourne Health (Royal Melbourne Hospital)	Yes, waterMAP developed
Carlton & United Breweries – Abbotsford Brewery	Yes, waterMAP developed	Sugar Australia	Yes, waterMAP developed
JBS Australia Pty Limited	Yes, waterMAP developed	Victoria Wool Processors	Yes, waterMAP developed
Leading Textiles Pty Ltd	Yes, waterMAP developed	Toyota Motor Corporation Australia	Yes, waterMAP developed
Melbourne Airport	Yes, waterMAP developed	University of Melbourne	Yes, waterMAP developed
Mobil Refining Australia	Yes, waterMAP developed	Victoria Racing Club	Yes, waterMAP developed

## Bulk water entitlements

### Notes to compliance with bulk entitlements

The three metropolitan retail water businesses (the retailers) hold bulk entitlements to the water resources of the Yarra River, Thomson River, Tarago and Bunyip Rivers, Silver and Wallaby Creeks (Goulburn River Basin) and the Victorian Desalination Project. The entitlements have been established as a collective “pool”.

Melbourne Retail Water Businesses reporting obligation	Combined Yarra River, Silver and Wallaby Creeks, Thomson River	Yarra River <sup>2</sup>	Silver and Wallaby Creeks <sup>5</sup>	Thomson River <sup>7</sup>	Tarago and Bunyip Rivers <sup>9</sup>	Victorian Desalination Project <sup>12</sup>
The volume of water taken by the retailers in 2011-2012	Clause 15.1 (a) 345,600 ML	Clause 15.1 (a) 343,400 ML	Clause 13.1 (a) 1,100 ML	Clause 15.1 (a) 1,100 ML	Clause 14.1 (a) 6,500 ML (Tarago) 2,200 ML (Bunyip)	Clause 11.1 (a) 0 ML <sup>13</sup>
Compliance with the long term average bulk entitlement diversion limit	Clause 15.1 (b) 421,300 ML <sup>1</sup>	Clause 15.1 (b) 289,500 ML <sup>3</sup>	Clause 13.1 (b) 17,700 ML <sup>6</sup>	Clause 15.1 (b) 127,000 ML <sup>8</sup>	Clause 14.1 (f) 11,500 ML (Tarago) <sup>10</sup> 2,200 ML (Bunyip) <sup>11</sup>	Clause 11.1 (e) 0 ML
The total annual consumption in 2011-2012	365,600 ML	N/A	N/A	N/A	N/A	N/A
The retailers' share of flow in 2011-2012	N/A	Clause 15.1 (a) 271,700 ML	Clause 13.1 (a) N/A	Clause 15.1 (a) 235,900 ML	Clause 14.1 (a) 33,400 ML	Clause 11.1 (a) N/A
The retailers' share of storage volume at 30-06-12	N/A	Clause 15.1 (a) 535,300 ML	N/A	Clause 15.1 (a) 638,900 ML	Clause 14.1 (a) 19,400 ML	N/A
Volume supplied to primary entitlement holders	N/A	Clause 15.1 (a) N/A	N/A	N/A	Clause 14.1 (a) 286 ML (Gippsland Water) 0 ML (Barwon Water) 0 ML (Southern Rural Water)	Clause 11.1 (a) <sup>14</sup> 5,108 ML (Western Water) 0 ML (Barwon Water) 0 ML (Westernport Water) 0 ML (South Gippsland)
Any assignment of water allocation or temporary/permanent transfers of the bulk entitlement	N/A	Clause 15.1 (c) Nil	Clause 13.1 (c) Nil	Clause 15.1 (c) Nil	Clause 14.1 (b) Nil	Clause 11.1 (b) Nil
Any temporary or permanent transfer of the bulk entitlement which may alter the flow in the waterway	N/A	Clause 15.1 (d) Nil	Clause 13.1 (d) Nil	Clause 15.1 (d) Nil	Clause 14.1 (a) Nil	N/A
Any amendment to the bulk entitlement	N/A	Clause 15.1 (e) Yes <sup>4</sup>	Clause 13.1 (e) Yes <sup>4</sup>	Clause 15.1 (e) Yes <sup>4</sup>	Clause 14.1 (d) Yes <sup>4</sup>	Clause 11.1 (c) Nil

## Bulk water entitlements (continued)

Melbourne Retail Water Businesses reporting obligation	Combined Yarra River, Silver and Wallaby Creeks, Thomson River	Yarra River <sup>2</sup>	Silver and Wallaby Creeks <sup>5</sup>	Thomson River <sup>7</sup>	Tarago and Bunyip Rivers <sup>9</sup>	Victorian Desalination Project <sup>12</sup>
Any new bulk entitlement granted to the retailers	N/A	Clause 15.1 (f) Nil	Clause 13.1 (f) Nil	Clause 15.1 (f) Nil	Clause 14.1 (e) Nil	Clause 11.1 (d) Nil
Any failures to comply with any provision of the bulk entitlement	N/A	Clause 15.1 (g) Nil	Clause 13.1 (g) Nil	Clause 15.1 (g) Nil	Clause 14.1 (g) Nil	Clause 11.1 (f) Nil
Any difficulty experienced in complying with the bulk entitlement and if so, any remedial action taken or proposed	N/A	Clause 15.1 (h) Nil	Clause 13.1 (h) Nil	Clause 15.1 (h) Nil	Clause 14.1 (h) Nil	Clause 11.1 (g) Nil

## Notes to compliance with bulk entitlements

**Combined Yarra River, Silver and Wallaby Creeks, Thomson River**

1. Compliance with the long term average diversion limit of 555,000 ML is assessed using a 15 year rolling average annual diversion.

**Yarra River**

2. The retailers hold the following bulk entitlements on the Yarra River

- Bulk Entitlement (Yarra River – Melbourne Water for City West Water Limited) Conversion Order 2006 – BEE049364
- Bulk Entitlement (Yarra River – Melbourne Water for South East Water Limited) Conversion Order 2006 – BEE049363
- Bulk Entitlement (Yarra River – Melbourne Water for Yarra Valley Water Limited) Conversion Order 2006 – BEE049362

3. Compliance with the long term average diversion limit of 400,000 ML is assessed using a 15 year rolling average annual diversion.

4. On 1 July 2011 the Minister for Water made effect to the retailers' bulk entitlements to substitute the Minister for Environment responsibilities for environmental entitlements and replace with the Victorian Environmental Water Holder.

**Silver and Wallaby Creeks**

5. The retailers hold the following bulk entitlements on the Silver and Wallaby Creeks

- Bulk Entitlement (Silver & Wallaby Creeks – Melbourne Water for City West Water Limited) Conversion Order 2006 – BEE049475
- Bulk Entitlement (Silver & Wallaby Creeks – Melbourne Water for South East Water Limited) Conversion Order 2006 – BEE049474
- Bulk Entitlement (Silver & Wallaby Creeks – Melbourne Water for Yarra Valley Water Limited) Conversion Order 2006 – BEE049473

6. Compliance with the 3 year total diversion limit of 66,000 ML is assessed using a 3 year rolling total diversion.

**Thomson River**

7. The retailers hold the following bulk entitlements on the Thomson River

- Transfer of Bulk Entitlement (Thomson River – Melbourne Water Corporation) Conversion Order 2001 to City West Water Limited 2006 – BEE049361
- Transfer of Bulk Entitlement (Thomson River – Melbourne Water Corporation) Conversion Order 2001 to South East Water Limited 2006 – BEE049360
- Transfer of Bulk Entitlement (Thomson River – Melbourne Water Corporation) Conversion Order 2001 to Yarra Valley Water Limited 2006 – BEE049359

8. Compliance with the long term average diversion limit of 171,800 ML is assessed using a 15 year rolling average annual diversion.

## Bulk water entitlements (continued)

### Tarago and Bunyip Rivers

9. The retailers hold the following bulk entitlements on the Tarago and Bunyip Rivers

- Bulk Entitlement (Tarago and Bunyip Rivers – Melbourne Water for City West Water Limited) Conversion Order 2009 – BEE049358
- Bulk Entitlement (Tarago and Bunyip Rivers – Melbourne Water for South East Water Limited) Conversion Order 2009 – BEE049357
- Bulk Entitlement (Tarago and Bunyip Rivers – Melbourne Water for Yarra Valley Water Limited) Conversion Order 2009 – BEE049356

10. Compliance with the long term average diversion limit of 24,950 ML is assessed using a 5 year rolling average annual diversion.

11. Compliance with the long term average diversion limit of 5,560 ML is assessed using a 5 year rolling average annual diversion.

### Victorian Desalination Project

12. The retailers hold the following bulk entitlements to the Victorian Desalination Project

- Bulk Entitlement (Desalinated Water – City West Water Limited) Order 2010 – BEE050814
- Bulk Entitlement (Desalinated Water – South East Water Limited) Order 2010 – BEE050815
- Bulk Entitlement (Desalinated Water – Yarra Valley Water Limited) Order 2010 – BEE050816

13. The Victorian Desalination Project is expected to be able to provide water to the Melbourne retailers by February 2013, based on the Auditor-General's *Annual Financial Report for the State of Victoria 2010-11*.

14. Supply of primary entitlement holders for the Victorian Desalination Project bulk entitlements are supplied through the Melbourne "pool" with water sourced from all of Melbourne's bulk entitlement sources.

## Directors' report

The directors of City West Water Limited (ABN 70 066 902 467) present their report on the company for the financial year ended 30 June 2012.

### Directors

The following persons were directors of City West Water Limited at any time during or since the end of the financial year:

A Stockdale	Chairman since October 2011
A Barker	Managing Director since November 2002
D Goodin	Director since October 2011
M Anderson	Director since July 2008
J Begg	Director since October 2011
J Boxall	Director since January 2007
J Miller	Director since January 2007
D Skues	Director since July 2008
A Seale	Chairman from September 2005 to September 2011
D Radford	Director from September 2005 to September 2011
P Hansen	Director from February 2005 to September 2011

The directors have no shareholding in City West Water nor are they entitled to receive options over City West Water's shares.

### Principal activities

City West Water's principal continuing activities during the year consisted of:

- provision of water services
- provision of sewerage services
- provision of trade waste services
- provision of alternative water services

### Results

City West Water made a profit before income tax of \$71.7m (2010-11 \$87.7m). Profit after income tax expense was \$50.6m (2010-11 \$60.5m).

### Dividends

A final dividend of \$45.2m in respect of 2010-11 was paid in November 2011 (2009-10 \$15.7m).

No interim dividend was paid for the 2011-12 year (2010-11 \$0m).

As the final dividend for 2011-12 was not formalised by June 2012, no provision for final dividend was raised at balance date.

### Review of operations

A review of the operations of City West Water during the year and the results of those operations is set out in the Company Highlights and Performance Measures sections of this annual report.

### Environmental regulation and performance

City West Water is subject to particular and significant environmental regulation in respect of its operations. The company holds a licence under the *Environment Protection Act 1970 (Vic)*, allowing it to treat sewage at its Altona Treatment Plant, and discharge treated wastewater from the plant into Port Phillip Bay.

City West Water has in place an Environmental Sustainability Plan and its environmental management system is certified under ISO 14001.

There were no known environmental breaches during the financial year.

### Matters subsequent to the end of the financial year

As at 1 July 2012, under the provisions of the *Water Amendment (Governance and Other Reforms) Act 2012 (Vic)* all assets, liabilities, contracts (governed by Victorian law) and staff of City West Water Limited will be transferred to City West Water Corporation. The services currently supplied by City West Water Limited will be supplied by City West Water Corporation.

This legislative change creates uniformity across the Victorian water and sewerage sector, with the three Melbourne metropolitan retailers becoming water corporations under the *Water Act 1989 (Vic)*. This is in line with the structure of the water industry throughout the rest of Victoria.

In due course, City West Water Limited will be wound up and cease to exist.

Except for the matter discussed above, no matter or circumstance has arisen since 30 June 2012 which has significantly affected, or may significantly affect:

- a) the company's operations
- b) the results of those operations, or
- c) the company's state of affairs in the financial year subsequent to 30 June 2012.

### Likely developments and expected results of operations

As a result of the announcement made by the Minister for Water on 19 June 2012, desalination plant charges collected during 2011-12 will be returned to customers through a price freeze in 2012-13. This will impact revenues reported in 2012-13. The price freeze will be offset by lower bulk charges from Melbourne Water, and will therefore not impact the company's profit results.

## Directors' report (continued)

In accordance with the subsequent announcement made by the Minister for Water on 6 July 2012, past customers that will not benefit from the price freeze will be able to apply for a refund. At reporting date, the company was not able to determine the amount or timing of these payments.

The company's profits for 2012-13 will be lower than 2011-12. It is expected that the impact of higher finance charges and depreciation from continued investment in infrastructure assets and capital expenditure required to facilitate growth in the company's licence area, will result in a drop in profitability.

As at 1 July 2012 the business held by City West Water Limited transfers to a statutory corporation known as City West Water Corporation under the *Water Amendment (Governance and Other Reforms) Act 2012 (Vic)*. The entity's governing legislation changes from the *Water Industry Act 1994 (Vic)* to the *Water Act 1989 (Vic)*. While the change in form is not expected to have a significant impact on the company's operations, it is expected that City West Water will be provided with additional revenue collection powers. The extent of these additional collection powers will be regulated by the Essential Services Commission (ESC). It is expected that the ESC will issue a draft Customer Code in the coming months as part of its consultation process.

### Company Secretary

The Company Secretary is Sean Crees (B.Comm). Mr Crees was appointed as Company Secretary in August 2010. Prior to joining City West Water, Mr Crees spent 11 years at the Essential Services Commission, the State's independent economic regulator, where he was responsible for leading the team regulating the Victorian water industry.

The alternate Company Secretary is Stephen Robertson. Mr Robertson joined City West Water in July 2003. Before joining the company, Mr Robertson was Legal Counsel (Commercial) for United Energy Limited, a listed energy distribution business.

### Directors' benefits

No director has received, or has become entitled to receive, a benefit (other than a remuneration benefit included in Notes 25 and 30 to the financial statements) because of a contract that the director, an entity of which the director is a member, or an entity in which the director has a substantial financial interest, has made (during the year ended 30 June 2012 or at any other time) with the company.

Directors are not entitled to retirement benefits.

### Directors' and officers' insurance

During the financial year, City West Water paid a premium in respect of a contract to insure against certain liabilities of each of the directors, whose names appear earlier in this report, and officers (as defined) of the company. The terms of the insurance contract prohibit the disclosure of the nature of these liabilities and the amount of the premium. No amount has been paid to any director or officer pursuant to this policy during or since the end of the financial year.

### Auditor

The Victorian Auditor-General's Office continues as City West Water's auditor in accordance with section 327 of the *Corporations Act 2001 (Cth)* and the *Audit Act 1994 (Vic)*.

### Non audit services

City West Water did not employ the auditor on assignments additional to its statutory audit duties.

### Rounding of amounts to the nearest thousand dollars

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission on 10 July 1998 relating to the 'rounding off' of amounts in the Directors' Report. Amounts in the Directors' Report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases to the nearest dollar.

This report is made in accordance with a resolution of the Board of Directors, pursuant to s298(2) of the *Corporations Act 2001 (Cth)*.

For and on behalf of the Board of City West Water Limited.



**The Hon. Alan Stockdale**  
Chairman



**Anne Barker**  
Managing Director

Melbourne  
29 August 2012

## Attestation on compliance with the Australian/New Zealand Risk Management Standard

I, Alan Stockdale, certify that City West Water Limited has risk management processes in place consistent with the Australian/New Zealand Risk Management Standard AS/NZS ISO 31000 and an internal control system in place that enables the executive to understand, manage and satisfactorily control risk exposures. The Board, through the Risk Management & Audit Committee, verifies this assurance and that the risk profile of City West Water Limited has been critically reviewed within the last 12 months.

This attestation is made in accordance with a resolution of the Board of Directors.



**The Hon. Alan Stockdale**

Chairman

Melbourne

29 August 2012

# VAGO

Victorian Auditor-General's Office

Level 24, 35 Collins Street  
Melbourne VIC 3000  
Telephone 61 3 8601 7000  
Facsimile 61 3 8601 7010  
Email [comments@audit.vic.gov.au](mailto:comments@audit.vic.gov.au)  
Website [www.audit.vic.gov.au](http://www.audit.vic.gov.au)

## AUDITOR-GENERAL'S INDEPENDENCE DECLARATION

### To the Board of Directors, City West Water Limited

The Auditor-General's independence is established by the *Constitution Act 1975*. The Auditor-General, an independent officer of parliament, is not subject to direction by any person about the way in which his powers and responsibilities are to be exercised.

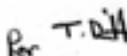
Under the *Audit Act 1994*, the Auditor-General is the auditor of each public body and for the purposes of conducting an audit has access to all documents and property, and may report to parliament any matters which the Auditor-General considers appropriate.

#### Independence Declaration

As auditor for City West Water Limited for the year ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of auditor independence requirements of the *Corporations Act 2001* in relation to the audit
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

MELBOURNE  
30 August 2012

Per   
D D R Pearson  
Auditor-General

## Statement of Comprehensive Income

For the year ended 30 June 2012

	Notes	30 June 2012 \$'000	30 June 2011 \$'000
Revenue	3	485,845	424,701
Other income	3	3,514	5,295
<b>Total revenue and other income</b>		<b>489,359</b>	<b>429,996</b>
Expenses	4	(371,779)	(302,563)
Finance costs		(45,879)	(39,734)
<b>Total expenses and finance costs</b>		<b>(417,658)</b>	<b>(342,297)</b>
<b>Profit before income tax expense</b>		<b>71,701</b>	<b>87,699</b>
Income tax expense	5	(21,109)	(27,195)
<b>Profit after income tax expense</b>		<b>50,592</b>	<b>60,504</b>
<b>Other comprehensive income/(expense)</b>			
Gain/(loss) on revaluation of infrastructure	12	(200)	133,984
Gain/(loss) on revaluation of land and buildings	12	-	3,713
Income tax relating to components of other comprehensive income	5	60	(41,309)
<b>Other comprehensive income/(expense) after tax</b>		<b>(140)</b>	<b>96,388</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>50,452</b>	<b>156,892</b>

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

# Balance Sheet

As at 30 June 2012

	Notes	30 June 2012 \$'000	30 June 2011 \$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	8, 33	3,207	6,086
Receivables	9, 33	72,175	55,648
Prepayments	10	2,333	619
<b>Total current assets</b>		<b>77,715</b>	<b>62,353</b>
<b>Non current assets</b>			
Infrastructure, property, plant and equipment	12	1,806,375	1,703,247
Intangible assets	13	131,898	102,727
Receivables	11, 33	24	25
<b>Total non current assets</b>		<b>1,938,297</b>	<b>1,805,999</b>
<b>TOTAL ASSETS</b>		<b>2,016,012</b>	<b>1,868,352</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Payables	15, 33	75,734	55,955
Borrowings	16, 33	72,370	25,000
Current tax liabilities	17	7,663	13,051
Provisions	18	11,468	23,044
Other	19, 33	17,466	18,642
<b>Total current liabilities</b>		<b>184,701</b>	<b>135,692</b>
<b>Non current liabilities</b>			
Borrowings	20, 33	677,500	582,500
Deferred tax liabilities (net)	6	308,363	315,946
Defined benefit superannuation liability	29 (c)	5,829	592
Provisions	22	1,387	1,007
Unearned income	23	1,876	1,511
<b>Total non current liabilities</b>		<b>994,955</b>	<b>901,556</b>
<b>TOTAL LIABILITIES</b>		<b>1,179,656</b>	<b>1,037,248</b>
<b>NET ASSETS</b>		<b>836,356</b>	<b>831,104</b>
<b>EQUITY</b>			
Paid up equity	24 (a)	20,620	20,620
Contributed equity	24 (b)	196,987	196,987
Reserves	24 (c)	345,299	345,439
Retained profits	24 (d)	273,450	268,058
<b>TOTAL EQUITY</b>		<b>836,356</b>	<b>831,104</b>

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

## Statement of Changes in Equity

For the year ended 30 June 2012

	Notes	Paid up Equity \$'000	Contributed Equity \$'000	Reserves \$'000	Retained Profits \$'000	Total Equity \$'000
<b>Balance at 1 July 2010</b>		20,620	196,987	249,051	223,254	689,912
<b>Comprehensive income for the year</b>						
Profit after income tax expense		-	-	-	60,504	60,504
Other comprehensive income/ (expense) after tax		-	-	96,388	-	96,388
<b>Total comprehensive income for the year</b>		-	-	96,388	60,504	156,892
<b>Transactions with equity holders in their capacity as equity holders</b>						
Dividends paid	7	-	-	-	(15,700)	(15,700)
<b>Total transactions with equity holders in their capacity as equity holders</b>		-	-	-	(15,700)	(15,700)
<b>Balance at 30 June 2011</b>		<b>20,620</b>	<b>196,987</b>	<b>345,439</b>	<b>268,058</b>	<b>831,104</b>
<b>Comprehensive income for the year</b>						
Profit after income tax expense		-	-	-	50,592	50,592
Other comprehensive income/ (expense) after tax		-	-	(140)	-	(140)
<b>Total comprehensive income for the year</b>		-	-	(140)	50,592	50,452
<b>Transactions with equity holders in their capacity as equity holders</b>						
Dividends paid	7	-	-	-	(45,200)	(45,200)
<b>Total transactions with equity holders in their capacity as equity holders</b>		-	-	-	(45,200)	(45,200)
<b>Balance at 30 June 2012</b>		<b>20,620</b>	<b>196,987</b>	<b>345,299</b>	<b>273,450</b>	<b>836,356</b>

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

# Cash Flow Statement

For the year ended 30 June 2012

	Notes	30 June 2012 \$'000	30 June 2011 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		452,057	395,539
Payments to suppliers and employees		(346,441)	(279,405)
Goods and Services Tax refund (net)		18,158	14,688
Interest received		202	108
Company tax equivalent paid		(34,021)	(27,710)
Finance costs		(43,214)	(37,482)
<b>Net cash provided by/(used in) operating activities</b>	32	<b>46,741</b>	<b>65,738</b>
<b>Cash flows from investing activities</b>			
Payments for infrastructure, property, plant, equipment and capital works in progress		(126,900)	(92,691)
Payments for intangible assets		(20,000)	(13,333)
Proceeds from sale of infrastructure, property, plant and equipment		110	516
<b>Net cash provided by/(used in) investing activities</b>		<b>(146,790)</b>	<b>(105,508)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		560,839	96,800
Repayment of borrowings		(418,469)	(35,850)
Dividends paid		(45,200)	(15,700)
<b>Net cash provided by/(used in) financing activities</b>		<b>97,170</b>	<b>45,250</b>
Net increase/(decrease) in cash and cash equivalents		(2,879)	5,480
Cash and cash equivalents at the beginning of the financial year		6,086	606
<b>Cash and cash equivalents at the end of the financial year</b>	8	<b>3,207</b>	<b>6,086</b>

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

# Notes to and forming part of the Financial Statements

For the year ended 30 June 2012

## 1. Summary of significant accounting policies

As at 1 July 2012 the business held by City West Water Limited transfers to a statutory corporation known as City West Water Corporation under the *Water Amendment (Governance and Other Reforms) Act 2012 (Vic)*. The new Act has several transitional provisions which will transfer assets, liabilities, contracts (governed by Victorian law) and employees from City West Water Limited to City West Water Corporation. The entity's governing legislation changes from the *Water Industry Act 1994 (Vic)* to the *Water Act 1989 (Vic)*. City West Water Corporation will have a water supply district and a sewerage district established under the *Water Act 1989 (Vic)*.

### (a) Basis of preparation

#### General

This is a general purpose financial report that consists of a Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement and notes accompanying these statements. This general purpose financial report has been prepared in accordance with Australian Accounting Standards, Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board (AASB), the requirements of the *Corporations Act 2001 (Cth)*, and applicable Ministerial Directions.

This financial report has been prepared on an accrual basis and a going concern basis. It is presented in Australian dollars, the functional and presentation currency of City West Water. This financial report was authorised for issue on 29 August 2012.

#### Historical cost convention

This financial report has been prepared under the historical cost convention, as modified by the revaluation of infrastructure and land and buildings.

#### Critical accounting estimates

The preparation of financial reports in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. Areas involving a high degree of estimates and assumptions which can materially impact the financial statements include:

Fair valuation of infrastructure assets. These assumptions are discussed over page in Note 1(n) and Note 12.

Actuarial assumptions used to determine the assets and liabilities of City West Water's defined benefit superannuation fund. These assumptions and the related carrying amounts are discussed in Note 29(c).

#### Scope and presentation of financial statements

##### Statement of Comprehensive Income

All non owner changes in equity are presented in the Statement of Comprehensive Income. This presentation is consistent with the requirements of AASB 101 - *Presentation of Financial Statements*.

##### Balance Sheet

Assets and liabilities are presented on a current and non current basis. Details of current and non current assets and liabilities are disclosed in the notes, where relevant.

##### Statement of Changes in Equity

The Statement of Changes in Equity presents reconciliations of each non owner and owner equity opening balance at the beginning of the reporting period to the closing balance at the end of the reporting period. It shows separately changes due to amounts recognised in the comprehensive result, and amounts arising from transactions with the owner in its capacity as owner.

##### Cash Flow Statement

Cash flows are classified according to whether they arise from operating activities, investing activities or financing activities. This classification is consistent with the requirements of AASB 107 - *Statement of Cash Flows*.

##### New and revised accounting Standards and Interpretations

City West Water has adopted all of the new and revised standards and interpretations issued by the AASB that are relevant to its operations and effective for the current financial year. The adoption of these new and revised standards and interpretations has not resulted in changes to the company's accounting policies or the amounts reported for the current or prior years.

# Notes to and forming part of the Financial Statements

For the year ended 30 June 2012

## 1. Summary of significant accounting policies (continued)

*Standards issued that are applicable to the company, but not yet effective.*

<b>Standard</b>	<b>Effective Date</b>	<b>Key Changes</b>	<b>Impact</b>
AASB 9 'Financial Instruments' - revised standard, AASB 2009-11 'Amendments to Australian Accounting Standards arising from AASB 9' and AASB2010-7 'Amendments to Australian Accounting Standards arising from AASB 9'	1 January 2013	Changes to AASB 9 affect the classification and measurement of financial assets.	While the impact of changes to AASB 9 is still being evaluated, it is anticipated that some changes to the current disclosure of financial instruments will be required.
AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements'	1 July 2013	Removes the individual key management personnel disclosure requirements from AASB 124 Related Party Disclosures.	It is anticipated that this will simplify related party disclosure information currently reported.
AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'	1 January 2013	AASB 13 explains how to measure fair value and aims to enhance fair value disclosures.	Some minor changes to the disclosure around financial instruments may be required.
AASB 119 'Employee Benefits' - revised and AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 119'	1 January 2013	The revised standard incorporates new disclosure and reporting requirements for employee benefits.	Actuarial gains or losses on defined benefit superannuation will need to be recognised in Other Comprehensive Income, rather than directly in the Income Statement.

### *Changes in accounting policy*

City West Water has changed its method of accounting for actuarial gains and losses on its defined benefit superannuation assets/(liability). Previously the company used the deferral method of recognition, under which only a portion of actuarial gains or losses for the period was recognised immediately in the Statement of Comprehensive Income. The portion recognised was the excess of the unrecognised gain/(loss) at the start of the year over the greater of 10 per cent of the value of plan assets and 10 per cent of the defined benefit obligation at the start of the year, divided by the expected future service of the defined benefit members.

Unrecognised gains or losses in excess of 10 per cent of the greater of plan assets and defined benefit obligations, if any, were amortised over the expected remaining service of the members of the fund. The amortised amount was recognised in the Statement of Comprehensive Income.

The company has adopted the direct method of accounting for actuarial gains and losses on its defined benefit superannuation fund. Any actuarial gains or losses are recognised in the Statement of Comprehensive Income in the period in which they are incurred.

The effect of the change in accounting policy has been applied retrospectively. Prior periods have been re-stated as follows over page:

## Notes to and forming part of the Financial Statements

For the year ended 30 June 2012

## 1. Summary of significant accounting policies (continued)

	2010-11 Original \$'000	2010-11 Change \$'000	2010-11 Restated \$'000
<b>Statement of Comprehensive Income (extract)</b>			
Other income	4,966	329	5,295
Total income	429,667	329	429,996
Profit before income tax expense	87,370	329	87,699
Income tax expense	27,096	99	27,195
Profit after income tax expense	60,274	230	60,504
Total comprehensive income	156,662	230	156,892
<b>Balance Sheet (extract)</b>			
Assets			
Non current assets			
Other non current assets	3,936	(3,911)	25
Total non current assets	1,809,910	(3,911)	1,805,999
Total assets	1,872,263	(3,911)	1,868,352
Liabilities			
Non current liabilities			
Deferred tax liabilities (net)	317,297	(1,351)	315,946
Defined benefit superannuation liability	-	592	592
Total non current liabilities	902,315	(759)	901,556
Total liabilities	1,038,007	(759)	1,037,248
Equity			
Retained profits	271,210	(3,152)	268,058
Total Equity	834,256	(3,152)	831,104
<b>Statement of Changes in Equity (extract)</b>			
Retained profits at 1 July 2010	226,636	(3,382)	223,254
Total equity at 1 July 2010	693,294	(3,382)	689,912
Other comprehensive income/(expense) after tax 2010-11	60,274	230	60,504
Total comprehensive income for the year 2010-11	156,662	230	156,892
Retained profits at 30 June 2011	271,210	(3,152)	268,058
Total equity at 30 June 2011	834,256	(3,152)	831,104
<b>Note 3 - Revenue and other income (extract)</b>			
Other income			
Defined benefit superannuation income	535	329	864
Total other income	4,966	329	5,295
Total revenue and other income	429,667	329	429,996

# Notes to and forming part of the Financial Statements

For the year ended 30 June 2012

## 1. Summary of significant accounting policies (continued)

	2010-11 Original \$'000	2010-11 Change \$'000	2010-11 Restated \$'000
<b>Note 5 - Income tax (extract)</b>			
(a) income tax expense			
Deferred tax	(2,419)	99	(2,320)
Total income tax expense	27,096	99	27,195
Income tax is attributable to:			
Profit from continuing operations	27,096	99	27,195
Aggregate income tax expense	27,096	99	27,195
Deferred income tax expense/(revenue) included in income tax expense comprises:			
Decrease/(increase) in deferred tax assets	(297)	259	(38)
Increase/(decrease) in deferred tax liabilities	(2,122)	(160)	(2,282)
(b) Numerical reconciliation of income tax expense to prima facie tax payable			
Profit from continuing operations before income tax expense	87,370	329	87,699
Tax at the Australian tax rate of 30 per cent (2010-11 30 per cent)	26,211	99	26,310
<b>Note 6 - Deferred tax assets and deferred tax liabilities reconciliation (extract)</b>			
Deferred tax assets			
The balance comprises temporary differences attributable to:			
Amounts recognised in Statement of Comprehensive Income			
Defined benefit superannuation fund liability	-	178	178
Total deferred tax assets	3,973	178	4,151
Movements:			
Opening balance at the start of financial year	3,676	437	4,113
Credited/(charged) to the Statement of Comprehensive Income (Note 5)	297	(259)	38
Closing balance at the end of financial year	3,973	178	4,151
Deferred tax assets expected to be recovered after more than 12 months	330	178	508
Total deferred tax assets	3,973	178	4,151
Set off of deferred tax assets pursuant to set off provisions (Note 14)	(3,973)	(178)	(4,151)

## Notes to and forming part of the Financial Statements

For the year ended 30 June 2012

## 1. Summary of significant accounting policies (continued)

	2010-11 Original \$'000	2010-11 Change \$'000	2010-11 Restated \$'000
Deferred tax liabilities			
The balance comprises temporary differences attributable to:			
Amounts recognised in the Statement of Comprehensive Income			
Defined benefit superannuation fund asset	1,173	(1,173)	-
Total deferred tax liabilities	321,270	(1,173)	320,097
Movements:			
Opening balance at the start of financial year	282,083	(1,013)	281,070
Credited/(charged) to the Statement of Comprehensive Income (Note 5)	(2,122)	(160)	(2,282)
Closing balance at the end of financial year	321,270	(1,173)	320,097
Deferred tax liabilities expected to be settled within 12 months	1,182	(1,173)	9
Total deferred tax liabilities	321,270	(1,173)	320,097
Set off of deferred tax assets pursuant to set off provisions (Note 14)	(3,973)	(178)	(4,151)
Net deferred tax liabilities	317,297	(1,351)	315,946
<b>Note 14 - Deferred tax assets (extract)</b>			
Deferred tax assets	3,973	178	4,151
<b>Note 21 - Deferred tax liabilities (extract)</b>			
Deferred tax liabilities	321,270	(1,173)	320,097
<b>Note 24 - Equity (extract)</b>			
Retained profits	271,210	(3,152)	268,058
Total shareholder's equity	834,256	(3,152)	831,104
(d) Retained profits			
Retained profits at the beginning of the financial year	226,636	(3,382)	223,254
Profit after income tax expense	60,274	230	60,504
Retained profits at the end of the financial year	271,210	(3,152)	268,058
<b>Note 32 - Reconciliation of profit after income tax to net cash inflow from operating activities (extract)</b>			
Net profit after tax	60,274	230	60,504
Changes in operating assets and liabilities:			
Decrease/(increase) in deferred tax assets	(297)	259	(38)
Increase/(decrease) in deferred tax liabilities	(2,122)	(160)	(2,282)
Decrease/(Increase) in defined benefit superannuation asset	(535)	535	-
Increase/(decrease) in defined benefit superannuation liability	-	(864)	(864)

# Notes to and forming part of the Financial Statements

For the year ended 30 June 2012

## 1. Summary of significant accounting policies (continued)

With the exception of the above, there have been no changes in accounting policy except any mandatory changes to comply with Australian Accounting Standards.

### REVENUE

#### (b) Revenue recognition

Revenue is measured as the fair value of consideration received or receivable. City West Water recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the company, and specific criteria have been met for each of the company's activities as described below.

Each form of revenue is recognised as follows:

- Water and sewerage service charges which are billed quarterly in advance are recognised evenly throughout the financial year to reflect the pattern of revenue being earned.
- Water and sewerage usage charges are recognised as income when the service has been provided.
- Area contributions represent charges levied on developers to recover the costs of augmenting or constructing infrastructure assets to meet the future demands of urban growth. Developers are required to make a fair and reasonable contribution towards the cost of developing City West Water's water supply distribution systems and sewage disposal systems. In accordance with the requirements of AASB Interpretation 18 - *Transfers of Assets from Customers* and AASB 118 - *Revenue*, recognition of income occurs upon receipt.
- Gifted assets arise where developers pay for the cost of construction of new assets, and subsequently 'gift' these assets to City West Water, which maintains them in perpetuity. In accordance with the requirements of AASB Interpretation 18 - *Transfers of Assets from Customers* and AASB 118 - *Revenue*, recognition of income occurs when the risks and rewards of ownership have been transferred to City West Water. This non cash revenue is recorded as 'gifted assets'. Where actual cost is not available, City West Water recognises income by assessing the value of the works using a schedule of rates determined by the company. This table is based on historical cost information.
- Income receivable on investing activities is recognised as revenue when earned and is accrued in accordance with the terms and conditions of the underlying financial instruments.

- Government grants relating to costs are deferred and recognised in the statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate. Grants are recognised at their fair value where there is a reasonable assurance that the grant will be received and City West Water will comply with any attached conditions.

### EXPENSES

#### (c) Borrowing and finance costs

Borrowings are carried at their fair values (principal amounts). Interest expense payable in arrears is accrued as incurred and is charged to the Statement of Comprehensive Income. Borrowings are treated as current liabilities if they mature within 12 months, except where City West Water has an agreement in place at balance date to refinance the maturing debt.

#### (d) Income tax

City West Water is subject to the National Tax Equivalent Regime (NTER) pursuant to section 88(1) of the *State Owned Enterprises Act 1992 (Vic)*. Under this regime City West Water is required to pay to the Victorian State Government an amount equal to the tax liability applicable if the organisation was a private company. The tax equivalent rules are based on the *Income Tax Assessment Act 1936 (Cth)* (as amended).

Income tax expense or revenue for the period is the tax payable or receivable on the current period's taxable income, based on the applicable tax rate adjusted by changes in deferred tax assets and deferred tax liabilities attributable to temporary differences.

Deferred income tax is provided for in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability that affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by balance date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset in the Balance Sheet, as this is permitted where there is a corresponding entitlement to offset current tax assets and liabilities. Current tax assets and liabilities are offset where City West Water has a legally enforceable right to offset and intends to settle on a net basis.

## Notes to and forming part of the Financial Statements

For the year ended 30 June 2012

## 1. Summary of significant accounting policies (continued)

**(e) Bulk charges**

Bulk charges are levied by Melbourne Water for the cost of water the company purchases, and for sewage treated at Melbourne Water's Western Treatment Plant. Variable charges are levied in arrears and are payable on a weekly basis.

Fixed charges are levied once a month, and are payable on the 15th of the month to which they refer. Any variable charges that remain outstanding at period end are accrued.

**(f) Environmental Contribution**

The Water Industry (*Environmental Contributions*) Act 2004 (Vic) amended the *Water Industry Act 1994* (Vic) to make provision for environmental contributions to be paid by water retailers. Consistent with legislative requirements, the company pays the Environmental Contribution to the State Government to fund various water related initiatives that promote the sustainable management of water, and to address the adverse impact on the environment associated with water use.

These contributions are recognised as expenses when they occur.

**(g) Employee benefits and agency labour**

Employee benefits and agency labour refers to all payments made to employees during the year. It includes payments to all City West Water staff as well as contract and agency staff. Payments include ordinary time, overtime, allowances and on costs. Employee benefits and agency labour are recognised as expenses in the Statement of Comprehensive Income.

**(h) Leases**

A lease is a right to use an asset for an agreed period of time in exchange for payment. Leases are classified at their inception as either operating or finance leases, based on the economic substance of the agreement so as to reflect the risks and rewards incidental to ownership. Leases are classified as operating leases whenever the terms of the lease retain substantially all the risks and rewards of ownership with the lessor. Payments made under operating leases are charged to the Statement of Comprehensive Income on a straight line basis over the period of the lease.

City West Water did not hold any finance lease arrangements during the financial year.

**(i) Depreciation and amortisation**

All infrastructure assets, buildings, plant and equipment and other non current physical assets (excluding items under operating leases, assets held for sale and investment properties) that have a limited useful life are depreciated. Depreciation is generally calculated on a straight line basis, at rates that allocate an asset's value, less any estimated residual value, over its estimated useful life. The useful lives and residual values of each group of assets are reviewed annually. The estimated useful lives are listed below and are consistent with prior years.

Buildings	10 - 50 years
Infrastructure assets	10 - 90 years
Plant and equipment	3 - 10 years

Depreciation of a new infrastructure asset begins in the month subsequent to the practical completion of works. Depreciation of other new assets begins in the month subsequent to acquisition.

**(j) Repairs and maintenance**

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

**(k) Impairment of assets**

Intangible assets with indefinite useful lives (and intangible assets not yet available for use) are not subject to amortisation, and are tested annually for impairment (i.e. as to whether their carrying value exceeds their recoverable amount, and so require write downs) and whenever there is an indication that an asset may be impaired.

All other assets are assessed annually for indications of impairment, except for:

- financial assets and
- non current physical assets held for sale (if applicable).

If there is an indication of impairment, the assets concerned are tested as to whether their carrying value exceeds their possible recoverable amount. Where an asset's carrying value exceeds its recoverable amount, the difference is written off as an element of other comprehensive income, except to the extent that the write down can be debited to an asset revaluation surplus amount applicable to that class of asset. The recoverable amount (value in use) is measured as the higher of the present value of future cash flows expected to be obtained from the asset and the fair value less costs to sell.

# Notes to and forming part of the Financial Statements

For the year ended 30 June 2012

## 1. Summary of significant accounting policies (continued)

### ASSETS

#### (l) Cash and cash equivalents

For Cash Flow Statement presentation purposes, cash and cash equivalents includes 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 change in value, and bank overdrafts. Bank overdrafts (if any) are shown within borrowings in current liabilities on the Balance Sheet.

#### (m) Receivables

Receivables are initially recognised at fair value and subsequently measured at fair value less provision for impairment. Collectability of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off. A provision for impaired receivables is established where it is considered that the recovery of the outstanding debt is less than likely. The amount of the impairment loss is recognised in the Statement of Comprehensive Income as an element of expenses, other than finance costs. When a receivable for which an impairment allowance had been recognised becomes uncollectable in a subsequent period, it is written off against the provision. Subsequent recovery of amounts previously written off is credited against impaired receivables in the Statement of Comprehensive Income. City West Water's terms of trade are 14 days.

#### (n) Infrastructure, property, plant and equipment

The cost method of accounting has been used for all acquisitions of assets during the year. Cost is determined as the fair value of the assets given up at the date of acquisition plus any costs directly attributable to the acquisition. Fair value at acquisition is deemed to be equal to cost.

The cost of non current assets constructed by City West Water includes all costs in respect of their construction. In the case of gifted assets, where actual cost is not available, cost is calculated using a schedule of rates determined by the company based on historical cost information.

Assets are capitalised when it is probable that future economic benefits associated with the item will flow to City West Water and that the item can be measured reliably. City West Water has a policy of capitalising labour costs which are directly attributable to capital projects.

The carrying amount of a replaced or abandoned asset is written off in the Statement of Comprehensive Income as an element of expenses other than finance costs. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

#### *Land and buildings*

Land and buildings are measured at fair value, being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction. Fair value is determined by an independent valuer using direct comparison with market based transactions for comparable properties in comparable areas, or alternatively the capitalisation of net income approach. Fair value of land and buildings is discussed in Note 12.

#### *Property, plant and equipment*

Property, plant and equipment are measured initially at cost, and subsequently at fair value less accumulated depreciation and impairment losses (if applicable).

#### *Infrastructure*

Infrastructure assets are measured initially at cost, and subsequently at fair value less accumulated depreciation and impairment losses (if applicable). Fair value is determined using the discounted cash flow method.

#### *Revaluation of non current physical assets*

Non current physical assets are measured at fair value. A full revaluation normally occurs every five years, but may occur more frequently if fair value assessments indicate material changes in values. Independent valuers are used to conduct these scheduled revaluations. A full revaluation was performed during 2010-11.

Revaluation increases or decreases arise from differences between an asset's carrying value and fair value.

Net revaluation increments (where the carrying amount of an asset is increased as a result of a revaluation) are recognised in other comprehensive income and accumulated in the equity section of the Balance Sheet in the revaluation surplus/(deficit), except that a net revaluation increase shall be recognised in the net result when it reverses a net revaluation decrease in respect of the same class of property, plant and equipment previously recognised as an expense in the net result.

Net revaluation decreases are recognised immediately as expenses in the net result, except to the extent that the net revaluation decrease shall be recognised in other comprehensive income when a credit balance exists in the revaluation surplus/(deficit) in respect of the same class of property, plant and equipment. The net revaluation decrease recognised in other comprehensive income reduces the amount accumulated in the equity section of the Balance Sheet in revaluation surplus/(deficit).

## Notes to and forming part of the Financial Statements

For the year ended 30 June 2012

## 1. Summary of significant accounting policies (continued)

**(o) Intangible assets**

Intangible assets are initially recognised at cost, and subsequently at cost less accumulated amortisation and impairment losses (if applicable). Intangible assets consists of internally created software and water entitlement rights.

The water entitlement rights embodied in intangible assets have an indefinite useful life, and as such are not amortised. Instead they are tested for impairment annually, or more frequently if events or changes in circumstances indicate that they might be impaired.

**LIABILITIES****(p) Payables**

Payables are amounts which represent liabilities for goods and services provided to City West Water prior to the end of the financial year, which are unpaid at the end of the financial year. These amounts are unsecured, and are usually paid within 30 days of recognition.

**(q) Borrowings**

The company's principal financial instruments are loans sourced from the Treasury Corporation of Victoria (TCV). These loans include overnight borrowings, floating rate notes and fixed rate loans, and are used to meet working capital requirements and fund capital expenditure.

Where the company has both the intention and discretion to refinance loans maturing within 12 months of balance date, such borrowings are classified as non current. All other borrowings are classified as current.

**(r) Provisions**

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

**(s) Employee benefits**

In relation to services rendered by employees to balance date, provision is made for the company's liability for employee benefits.

*(i) Salaries and annual leave*

Liabilities for salaries, including non monetary benefits, and annual leave expected to be settled within 12 months of the reporting date are recognised in employee benefits liabilities. These liabilities are classified as current liabilities and measured at their nominal values. Employee benefits not expected to be settled within 12 months of the reporting date have been discounted to the present value of the expected future outflow.

*(ii) Long service leave*

A liability for long service leave (LSL) is recognised in the provision for employee benefits.

Current liability - unconditional LSL is disclosed in the notes to the financial statements as a current liability even when the company does not expect to settle the liability within 12 months, because it will not have the unconditional right to defer the settlement of the entitlement should an employee choose to take leave within 12 months.

The components of this current LSL liability are measured at:

- nominal value - component that the company expects to settle within 12 months and
- present value - component that the company does not expect to settle within 12 months.

Non current liability - conditional LSL is disclosed as a non current liability. In this case there is an unconditional right for the company to defer settlement until the employee has completed the requisite years of service. This non current LSL liability is measured at present value. Any gain or loss following revaluation of the present value of this non current LSL liability is recognised as an income or expense, except to the extent that a gain or loss arises due to changes in bond interest rates, in which case it is recognised as an element of other comprehensive income.

*(iii) Employee benefit on-costs*

Employee benefit on-costs such as payroll tax, Workcover premium and superannuation are included in the provision for employee benefits.

# Notes to and forming part of the Financial Statements

For the year ended 30 June 2012

## 1. Summary of significant accounting policies (continued)

### (t) Superannuation

All City West Water employees are members of either the company's defined benefit fund or an approved accumulation fund of their choice. Defined benefit members receive lump sum benefits on retirement, death, disablement or withdrawal from the fund. The defined benefit plan is closed to new members.

The amount charged to the Statement of Comprehensive Income in respect of superannuation represents the contributions made by City West Water to superannuation funds for the current service of current staff. Defined benefit superannuation contributions are made to the fund based on the relevant rule of the fund. Contributions to accumulation funds are made in accordance with the *Superannuation Guarantee (Administration) Act 1992 (Cth)*.

A liability or asset in respect of defined benefits superannuation is recognised and measured as the difference between the present value of employees' accrued benefits at the reporting date and the net market value of the superannuation plan's assets at that date. The present value of accrued benefits is based on expected future payments which arise from membership of the plan to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using rates of Commonwealth Government bonds with terms to maturity that match, as closely as possible, the future estimated cash outflows.

The company has adopted the direct method of accounting for actuarial gains or losses for its defined benefit fund. All actuarial gains or losses are recognised immediately in the Statement of Comprehensive Income in the year in which they occur.

### (u) Dividend payable

City West Water is required to pay a dividend in accordance with a determination of the Treasurer of Victoria under the *Public Authorities (Dividend) Act 1983 (Vic)*. An obligation to pay a dividend only arises after consultation with the portfolio minister and the Treasurer, and a formal declaration is made by the Treasurer.

As this process has not been finalised as at balance date, the Balance Sheet does not include a provision for final dividend for 2011-12.

### (v) Goods and Services Tax

Revenues, expenses and assets are recognised net of Goods and Services Tax (GST), unless the GST incurred is not recoverable from the Australian Taxation Office (ATO), in which case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Cash flows arising from operating activities are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from or payable to the ATO are presented as operating cash flows.

### (w) Comparative Amounts

Where necessary, figures for the previous year have been reclassified to facilitate comparison.

### (x) Rounding of amounts to nearest thousand dollars

Amounts in the financial statements have been rounded to the nearest thousand dollars, or in certain cases to the nearest dollar.

# Notes to and forming part of the Financial Statements

For the year ended 30 June 2012

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## 2. Financial risk management objectives and policies

City West Water's activities expose it to a variety of financial risks, principally market risk, credit risk, and liquidity risk. The Board of Directors has overall responsibility for the establishment and oversight of City West Water's risk management framework. The company's principal financial instruments are loans sourced from the Treasury Corporation of Victoria (TCV). These loans include overnight borrowings, floating rate notes and fixed rate loans, which are used to meet working capital requirements and fund capital expenditure. City West Water has other financial assets and liabilities such as receivables and payables which arise directly from its operating activities. The company's overall financial risk management strategy is to manage its financial risks within an environment that is in accordance with the risk criteria established by the Board of Directors. The General Manager, Corporate Services evaluates and implements risk mitigation strategies in consultation with the company's relevant departments.

City West Water 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 risk and aging analysis for credit risk. All interest income earned by City West Water is generated by cash at bank, or on 11am (short term) deposit with TCV. All interest expenses incurred by the company relate to borrowings.

### 2.1 Financial risk exposures

#### **Market risk**

Market risk is the risk that changes in market prices will affect the fair value of future cash flows of the company's financial instruments. Market risk is comprised of interest rate risk, foreign exchange risk and other price risk. City West Water's exposure to market risk is purely through interest rates.

City West Water's exposure to market interest rates relates primarily to its floating rate debt, rolling over of fixed rate debt and new borrowings. The company's borrowings are sourced from TCV and are managed within the range of Board approved limits. Interest rates and borrowing requirements are monitored regularly. The company manages its exposure to interest rate changes by holding a mix of fixed and floating rate debt. The company's Treasury Risk Management Policy requires it to limit the proportion of floating rate debt to a maximum of 30 per cent of total debt. City West Water has minimal exposure to interest rate risk through cash holdings and manages its interest rate exposure on cash by investing its surplus funds with TCV.

City West Water has no exposure to foreign exchange rate risk or other price risk.

The table over page summarises the sensitivity of City West Water's financial assets and financial liabilities to interest rate risk.

# Notes to and forming part of the Financial Statements

For the year ended 30 June 2012

## 2. Financial risk management objectives and policies (continued)

### 2.2 Sensitivity analysis

#### 2011-12

	Total \$'000	Interest rate risk			
		-1%		+1%	
Financial assets	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000	
Cash (Note 8)	3,207	(46)	(46)	46	46
Receivables (Note 9, 11)	72,199	-	-	-	-
<b>Total financial assets</b>	<b>75,406</b>	<b>(46)</b>	<b>(46)</b>	<b>46</b>	<b>46</b>
<b>Financial liabilities</b>					
Payables (Note 15)	75,734	-	-	-	-
Borrowings (Note 16, 20)	749,870	1,574	1,574	(1,574)	(1,574)
Advances and deposits (Note 19)	3,936	-	-	-	-
Deferred developer reimbursements (Note 19)	13,450	-	-	-	-
<b>Total financial liabilities</b>	<b>842,990</b>	<b>1,574</b>	<b>1,574</b>	<b>(1,574)</b>	<b>(1,574)</b>
<b>Total increase/(decrease)</b>		<b>1,528</b>	<b>1,528</b>	<b>(1,528)</b>	<b>(1,528)</b>

#### 2010-11

	Total \$'000	Interest rate risk			
		-1%		+1%	
Financial assets	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000	
Cash (Note 8)	6,086	(33)	(33)	33	33
Receivables (Note 9, 11)	55,673	-	-	-	-
<b>Total financial assets</b>	<b>61,759</b>	<b>(33)</b>	<b>(33)</b>	<b>33</b>	<b>33</b>
<b>Financial liabilities</b>					
Payables (Note 15)	55,955	-	-	-	-
Borrowings (Note 16, 20)	607,500	1,025	1,025	(1,025)	(1,025)
Advances and deposits (Note 19)	4,414	-	-	-	-
Deferred developer reimbursements (Note 19)	13,824	-	-	-	-
<b>Total financial liabilities</b>	<b>681,693</b>	<b>1,025</b>	<b>1,025</b>	<b>(1,025)</b>	<b>(1,025)</b>
<b>Total increase/(decrease)</b>		<b>992</b>	<b>992</b>	<b>(992)</b>	<b>(992)</b>

# Notes to and forming part of the Financial Statements

For the year ended 30 June 2012

## 2. Financial risk management objectives and policies (continued)

### Credit risk

Credit risk is the risk of financial loss to the company as a result of a customer or counterparty to a financial instrument failing to meet contractual obligations. Credit risk arises principally in connection with the company's receivables.

City West Water's exposure to credit risk is influenced by the individual characteristics of each customer. The company's receivable balance consists of amounts due from a large number of residential customers as well as non-residential customers spread across a diverse range of industries. Receivable balances are monitored on an ongoing basis. Where applicable, collection action is taken to ensure that exposure to bad debt is minimised. City West Water has in place a policy and a procedure for the collection of overdue receivables.

City West Water's maximum exposure to credit risk is the carrying amount of receivables. Further information on the company's receivables policy is disclosed in Note 1(m).

Further analysis of City West Water's receivable credit risk is disclosed in Note 9.

### Liquidity risk

Liquidity risk is the risk that the company will no longer meet its financial obligations as they fall due. City West Water's policy is to pay its accounts payable liabilities within 30 days or, in the event of dispute, within 30 days from the date of resolution.

City West Water manages liquidity risk by maintaining adequate bank overdraft and TCV borrowing facilities, continuous monitoring of forecast inflows and outflows, and matching the maturity profile of financial assets and financial liabilities where appropriate.

City West Water's borrowings are sourced from TCV while surplus funds are also invested with TCV through 11am (short term) deposits.

### 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 values less any impairment provisions of trade receivables and payables are assumed to approximate their fair value due to their short term nature. The fair value of financial liabilities for disclosure purposes are estimated by discounting future contractual cash flows at the current market interest rate that is available to City West Water for similar financial instruments.

Refer to Note 33 for the carrying amounts and fair values of financial instruments.

## 2.3 Capital management

City West Water manages its capital by maintaining a prudent gearing level in order to provide its shareholder with adequate returns and to ensure it can fund its operations as a going concern.

City West Water's objective is to maintain its gearing ratio within the Essential Services Commission's benchmark ratio of 60 per cent. City West Water's gearing ratio (debt/total assets) as at 30 June 2012 was 47.3 per cent, compared to 42.1 per cent in 2010-11.

The only externally imposed capital requirements applying to City West Water are:

- that the financial accommodation does not exceed the approval limits set by the Treasurer of Victoria pursuant to the Borrowing and Investment Powers Act 1987 (Vic) and
- that City West Water, with the exception of a trading account with overdraft facilities, is required to borrow exclusively with TCV.

These external capital requirements are incorporated into the management of capital through Board and shareholder approval of City West Water's annual Corporate Plan.

# Notes to and forming part of the Financial Statements

For the year ended 30 June 2012

## 3. Revenue and other income

	30 June 2012 \$'000	30 June 2011 \$'000
<b>Sales revenue</b>		
Service charges - water	63,523	55,851
Volume charges - water	168,516	141,384
Service charges - sewerage	82,352	68,577
Volume charges - sewerage	82,708	71,845
Trade waste charges	29,229	26,782
Recycled water	3,539	417
<b>Total sales revenue</b>	<b>429,867</b>	<b>364,856</b>
<b>Other revenue</b>		
Area contributions	16,753	17,344
Gifted assets	23,184	25,948
Works and services provided to third parties	5,876	5,744
Interest received/receivable	193	115
Miscellaneous fees and charges	8,670	9,179
Lease income	345	326
Other	957	1,189
<b>Total other revenue</b>	<b>55,978</b>	<b>59,845</b>
<b>Total revenue</b>	<b>485,845</b>	<b>424,701</b>
<b>Other income</b>		
Government grants <sup>1</sup>	3,404	3,915
Defined benefit superannuation income	-	864
Proceeds from sale of non-current assets	110	516
<b>Total other income</b>	<b>3,514</b>	<b>5,295</b>
<b>Total revenue and other income</b>	<b>489,359</b>	<b>429,996</b>

<sup>1</sup> City West Water received government funding during the year for the following:

- (a) Aquifer Storage and Recovery feasibility at the company's West Werribee Dual Supply Project
- (b) Water industry advisors for residential water efficiency programs
- (c) The training component of the company's Technical Officer Development Program
- (d) Water efficiency grants for small businesses (Small Business Grant Scheme)

There are no unfulfilled conditions or other contingencies attaching to these grants. The company did not benefit directly from any other form of government assistance.

## Notes to and forming part of the Financial Statements

For the year ended 30 June 2012

## 4. Expenses other than finance costs

	30 June 2012 \$'000	30 June 2011 \$'000
<b>Bulk charges</b>		
Bulk water (fixed and variable)	132,928	98,331
Bulk sewerage (fixed and variable)	92,581	70,119
<b>Total bulk charges</b>	<b>225,509</b>	<b>168,450</b>
<b>Operating expenses</b>		
Environmental Contribution	10,787	10,787
Employee benefits and agency labour	31,343	26,441
Operating contracts	31,924	30,287
Information technology	6,455	6,605
Licence fees	594	483
Billing and collection	5,412	5,102
Rental expenses relating to operating leases	372	703
Behavioural change campaign	-	750
Grants and water conservation initiatives	1,665	2,792
Facilities maintenance	972	916
Insurance	1,408	886
Depreciation and amortisation	35,293	30,507
Energy	1,363	1,159
Asset disposal costs	430	1,093
Impaired receivables (net)	1,528	1,645
Asset revaluation decrement	-	1,242
Defined benefit superannuation expense	5,237	-
Other	11,487	12,715
<b>Total operating expenses</b>	<b>146,270</b>	<b>134,113</b>
<b>Total expenses other than finance costs</b>	<b>371,779</b>	<b>302,563</b>

# Notes to and forming part of the Financial Statements

For the year ended 30 June 2012

## 5. Income tax

	30 June 2012 \$'000	30 June 2011 \$'000
<b>(a) Income tax expense</b>		
Current tax	28,632	29,515
Deferred tax	(7,523)	(2,320)
	<b>21,109</b>	<b>27,195</b>
Income tax expense is attributable to:		
Profit from continuing operations	21,109	27,195
<b>Aggregate income tax expense</b>	<b>21,109</b>	<b>27,195</b>

Deferred income tax expense/(revenue) included in income tax expense comprises:

Decrease/(increase) in deferred tax assets	(2,276)	(38)
(Decrease)/increase in deferred tax liabilities	(5,247)	(2,282)
	<b>(7,523)</b>	<b>(2,320)</b>

### (b) Numerical reconciliation of income tax expense to prima facie tax payable

Profit from continuing operations before income tax expense	71,701	87,699
Tax at the Australian tax rate of 30 per cent (2010-11 30 per cent)	21,510	26,310
<b>Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:</b>		
Non deductible expenses	730	1,617
Non deductible depreciation	900	886
Additional deductible expenses	(2,031)	(1,618)
	<b>21,109</b>	<b>27,195</b>

### (c) Income Tax expense/(income) relating to items of other comprehensive income

Gain/(loss) on revaluation of infrastructure	(60)	40,195
Gain/(loss) on revaluation of land and buildings	-	1,114
	<b>(60)</b>	<b>41,309</b>

## Notes to and forming part of the Financial Statements

For the year ended 30 June 2012

## 6. Deferred tax assets and deferred tax liabilities reconciliation

	30 June 2012 \$'000	30 June 2011 \$'000
Deferred tax assets		
The balance comprises temporary differences attributable to:		
<b>Amounts recognised in the Statement of Comprehensive Income</b>		
Accrued expenses	25	22
Provisions	4,625	3,921
Amortisation of intellectual property	28	30
Defined benefit superannuation fund liability	1,749	178
	<b>6,427</b>	<b>4,151</b>
Movements:		
Opening balance at the start of financial year	4,151	4,113
Credited/(charged) to the Statement of Comprehensive Income (Note 5)	2,276	38
Closing balance at the end of financial year	<b>6,427</b>	<b>4,151</b>
Deferred tax assets expected to be recovered within 12 months	5,942	3,643
Deferred tax assets expected to be recovered after more than 12 months	485	508
	<b>6,427</b>	<b>4,151</b>
Set off of deferred tax assets pursuant to set off provisions (Note 14)	(6,427)	(4,151)
Net deferred tax assets	-	-
Deferred tax liabilities		
The balance comprises temporary differences attributable to:		
<b>Amounts recognised in the Statement of Comprehensive Income</b>		
Fixed assets - depreciation	208,511	212,865
Developer contributed assets	65,028	65,914
Receivables	2	9
<b>Amounts recognised in equity</b>		
Land and buildings revaluation	1,114	1,114
Infrastructure assets revaluation	40,135	40,195
	<b>314,790</b>	<b>320,097</b>
Movements:		
Opening balance at the start of financial year	320,097	281,070
Credited/(charged) to the Statement of Comprehensive Income (Note 5)	(5,247)	(2,282)
Credited/(charged) to equity	(60)	41,309
Closing balance at the end of financial year	<b>314,790</b>	<b>320,097</b>
Deferred tax liabilities expected to be settled within 12 months	2	9
Deferred tax liabilities expected to be settled after more than 12 months	314,788	320,088
	<b>314,790</b>	<b>320,097</b>
Set off of deferred tax assets pursuant to set off provisions (Note 14)	(6,427)	(4,151)
Net deferred tax liabilities	<b>308,363</b>	<b>315,946</b>

## Notes to and forming part of the Financial Statements

For the year ended 30 June 2012

### 7. Dividends

City West Water made a final dividend payment in respect of 2010-11 of \$45.2m in November 2011 (2009-10 \$15.7m). No interim dividend payment was made in respect of 2011-12 (2010-11 \$0m).

As the final dividend for 2011-12 was not finalised by June 2012, no provision for final dividend was raised at balance date.

### 8. Current assets - Cash and cash equivalents

	<b>30 June 2012</b>	<b>30 June 2011</b>
	<b>\$'000</b>	<b>\$'000</b>
Cash at bank	3,153	294
Deposits at call	54	5,792
<b>Total current assets - Cash and cash equivalents</b>	<b>3,207</b>	<b>6,086</b>

The above figures are reconciled to cash at the end of the financial year as shown in the Cash Flow Statement as follows:

Balance as above	3,207	6,086
<b>Balance per Cash Flow Statement</b>	<b>3,207</b>	<b>6,086</b>

City West Water's exposure to interest rate risk is discussed in Notes 2 and 33.

## Notes to and forming part of the Financial Statements

For the year ended 30 June 2012

## 9. Current assets - Receivables

	30 June 2012 \$'000	30 June 2011 \$'000
Unbilled receivables	43,769	37,009
Account receivables	30,969	20,991
Less: Provision for impaired receivables	(2,563)	(2,352)
<b>Total current assets - Receivables</b>	<b>72,175</b>	<b>55,648</b>

As at 30 June 2012, account receivables of the company with a nominal value of \$2.563m (2010-11 \$2.352m) were impaired. The individually impaired receivables relate to aged debts where it is considered that the recovery of the outstanding debt is less than likely. A portion of these receivables is expected to be recovered.

Receivables not past due and not impaired	65,797	49,930
Receivables past due but not impaired	3,815	3,366

The ageing of impaired receivables is as follows:

30-59 days past due	314	257
60-89 days past due	213	192
90 days and greater past due	2,036	1,903
<b>Total current assets - Receivables</b>	<b>72,175</b>	<b>55,648</b>

Movements in the provision for impaired receivables are as follows:

Opening balance at the start of the year	(2,352)	(1,907)
Provision for impaired receivables recognised during the year	(2,708)	(2,630)
Receivables written off during the year as uncollectible	2,497	2,185
<b>Closing balance at the end of the year</b>	<b>(2,563)</b>	<b>(2,352)</b>

As at 30 June 2012, account receivables of \$3.815m (2010-11 \$3.366m) 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 account receivables is as follows:

30-59 days past due	2,840	2,311
60-89 days past due	640	577
90 days and greater past due	335	478
<b>Receivables past due but not impaired</b>	<b>3,815</b>	<b>3,366</b>

## 10. Current assets - Prepayments

Prepayments - General	1,950	399
Prepayment - Smart Water Fund	383	220
<b>Total current assets - Prepayments</b>	<b>2,333</b>	<b>619</b>

## Notes to and forming part of the Financial Statements

For the year ended 30 June 2012

### 11. Non current assets - Receivables

	30 June 2012 \$'000	30 June 2011 \$'000
Receivables	24	25
<b>Total non current assets - Receivables</b>	<b>24</b>	<b>25</b>

### 12. Non current assets - Infrastructure, property, plant and equipment

Freehold land at independent valuation 2011	33,504	33,504
Buildings at independent valuation 2011	6,686	6,686
Buildings at cost	2,688	-
Less: accumulated depreciation	(481)	-
<b>Total land and buildings</b>	<b>42,397</b>	<b>40,190</b>
Infrastructure assets at fair value	1,587,480	1,511,660
Less: accumulated depreciation	-	-
<b>Total infrastructure assets</b>	<b>1,587,480</b>	<b>1,511,660</b>
Plant and equipment at cost	21,094	18,432
Less: accumulated depreciation	(13,570)	(10,096)
<b>Total plant and equipment</b>	<b>7,524</b>	<b>8,336</b>
Capital works in progress	168,974	143,061
<b>Net book amount infrastructure, property, plant and equipment</b>	<b>1,806,375</b>	<b>1,703,247</b>

An independent valuation of land and buildings was undertaken by a registered valuer, Karl Cundall of Valuelt Pty Ltd on behalf of Valuer General Victoria as at 30 June 2011. Fair value is determined using direct comparison with market based transactions for comparable properties in comparable areas, or the capitalisation of net income approach. The historical cost of land and the historical written down value of buildings at 30 June 2012 would have been \$2.297m and \$10.124m respectively.

At the direction of the Minister for Finance, and in line with Whole of Government reporting, City West Water first adopted fair value for its infrastructure assets as at 30 June 2010. Prior to this, the company's infrastructure assets had been carried at historical cost. The valuation of the company's infrastructure assets was undertaken by Deloitte using the discounted cash flow method, which calculates fair value by discounting estimated future cash flows to their present value. City West Water's fair value of infrastructure assets as at 30 June 2012 was also performed by Deloitte. A nominal after tax discount rate of approximately 6.6 per cent was used to discount the estimated future cash flow. In determining the future cash flows, City West Water takes into account its current regulated price path to 30 June 2013 as well as the forecast revenue requirement for the subsequent regulatory period using the ESC's building block approach. A terminal value beyond the forecast period is determined based on the company's expected normalised cash flow. The historical written down value of infrastructure assets at 30 June 2012 would have been \$1.151 billion.

## Notes to and forming part of the Financial Statements

For the year ended 30 June 2012

## 12. Non current assets - Infrastructure, property, plant and equipment (continued)

**Reconciliations**

Reconciliations of the carrying amounts of each class of non current assets at the beginning and end of the current and prior financial years are set out below.

	<b>Water &amp; sewerage infrastructure \$'000</b>	<b>Freehold land \$'000</b>	<b>Buildings \$'000</b>	<b>Plant &amp; equipment \$'000</b>	<b>Capital works in progress \$'000</b>	<b>Total \$'000</b>
<b>2010-11</b>						
Net book amount at 1 July 2010	1,325,000	29,802	7,800	6,297	106,680	1,475,579
Additions	76,458	-	518	4,922	37,309	119,207
Revaluations - increment	133,984	3,713	-	-	-	137,697
Revaluations - decrement	-	(11)	(1,231)	-	-	(1,242)
Disposals	(164)	-	-	(2)	-	(166)
Asset writedown	-	-	-	-	(928)	(928)
Depreciation expense	(23,618)	-	(401)	(2,881)	-	(26,900)
<b>Net book amount at 30 June 2011</b>	<b>1,511,660</b>	<b>33,504</b>	<b>6,686</b>	<b>8,336</b>	<b>143,061</b>	<b>1,703,247</b>
<b>2011-12</b>						
Net book amount at 1 July 2011	1,511,660	33,504	6,686	8,336	143,061	1,703,247
Additions	104,383	-	2,688	2,911	25,913	135,895
Revaluations - increment	-	-	-	-	-	-
Revaluations - decrement	(200)	-	-	-	-	(200)
Disposals	(335)	-	-	(95)	-	(430)
Asset writedown	-	-	-	-	-	-
Depreciation expense	(28,028)	-	(481)	(3,628)	-	(32,137)
<b>Net book amount at 30 June 2012</b>	<b>1,587,480</b>	<b>33,504</b>	<b>8,893</b>	<b>7,524</b>	<b>168,974</b>	<b>1,806,375</b>

# Notes to and forming part of the Financial Statements

For the year ended 30 June 2012

## 13. Non current assets - Intangible assets

	30 June 2012 \$'000	30 June 2011 \$'000
Intangible assets at cost	125,251	118,436
Less: Accumulated amortisation	(20,962)	(17,806)
<b>Total intangible assets</b>	<b>104,289</b>	<b>100,630</b>
Capital works in progress	27,609	2,097
<b>Net book amount intangible assets</b>	<b>131,898</b>	<b>102,727</b>

### Reconciliations

Reconciliations of the carrying amounts of each class of intangible assets at the beginning and end of the current and prior financial years are set out below.

	Software \$'000	Water entitlements \$'000	Capital works in progress \$'000	Total \$'000
<b>2010-11</b>				
Net book amount at 1 July 2010	11,278	56,667	9,118	77,063
Additions	-	26,666	2,605	29,271
Transfers	9,626	-	(9,626)	-
Amortisation expense	(3,607)	-	-	(3,607)
<b>Net book amount at 30 June 2011</b>	<b>17,297</b>	<b>83,333</b>	<b>2,097</b>	<b>102,727</b>
<b>2011-12</b>				
Net book amount at 1 July 2011	17,297	83,333	2,097	102,727
Additions	-	6,667	25,660	32,327
Transfers	148	-	(148)	-
Depreciation and amortisation expense	(3,156)	-	-	(3,156)
<b>Net book amount at 30 June 2012</b>	<b>14,289</b>	<b>90,000</b>	<b>27,609</b>	<b>131,898</b>

Water entitlements represents entitlements held by City West Water as a result of its contribution to the Northern Victorian Renewal Project (NVIRP). The project has a planned expenditure of \$1.004 billion and estimated long term annual water savings of 225 GL, which will be shared equally between irrigators, the environment and Melbourne (via the Sugarloaf Pipeline). The carrying amount at balance date represents the company's share of its scheduled contributions as at 30 June 2012.

## Notes to and forming part of the Financial Statements

For the year ended 30 June 2012

## 14. Non current assets - Deferred tax assets

	<b>30 June 2012</b> <b>\$'000</b>	<b>30 June 2011</b> <b>\$'000</b>
Deferred tax assets	6,427	4,151
<b>Total non current assets - Deferred tax assets</b>	<b>6,427</b>	<b>4,151</b>

## 15. Current liabilities - Payables

Payables - trade	58,709	41,594
Payables - other	17,025	14,361
<b>Total current liabilities - Payables</b>	<b>75,734</b>	<b>55,955</b>

In line with City West Water's terms of trade, all payables are expected to be settled within 30 days.

## 16. Current liabilities - Borrowings

Treasury Corporation of Victoria	72,370	25,000
<b>Total current liabilities - Borrowings</b>	<b>72,370</b>	<b>25,000</b>

No security has been provided in respect of any existing liability.

All of City West Water's borrowings are made through the Treasury Corporation of Victoria (TCV) and are Government guaranteed. The company paid a fee of \$739,508 (2010-11 \$629,042) for this facility.

## 17. Current liabilities - Tax liabilities

Current tax liabilities	7,663	13,051
<b>Total current liabilities - Tax liabilities</b>	<b>7,663</b>	<b>13,051</b>

# Notes to and forming part of the Financial Statements

For the year ended 30 June 2012

## 18. Current liabilities - Provisions

	30 June 2012 \$'000	30 June 2011 \$'000
Employee benefits (Refer note 29)	9,169	7,344
Sundry provision	2,299	15,700
<b>Total current liabilities - Provisions</b>	<b>11,468</b>	<b>23,044</b>

Sundry provision is made up of the following:

Insurance provision	488	484
Restructuring provision	92	146
Biosolids management	392	358
De-sludging ATP lagoon	860	874
Intangible asset - water entitlement <sup>1</sup>	-	13,333
Other miscellaneous provisions	467	505
<b>Total sundry provisions</b>	<b>2,299</b>	<b>15,700</b>

<sup>1</sup> The water entitlement provision represents the unpaid amount of the company's share of contributions to the Northern Victoria Irrigation Renewal Project (NVIRP) at balance date.

Movement in sundry provision	Insurance \$'000	Restructure \$'000	Biosolids management \$'000	Desludge ATP lagoon \$'000	NVIRP provision \$'000	Other \$'000	Total \$'000
Carrying amount as at 1 July 2011	484	146	358	874	13,333	505	15,700
Additional provisions recognised	506	100	34	-	3,333	591	4,564
Payments/other sacrifices of economic benefit	(502)	(154)	-	(14)	(16,666)	(629)	(17,965)
<b>Carrying amount as at 30 June 2012</b>	<b>488</b>	<b>92</b>	<b>392</b>	<b>860</b>	<b>-</b>	<b>467</b>	<b>2,299</b>

## Notes to and forming part of the Financial Statements

For the year ended 30 June 2012

## 19. Current liabilities - Other

	30 June 2012 \$'000	30 June 2011 \$'000
Advances and deposits	3,936	4,414
Deferred developer reimbursements	13,450	13,824
Unearned income	80	404
<b>Total current liabilities - Other</b>	<b>17,466</b>	<b>18,642</b>

## 20. Non current liabilities - Borrowings

Treasury Corporation of Victoria	677,500	582,500
<b>Total non current liabilities - Borrowings</b>	<b>677,500</b>	<b>582,500</b>

## 21. Non current liabilities - Deferred tax liabilities

Deferred tax liability	314,790	320,097
<b>Total non current liabilities - Deferred tax liabilities</b>	<b>314,790</b>	<b>320,097</b>

## 22. Non current liabilities - Provisions

Employee benefits (Refer note 29)	1,387	1,007
<b>Total non current liabilities - Provisions</b>	<b>1,387</b>	<b>1,007</b>

## 23. Non current liabilities - Unearned income

Unearned income	1,876	1,511
<b>Total non current liabilities - Unearned Income</b>	<b>1,876</b>	<b>1,511</b>

## 24. Equity

Paid up equity	20,620	20,620
Contributed equity	196,987	196,987
Revaluation surplus/(deficit)	345,299	345,439
Retained profits	273,450	268,058
<b>Total shareholder's equity</b>	<b>836,356</b>	<b>831,104</b>

## (a) Shareholder's equity (whole dollars)

	\$	\$
<b>(i) Authorised</b>		
Ordinary shares of \$1 each	100,000,000	100,000,000
<b>(ii) Issued and paid up</b>		
Ordinary shares of \$1 each fully paid	20,620,250	20,620,250

# Notes to and forming part of the Financial Statements

For the year ended 30 June 2012

## 24. Equity (continued)

	30 June 2012 \$'000	30 June 2011 \$'000
<b>(b) Contributed equity</b>		
Contributed equity represents an amount equivalent to the net assets transferred to City West Water following its formation. It forms part of the company's general reserves and is not part of its equity under the <i>Corporations Act 2001 (Cth)</i> .		
<b>(c) Revaluation surplus/(deficit)</b>		
Revaluation surplus/(deficit) at the beginning of the financial year	345,439	249,051
Infrastructure assets revaluation, net of tax	(140)	93,789
Land and buildings revaluation, net of tax	-	2,599
<b>Revaluation surplus/(deficit) at the end of the financial year</b>	<b>345,299</b>	<b>345,439</b>
<b>(d) Retained profits</b>		
Retained profits at the beginning of the financial year	268,058	223,254
Profit after income tax expense	50,592	60,504
Final dividend paid during 2011-12 in respect of 2010-11 (Note 7)	(45,200)	-
Final dividend paid during 2010-11 in respect of 2009-10 (Note 7)	-	(15,700)
<b>Retained profits at the end of the financial year</b>	<b>273,450</b>	<b>268,058</b>

## 25. Key management personnel

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

The Hon. Peter Walsh MP, Minister for Water.

Amounts relating to the Minister are reported in the financial statements of the Department of Premier and Cabinet.

The names of persons who were directors of City West Water at any time during the financial year are as follows:

A. Stockdale, A. Barker, D. Goodin, M. Anderson, J. Begg, J. Boxall, J. Miller, D. Skues, A. Seale, D. Radford, P. Hansen.

Key management personnel include those persons who have the authority and responsibility for planning, directing and controlling the activities of City West Water either directly or indirectly. This includes directors and members of the Executive Management Committee.

### Compensation categories

Short term employee benefits - Directors	700	694
Short term employee benefits - Executives (cash salary, fees, short term leave, bonuses, non monetary benefits)	1,202	1,109
Post employment benefits - Directors	62	62
Post employment benefits - Executives (pension and superannuation, other post employment benefits)	125	96
	<b>2,089</b>	<b>1,961</b>

## Notes to and forming part of the Financial Statements

For the year ended 30 June 2012

## 25. Key management personnel (continued)

Short term employee benefits includes performance bonuses paid to key management personnel in respect of performance rendered for the previous year.

City West Water did not make any termination, share based or other long term payments to any key management personnel during the financial year.

**Remuneration of directors**

The number of non executive directors and the Managing Director of City West Water whose income from the company (inclusive of compulsory superannuation) was within the specified bands is as follows:

	\$		\$	30 June 2012 No.	30 June 2011 No.
	10,000	-	19,999	2	-
	20,000	-	29,999	1	-
	30,000	-	39,999	2	-
	40,000	-	49,999	4	6
	60,000	-	69,999	1	-
	90,000	-	99,999	-	1
	370,000	-	379,999	-	1
	380,000	-	389,999	1	-
				<b>11</b>	<b>8</b>

**Remuneration of Executives**

The number of executives of City West Water whose income from the company was within the specified bands is as follows:

	\$		\$	30 June 2012 No.	30 June 2011 No.
	30,000	-	39,999	1	-
	200,000	-	209,999	-	1
	230,000	-	239,999	-	1
	240,000	-	249,999	2	1
	250,000	-	259,999	-	1
	260,000	-	269,999	2	1
	270,000	-	279,999	1	-
				<b>6</b>	<b>5</b>

## Notes to and forming part of the Financial Statements

For the year ended 30 June 2012

### 26. Remuneration of auditors

Amounts received, or due and receivable by the auditor of City West Water for:

	<b>30 June 2012</b> <b>\$'000</b>	<b>30 June 2011</b> <b>\$'000</b>
Auditing accounts of City West Water	122	118
<b>Total auditor's remuneration</b>	<b>122</b>	<b>118</b>

### 27. Contingent assets and liabilities

#### Contingent assets

In the ordinary course of business, developers often provide a commitment to City West Water to construct water supply and sewerage assets. These assets are constructed within an agreed timeframe, and upon completion are transferred to City West Water at no charge.

Currently there is approximately \$5.768m (2010-11 \$6.574m) of water supply assets under construction, and a further \$4.280m (2010-11 \$5.179m) of water supply assets committed to for which construction is yet to begin. The value of sewerage assets under construction is approximately \$11.237m (2010-11 \$14.874m), with a further \$4.964m (2010-11 \$8.833m) committed to for which construction is yet to begin. Contingent upon the completion of these assets, they will be transferred to City West Water, which will maintain them in perpetuity.

#### Contingent liabilities

Contingent on the completion of the above assets, City West Water has a liability to reimburse developers an estimated \$3.666m (2010-11 \$2.333m) for water supply assets and, \$7.554m (2010-11 \$10.790m) for sewerage assets for additional works constructed at City West Water's request. These reimbursements will occur either immediately on the completion of the assets or be deferred for an agreed period in accordance with the conditions of the agreement between City West Water and the developer.

As a result of the announcement made by the Minister for Water on 19 June 2012, desalination plant charges collected during 2011-12 will be returned to customers through a price freeze in 2012-13. This will impact revenues reported in 2012-13. In accordance with the subsequent announcement made by the Minister for Water on 6 July 2012, past customers that will not benefit from the price freeze will instead be able to apply for a refund. At reporting date the company was not able to determine the number of customers or timing of these payments.

## Notes to and forming part of the Financial Statements

For the year ended 30 June 2012

## 28. Commitment for expenditure

	30 June 2012 \$'000	30 June 2011 \$'000
(a) Capital commitments		
Total capital expenditure (inclusive of GST) contracted for at balance date but not provided for in the accounts:		
Not later than one year	71,865	40,478
Later than one year but not later than five years	8,428	11,000
<b>Total capital commitments not provided for in the accounts</b>	<b>80,293</b>	<b>51,478</b>

## (b) Lease commitments

Total operating lease expenditure (inclusive of GST) contracted for at balance date but not provided for in the accounts:

Not later than one year	51	306
Later than one year but not later than five years	59	84
<b>Total lease commitments not provided for in the accounts</b>	<b>110</b>	<b>390</b>

Representing:

Non cancellable operating leases	110	390
Cancellable operating leases	-	-
<b>Total lease commitments not provided for in the accounts</b>	<b>110</b>	<b>390</b>

Commitments in relation to non cancellable operating leases are payable as follows:

Not later than one year	51	306
Later than one year but not later than five years	59	84
<b>Total lease commitments not provided for in the accounts</b>	<b>110</b>	<b>390</b>

## (c) Other Commitments

Other expenditure commitments (inclusive of GST) at balance date not provided for in the accounts:

Not later than one year	11,787	12,787
Later than one year but not later than five years	56,689	12,787
<b>Total other commitments not provided for in the accounts</b>	<b>68,476</b>	<b>25,574</b>

# Notes to and forming part of the Financial Statements

For the year ended 30 June 2012

## 28. Commitment for expenditure (continued)

Contained within capital commitments:

### Northern Victoria Irrigation Renewal Project (NVIRP)

Stage 1 of NVIRP has planned expenditure of \$1.004 billion. The estimated long term annual water savings of 225 GL are to be shared equally between irrigators, the environment and Melbourne via the Sugarloaf Pipeline. Melbourne's share of the water entitlements will be held by the three metropolitan retail water companies through a Water Savings Supply and Transfer agreement.

As at balance date, City West Water has made a total contribution of \$99m and has a commitment to pay a further \$11m over the next year.

Contained within other commitments:

### Smart Water Fund

The Smart Water Fund is a regulatory obligation which is administered via an agreement between City West Water, South East Water, Yarra Valley Water, Melbourne Water and the Victorian Government, with the objective of funding water saving initiatives and research in water related fields. City West Water has an equal interest in the arrangement with the other businesses. The total contributions paid to the Smart Water Fund to date amount to \$6.95m. At balance date, City West Water's share of unspent contributions to the fund amounts to \$0.4m (Refer Note 10). City West Water expects to contribute a further \$2.0m over the next two years in order to fund research and research related activities.

### Environmental Contributions

Consistent with the requirements of the *Water Industry Act 1994 (Vic)*, City West Water is committed to pay an Environmental Contribution of \$10.787m next year and \$18.563m for the following three years to the Department of Sustainability and Environment.

## 29. Employee benefits

	30 June 2012 \$'000	30 June 2011 \$'000
(a) Employee benefits and related oncost liabilities		
<b>Current</b>		
Annual leave unconditional and expected to be settled within 12 months	1,733	1,477
Annual leave unconditional and expected to be settled after 12 months	148	85
Long service leave unconditional and expected to be settled within 12 months	413	402
Long service leave unconditional and expected to be settled after 12 months	4,464	3,410
Other employee benefits	2,411	1,970
<b>Provision for employee benefits - current (Refer Note 18)</b>	<b>9,169</b>	<b>7,344</b>
<b>Non current</b>		
Provision for employee benefits - long service leave conditional	1,387	1,007
<b>Provision for employee benefits - non current (Refer Note 22)</b>	<b>1,387</b>	<b>1,007</b>
<b>Aggregate employee benefits and related oncost liabilities</b>	<b>10,556</b>	<b>8,351</b>

## Notes to and forming part of the Financial Statements

For the year ended 30 June 2012

## 29. Employee benefits (continued)

## (b) Superannuation

All City West Water employees are members of either the company's defined benefit fund or an approved accumulation fund of their choice. Defined benefit fund members receive lump sum benefits on retirement, death, disablement or withdrawal from the fund. The defined benefit section of the plan is closed to new members. All new employees receive accumulation only benefits.

The majority of employees of City West Water are members of either the Equisuper fund or the Vision Super fund. All new company employees who are not already members of the Equisuper defined benefit fund must join an accumulation fund.

City West Water contributed a total of \$2.4m (2010-11 \$1.9m) to various accumulation funds during the year.

## (c) Defined benefit superannuation

When actuarial gains or losses are made by the defined benefit fund, these amounts are recognised in the Statement of Comprehensive Income as per AASB 119 - *Employee Benefits* (refer Note 1(t)).

	<b>30 June 2012</b>	<b>30 June 2011</b>
	<b>\$'000</b>	<b>\$'000</b>
Reconciliation of present value of the defined benefit obligation		
Present value of defined benefit obligations at beginning of the year	(21,953)	(20,872)
Current service cost	(558)	(530)
Interest cost	(1,022)	(948)
Contributions by plan participants	(274)	(287)
Actuarial gains/(losses)	(4,590)	(535)
Benefits paid	291	1,018
Taxes and premiums paid	209	201
<b>Present value of defined benefit obligations at end of the year</b>	<b>(27,897)</b>	<b>(21,953)</b>

The defined benefit obligation consists entirely of amounts from plans that are wholly or partly funded.

## Reconciliation of the fair value of plan assets

Fair value of plan assets at beginning of the year	21,361	19,416
Expected return on plan assets	1,489	1,331
Actuarial gains/(losses)	(1,698)	545
Employer contributions	1,142	1,001
Contributions by plan participants	274	287
Benefits paid	(291)	(1,018)
Taxes and premiums paid	(209)	(201)
<b>Fair value of plan assets at end of the year</b>	<b>22,068</b>	<b>21,361</b>

# Notes to and forming part of the Financial Statements

For the year ended 30 June 2012

## 29. Employee benefits (continued)

	30 June 2012 \$'000	30 June 2011 \$'000
Reconciliation of the Assets & Liabilities recognised in the Balance Sheet		
Present value of defined benefits obligation <sup>1</sup>	(27,897)	(21,953)
Fair value of plan assets	22,068	21,361
<b>Net superannuation (liability)/asset</b>	<b>(5,829)</b>	<b>(592)</b>
<sup>1</sup> Includes contributions tax provision		
Amounts recognised in the Statement of Comprehensive Income		
Service cost	558	530
Interest cost	1,022	948
Expected return on assets	(1,489)	(1,331)
Actuarial (gains)/losses	6,288	4,822
<b>Net superannuation expense/(income)</b>	<b>6,379</b>	<b>4,969</b>

### Plan assets

	30 June 2012	30 June 2011
The percentage invested in each asset class at reporting date is:		
Australian equity	35%	35%
International equity	27%	27%
Fixed income	11%	12%
Property	10%	10%
Alternatives/other	10%	10%
Cash	7%	6%
	100%	100%

The fair value of plan assets include no amounts relating to:

- any of the company's own financial instruments
- any property occupied by, or other assets used by the company

### Expected rate of return on plan assets

The expected return on assets assumption is determined by weighting the expected long term return for each asset class by the target allocation of assets to each asset class and allowing for the correlations of the investment returns between asset classes. The returns used for each asset class are net of investment tax and investment fees. An allowance for administration expenses has also been deducted from the expected return.

	30 June 2012 \$'000	30 June 2011 \$'000
Actuarial return on plan assets	(209)	1,876

Principal actuarial assumptions at reporting date:

	30 June 2012	30 June 2011
Discount rate	2.7% p.a.	4.8% p.a.
Expected rate of return on plan assets	7.0% p.a.	7.0% p.a.
Expected salary increase rate	4.0% p.a.	4.0% p.a.

## Notes to and forming part of the Financial Statements

For the year ended 30 June 2012

## 29. Employee benefits (continued)

<b>Historical information</b>	<b>30 June 2012 \$'000</b>	<b>30 June 2011 \$'000</b>	<b>30 June 2010 \$'000</b>	<b>30 June 2009 \$'000</b>	<b>30 June 2008 \$'000</b>
Present value of defined benefits obligation	(27,897)	(21,953)	(20,872)	(18,241)	(16,936)
Fair value of plan assets	22,068	21,361	19,416	16,376	17,316
Surplus/(deficit) in plan	(5,829)	(592)	(1,456)	(1,865)	380
Experience adjustments gain/(loss) - plan assets	(1,698)	545	301	(3,001)	(2,510)
Experience adjustments gain/(loss) - plan liabilities	(222)	(535)	(1,227)	(20)	(1,996)

**Expected contributions**

Expected employer contributions for the year ending 30 June 2013 amount to \$0.833m.

# Notes to and forming part of the Financial Statements

For the year ended 30 June 2012

## 30. Related party disclosure

### Directors

The names of persons who were directors of the company at any time during the financial year are as follows:

A. Stockdale, A. Barker, D. Goodin, M. Anderson, J. Begg, J. Boxall, J. Miller, D. Skues, A. Seale, D. Radford, and P. Hansen.

### Remuneration and retirement benefits

Information regarding the remuneration of directors is disclosed in Note 25.

### Transactions with directors and director related entities

Water and sewerage services were provided to directors and director related entities for properties within City West Water's licence area under normal commercial terms and conditions.

Ms Anne Barker is a director of LeadWest. During the year City West Water paid \$5,500 (2010-11 \$5,500) for LeadWest membership.

Ms Anne Barker is Chairman of the not for profit organisation Whitelion. During the year City West Water paid \$13,900 (2010-11 \$17,750) to Whitelion in donations and for services rendered, with a further \$1,248 (2010-11 \$0) outstanding and payable.

Ms Anne Barker is Chairman of Open Family Australia. During the year City West Water paid \$0 (2010-11 \$5,000) to Open Family Australia with a further \$1,500 (2010-11 \$0) outstanding and payable for sponsorships.

Ms Anne Barker is Chairman of the Smart Water Fund. During the year City West Water paid \$1,000,000 (2010-11 \$1,000,000) to the Fund in financial contributions. The company received \$65,374 from the Smart Water Fund (2010-11 \$0), with a further \$7,151 receivable (2010-11 \$0) for subletting of office space and associated incidentals.

Ms Jan Boxall is a former partner of law firm Corrs Chambers Westgarth and is entitled to the use of an office at the firm. During the year Corrs Chambers Westgarth provided legal services to City West Water for which an amount of \$171,118 (2010-11 \$352) was paid on normal commercial terms and conditions. A further \$13,800 (2010-11 \$0) remained payable at balance date.

Dr John Miller is an Adjunct Professor of Victoria University (an honorary position). During the year, the company paid \$222,196 (2010-11 \$141,708) with a further \$43,130 (2010-11 \$7,788) outstanding and payable to Victoria University for a range of services, including event facilitation, toilet retrofit, education costs and textbook purchases. In addition, the company received \$1,458 (2010-11 \$0) in sponsor refunds from Victoria University.

Mr Derek Skues is a project director of the Queens College Redevelopment, University of Melbourne. During the year City West Water paid \$197 (2010-11 \$8,800) to the University of Melbourne and received \$0 (2010-11 \$5,678) from the University of Melbourne.

Ms Jan Begg is a member of the Monash University Department of Management Advisory Board. During the year, City West Water paid \$38,500 (2010-11 \$0) to Monash University as contributions to various studies being undertaken by the university, with a further \$17,632 (2010-11 \$0) outstanding and payable at balance date.

Ms Jan Begg is a member of the Melbourne Business School. During the year, City West Water paid \$9,937 (2010-11 \$16,550) to the school for the provision of senior management courses.

There were no further transactions with either directors or director related entities during the reporting period other than payment for services referred to in Note 25.

### Victorian Government

City West Water is a state owned company, incorporated under the *Corporations Act 2001 (Cth)*. The company operates under specific legislation including the *Water Industry Act 1994 (Vic)* and is subject to independent economic regulation. City West Water also operates under a Board of Directors appointed by its shareholder, and makes equivalent tax payments and pays dividends to the Victorian Government.

## Notes to and forming part of the Financial Statements

For the year ended 30 June 2012

## 30. Related party disclosure (continued)

## Department of Sustainability and Environment (DSE)

City West Water bills and collects parks charges on behalf of the Department of Sustainability and Environment. In addition, City West Water is required to make various payments to the Department which are included in expenses.

	30 June 2012 \$'000	30 June 2011 \$'000
<b>Payments</b>		
Environmental contributions	10,787	10,787
Parks rates collected on behalf of DSE	35,168	33,556
Behavioural change campaign	0	825
Other	160	62
<b>Receipts</b>		
Billings and collection fee	1,580	1,683
<i>Water - Learn It! Live It!</i> funding	120	480
Grants funding	355	1,014
Water conservation rebates	113	172
Administration fee on water conservation rebates	1	1
Showerhead reimbursements	200	550
Retrofit of dual flush toilets funding	139	117
Behavioural change campaign	273	-
<b>Payables</b>		
Parks rates collected on behalf of DSE	40	43
<b>Receivables</b>		
Billings and collection fee	157	36
<i>Water - Learn It! Live It!</i> funding	-	42
Grants funding	378	175
Water conservation rebates	20	9

## Department of Treasury and Finance

The Department of Treasury and Finance, as shareholder representative, approves and monitors implementation of City West Water's Corporate Plan in consultation with the Department of Sustainability and Environment.

<b>Payments</b>		
Dividend	45,200	15,700
Income tax equivalent	34,021	27,710
Financial accommodation levy	5,415	4,242
Licence fee	353	262
<b>Payables</b>		
Income tax equivalent	7,663	13,051
Financial accommodation levy	1,581	1,163

# Notes to and forming part of the Financial Statements

For the year ended 30 June 2012

## 30. Related party disclosure (continued)

### Treasury Corporation of Victoria

As required by the State Government, City West Water's borrowings are sourced solely from the Treasury Corporation of Victoria.

	30 June 2012 \$'000	30 June 2011 \$'000
<b>Payments</b>		
Finance costs	37,057	33,235
Administration fees	740	629
Advisory services	25	6
<b>Receipts</b>		
Net borrowings during the year	142,370	60,950
Interest income	141	46
<b>Payables</b>		
Finance costs	15,137	12,943
Administration fees	307	254
Advisory services	6	-
Total borrowings	749,870	607,500
<b>Receivables</b>		
Interest income	7	31

### Melbourne Water Corporation

City West Water sourced all its water from the Melbourne Water Corporation, and the majority of its sewage was treated by the Melbourne Water Corporation at the Western Treatment Plant. City West Water also bills and collects drainage charges on behalf of the Melbourne Water Corporation.

<b>Payments</b>		
Bulk water and sewage charges	224,084	167,502
Northern Victoria Irrigation Renewal Project contributions (Note 13, 28)	22,000	14,667
Drainage rates collected on behalf of Melbourne Water	54,976	50,844
Property information statements	163	184
Other	65	62
<b>Receipts</b>		
Billings and collection fees	2,736	2,767
Water supply/demand strategy (cost recovery)	123	202
Other	-	2
<b>Payables</b>		
Bulk water and sewage charges	3,628	1,119
Northern Victoria Irrigation Renewal Project contributions (Note 13, 28)	-	14,667
Drainage rates collected on behalf of Melbourne Water	1,293	866
Property information statements	76	82
Other	30	25
<b>Receivables</b>		
Billings and collection fees	157	36
Other	176	73

## Notes to and forming part of the Financial Statements

For the year ended 30 June 2012

## 30. Related party disclosure (continued)

## State Revenue Office (SRO)

The State Revenue Office is the Victorian Government's tax collection agency. The SRO administers Victoria's tax legislation and collects a range of taxes, duties and levies.

	30 June 2012 \$'000	30 June 2011 \$'000
<b>Payments</b>		
Land tax	89	23
Payroll tax	1,654	1,386
Unclaimed monies	374	253
<b>Receipts</b>		
Pension rebate	454	438
<b>Payables</b>		
Payroll tax	135	119
<b>Receivables</b>		
Pension rebate	134	120

## Department of Health

City West Water provides a number of services to the community, which includes the administration of the Pension Rebate and Health Care Card schemes on behalf of the Department of Health.

<b>Payments</b>		
Safe Drinking Water Levy	120	117
<b>Receipts</b>		
Pension rebate	19,106	18,443
Admin fee on pension rebate	196	209
Dialysis users rebate	14	11
Water Wise initiatives	-	286
Utility relief grant	175	131
Other	125	3
<b>Receivables</b>		
Pension rebate	848	792
Admin fee on pension rebate	9	9
Dialysis users rebate	4	3

## Other Victorian Government controlled entities

Water and sewerage services were provided to other Government controlled entities for properties within City West Water's service area under normal commercial terms and conditions.

## Notes to and forming part of the Financial Statements

For the year ended 30 June 2012

### 31. Economic dependency

The normal trading activities of City West Water depend to a significant extent on services relating to the acquisition of water and disposal of sewage currently supplied by the Melbourne Water Corporation. During the financial year 2011-12 all drinking water supplies were sourced through this organisation and the majority of City West Water's sewage disposals were made through the same organisation. As no alternative suppliers currently exist, this dependency is expected to continue into the future.

As required by the Victorian legislation, City West Water's borrowings are sourced solely from the Treasury Corporation of Victoria.

### 32. Reconciliation of profit after income tax to net cash inflow from operating activities

	<b>30 June 2012</b>	<b>30 June 2011</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Profit after income tax expense</b>	<b>50,592</b>	<b>60,504</b>
<i>Plus/(less) non cash and investing items:</i>		
Depreciation of assets	35,293	30,507
Impaired receivables	2,708	2,630
Net (gain)/loss on sale of non current assets	(110)	(516)
Asset write offs/write downs	430	2,336
Gifted assets	(23,184)	(25,948)
<i>Changes in operating assets and liabilities:</i>		
Increase/(decrease) in unearned revenue	41	(2,280)
Decrease/(increase) in trade debtors	(12,474)	(4,524)
Decrease/(increase) in other debtors	(6,760)	(6,839)
Decrease/(increase) in deferred tax assets	(2,276)	(38)
Decrease/(increase) in other assets	(1,714)	214
Increase/(decrease) in trade creditors	7,456	10,483
Increase/(decrease) in deferred tax liabilities	(5,247)	(2,282)
Increase/(decrease) in provision for income tax	(5,388)	1,805
Increase/(decrease) in other provisions	2,137	550
Increase/(decrease) in defined benefit superannuation liability	5,237	(864)
<b>Net cash inflow from operating activities</b>	<b>46,741</b>	<b>65,738</b>

## Notes to and forming part of the Financial Statements

For the year ended 30 June 2012

## 33. Financial instruments

## Interest rate risk

- (a) City West Water's exposure to interest rate risk and the effective weighted average interest rate for each class of financial asset and financial liability is set out below.  
 (b) Exposure arises predominantly from assets and liabilities bearing variable interest rates and fixed rate borrowings which mature during the year.

## 2011-12

	Weighted average interest rate	Floating interest rate \$'000	Fixed interest maturing in:						Non interest bearing \$'000	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		
<b>Financial assets</b>										
Cash and cash equivalents (Note 8)	2.59%	3,207	-	-	-	-	-	-	-	3,207
Receivables <sup>1</sup> (Note 9, 11)										68,880
<b>Total financial assets</b>		<b>3,207</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>68,880</b>	<b>72,087</b>
<b>Financial liabilities</b>										
Payables (Note 15)										75,734
Borrowings (Note 16, 20)	5.69%	27,370	45,000	65,000	60,000	60,000	50,000	442,500	-	749,870
Advances and deposits (Note 19)									3,936	3,936
Deferred developer reimbursements (Note 19)									13,450	13,450
<b>Total financial liabilities</b>		<b>27,370</b>	<b>45,000</b>	<b>65,000</b>	<b>60,000</b>	<b>60,000</b>	<b>50,000</b>	<b>442,500</b>	<b>93,120</b>	<b>842,990</b>

# Notes to and forming part of the Financial Statements

For the year ended 30 June 2012

## 33. Financial instruments (continued)

### 2010-11

Financial assets	Weighted average interest rate	Floating interest rate \$'000	Fixed interest maturing in:						Non interest bearing \$'000	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		
Cash and cash equivalents (Note 8)	4.59%	6,086							-	6,086
Receivables <sup>1</sup> (Note 9, 11)									53,706	53,706
<b>Total financial assets</b>		6,086	-	-	-	-	-	-	<b>53,706</b>	<b>59,792</b>
<b>Financial liabilities</b>										
Payables (Note 15)									55,955	55,955
Borrowings (Note 16, 20)	5.97%	20,000	25,000	45,000	50,000	50,000	50,000	367,500	-	607,500
Advances and deposits (Note 19)									4,414	4,414
Deferred developer reimbursements (Note 19)									13,824	13,824
<b>Total financial liabilities</b>		<b>20,000</b>	<b>25,000</b>	<b>45,000</b>	<b>50,000</b>	<b>50,000</b>	<b>50,000</b>	<b>367,500</b>	<b>74,193</b>	<b>681,693</b>

<sup>1</sup> Does not include statutory taxes (GST)

Consistent with its interest rate risk management policy, City West Water entered into a number of forward rate settlements during the year to manage its interest rate risk exposure. There was one outstanding forward rate agreement as at balance date.

## Notes to and forming part of the Financial Statements

For the year ended 30 June 2012

## 33. Financial instruments (continued)

## Credit risk

City West Water's maximum exposure to credit risk is represented by the carrying amount of its financial assets in the balance sheet.

## Fair Value Measurements

The following table presents City West Water's financial assets and liabilities measured at fair value at 30 June 2012, and 30 June 2011.

	Carrying amount \$'000	Net Fair Value \$'000
<b>2011-12</b>		
<b>Financial assets</b>		
Cash and cash equivalents (Note 8)	3,207	3,207
Receivables (Note 9,11) <sup>1</sup>	68,880	68,880
<b>Total financial assets</b>	<b>72,087</b>	<b>72,087</b>
<b>Financial liabilities</b>		
Payables (Note 15)	75,734	75,734
Borrowings (Note 16, 20)	749,870	839,819
Advances and deposits (Note 19)	3,936	3,936
Deferred developer reimbursements (Note 19)	13,450	13,450
<b>Total financial liabilities</b>	<b>842,990</b>	<b>932,939</b>
<b>2010-11</b>		
<b>Financial assets</b>		
Cash and cash equivalents (Note 8)	6,086	6,086
Receivables (Note 9,11) <sup>1</sup>	53,706	53,706
<b>Total financial assets</b>	<b>59,792</b>	<b>59,792</b>
<b>Financial liabilities</b>		
Payables (Note 15)	55,955	55,955
Borrowings (Note 16, 20)	607,500	636,501
Advances and deposits (Note 19)	4,414	4,414
Deferred developer reimbursements (Note 19)	13,824	13,824
<b>Total financial liabilities</b>	<b>681,693</b>	<b>710,694</b>

<sup>1</sup> Does not include statutory taxes (GST)

Net fair value of financial instruments is determined on the following bases:

Cash, receivables, accounts payable and deposits are valued at their carrying amounts, as this approximates net market value. Borrowings are valued by discounting the expected future cash flows at the yield offered by Treasury Corporation of Victoria as at 30 June 2012.

## Directors' Declaration

The directors declare that the financial statements and notes set out on pages 20 to 64:

- (a) comply with Australian accounting standards, corporations regulations and other mandatory professional reporting requirements; and
- (b) give a true and fair view of City West Water's financial position as at 30 June 2012 and of its performance, as represented by the results of its operations and cash flows, for the financial year ended on that date; and

In the opinion of the directors:

- (a) the financial statements and notes are in accordance with the *Corporations Act 2001 (Cth)*; and
- (b) at the date of this declaration, there are reasonable grounds to believe that the company will be able to pay its debts as and when they fall due and payable.

This declaration is made in accordance with a resolution of the Board of Directors pursuant to section 295(5) of the *Corporations Act 2001 (Cth)*.



**The Hon. Alan Stockdale**  
Chairman



**Anne Barker**  
Managing Director

Melbourne  
29 August 2012

**VAGO**

Victorian Auditor-General's Office

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## INDEPENDENT AUDITOR'S REPORT

### To the Board of Directors, City West Water Limited

#### *The Financial Report*

The accompanying financial report for the year ended 30 June 2012 of City West Water Limited which comprises the statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration has been audited.

#### *The Board of Directors' Responsibility for the Financial Report*

The Board of Directors of City West Water Limited are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards, and the financial reporting requirements of the *Corporations Act 2001*, and for such internal control as the Board of Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

As required by the *Corporations Act 2001* and *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 judgment, 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 company's preparation of the financial report that gives a true and fair view 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 company'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 of Directors, 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.

## 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 and the *Corporations Act 2001*. I confirm that I have given to the Board of Directors of the company a written independence declaration, a copy of which is included in the Directors' Report.

### *Opinion*

In my opinion, the financial report of City West Water Limited is in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the company's financial position as at 30 June 2012 and of its financial performance for the year ended on that date
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

### *Matters Relating to the Electronic Publication of the Audited Financial Report*

This auditor's report relates to the financial report of City West Water Limited for the year ended 30 June 2012 included both in City West Water Limited's annual report and on the website. The Board of Directors of City West Water Limited are responsible for the integrity of City West Water Limited's website. I have not been engaged to report on the integrity of City West Water Limited'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  
30 August 2012

*Per*   
D D R Pearson  
Auditor-General







City West Water

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**City West Water Limited**

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