



Annual Report 2019–20

Aboriginal acknowledgement

We acknowledge the Traditional Owners of the Country on which we operate, the land of the Bunurong, Boon Wurrung and Wurundjeri peoples of the Kulin Nations.

We acknowledge their songlines, cultural lore, and connection to land and water. We acknowledge their elders past, present and emerging, and for their sharing of knowledge and cultural lore.



Bunurong artist Adam Magennis with the Indigenous artwork he created for our Reconciliation Action Plan, which is now proudly displayed at our Frankston HQ, WatersEdge.

Case study: Creating our Reconciliation Action Plan artwork

In 2019 we reflected on our journey to reconciliation in the unveiling of a special Indigenous artwork by Bunurong artist Adam Magennis, displayed at our Frankston HQ, WatersEdge.

The artwork is a story of land and water told through Adam's experience, and that of his ancestors, through the bird's-eye view of a White-bellied Sea-Eagle. It's an abstract insight into the cultural landscape of our service region, highlighting landmarks of historical and cultural significance for our First Peoples – helping us to acknowledge, honour and seek to understand what they value most.

The artwork also reflects Adam's own ancestry and cultural journey on Country to tell the story of our Reconciliation Action Plan (RAP), which focuses on a future where each of us respects, appreciates and acts on the spiritual and cultural values held by Aboriginal and Torres Strait Islander Peoples.

Our RAP journey would not have been possible without the valuable contribution of our Traditional Owner Groups: Bunurong Land Council Aboriginal Corporation; Boon Wurrung Land and Sea Council (Aboriginal Corporation); Wurundjeri Woi-Wurrung Cultural Heritage Aboriginal Corporation, and the Aboriginal and Torres Strait Islander communities in our service region.

Front cover: the cover of our *Annual Report 2019–20* is a photo from a traditional smoking ceremony performed by Bunurong Elder Uncle Shane at Frankston beach, just outside our WatersEdge office. This photo was taken at a National Reconciliation Week celebration in 2018.

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About us

We support healthy and liveable communities

Every day and every night we deliver water, sewerage and recycled water services to 1.87 million people who rely on us for health, work, play and recreation.

Our service area borders more than 270 kilometres of coastline and covers a land area of 3,640 square kilometres from Port Melbourne to Portsea and approximately 30 kilometres east of Pakenham.

Each year we deliver more than 160 billion litres of drinking water and collect more than 100 billion litres of wastewater (waste from the toilet, shower, laundry and kitchen in the home and from businesses) at our local water recycling plants and at Melbourne Water's Eastern and Western Treatment Plants.

To deliver for our customers, we manage more than 26,300 kilometres of pipeline. We own, operate and maintain \$4.6 billion of assets including water, recycled water and sewerage networks.

We're a water corporation under the *Water Act 1989*.

The *Water Act 1989* and the Statement of Obligations issued by the Minister for Water under Section 41 of the *Water Industry Act 1994* govern our activities.

Minister for Water, the Hon. Lisa Neville MP, was our responsible Minister during the 2019–20 reporting period. The Department of Environment, Land, Water and Planning (DELWP) was our responsible department.

A number of other Acts govern us as a water corporation, including the *Catchment and Land Protection Act 1994*, the *Safe Drinking Water Act 2003*, the *Food Act 1984* and the *Environment Protection Act 1970*.

The Environment Protection Authority Victoria (EPA Victoria) and the Department of Health and Human Services (DHHS) oversee our recycled water quality and drinking water quality respectively.

The Essential Services Commission (ESC) is our economic regulator. Every five years we're required to submit a price submission which sets out the services and service standards we propose to deliver to customers, and the proposed prices customers will pay for these.

Our [Five-year Customer Commitment 2018–23](#) came into effect on 1 July 2018. We based this on what our customers told us is important to them, and it'll set our direction for the next five years – so we can deliver on the promises we've made.

2019-20 end of financial year reporting against our customer commitments

We delivered well against the commitments made to our customers. Overall we achieved the targets set against our outcomes, with only one falling below target but still within our tolerance bands.

We reported significant improvements in the delivery of high quality water, timely notification of system outages and ongoing customer trust and satisfaction ratings. We delivered especially well against our environment commitments with a record low result for our Scope 1 tCO₂-e emissions.

Our operating cost per property fell outside our tolerance bands for the first time as a result of lower than expected growth in properties and costs associated with responding to coronavirus (COVID-19).

Outcome	19/20 performance against our targets
1. Get the basics right, always	Target met
2. Warn me, inform me	Target met
3. Fair and affordable for all	Target not met (within tolerance bands)
4. Make my experience better	Target met
5. Support my community, protect my environment	Target met

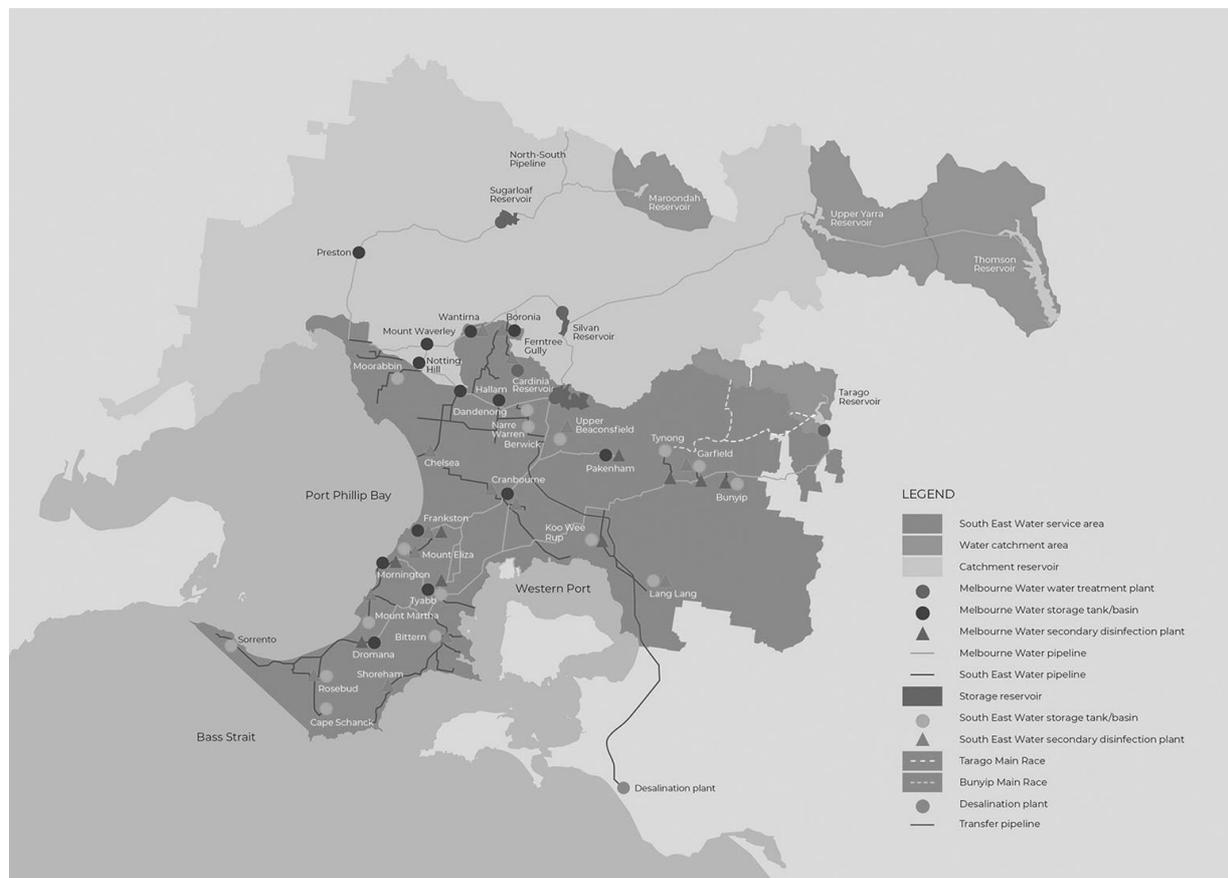
Our service region

People

- 1.87 million people supplied with drinking water and sewerage services
- Our customer base grew by 1.8 per cent to 792,364
- 92 per cent of our customers rely on us for their home's water and wastewater services
- 8 per cent of our customers rely on us for non-household purposes
- Our customers speak more than 200 languages

Assets

- 14,142 kilometres of water mains
- 1,139+ kilometres of recycled water main
- 8 water recycling plants
- One stormwater treatment plant
- 11,093+ kilometres of sewer mains
- 275 sewage pump stations
- Nine recycled water pump stations
- 82 water pump stations
- 270 kilometres of coastline



Our service area spans from Port Melbourne to Portsea, to Pakenham – spanning bays, beaches, green space and high-rise apartments.



Our direction

Healthy Water. For Life.

Our purpose every day and every night – at every level of our organisation – is to deliver a continuous flow of healthy water for life.

This means bringing our customers the clean water they want, and safely managing the wastewater and trade waste they don't want. It means thinking ahead, understanding and even inventing what we need to do now, so that generations to come can rely on us, too.

Our vision

We're creating a better world for our customers with forward thinking water solutions, for all and always, that won't cost the earth.

Our customer outcomes

Our five customer outcomes provided us with strategic direction for the year.

These outcomes reflect what our customers told us matters most to them, during consultation to develop our *Five-year Customer Commitment 2018–23*.

We've promised to deliver on these outcomes over the next five years.

1. Get the basics right, always

Our customers want safe and reliable services, now and always. At its essence, this means clean and quality drinking water, and the safe disposal of wastewater.

2. Make my experience better

Our customers told us that they want a better experience with us, every time they talk to us, see us out and about or visit us online.

3. Warn me, inform me

Our customers want to be warned, and kept updated, about disruptions – both planned and emergency.

4. Fair and affordable for all

Our customers told us that because water is the most essential of services, it must be fair and affordable for everyone.

5. Support my community, protect our environment

Our customers want us to support their community and protect our environment – delivering long-term water security in a way that honours the environment and ongoing liveability.

Our business enablers

Underpinning our customer outcomes are business enablers that position our organisation to deliver on the priority policy areas outlined in *Water for Victoria* and to operate in a changing environment.

Our business enablers are:

- People
- Technology
- Financial capability
- Legal and governance.

Our values

We put safety first

The wellbeing of all our people, customers and community comes first.

We care

We listen to understand.

We do all we can to meet the needs of our people, customers and community.

We're real

We embrace diversity.

We take responsibility.

We do what we say and get things done.

We're bold

We strive to excel.

We have the courage to challenge ourselves.

We're future-focused and accept change is constant.

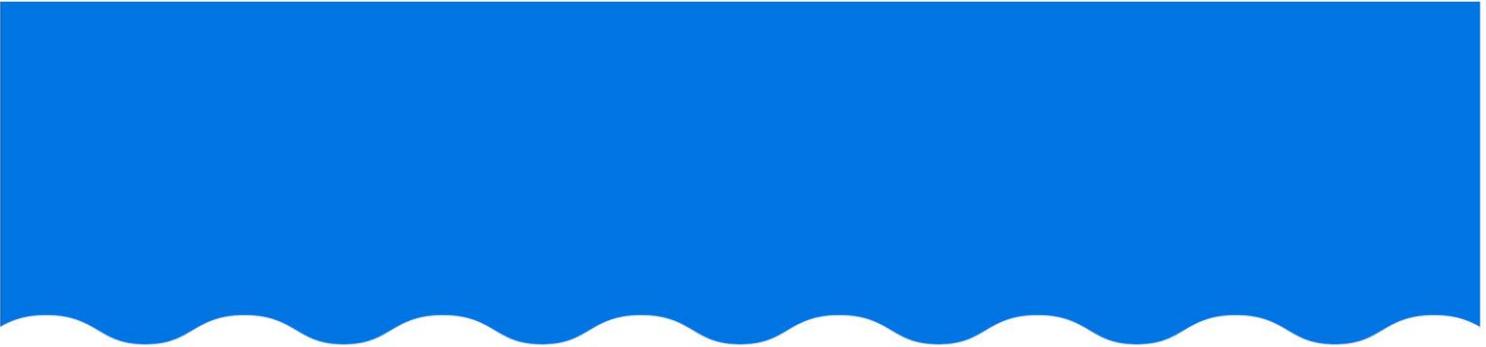
We discover

We search for new ways to deliver value.

We're curious and creative, learn from mistakes and celebrate success.

We deliver sustainably

Our decisions are made with the understanding every drop and action counts.



A year in review

A message from our Chair and Managing Director

We're pleased to present our Annual Report 2019–20, which provides an overview of our operational performance, audited financial reports and key highlights, along with statements on our governance and management practices.

In a year we couldn't have predicted, we and our community have faced many challenges, most notably the devastating Victorian bushfires, quickly followed by the coronavirus (COVID-19) pandemic in early 2020. We were quick to respond to these challenges by continuing to provide safe water to Victorians, delivering essential services, supporting our customers and enabling hundreds of our employees to work remotely.

Times of crisis can often be make-or-break, and the challenges we've faced over the last year have certainly proven the strength of our organisation. Our people have worked to increase our focus and support of customers at this time, and to manage through new working environments and practices with the rest of our community. We're proud of what we have achieved and look forward to continuing to improve what we deliver for customers.

We'd also like to thank former Managing Director Terri Benson for her vision, hard work and commitment to the organisation from May 2017 to December 2019.

Responding to the Victorian bushfires

We had the opportunity to demonstrate our commitment to supporting communities and the environment when chosen to lead Mutual Aid Coordination during the devastating Victorian bushfires.

We became the key contact point for hundreds of residents across Gippsland who needed support and access to safe water. Our crews also coordinated water tank flushing and 5,000 litre top-ups to properties where water had been contaminated by ash, soot and other bushfire debris. With help from local water carters we also delivered emergency water relief to over 330 residential homes.

Our employees donated more than \$14,000 to help out, which we matched dollar-for-dollar and donated to Wildlife Victoria and the Victorian bushfire relief.

The impacts of coronavirus (COVID-19)

Coronavirus has had a significant impact on our business, our people, our customers and our stakeholders. It's challenged us to shift and adapt the way we work and the way we engage with our residential and business customers who, like us, are adapting to a new world and a new normal.

We've detailed our response to the pandemic on page 14 of this report, and we understand that the impacts of coronavirus will continue to be seen into the 2020–21 financial year.

Keeping our services fair and affordable for all

We've been working hard to uphold the promises we made in our *Five-year Customer Commitment 2018–23*, in particular the promise to keep our services fair and affordable for all.

This work was recognised in December 2019, when the Essential Services Commission (ESC) confirmed we were the only retailer in Victoria to achieve a decrease in the average customer bill during the 2018–19 Annual Performance period.

The ESC survey results from August 2019 - June 2020 were also a great demonstration of our progress on delivering our commitments with customers ranking us third overall for reputation in the community; second overall for value for money and level of trust; and first for overall satisfaction.

We also returned strong results in the 2019 Water Services Association of Australia National Customer Perceptions Survey under the categories of water quality satisfaction; reliability; working in partnership with the community; effectively planning for the future and looking after the natural environment.

We're continuing to help more customers who need support to access grants and concessions and all of our customer-facing employees completed resilience training to continue delivering great service, especially to customers experiencing high levels of vulnerability.

Throughout the year, we installed 867 digital meters in our network and automated our leak alert communications to warn customers about potential leaks to help them save water and money. We also gave digital meter customers the ability to view their daily water usage online.

Water security

One of our greatest responsibilities is to ensure long-term water security while also protecting Port Phillip Bay and minimising our impact on the environment.

We're doing this in lots of ways – removing septic tanks and connecting properties to the sewerage system; supporting community groups with their environment initiatives through our community grants program; creating water efficient communities and implementing our plan to reduce greenhouse gas emissions, to name just a few.

Building capability-led partnerships with our industry

We continued to invest in research and in people to drive our organisation, and our industry, forward. We're partnering with some of Australia's best universities on research projects to find new solutions to shared problems, so we can continue to create a better world for our customers.

One of the ways we're staying ahead of challenges like population growth and climate change is through a major upgrade of our Boneo Water Recycling Plant to reduce energy used to treat waste.

As part of our customer commitment to protect the environment, we're working on a number of projects to help us transform to a circular economy based business model. A key focus of this work is exploring our role in the hydrogen economy - which will play a critical role in achieving a sustainable and decarbonised future. Another key focus of our research is better understanding the actual presence of microplastics in our sewage and how efficiently they're removed through our treatment processes.

We also participate in the Gems in STEM program, developed by our consulting engineering partner CMP, which works to address the gap in Australian high school students completing the required subjects to study university level Engineering and Science – two areas crucial for the long-term sustainability of the water industry. In 2019, five of our employees represented the program by visiting participating high schools to share what inspired them to get into Engineering and Science, and what makes them passionate about working in the water industry.

Supporting the United National Global Compact

We're pleased to reaffirm our commitment and continued support for the United Nations Global Compact.

We believe in creating a better world through our actions to support communities and enable better health and environmental outcomes. That's why we're committed to supporting the principles that align to responsible business practice and support the broader 17 United Nations Sustainable Development Goals.

We're really proud to be part of one of the world's largest corporate sustainability initiatives to fight inequality and injustice and protect our planet for generations to come. Our commitment to the UNGC helps us achieve our vision to help create a better world for our customers with forward-thinking water solutions, for all and always, that won't cost the earth.

Responsible body declaration

In accordance with the *Financial Management Act 1994*, we're pleased to attest that our *Annual Report 2019–20* complies with all statutory reporting requirements.



Lucia Cade

Chair



Lara Olsen

Managing Director

Dated this day 31st of August 2020

Supporting First Nations communities

Working towards reconciliation

Reconciliation is an important issue for all Australians and, as an organisation, it's an area we're working hard to address both internally and in the community. A large part of that work has been the development of our Reconciliation Action Plan (RAP).

In 2018 we committed to developing a RAP, joining more than 1,000 Australian organisations who have formally committed to reconciliation. Our RAP has been developed using the 'Innovate' framework consisting of three core pillars – Relationships, Respect and Opportunities – and outlines how we'll achieve our vision to embed reconciliation in our business over the next two years.

To date, we've introduced the Acknowledgement of Country to all significant meetings and events; begun Cultural Awareness training for our people and permanently displayed Aboriginal flags at WatersEdge to symbolise the importance of providing a culturally safe workplace.

See case study: 'Creating our Reconciliation Action Plan artwork' on page 1.

Fostering the future

We worked with the Victorian Public Sector Commission to foster the capabilities and careers of Aboriginal students through the Barring Djinang internship program. We were fortunate to have three Aboriginal internship students join us and to offer two of our interns ongoing positions.

See case study 'Enhancing Aboriginal employment outcomes' on page 69.

Celebrating National Reconciliation Week

With 2020 National Reconciliation Week celebrations moving online in response to coronavirus, we took the opportunity to give our virtual June Town Hall a reconciliation theme and recognise the last day of National Reconciliation Week with close to 500 employees tuning in. Aunty Dyan, a fourth generation Bunurong - Trawl Wool Way woman, began the event with an Acknowledgement of Country, and Sharon Brindley, a proud Yamatji/Noongar woman and owner of Cooee Café (one of our suppliers), shared a cooking video demonstrating how to use indigenous ingredients in every-day cooking.

Strengthening representation on our Customer and Community Advisory Council

In October 2019, we invited Bunurong Land Council Aboriginal Corporation CEO, Dan Turnbull to join our Customer and Community Advisory Council. The council challenge and influence our ideas and actions to guide the way we support our customers and communities. Dan's presence has strengthened our commitment to ensure representation from a diverse spectrum of community voices. Read more about our Customer and Community Advisory Council on page 28.

Effective engagement of Aboriginal communities

As part of our RAP development and ongoing engagement, throughout the year we conducted 25 engagements with Traditional Owners including a focus on embedding culture in our events. We worked with Bunurong Land Council Aboriginal Corporation to engage local elders to perform traditional smoking ceremonies and acknowledgements of Country at some of our most significant events throughout the year, including the launch of our Aquarevo home and National Reconciliation Week.

We also created stronger ties with Willum Warrain Aboriginal Association Inc. by providing a letter of support for the proposed Pun Pun Wetland Project to develop and rehabilitate the wetland area adjacent to the Gathering Place in Hastings. We supported the Bunurong Land Council Aboriginal Corporation with a financial donation and offer of IT support to prepare for the relocation of their office.

Cross-cultural training and development

To foster understanding and respect for First Nations People and traditions, our employees participated in cross-cultural training throughout the year including:

- Koorie Heritage Trust Cultural Awareness training (53 employees)
- Bundyi Giilang Indigenous Cultural Awareness workshop (2 RAP working group members)

Adapting our organisation in light of coronavirus

Supporting customers in need

Many of our customers were impacted by coronavirus and we've maintained a strong focus on getting extra support to those who need it most. We were quick to deploy new systems and provide faster service – especially to our hardship and vulnerable customers.

We did this by providing more time to pay, automatic payment extensions and pausing debt collection. We're also providing priority service to customers impacted by coronavirus via new prompts in our phone menu. We reached out to our 200 highest-use business customers with direct updates on water supply quality and security, and ongoing help available through our trade waste and account support.

To make sure customers knew about our support options, we increased communication across our channels and reached out prior to distributing quarter four bills to explain our payment support options.

Enabling a remote workforce

Less than a week after the incident was declared, we successfully shifted more than 600 people to remote working. To make this possible, we built and distributed 195 devices and put five new servers into production to meet demand. We also enhanced our network to ensure our contact centre could continue to support customers from home.

For those whose roles couldn't be performed remotely, such as people working in the field fixing broken pipes, water recycling plant operators and our water quality, business technology services and faults and emergency teams, we adjusted and put new safety measures in place to keep our people healthy.

Checking in on employee wellbeing

We recognised isolation was impacting our employees just as much as it was our customers. In response, we expanded our Employee Assistance Program (EAP) and partnered with a local Clinical Psychologist to provide extra mental health support sessions and guidance at no cost.

Our remote working safety toolkits provided employees resources to keep safe and well in their working-from-home environment including ideas for physical activity they could do from home, and workstation ergonomics.

Delivering our essential services

While we had to put some projects and initiatives on hold for the health and safety of our people, customers and communities, we progressed with essential works and pivoted some areas of our operations to help support national and global efforts.

Just one example of this is our participation in the ColoSSos Project (led by Water Research Australia) which aims to help identify the presence of coronavirus in the Australian sewerage network. Working on this project has been a great opportunity to use our access to the network to support community health.

We've stepped up our safety training and personal protective equipment for employees who can't work from home and developed signage to be used when we're working in the field. Our contractual partners have been integral in sharing our messages to ensure everyone who works on our behalf has the right training and equipment to keep themselves, and others, safe.

Performance highlights

Achievements that we're proud of in 2019–20.

Get the basics right, always

Healthy water for our customers and community

We collected over 8,000 samples from more than 1,000 sample taps – including storages and tanks, transfer mains and customer's taps. Each sample is tested and analysed against different parameters and we're proud to consistently achieve 100 per cent compliance with drinking water quality standards.

Centre Road renewal works

We completed renewal works on 1,350 metres of pipeline with a history of bursts and pinhole leaks along Centre Road in Clayton – a high-traffic area used by commuters, local residents and traders.

See case study 'Centre Road renewal works' on page 53.

Major upgrades at Boneo delivering for our environment

We've progressed to stage four of the upgrade and completed design. Innovative and energy-efficient treatment technologies will help reduce our electricity consumption and progress us further towards meeting our pledge to reduce our carbon emissions by 45 per cent by 2025.

See case study 'Boneo Water Recycling Plant upgrade progress update' on page 39.

Warn me, inform me

Innovating early leak detection

We progressed development of our digital meter and Internet of Things (IOT) platform, including integration of a vibration sensor in the digital meter to detect leaks in our street pipework - enabling repair crews to respond before major water loss or damage occurs.

Over the next three years, through our Smart Sewer project, we'll install a significant number of sensors in the sewerage system to proactively identify sewer blockages before they spill into the environment.

Rolling out our digital meters

We installed 867 digital meters in our network and automated our leak alert communications to help customers find and fix leaks on their property – benefitting the environment and their hip pocket. We expect to have 20,000 meters deployed by the end of 2020 in advance of a full network rollout.

See case study 'Keeping our customers informed with digital meters' on page 57.

Trialling a new early warning system to notify our customers

We're trialling pre-notification technology to develop an early warning system, to let customers know 15 minutes ahead of unplanned interruptions to water supply. It also allows us to send vital information like traffic disruptions, locations of emergency drinking water stations and potential water quality issues.

Fair and affordable for all

Helping our customers manage their bills

We're expanding our proactive outreach to customers we might be able to help through our Customer Care program, which supported 6,599 customers over the year.

Customers can also spread the cost of their bills with a payment plan, making fortnightly or monthly payments. This year, 34,924 customers chose to pay their bills using our payment plan service.

WaterAble – a support network for people with disabilities for our industry

See case study 'Fair and affordable water for all abilities' page 59.

Keeping prices stable

In December 2019, the Essential Services Commission announced we were the only water retailer in Victoria to achieve a decrease in the average customer bill during the 2018–19 performance period.

Supporting Melbourne Water's price submission

We were part of Melbourne Water's Water and Sewerage Customer Council along with other Victorian water retailers, to test strategic ideas, seek preferences and provide advice on key issues and opportunities while ensuring a balanced representation of views and that prices remain stable. Melbourne Water is the government's water wholesaler and our bulk water provider; around 75 per cent of our operating costs are spent on them so it was important our views were represented in the process.

Make my experience better

Refreshing our website

We're upgrading our website (visited 1.5 million times in 2019) to make it easier for customers to do things like pay a bill, move house, access the mySouthEastWater portal and much more. The new website is planned for launch in late October 2020.

We've also enhanced our customer portal to display digital meter usage data and help customers trialling digital meters monitor their water usage online.

Designing a new complaints management framework

We're working on a new framework to provide a consistent approach to managing complaints, and improve our customers' experience with us. So far, we've rolled out training to 95 of our employees.

See case study 'Changing the way we see complaints' on page 55.

Support my community, protect our environment

A new grants program for our communities

We awarded 11 grants, providing more than \$35,000 to support local community group projects.

See case study 'Launching our community grants program' on page 38.

Coordinating emergency water relief for Victoria

See case study 'Supporting Victorian communities affected by bushfire' on page 26.

Making it easier to choose tap water over bottled

We continued to increase public access to drinking water by partnering with local councils to install water fountains at parks, reserves and even a hospital as part of the Choose Tap initiative.

See case study 'Supporting our community to choose tap' on page 36.

Helping Melburnians Make Every Drop Count

We partnered with City West Water, Melbourne Water and Yarra Valley Water to deliver the Melbourne-wide Make Every Drop Count water efficiency campaign. Together, we reached 2.72 million people, delivered 56 million digital impressions and drove 43,000 clicks to the dedicated campaign website.

See case study 'Helping Melburnians make every drop count' on page 37.

Business enablers

Joint exercise with the Australian Defence Force

We joined forces with Australian Army's 4th Brigade (the Army) to work alongside Victoria Police and DELWP to respond to a mock-terrorist attack at two of our water storage sites.

Empowering our new parents

We removed primary and secondary carer labels, and now offer 14 weeks paid parental leave to both parents/carers at any time in the first 12 months of their baby's life. We're also paying superannuation on unpaid periods of parental leave for up to 52 weeks.

Social procurement

Through the Victorian Government's Social Procurement Framework we support organisations that provide significant social benefit to our community. These include Bunurong Land Council Aboriginal Corporation, Cooee Café, Nairn Marr Djambana and OneVoice.

This year we engaged more suppliers and increased our overall spend. For example, our existing partnership and spend with **Enviro Management Services** (EMS), grew by more than 100 per cent. Through this partnership, we provide people with disabilities meaningful opportunities to work, learn and participate as part of a high functioning team and eventually transition to the open employment market.

Other achievements during the year

Our award-winning people

- Terry Dalgleish, Liveability Manager, was named the Australian Water Association's Victorian Water Professional of the Year.
- Charlie Littlefair, General Manager for our Liveable Water Solutions Group, was named 2019 Professional Engineer of the Year – Victoria by Engineers Australia.
- Matthew Kube, an RMIT Ph.D. student we sponsored, won the Australian Water Association Awards Student Water Prize, for his project 'Harnessing Immobilised Algae for High Rate Wastewater Treatment'.

Our award-winning projects

- Our Rain-to-hot water initiative and Mountain Highway AC Water Main Renewal project were recognised at the Australian Water Association Awards in the Research Innovation category and Infrastructure Project Innovation Award respectively, alongside our partners at Interflow.
- South East Water was one of two Digital Utility Awards finalists for Digital Water Utility of the Year
- Two of our key capital works projects were shortlisted in the Victorian Civil Contractors Federation Earth Awards
- Contracted partners Jaydo-Zinfra-WSP won the Victorian Civil Contractors Federation Earth Awards category one award for the Inlet Main Rehabilitation project at our Mount Martha Water Recycling Plant (WRP)
- Jaydo-Zinfra-WSP shortlisted in the Victorian Civil Contractors Federation Earth Awards category two for the Reid & Creswell Rising Main Renewal project.

Aquarevo - our unique residential development where homes will be plumbed with three types of water.

- Won the property industry's Highest Accolade for Environmental Excellence and was a finalist at the national Urban Development Institute of Australia Awards.
- Nominated for Best use of technology - residential development at the Digital Utility Awards.
- Finalist for the Sustainable Communities and Environments Award.

Serving our customers in 2019–20

Here's a snapshot of service to our customers over the past year.

Improving our services

- **88 per cent** of our customers trust us (based on our regular customer and community engagement surveys)
- **74 per cent** of our customers perceive we provide value for money (based on combined responses to customer surveys after interactions with us and our online community survey)
- **83 per cent** of our customers are satisfied with our services (based on combined responses to customer surveys after interactions with us and our online community survey)
- **97 per cent** of unplanned water interruptions were restored within five hours

Supporting our community

- We supported **6,599** customers through our Customer Care Program
- Our customers accessed more than **\$1.6 million** in state government Utility Relief Grants
- We supplied **56** community events with free drinking water from our hydration stations, reaching **1.136 million people** across Melbourne - Twenty-six events were cancelled due to coronavirus
- Donated **\$35,000** to **11** community organisations through our Community Grants Program
- Increased our annual social benefit spend to **\$516,000** across **7** suppliers
- **287** schools in our service area are saving water through the Victorian Government Schools Water Efficiency Program

Service to our customers

- Delivered **nearly 161 billion** litres of water
- Treated **13.8 billion** litres of sewage at our eight water recycling plants
- Delivered **5 billion litres** of recycled water
- Switched **553** customer properties from septic tank sewer as part of our Peninsula ECO project
- Serviced **42,653 homes** with **Class A recycled water**
- **3 million** online sessions across all digital platforms (up **19.4 per cent**)
- **5.24 million** total unique page views of **southeastwater.com.au** (up **13.4 per cent**)
- **536,196** customer calls
- **80,195** email contacts
- **523,964** visits to South East Water LIVE interactive map (emergency works and planned improvements across our service area)
- **89 per cent** of reachable properties were sent an emergency text and proactive water outage text and/or email
- Our Customer Portal registrations grew by **50,000 customers** (up **17.3 per cent**)
- Our Customer Portal had the **biggest increase in usage** by channel (up **24.4 per cent**)
- **395,000** page views on our water education website
- **23,344** followers (up **25 per cent**) and **37,869** engagements (likes, shares, comments and click throughs) across our social media platforms: Facebook, Twitter and LinkedIn (up **86 per cent**)
- **45 per cent** increase in customers opting for eBilling.

Financial overview

Five-year financial summary

Table 1. Financial results for year ended 30 June 2020 (extract)

	2016 (\$ million)	2017 (\$ million)	2018 (\$ million)	2019 (\$ million)	2020 (\$ million)
Total revenue	1,038.9	1,029.4	1,092.9	1,043.5	1,046.6
EBIT	253.3	273.0	316.0	230.4	206.5
Financial costs	80.5	81.0	82.8	83.6	83.8
Net result before tax	172.8	192.0	235.2	146.7	122.8
Tax expense	52.0	57.7	70.1	43.1	35.7
Net result after tax	120.8	134.3	165.1	103.6	87.1

Table 2. Financial position as at 30 June 2020 (extract)

	2016 (\$ million)	2017 (\$ million)	2018 (\$ million)	2019 (\$ million)	2020 (\$ million)
Total assets	3,873.8	3,993.6	4,224.4	4,439.6	4,630.9
Payables and provisions	656.4	641.1	655.7	701.8	710.5
Borrowings	1,386.5	1,460.2	1,586.3	1,712.3	1,958.0
Net assets	1,830.9	1,892.3	1,982.5	2,025.5	1,962.3

Table 3. Cash flows for year ended 30 June 2020 (extract)

	2016 (\$ million)	2017 (\$ million)	2018 (\$ million)	2019 (\$ million)	2020 (\$ million)
Operating	126.1	136.3	150.9	129.8	132.4
Investing	(153.4)	(162.7)	(147.3)	(174.9)	(233.3)
Financing	26.3	26.7	(3.2)	45.1	101.5

Current year financial review

We recorded a net profit after tax of \$87.1 million in 2019–20, which was \$16.5 million lower than our 2018–19 result due to lower developer activity in the current economic environment. Whilst revenue from usage charges increased, this was largely offset by the increase in bulk water charges from Melbourne Water.

Our net profit after tax result was \$8.2 million favourable against budget, primarily due to:

- savings in finance charges due to lower borrowings and lower interest rates
- higher developer income due to the forecast reduction in developer activity not being as significant as planned
- sales of 89 lots from our Aquarevo project in Lyndhurst during 2019–20.

Capital expenditure of \$260.0 million was incurred during 2019–20 to renew, augment and update our infrastructure network, in particular, the construction of our Boneo Water Recycling Plant Stage 4 upgrade to support the growth on the Mornington Peninsula. Further, our digital utilities program is a key focus area in our digital utility transformation as we continue to deliver on our commitments to drive efficiencies with new data and enhancing our digital capabilities.

Our financial position remains sound with gearing at 49.9 per cent and funds from operations net interest cover at 2.6 times. Total liabilities increased by \$254.5 million in 2019–20 largely as a result of additional borrowings of \$235.1 million, used to fund capital investments for infrastructure network as well as payments back to the State Government.

Shareholder returns for the year include a total of \$132.5 million in dividend payments to the State Government.

In light of the current environment surrounding coronavirus, we're continuously monitoring our financial position whilst supporting our customers in need of financial assistance.

Please refer to Appendix 1 – performance reporting on page 151 for relevant performance indicators for the financial year.

Capital projects

We manage 67 capital projects and key programs, including projects to upgrade our water recycling plants and growing our water and sewer networks, bringing a number of long-term benefits to our customers. For more information on our other recent capital projects, and those of the broader Victorian public sector, please refer to the most recent Budget Paper No.4 State Capital Program (BP4) available on the Department of Treasury and Finance's website (dtf.vic.gov.au). This publication also contains information on state government departments and their related portfolio agencies' asset investment programs.

Significant changes in financial position

There were no significant matters that changed our financial position during the reporting period.

Significant changes or factors affecting performance

There were no significant changes or factors which affected our performance during the reporting period.

Subsequent events

Subsequent to the reporting period, the Government announced a number of economic support packages to assist with the challenges as a result of the coronavirus (COVID-19) pandemic. Further details are provided in Note 9.7 of the financial report on page 144.

Major projects and initiatives

Major projects and initiatives we delivered or that were underway in 2019–20.

Month	Highlights
July 2019	<p>Began our recycled water study Undertook a new feasibility study to supply irrigators in Tyabb and Somerville with Class A recycled water.</p> <p>Began installing public water fountains across Melbourne’s south-east Partnered with Alfred Health, Bayside City Council, Glen Eira City Council and Knox City Council to install new Choose Tap fountains.</p>
August 2019	<p>Expanded our PropertyConnect® service offering Added tapping and plugging bookings to our dedicated online property and development industry portal, available for our customers 24/7.</p> <p>Said goodbye to our outgoing Board members We bid farewell to Deputy Chair, Tony Beach and Director and Chair of our Finance Assurance and Risk Management Committee (FARM), Freya Marsden.</p> <p>Opened our own home at Aquarevo Minister for Water launched the South East Water Aquarevo House at the Aquarevo development in Lyndhurst, in partnership with Villawood Properties and Arden Homes.</p> <p>Took out top spot at the Civil Contractors Federation Victoria Earth Awards Awarded for our project to completely rehabilitate the inlet into our Mount Martha WRP and several associated assets with the Zinfra, JAYDO, WSP (ZJW) joint venture contracted to deliver the project.</p>
September 2019	<p>Launched our government-endorsed Corporate Plan 2019-24</p>
October 2019	<p>Used data science to better serve our customers Partnered with the Predictive Analytics Group to develop our own custom application that reduced duplication across our customer records to improve customer experience.</p> <p>Offered free heart health checks for our employees</p>
November 2019	<p>Awarded our community grants Provided more than \$35,000 in funding through our new community grants program to support 11 local community group projects that benefit the community and ensure the long-term health of Port Phillip Bay and Western Port.</p> <p>Celebrated International Men’s Day</p>
December 2019	<p>Farewelled our outgoing Managing Director Terri Benson</p> <p>Took part in the Intelligent Water Network (IWN) Roadshow Hosted the IWN roadshow to trial and test new technologies and innovations that address common industry challenges.</p> <p>Celebrated International Day of People with Disability</p> <p>Launched Make Every Drop Count water efficiency campaign See case study <i>‘Helping Melburnians make every drop count’</i> on page 37.</p>
January 2020	<p>Celebrated success at water industry awards</p> <p>Led water industry support for Victorians in bushfire-affected areas Supported North East Water and East Gippsland Water with bushfire aid to residents in need of emergency relief water and coordinated the delivery of water.</p>

<p>February 2020</p>	<p>Welcomed our new Managing Director Lara Olsen joined us as Managing Director following an extensive recruitment process.</p> <p>Board, Executive and Customer and Community Advisory Council members visited Chobani, one of our biggest business customers Discussed sustainability and cost saving opportunities in industrial precincts like Chobani's Dandenong South production facility, which employs over 300 people.</p> <p>Hosted a delegation from the Nigerian Government at Aquarevo Our Liveability team presented to 24 Nigerian government officials on incorporating intelligent water solutions and energy-saving initiatives into mainstream housing design. We also demonstrated the unique benefits of Aquarevo's solutions like our Pressure Sewer System, OneBox®, Rain-to-hot water and TankTalk® technologies.</p> <p>Marched for change at Midsumma More than 50 employees and their families joined water authorities from across Victoria to take part in the Midsumma Pride March. We also provided our Hydration Station.</p>
<p>March 2020</p>	<p>Took part in Cultural Diversity Week</p> <p>Furthered the Choose Tap initiative Teamed up with Bayside Council to install three new water fountains making it easier for residents, visitors and their furry friends to choose tap water over bottled. See case study '<i>Supporting our community to choose tap</i>' on page 36.</p> <p>Celebrated International Women's Day</p> <p>Supported customers and employees during coronavirus Pivoted our operations to keep water flowing and services running by enabling over 600 employees to work remotely and offering residential and business customers financial relief.</p>
<p>April 2020</p>	<p>Recognised the wellbeing implications of coronavirus Responded to the emotional impacts of coronavirus and remote working with a remote working wellness toolkit and offering employees free local psychology sessions.</p> <p>Launched our new HR self-service portal in People Central, our new HRIS Released a new and improved HRIS portal with greater visibility and functionality.</p>
<p>May 2020</p>	<p>Submitted our 2019-24 Corporate Plan</p> <p>Launched our Wellbeing and Connect groups Employees connected through common interests such as yoga, running, craft, parenting and mindfulness.</p> <p>Launched our Remote Working Safety toolkit Developed a new set of safety resources to support employees working remotely.</p>
<p>June 2020</p>	<p>Celebrated National Reconciliation Week online Almost 500 employees joined our virtual town hall to hear about the purpose and progress of our RAP. Aunty Dyan, a fourth generation Bunurong - Trawl Wool Way woman, gave a moving Acknowledgement of Country, from home (Flinders Island). An Acknowledgement to Country, rather than a Welcome, was given due to the fact that people were tuning in from their homes spread right across different areas of Victoria.</p>

Challenges and looking forward

Challenges and considerations

We're addressing a range of challenges and considerations to make sure we're on the right track to achieving our longer term targets.

Responding to long-term impacts of coronavirus

We know there's still a long road ahead in responding to the impacts of coronavirus so we're preparing for the social and economic impacts our customers and employees are likely to face. We're starting with honest, two-way discussions about what employees want to see for our future ways of working, and have focussed our customer messaging on affordability and payment support. Looking forward, we're keeping a pulse check on our customers with increased reporting on trends and we'll maintain regular contact with other metro water retailers to keep an industry perspective on customer needs.

Adapting to climate change

An increasing focus on long-term sustainability requires us to play a proactive role in the health of our community and environment. Climate change impacts the security of our water supply and our ability to supply the water and wastewater services our customers rely on – and the impacts range from damage to our assets in extreme weather events such as bushfire or storms, through to drought affecting water storage levels. That's why we're investigating the current and future impacts of climate change across our business, and making changes to make sure we're prepared to act. This includes embedding climate resilience into the way we design and operate our assets, and how we deliver our services through our Climate Adaptation Strategy.

Changing customer expectations

The world we live and work in is increasingly interconnected – for us and our customers. Innovation and disruption in one industry invariably drives change in others. Our customers apply the same expectations to us as they do all service providers, from quality of service to payment flexibility. We're continuing to listen to our customers, and collaborating both inside our sector and beyond, to ensure we continuously improve our customers' experience.

Population growth

The population in our service area is forecast to double by 2065, which will place increasing pressure on our drinking water supplies and create higher volumes of wastewater at our water recycling plants.

Long-term trends also indicate a shift towards renting and high-density living, which will impact how we adapt our service offerings in line with these lifestyle changes.

Next-generation workforce

Our world is constantly changing and the services we provide to our customers and the community are always evolving. A workforce that is bold and proactive with next generation workforce skills is critical to our success and ability to keep pace with the changing world around us.

We know we need to continue to attract the right people with the right skills to achieve our vision and strategic objectives. That's why we're establishing a future workforce capability plan that will create an exceptional experience at work, so we can attract and retain the best people from our industry and beyond. To do this, we're developing approaches that support diversity, flexible work and professional growth. We're partnering with an AI platform to identify roles that will change due to automation or augmentation planning for the development of our people into potential new and emerging career paths.

Technological change

We have a long history of pursuing progress and we've nurtured this mindset and capability in our people and our partners.

We continually harness new technology in transformative ways to deliver on our vision, our purpose and our customer outcomes.

Technology and connected devices provide increasing access to real-time data, predictive analysis and remote monitoring. This will support greater connectivity between our organisation and its assets and customers, and enable efficiencies to help maintain affordable services.

To us, being a Digital Utility means more than implementing digital solutions in isolation – it's about delivering an integrated eco-system of hardware and software that enable us to be more predictive, efficient, affordable and personalised.

The Internet of Things (IoT), also known as the fourth Industrial Revolution, will have a major impact on many industries in the very near future. As a forward thinking water organisation, we're well placed to be one of the major beneficiaries of the IoT, as the increased data will allow us to better understand and monitor our network for leaks, bursts or disruptions, and create efficiencies that will allow us to keep our prices fair and affordable.

We've started to prepare our network for the IoT, and we now have over 10,000 remotely connected assets already sending near real-time data to our operations team (3,000 of which were installed in 2019-20).

Through rigorous and iterative testing, we selected and self-deployed a stand-alone battery operated digital meter. These devices transmit data, such as 30 minute usage information and a range of alarms and alerts, to us every day. Data is then automatically validated and stored in the cloud-based data warehouse we developed to work seamlessly with our digital devices.

This integration drives optimisation and improves the experience for our customers. For example, data is now sent to our online customer portal where customers can log in and view their hourly water usage.

This is just the first step in our journey to become a truly digital water organisation and IoT will take this to the next level, increasing the scale and volumes of information that will be transacted.

The benefits of IoT technology can already be seen in the application of new technologies including digital meters, Advanced BlokAid® and OneBox®, which – having been proven within our network – are now being trialled by fellow water organisations through partnerships led by Iota.

We're extremely proud of our achievements to date, which have been years in the making. We continue to look forward, and lead our industry into a digital future, where we prevent issues before they occur and accelerate the innovation that's already part of our DNA.

See case study '*Keeping our customers informed with digital meters*' on page 57.

Keeping cybersecurity front of mind

We take our responsibility to protect customer personal information very seriously. In 2020 we, along with City West Water and Yarra Valley Water, were notified of a cybersecurity incident affecting a third party research company we collectively engaged to complete customer research.

While our own internal systems are robust and were not compromised, the external breach was a timely reminder to remain vigilant. As a result, we reviewed our security defences and implemented additional measures including an increased emphasis on customer data and organisational assets in our 2020-25 Corporate Plan.

Our Corporate Plan 2020–25

Our Corporate Plan is our roadmap to meeting our customers' expectations and addressing the challenges of household affordability, population growth and climate change, while efficiently delivering safe and reliable water services that support liveable communities.

It builds on the five customer outcomes outlined in *Our Five-year Customer Commitment 2018–23*, which reflects what our customers and community told us matters most to them, and positions our organisation to deliver on the priority policy areas outlined in *Water for Victoria*.

Our Corporate Plan 2020-25 is available to view on our website: southeastwater.com.au



Our customers

About our customers

We support healthy and liveable communities by delivering water, sewerage and recycled water services to 1.87 million people who rely on us every day and every night.

Our customers rely on us for safe, reliable water services, a high quality customer experience, modern infrastructure and a reduced environmental footprint.

Our customers live in one of Australia's most culturally diverse regions, and speak more than 200 languages.

Our water and sewer network covers high-rise communities in Southbank through to growth suburbs in the Casey–Cardinia region, and from intensive industrial areas in Dandenong, to small agricultural holdings in Somerville.

Ninety-two per cent of our customers are residential and rely on us for their home water and waste water services. Our business customers make up the remaining eight per cent and they rely on us for commercial and industrial purposes, as well as agricultural, recreation and community use.

We want to create a better world for our customers, whether they're connected to our services, or stakeholders, partners or simply part of our community. Over the past year we've been on a journey to better understand them and increasingly align our activities and our organisation around that ambition.

A snapshot of our customers in 2019–20

92 per cent of our total customers are residential

8 per cent of our total customers are businesses

14,346 new customers in the past 12 months

1.8 per cent customer growth rate

Case study: Supporting Victorian communities affected by bushfire

In a year where our customers faced many challenges, we began 2020 by leading the Mutual Aid Coordination for all Victorian water corporations supporting East Gippsland Water and North East Water during the devastating Victorian bushfires.

Our entire Incident Management team worked tirelessly to ensure impacted communities had access to safe water. In a matter of hours, our customer base grew by hundreds as we rose to the challenge of operating a 'one-stop-shop' and initial contact point for residents in need of emergency relief water.

We also coordinated the delivery of water across affected areas, particularly to Victorians who rely on tank water for drinking and domestic use. This included a tank water flush and top-up of 5,000 litres to people whose water supply had been contaminated through ash, soot and other bushfire debris.

With support from local water carters, our team delivered emergency water relief to over 330 residential homes throughout the incident.

Employees across our organisation also reached out to support relief by donating more than \$14,000 to their charity or fund of choice, which we matched dollar-for-dollar and donated to Wildlife Victoria and the Victorian bushfire relief.

Supporting customers in need

We know anyone can struggle to manage bills and financial commitments – and it can be hard to ask for support.

To support our customers, our Customer Care Team is trained to work with customers who want to pay their water bills, but can't pay everything.

This specialised team works in line with our commitment to treating all customers fairly, respectfully and with dignity. This year all of our customer-facing employees completed resilience training to ensure they can continue to deliver strong service, especially to customers experiencing high levels of vulnerability.

We continued our partnership with the Thriving Communities Partnership, a cross-collaboration project across water, utility and finance sectors. We also continued our partnership with Better Place Australia to help support customers with free financial counselling, connection to community support services and referral to specialist providers.

How we've supported our customers

No matter the situation, we have a range of payment support options to help our customers get their water and sewerage bills back on track.

We've supported our customers with:

- Payment plans to spread the cost of their bill into instalments
- More time to pay
- Regular bill payments deducted from their Centrelink benefits
- Access to concessions and government grants.

Understanding the impact of coronavirus on our customers

- From January to July 2020, our inbound call volume **increased 87 per cent** on average
- During May 2020, we received **1,941 inbound calls** compared to 923 calls in May 2019
- Since 24 March 2020, **5,002 customers** contacted us seeking support due to the impacts of coronavirus, **20 per cent** (1,084) were referred to our Customer Care team for ongoing support
- Since July 2019, monthly demand on our Customer Care team increased by **more than 150 per cent** with our team members currently providing individual support to **over 6,400 customers**.

We're continuing to collaborate with Yarra Valley Water and City West Water on a weekly basis to keep an industry pulse check on customer trends and provide supporting where it's needed most.

Read more about how we're supporting our customers on page 14.

Table 4. Community Service obligations

Value of Community Service Obligation provided	2017–18 (\$)	2018–19 (\$)	2019–20 (\$)
Provision of concessions to pensioners	45,253,572	44,167,611	44,822,494
Rebates paid to not-for-profit organisations under the water and sewerage rebate scheme	943,113	952,094	949,348
Utility Relief Grants Scheme payments	814,818	891,337	1,603,539*
Water Concession Grant on life support machines (haemodialysis)	30,406	41,296	19,312
South East Water Hardship Relief	278,049	347,157	157,306

*In 2019-20 we saw a significant increase in Utility Relief Grant Scheme payments due to a large backlog of applications in the months of May and June. As a result, DHHS increased their staffing to assist.

Our Customer and Community Advisory Council

With our customers and communities at the heart of all we do, we work with a 15 member Customer and Community Advisory Council, to gain their unique and diverse input, perspectives and direction into the way we plan for and respond to our customers and communities.

Council members represent a diverse spectrum of community voices who challenge and influence our ideas and actions – and thanks to their active engagement, we've looked at our solutions and approaches to customers and communities differently.

Report from the Council

Over the past year, our Council has reviewed a range of topics from the unique perspectives of the communities its members serve – to better inform South East Water's strategy, actions responses, planning and support.

These include the impact of bushfires on water security and the supporting role of the desalination plant; community engagement during sewer spills affecting waterway health; and the impacts of coronavirus on our organisation and its implications for South East Water's customers, communities and stakeholders.

South East Water also sought feedback from the Council on Melbourne Water's upcoming pricing submission; its customer research and insights program; and draft corporate plan initiatives.

The Council has also been involved in external presentations sharing knowledge and history on the Bunurong Land Council Aboriginal Corporation and on digital data sharing in other states.

Some Council members also joined our Board and Executive on a field trip to our Boneo Water Recycling Plant and to the factory of a South East Water business customer, Chobani.

This financial year:

- The council met four times
- Dan Turnbull, CEO of the Bunurong Land Council Aboriginal Corporation and our new Managing Director, Lara Olsen, joined the council (see biographies below), whilst departing members Catherine Caruana-McManus and Terri Benson were warmly farewelled
- We updated the Council's Terms of Reference.

South East Water Customer and Community Advisory Council Chair, David Heeps said, "This year we've had some robust discussions and provided frank feedback to South East Water about initiatives still in development. In particular, we've appreciated being able to feed directly into planned customer research and engagement, drought assistance for customers, and principles to frame South East Water's response to Melbourne Water's price submission.

"We've appreciated the transparency South East Water has provided across its whole organisation through the quarterly operations reports. These have enabled us to get insights across the whole organisation, ask more questions and make suggestions for future topics and agenda items.

"We were sad to see the departure of Terri Benson and Catherine Caruana-McManus and we thank them both for supporting the council and their contributions. I've been pleased that Dan Turnbull and Lara Olsen have joined us as new members, and to see Lara demonstrate South East Water's continued support of the council."

Council members

David Heeps (independent Chair)

Customer and community segment: Government

David has over 40 years of experience in the water industry in a variety of roles, having worked in policy departments, operating agencies and an economic regulator. David most recently spent six years as CEO of the Essential Services Commission and is currently a senior associate at Aither Consulting.

Catherine Caruana-McManus (resigned from the Council on 11 March 2020)

Customer and community segment: Technology

Catherine is an Internet of Things (IoT) and Smart Cities expert with more than 25 years of experience in the IT, telecommunications and urban infrastructure sectors. She is the Co-Founder and Director of Meshed (IoT Integrators) and founder of Giant Ideas for Smart Cities.

Catherine resigned from the Council and attended her final meeting on 11 March 2020.

Edward (Eddie) Matt

Customer and community segment: Agriculture

Eddie is a beef farmer in Rye, operating the Hillock Downs farm-gate store. He's an active member of the local community and is Lieutenant in the Country Fire Authority. Eddie is also President of the Victorian Farmers Federation Peninsula Branch. Eddie is passionate about expanding recycled water on the Peninsula and an advocate for protecting agricultural land in the Green Wedge.

Jennifer (Jenny) McGowan

Customer and community segment: Vulnerable customers

Jenny is a financial counsellor based at the Cranbourne Information and Support Service and is also a co-convenor of the Southern Network for Financial Counsellors. Before she became a financial counsellor, Jenny served in the Navy, was a kindergarten teacher and a child protection worker. She is passionate about social inclusion and providing support for the most vulnerable in our community.

Rebecca McKenzie

Customer and community segment: Local council

Rebecca is CEO of Glen Eira City Council and a Zoos Victoria Board Member. Rebecca has extensive international leadership experience across local and State government, and in the higher education sector. Rebecca is passionate about creating high performing, customer centred organisations with a strong connection to place.

Jon Onley

Customer and community segment: Business customers

Jon is the Membership Manager with the Australian Industry Group and is also a member of CitiPower/Powercor Customer Consultative Committee and a Member of the Australian Gas Networks Reference Group.

Aishwarya Pokkuluri

Customer and community segment: Youth

Aishwarya was awarded the 2018 Young Leader of the Year award by the City of Greater Dandenong for her voluntary work in the community. Since joining the City of Greater Dandenong's Young Leaders program, she has helped give the city's most marginalised young people a voice. Aishwarya now works in the food industry working in Quality Assurance.

Dr Sundram Sivamalai

Customer and community segment: Culturally and linguistically diverse (CALD)

Sundram is a current member of the Victorian Multicultural Commission and Board member of the Ethnic Communities' Council of Victoria. He has extensive board membership and community and government advisory experience, including as the current Chair of the Ballarat Regional Multicultural Council.

Max Shifman

Customer and community segment: Property development

Max is the Chief Operating Officer of Intrapac Property, sits on the board the Urban Development Institute of Australia (UDIA) Victoria and is the Vice-President of UDIA National.

Associate Professor Liam Smith

Customer and community segment: Consumer research and behaviour change

Liam is Director and co-founder of Behaviour Works Australia, a leading behaviour change research enterprise within the Monash Sustainable Development Institute at Monash University.

Kevin Shinnars

Customer and community segment: Plumbing

Kevin is Vice President of the Master Plumbers Association (MPA) and his company Shinnars Plumbing Pty Ltd specialises in commercial and industrial plumbing. Kevin was granted life membership to the MPA in recognition of his continuing contribution to the association and has previously been awarded for his outstanding voluntary service for the development of the plumbing industry.

Dan Turnbull (joined the Council on 11 December 2019)

Customer and community segment: Indigenous

Dan is the CEO of the Bunurong Land Council Aboriginal Corporation, Director and previous deputy chair of the Federation of Victorian Traditional Owner Corporations. He is also a member of the Victorian Aboriginal Heritage Council's Legislative Review and Regulatory Functions Advisory Committee. Dan was also Co-Chair on the Aboriginal Treaty Working Group and an interim Director and the company secretary of the First People's Assembly of Victoria.

Dan attended his first Council meeting on 11 December 2019.

Gidja Walker

Customer and community segment: Environment

Gidja is a well-respected ecological consultant and natural systems teacher based on the Mornington Peninsula. She is the President of the Southern Peninsula Indigenous Flora and Fauna Association and was involved in the Clean Ocean Foundation and has a keen interest in land and water environmental protection.

Peter Day

South East Water Board representative. Peter's biography is on page 73.

Lara Olsen (joined South East Water on 17 February 2020)

Managing Director, South East Water. Lara's biography is on pages 74-75.

Lara commenced in her role as Managing Director on 17 February 2020 and attended her first Council meeting on 11 March 2020.

Mikala Hehir

General Manager Customer and Community Engagement, South East Water. Mikala's biography is on page 78.

Terri Benson (resigned from South East Water on 13 December 2019)

Managing Director, South East Water. Terri's biography is on page 73.

Terri's last meeting with the Council was on 4 September 2019.

Water consumption

Table 5. Water consumption report residential and non-residential customers

District	Residential customers				Non-residential customers			
	Number	Potable water (ML)	Recycled water (ML)	Recycled stormwater (ML)	Number	Potable water (ML)	Recycled water (ML)	Recycled storm-water (ML)
South East Water	730,686	105,815	793	0	61,678	30,512	5,038	0

Preliminary estimated per capita is 154 litres of potable water per person per day for 2019-20

Disclaimer: This figure is preliminary only and based on an estimate for Q4 (April-June 2020) as actuals were not yet available at the time of preparing this report. Customers are billed three months in arrears and therefore Q4 customer usage is not known until early October. There is significant uncertainty around estimates this year due to substantial but not yet fully quantified changes in non-residential and residential consumption due to changes in behaviours and the imposition of restrictions on households and businesses during coronavirus during most of Q4.

The bill based on average residential consumption of 150 kL was \$988.81 (and \$1,184.05 on 200kL consumption).

Table 6. Total of customers, volumes and consumptions

District	Total number of customers	Total potable water volume (ML)	Total recycled water volume (ML)	Total consumption (ML)	Average annual consumption (ML)	Total water all sources (ML)
South East Water	792,364	136,327	5,831	142,158	140,645	161,078

Table 7. Non-revenue water

District	Leakage (ML)	Firefighting (ML)	Other (ML)	Total non-revenue water (ML)
South East Water	11,646	651	6,623	18,920

Table 8. Corporate water consumption report

Location	Average full time equivalent employees and contractors	Office space (m2)	Water consumption (kL)	Average water use per employee (kL per employee)	Water consumption by office space (l/m2)
101 Wells Street, Frankston	632.0	11,580	1,897	3	164

Data in the table above is for our headquarters in Frankston only and excludes water consumption by employees based at water recycling plants and storage sites. Our headquarters also uses rainwater for toilet flushing and garden irrigation. This system isn't metered and therefore isn't reflected in the data.

Major non-residential water users

We supply water to 19 non-residential customers that use more than 100 ML per year for uses other than farming, irrigation or domestic purposes.

Alfred Health	Lion Dairy & Drinks (LD&D Milk Pty Ltd and LD&D Foods Pty Ltd)
Australian Meat Properties Pty Ltd	
Bega Cheese Limited	Lesaffre Australia Pacific Pty Ltd
Bluescope Steel Limited	Pakenham Land Co Pty Ltd
Chobani Pty Ltd	Parmalat Australia Ltd
Coca-Cola Amatil (Aust) Pty Ltd	Saurin Investments Pty Ltd
Corval Ingham Pty Ltd	Southern Health Care Network (Dandenong and District Hospital)
Crown Melbourne Limited	Southern Health Care Network (Monash Medical Centre Clayton)
Defence Corp Support South Vic	
Fountain Gate Trust	USG Boral Building Products Pty Ltd
	Victoria Amateur Turf Club

Table 9. Customer by volume range

Volumetric range – ML per year	Number of customers
Equal to or greater than 100 ML and less than 200 ML	9
Equal to or greater than 200 ML and less than 300 ML	5
Equal to or greater than 300 ML and less than 400 ML	2
Equal to or greater than 400 ML and less than 500 ML	3
Equal to or greater than 500 ML and less than 750 ML	0
Equal to or greater than 750 ML and less than 1,000 ML	0
Greater than 1,000 ML	0
Total number of customers	19

Participation in water conservation programs

We provide water efficiency support to all business customers through the availability of water and energy calculators and a national industry water use benchmarking resource.

We're also supporting businesses to be more water efficient through our newly developed Business Relationship Manager position. This role works closely with our commercial customers providing dedicated support and encouraging the exploration of water efficiency opportunities such as water conservation programs and fit for purpose water initiatives.

These include identifying opportunities for reuse of industrial water, access to our recycled water for irrigation and commercial use, harvesting of stormwater for industrial use, as well as anomalous water use detection using machine-based learning.

The Water Management Action Plan (WaterMAP) program became voluntary in 2011. None of our business customers participated in the program in 2019-20, however we continue to support water efficient behaviours for businesses.

Trade waste

We work with trade waste customers to manage the quality and quantity of the waste they discharge. In 2019–20, 11,019 customers contributed a combined volume of more than 5.97 billion litres of trade waste.



Our community and environment

Our community and environment

Our customers want us to help protect our environment and support their local communities.

We've taken a future-focussed, community-led approach to make sure liveable communities and a healthy environment are at the heart of everything we do – from daily decision making to creating technology that supports water efficiency. We're proudly on a path to achieve net zero greenhouse emissions by 2030.

One of our greatest responsibilities is to ensure long-term water security while also protecting Port Phillip Bay and minimising our impact on the environment, and we're committed to working with local communities to make our service area and surrounds more liveable.

Protecting our environment

Greenhouse Gas Emissions Abatement

In our Emissions Reduction Pledge we made a promise to reduce our greenhouse gas emissions in a way that's financially responsible. We're doing this by putting in solar power at a number of water recycling plants, identifying new opportunities within our existing operations to be more efficient, and by procuring renewable energy at scale through collective purchasing with other water businesses across Victoria at Kiamal Solar Farm.

We've signed up to the United Nations climate change commitment for business through the Science Based Targets initiative (SBTi). By joining the initiative, we'll make sure our low-carbon transformation is aligned with climate science. We've committed to the most ambitious target which aims to keep global warming below 1.5 degrees – this means net zero emissions by 2030. We're really proud to be finding new ways to make our operations, and our industry, more sustainable.

We've installed solar panels at our Pakenham and Somers Water Recycling Plants and we're working hard to have them fully commissioned in early 2020–21. We're also in the functional design phase of constructing more solar panels at our Mount Martha Water Recycling Plant with expected completion in 2021–22.

Our joint power purchase agreement (PPA) for Kiamal Solar Farm in Northern Victoria will help to minimise greenhouse gas emissions and maintain affordable water bills for our customers. Kiamal Solar Farm is currently waiting for commissioning due to the congestion of renewable energy connecting to the network in that area – we're expecting a commissioning date towards the end of 2020.

We've started construction on a co-generation unit at our Mount Martha Water Recycling Plant to harness otherwise wasted biogas generated as part of the wastewater treatment process and so make our plant more efficient and decrease emissions.

We're anticipating a significant reduction in our greenhouse gas emissions in 2020–21 because of the projects we implemented in 2019–20, supporting our commitment to reduce emissions by 45 per cent from our baseline by 2025. We believe this early action can help mitigate the impacts of climate change and help us to sustainably deliver healthy water into the future.

Read about how we're embedding environmental practices in our procurement processes under Greener Procurement on page 169.

Targeting sewage spills

We're committed to reducing blockages in the sewer network which can interrupt customers and cause spills, and we've launched a new sewer network monitoring strategy called Smart Sewer to help us do this. We've also optimised existing monitoring and designed and manufactured new devices (like Advanced Blokaid® and Multix) to monitor sewage levels. To engage with stakeholders involved across the organisation, we created a cross-functional project team to plan and deliver the project.

Smart Sewer plans to:

- accelerate deployment of monitoring devices, streamline backend systems and refine analytics in order to deliver more useful operational insights (e.g. minimise false positives)

- develop a prioritisation plan to monitor sewer levels to predict and avoid a potential spills and to target elimination of critical asset failure, and
- further develop the existing pump station catchment monitoring visualisation platform to include data collected from devices throughout the network.

Case study: Supporting our community to choose tap

In 2019-20, we've continued to increase public access to water by partnering with local councils to install water fountains at parks, reserves and even a hospital across our service region as part of the Choose Tap initiative.

We've gifted and installed 13 new fountains to four councils and two Alfred Health sites since joining the initiative, so the community (and their four-legged friends) can have a drink and fill up their water bottles instead of buying bottled water or a sugary alternative.

While the public couldn't access some of our fountains due to coronavirus public health measures, we've still seen great uptake at the fountains throughout the year. For example, since November 2019, one fountain at Quarry Reserve in Ferntree Gully provided 2,257 litres to the community. Fountain supplier MeetPat has calculated that 2,383 500 ml bottles were saved from going into landfill as a result (based on number of times 500ml or more was dispensed in one use). By making it easier for our community to choose tap, we're supporting them to reduce plastic waste and Co2 emissions, and to save money.

We're continuing the program into 2020-21 and will install drinking fountains in partnership with a number of local councils and at key Metro Trains stations.

Working with local government, community groups and other agencies

We're focussed on building relationships with these valued partners to understand what matters to them and how we can work together towards our shared goal of making communities better places to live.

Education

Our education website received 395,000 views throughout the year with the Natural Water Cycle Game page proving most popular with 110,040 views. The website offers parents and students lots of helpful resources about water and water efficiency.

We continued to support the Victorian Government's Schools Water Efficiency Program (SWEP), which helps schools to identify leaks through data logger technology and regular water usage readings.

We currently have 287 schools participating in the SWEP program. Since 2012, participating SWEP schools have collectively saved 1.78 billion litres of water worth an estimated \$7.21 million.

During the year we also supplied 24 Primary School education resource kits and 29 Kinder education resource kits to support educators in our service region.

We were proud to partner with the Victorian water industry as a sponsor of the tenth annual GovHack, the largest open data hack in the Southern Hemisphere. Hundreds of hackers were invited to come up with innovative and creative solutions to generate new ideas on challenges faced by the water industry.

We're proud to be sponsoring the upcoming 2020 Kids Teaching Kids Conference, which encourages and inspires young people to learn and care for their local environment, while also empowering students to take responsibility for their own learning.

OneVoice shower bus

We continued our four-year support and sponsorship of the OneVoice shower bus, which helps to restore dignity to people within our service area who don't have a home by providing a safe, clean shower. In 2019-20, the shower bus facilitated 6,215 showers for those without a home across Cheltenham, Cranbourne, Dandenong, Frankston, Hampton Park and Melbourne. The bus in our service region was also upgraded to a larger truck to better support those in need.

WaterAid

We continued our support, as a member and sponsor, of WaterAid Australia, which works to help the world's poorest people gain access to clean water, decent toilets and good hygiene.

Campaigns and partnerships

Our customers, and our Statement of Obligations, tell us that we need to promote water wise behaviour throughout the south-east. To do this, we deliver targeted campaigns through our website, water bills and social media, as well as partnering with national peak body Smart Approved Water Mark to provide additional water efficiency resources for business, government and residential customers. We undertake these activities in alignment with Target 155. Target 155 is a water efficiency program encouraging Melburnians to limit water consumption to 155 litres per person per day.

Case Study: Helping Melburnians make every drop count

From December 2019 to March 2020, we partnered with City West Water, Melbourne Water and Yarra Valley Water to run the Make Every Drop Count advertising campaign. The campaign aimed to influence Melburnians' awareness, attitudes and behaviours to water use by providing easy water use tips and reminders to keep water use to 155 litres per person, per day under the key message 'Hey Melbourne, Let's make every drop count'.

We advertised across Melbourne TV, radio, outdoor billboards and digital display screens, supported by online, press and social media. We also ran radio and digital advertising to reach culturally and linguistically diverse audiences in languages such as Greek, Arabic, Cantonese, Mandarin, Hindi, Urdu, Vietnamese and Punjabi.

Our customer research shows people who saw the campaign rated us significantly higher in terms of trust and satisfaction than those who didn't. Those who viewed the campaign were also more likely to believe they have a role to play in saving water. Evaluation across Melbourne showed the campaign exceeded KPIs around raising awareness, considering behaviour change and adopting behaviour change - 41 per cent of Melburnians recalled seeing the campaign when prompted.

Overall, our outdoor advertisements reached 2.72 million people, while digital advertisements delivered 56 million impressions and drove 43,000 clicks to the dedicated campaign website.

How we've supported community groups and local organisations

- **Donated to bushfire relief**, including more than \$14,000 in employee donations, which we matched dollar-for-dollar and donated to Wildlife Victoria and the Victorian bushfire relief. See our case study 'Supporting Victorian communities affected by bushfire' on page 26.
- **Supported Frankston Seniors Festival by offering** senior members of our local community guided tours of WatersEdge and information to help them better understand their bills, concessions, payment options, and ways to save water.
- **Employee donation drive of gifts** through Mums Supporting Families in Need provided Christmas presents for vulnerable children and families.
- **Donated to community support organisations** with the reach and capability to help customers financially impacted by coronavirus, such as the Salvation Army's Red Shield Appeal.
- **Supplied 56 community events with free drinking water** from our hydration stations, reaching 1.136 million people across Melbourne.



Our new community grants program helped Mordialloc Surf Life Saving Club buy eight new nipper boards for their aspiring life guards (pictured in February 2020), as well as other soccer, football, volleyball and cricket equipment.

Case study: Launching our community grants program

In August 2019, we launched a new community grants program to improve the health and liveability of Port Phillip Bay and Western Port for communities that live, work and play in our region.

We received 76 applications and were thrilled to award 11 grants, providing more than \$35,000 in funding to support local community group projects including:

- *Australian Volunteer Coast Guard*
- *Beach Patrol Australia*
- *Black Rock Life Saving Club*
- *1st/14th Brighton Sea Scouts*
- *Chelsea Kindergarten*
- *Dolphin Research Institute*
- *Frankston City Council*
- *Kunyang Primary School*
- *Mordialloc Life Saving Club*
- *Mount Martha Lifesaving Swimming and Youth Club*
- *St Columba's Catholic Parish Elwood*

Our Community Grants program is now an ongoing initiative with eligible community groups invited to apply for grants of up to \$10,000 each year. Grants will support important environmental and recreational projects that benefit the community and ensure the long-term health of our bays.

The program is funded by a commitment we made to support local communities impacted by sewer spills - because we don't take our bays (and waterways) for granted.

Environmental sustainability

We promote an integrated and sustainable approach to using water, including better use of alternative supplies – like rainwater, stormwater, recycled water and desalinated water.

Throughout 2019–20 numerous projects and strategies supported and promoted **sustainable water use** and **sustainable and resilient water services systems**.

Recycled water

Our eight water recycling plants each produce Class A or Class C recycled water. We also source Class A recycled water from Melbourne Water's Eastern Treatment Plant at Bangholme. We're currently upgrading our Lang Lang Water Recycling Plant to produce both Class A and C recycled water.

As of 30 June 2020, approximately 42,000 homes across our region receive recycled water. This is in addition to open spaces and sporting ovals local councils irrigate with recycled water. Vineyards, golf courses, market gardens, nurseries and turf growers also rely on recycled water to support their businesses.

The volume of recycled water used in 2019–20 was 5.8 billion litres, this decreased usage is due to wetter conditions across the South East Water operational area from February to April 2020 due to wetter conditions in February to April 2020.

Case study: Boneo Water Recycling Plant upgrade progress update

One of the ways we're staying ahead of challenges like population growth and climate change is through a major upgrade of our Boneo Water Recycling Plant.

This includes capturing biogas generated during the treatment process to power the plant's operations, and implementing nitrite-shunt and anammox (anaerobic ammonium oxidation) processes. These innovative and energy-efficient treatment technologies will help reduce our electricity consumption and help us progress towards meeting our pledge to reduce our carbon emissions by 45 per cent by 2025.

The upgrade will increase the plant's capacity by over 50 per cent, which will support the region's population growth and expected pressure sewer connections through our PeninsulaECO program over the next 15–20 years.

In 2019–20, the upgrade jumped into full swing, and we've made lots of progress on site. Some of the key milestones for the year include working with our project partner John Holland Suez Beca (JHSB) to complete the project's design, construct most of the civil structures, complete the new administration building and install the first of two anaerobic digesters using an innovative construction technique developed in Germany.

The carbon mitigation initiative has started, enabling us to incorporate additional innovations to help meet our emissions targets.

Integrated water solutions

We're continuing to implement solutions we believe will help transform traditional water supply to homes and meet our responsibility to manage water resources on behalf of our customers and community.

An integrated water solution is one that captures rainwater, reduces flooding, treats sewage, recycles Class A water to replace non-drinking water for uses that don't require it (like flushing the toilet), provides a more liveable environment and often reduces the demand on drinking water.

As part of our commitment to the Water for Victoria plan, and as part of our Urban Water Strategy, we've continued to collaborate with stakeholders through Integrated Water Management Forums.

Over the past year, we've led four co-funded IWM Forum projects across our three catchments: Westernport, Dandenong and Yarra. Three of these projects have been completed.

In 2019–20 we:

- started a distributed storages project with Knox City Council and Melbourne Water, to reduce flood risks in a Knox City catchment using smart rainwater tanks

- completed flood modelling project for Sandown area, with City of Greater Dandenong and Melbourne Water, to input into IWM strategy for Sandown racecourse development precinct
- progressed Pakenham *water for work* including commenced a working partnership with Southern Rural Water on groundwater in Westernport
- progressed Fountain Gate activity centre stormwater project design with our partners City of Casey and Melbourne Water ready to commence construction in 2021
- assessed scalable pilots (small scale IWM pilot projects with potential to be expanded more broadly), including opportunities for expanding the use of alternative water at WatersEdge.
- worked with Yarra Valley Water and Melbourne Water on the suburban rail loop - recycled water grid concept (joint project)

We're also involved in research projects with the Cooperative Research Centre for Water Sensitive Cities and with Water Services Association of Australia (WSAA) to ensure Melbourne's future growth and development is supported by integrated water solutions. This includes how to make sure water sensitive aspects are included in development within existing urban areas.

Fishermans Bend and Aquarevo

Fishermans Bend

Fishermans Bend, Australia's largest urban renewal project, is an exciting opportunity to deliver a water sensitive city using integrated water solutions that maximises locally available water, minimises water and sewage loads, reduces flooding and transforms urban amenity.

We've continued to collaborate with key stakeholders and authorities to plan and design integrated water solutions for this area and we've made significant progress.

We've developed joint materials, such as IWM Guidelines and an animation, to help explain the strategy to the general public. We've also made progress on a flood risk assessment and compatible use study for Fishermans Bend Urban Renewal area, to inform vulnerable land use planning for the area.

We've investigated the potential for waste-to-energy for the water recycling plant including co-digestion with food waste. The Hobsons Bay Main Sewer investigations and concept design have progressed for connection of our future Fishermans Bend water recycling plant to its source of water. We brought forward our works to coordinate with Melbourne Water thus being more efficient and effective.

Aquarevo

Development construction continues on stages six and nine of the Aquarevo estate. A total of 113 houses have been completed with residents now moved in and inducted with the water saving initiatives. These customers are now enjoying the environmental and financial benefits of the unique rain to hot water system, high tech monitored intelligent water and sewer systems, solar and battery system saving energy and costs. The Environment Protection Authority has publicly advertised the proposed Water Recycling Plant, seeking public interest and submissions.

As at 30 June 2020, a total of 367 lots have been contracted for sale with an average sale price of \$412,252 GST inclusive. Settlements occurred on 89 lots during 2019-20 which contributed \$4.2 million to profit before tax.

Drought response and alternative water sources

Permanent Water Use Rules were in place for Melbourne at 30 June 2020. We published our Drought Preparedness Plan in 2016–17, incorporating our Uniform Drought Response, although we didn't invoke the plan in 2019–20.

In accordance with the plan, we joined other metropolitan water organisations and Melbourne Water to jointly publish the Annual Water Outlook in December 2019. This outlined a number of individual and joint industry short and medium-term actions to improve future drought response.

The Victorian Government ordered 125 billion litres of drinking water from the Victorian Desalination Plant for 2019-20, with 118 billion litres delivered in 2019–20 and 7 billion litres in June 2019.

In March 2020, the Victorian Government ordered 125 billion litres of desalinated water to secure our future water supply for 2020-21.

Environmental flow

Environmental flow refers to water released from a dam to maintain river health downstream. We have water management strategies in place, including with metropolitan water utilities and Melbourne Water, to ensure we meet our obligations in this area for the Melbourne water supply system.

Trade waste management

To prevent harmful waste entering our sewer, we work with business customers to help them manage their trade waste and meet acceptance criteria, through pricing incentives and a technical appraisal process.

Key strategies and policies

Urban Water Strategy

Our 50-year Urban Water Strategy guides us in providing reliable and secure water in a greener and more liveable Melbourne, while adapting to a higher population in a warmer, drier climate. Our Drought Preparedness Plan is part of the strategy and helps deliver and support our vision during water scarcity.

In 2019-20, we:

- revised our dry conditions action plan, including fast-tracking recycled water connections and reviewing our bursts and leaks program
- stayed up-to-date on the latest climate science and its' impact on your water – including helping to develop a revised set of *Guidelines for Assessing the Impact of Climate Change on Water Supplies in Victoria*
- collaborated with the other Melbourne retailers, Melbourne Water and DELWP to monitor water security, prepare the Annual Water Outlook and Desalinated Water Order Advice and develop residential and non-residential water efficiency programs
- collaborated with DELWP and other water authorities to manage water supply security for consumptive and environmental water users through various processes including the Long Term Water Resource Assessment and the Central and Gippsland Region Sustainable Water Strategy.

Regional Catchment Strategy

We're a founding stakeholder of the Port Phillip and Westernport Catchment Management Authority Living Links catchment program. Living Links is a large-scale collaborative environmental and social program to create a web of green spaces in Melbourne's south east, underpinning the Regional Catchment Strategy.

Victorian Biodiversity Strategy

We contributed to Biodiversity 2037 through the delivery of our holistic Biodiversity Master Plan, where we've identified biodiversity values across our key sites.

During 2019–20, we:

- completed our ongoing annual pest and noxious weed control program
- continued to create and enhance suitable habitat for the Southern Brown Bandicoot at our Koo Wee Rup Water Recycling Plant and Tower Road Water Storage site
- partnered with Melbourne Water to enhance vegetation through strategic high-threat weed control in Deep Creek, Pakenham, Balcombe Creek and Mount Martha, and rehabilitate Tootgarook Wetlands
- following from a spill in February 2019, we continued ongoing Dwarf Galaxias (a native freshwater fish) monitoring at Watson Creek with works to enhance the upper section planned for late 2020.

An offset is generally required when a permit to remove native vegetation is obtained. The offset compensates for the biodiversity losses associated with the native vegetation removal.

Project	Planning Permit number	Vegetation Removed	Offsets	Cost (excluding GST)
P00063 Officer Backlog	T200098	0.159 hectares (0.049 GHU)	0.049 GHU*	\$10,820
		0.15 Hha	0.11 Hha Plains Grassy Forest very high conservation significance	\$10,920
		0.03 Hha	0.03 Hha Swampy Woodland high conservation significance	\$3,720
P00106 Somers WRP Sludge Lagoon Refurbishment	P19/1898	0.158 hectares	0.038 GHU	\$5,130
P00107 Mount Martha CHP and other works	P19/1114.01	0.470 hectares	6 Large Trees 0.135 GHU	\$15,475
Total				\$46,065

*GHU – General Habitat Units, Hha – Habitat Hectares

Habitat Compensation Obligations

We met the following habitat compensation obligations for infrastructure works within the Melbourne Strategic Assessment program as administered by DELWP.

Project	Habitat Compensation Obligations	Cost
P00079 Cranbourne East SPS - ERS	0.025 ha Native Vegetation 0.361 ha Growling Grass Frog 0.461 ha Southern Brown Bandicoot	\$6,944
P00084 Officer South P.S. Upgrade	0.141 ha Growling Grass Frog 0.495 ha Southern Brown Bandicoot 0.030 ha Growling Grass Frog 0.103 ha Southern Brown Bandicoot	\$3,964.71
P00093 Clyde Trunk Water Main	0.028 ha Native Vegetation 2 Scattered Trees 0.024 ha Growling Grass Frog 3.452 ha Southern Brown Bandicoot	\$43,138.58
Total		\$54,047.29

Planting Day

In September 2019, to meet the requirements of a Melbourne Water condition for a Minor Works project, team members from our minor works and liveability teams worked together with the local Friends group to plant 200 indigenous tube stock and native grass seeds at Tanti Creek in Mornington to help rehabilitate the works area. This project strengthened relationships with the local community and had a positive environmental outcome.

Victorian Waterway Management Strategy

We maintain strong relationships with those who have a responsibility to manage stormwater, rivers and creeks, including Melbourne Water and local councils, particularly incidents that may impact waterways.

Together we engage on specific environmental improvement programs, including collaboration with Monash University and other water organisations to improve environmental monitoring. These programs will help us understand how our sewerage network interacts with diffuse pollution, for example stormwater in key catchments like Elster Creek. We also have a number of memorandums of understanding (MOU) with relevant councils to support timely and effective information sharing.

To ensure our sewer system has the capacity to handle population growth, we're investing in the upkeep of existing pipes to reduce spills, an ongoing backlog program (switching properties from septic tanks to mains sewer) and actively lobbying to improve septic tank management. We regularly monitor waterway health in key creeks and rivers and share this information with councils to improve the health of local waterways.

We've completed our pilot program MOU with Mornington Peninsula Shire Council funding a Waste Water Officer to assist council to meet its obligations to inspect and support the community to maintain septic tanks. During this MOU, we've been able to:

- begin an education program with Mornington Peninsula residents
- conduct around 1,000 inspections and help manage failing septic tank systems in priority areas
- target selected areas of our Peninsula ECO project and encouraged connections to sewer, particularly where septic tank systems are failing

- improve water quality of receiving waters such as Portsea Lagoon and Boes Road, Tyabb.

The Mornington Peninsula has a significant number of septic tank systems, and failing systems are a contributor to waterway pollution. Our MOU has been commended by VAGO as a collaborative and innovative approach and we're currently working with the Shire to continue this program.

Getting ready for the *Environment Protection (Amendment) Act 2018*

We're excited by the reforms planned with the introduction of the new *Environment Protection Act 2018* and see benefits to our precious local environment. We provided feedback on the draft regulations and are partnering with Environment Protection Authority (EPA) and the wider water industry to understand how we can best respond to the requirements of the General Environmental Duty. Projects such as our Critical Asset Review, Environmental Sensitivity Map and Smart Sewer will help us to better understand our local environmental priorities and meet our GED obligations, which will come into force on 1 July 2021. The planned installation of new BlokAid® devices and development of Multix will help us to detect a sewer pipe blockage quicker and respond to, or avoid, sewage spills into our waterways.

In preparation for the new Act, we've appointed two new roles to support our business to meet (and exceed) our environmental obligations. A new Environment Compliance Manager will strengthen our relationship and incident management with EPA and an Environment Systems Specialist will overhaul and upgrade our Environmental Management System to ensure it helps us identify, track and respond to environment risks, incidents and opportunities. We're also working on a new combined digital platform to support implementation of our certified ISO 14001 environment and AS4801 safety management systems.

The State Environment Protection Policy (SEPP) (Waters of Victoria) is an important document for us, touching on many elements of our business and how it relates to surface and ground water systems. We've outlined SEPP related programs and projects in other sections throughout this report.

Victorian Water Efficiency Strategy

We continue to deliver on the Victorian Water Efficiency Strategy 2017–22. To contribute to each of its four strategic objectives, we have:

- played leading roles in the Water Services Association of Australia Water Efficiency Network and Victorian Water Efficiency Resources Committee
- continued to research water efficiency initiatives like reward programs and recycled water uptake
- partnered with metropolitan water retailers to run the Make Every Drop Count campaign
- continued to work through Smart Approved WaterMark to develop the home water use calculator and other water efficiency tools.

Adaptation to climate change

Climate change impacts the security of our water supply and our ability to supply the water and wastewater services our customers rely on.

That's why addressing the impacts of a warming climate and embedding them into the way we plan, design and operate our assets, and the way we deliver our services. We're committed to future-proofing our network and services to the potential shocks and stresses associated with a changing climate.

We're beginning to think about our climate-related risks in a new and refreshing way. Building upon our previous Climate Change Adaptation Plans we're starting to equip the organisation to better realise and manage our risks into the future.

In 2020-21 we'll launch a new and comprehensive program called Climate Adapt. Climate Adapt will be transformative, iterative and long term. It will be based on the latest science and will identify future triggers and interactions for action. Its horizon is long term, as far away as 2100 and the plan will mature as information becomes available and capacity within the organisation builds. It will be carefully managed to stay fresh and will capitalise on current social concerns.

Task Force on Climate Related Financial Disclosures

Climate Adapt has been designed with the Taskforce for Climate Related Financial Disclosures (TCFD) recommendations in mind. They offer a framework for disclosures on climate-related financial risk and opportunities structured around four areas: Governance, strategy, risk management and metrics and targets.

Governance

We understand that climate change is one of the biggest risks facing our business and there is significant uncertainty regarding the extent and frequency of physical impacts such as sea level rise, frequency of heatwaves and storms, water resource availability, bushfire risk and so on. The impacts have the potential to touch every part of our business, from water security to bushfire threats, the potential consequences are significant.

In recognition of the seriousness of these potential future threats and the uncertainty, we've developed dedicated governance arrangements at the highest level in our business with the creation of the Climate Adapt Steering Committee (CASC) chaired by our Managing Director, Lara Olsen.

The CASC regularly reports climate change risks and the organisation's response to the Customer Service Solutions Committee and Finance Assurance and Risk Management Committees of the Board and full board. Climate change is indeed one of the most frequent agendas discussed at executive and board and key risks and actions are captured with our corporate and environment risk registers.

Over the coming financial year at completion of Climate Adapt, we'll review the existing executive and board committee governance arrangements to ensure they provide effective long term and agile governance to respond to emerging climate science, risks and opportunities.

Strategy

Climate change threatens to impact the security of our water supply, and the water and wastewater services that our customers rely on. In 2010 we conducted an organisational climate related risk assessment, which was subsequently updated in 2016. The most recent climate change risk assessment identified a total of 51 climate related risks across the organisation across the immediate term (1–5 years) and the long term (6–50 years) under a RCP 8.5 scenario (high emissions future scenario). From this, there were a total of four risks that had a 'high' risk evaluation in the immediate term (outlined below) and 12 risks with a 'high' or 'extreme' rating in the longer term.

Given we can't know the exact level of warming and physical changes we will have to manage in the future, our organisation is looking at a range of scenarios between now and 2100 under three warming scenarios based on the International Panel for Climate Change's (IPCC) Representative Concentration Pathways (RCP). These scenarios are being paired with the latest climate science to plan for how each of these possible futures might impact our people, customers, assets, local environment and business partners. On many issues, for example flood protection, we'll have to collaborate with other organisations within our region to respond in a timely and cost effective way (refer to Integrated Water Management for more information on these connections).

Risk Management

Climate-related risks are integrated within our Risk Management Framework, and are included in our Risk Register, Aspects and Impacts Register, and Climate Change Risk Assessment. To date, these risks have focused on the physical risks and the associated impacts posed to our operations and assets. As part of the Climate Adapt work in 2020-21, we'll look to identify the relevant transition risks to the organisation and incorporate these into our risk management processes.

The Climate Adapt program will re-assess the risks identified in the previous climate risk assessments and will look out to a 2100 timeframe to identify potential impacts. This process will also include scenario analysis of climate related risks, including a 2°C aligned scenario to better understand the impacts of transition related risks.

Climate Variable	Impact(s)	Internal service areas impacted	Risk evaluation (1-5 years)	Risk Evaluation (6-50 years)
Extreme Temperatures	Increased bushfire threat – interruption to ability to supply water	<ul style="list-style-type: none"> Water supply Sewerage treatment Staff and corporate 	High	Extreme
Extreme Temperatures	Increased bushfire threat – emergency supply of water	<ul style="list-style-type: none"> Water supply 	High	High
Extreme Temperatures	Safety of staff at risk	<ul style="list-style-type: none"> Staff and corporate Interagency risk 	High	High
Extreme rainfall events	Increased requirements for storage capacity	<ul style="list-style-type: none"> Sewerage treatment Interagency risk 	High	High

Climate change is included as a stand-alone risk within the Corporate Risk Register, which includes the level of impact, and applicable controls that we can apply to manage the risk. Adaptation actions for climate related risks are assessed and managed through the Aspects and Impacts Register and the Climate Change Adaptation Plan.

Metrics and Targets

We report annually on our Scope 1 and 2 carbon emissions from our operations, along with our broader operational impact across waste, paper and transport. We recognise that the service we provide has a large impact beyond our organisation, we also report on water consumption from our customers and trade waste discharges.

In FY21, we'll develop a set of metrics and targets to help us track and manage climate-related risk within the organisation.

Research

Each year we invest over half a million dollars in strategic research partnerships, regularly leveraging other funding sources five to ten fold through our Research, Development and Innovation Program.

We have 19 projects underway and are working with nine strategic partners including six universities across Australia, Cooperative Research Centres, industry research centres and Australian Research Council Hubs. Our research ranges from soil science to emerging contaminants, new separation and treatment techniques, antimicrobial resistance, urban cooling, alternative energy and customer behaviour change.

Some of our key research projects over the year include:

- **Monitoring microplastics in our sewage** and how efficiently they're removed through our treatment processes, as part of our commitment to protect the environment.

Microplastics pose a significant risk to both environmental and human health and this project will improve our knowledge of the removal and management of microplastics at our treatment plants. Initial sampling at three of our sites has shown the dominant species are microfibers (65 per cent) with sizes predominantly higher than 500µm. Thankfully our research has also shown that our treatment process effectively removes more than 99 per cent of microplastics.

- **Exploring our role in the hydrogen economy** such as our collaboration with Jacobs and Origin to assess the technical and economic feasibility of an industrial hydrogen hub built on a recycled water-to-hydrogen concept. We're also working with Water RA to assess the possibility of producing hydrogen peroxide (an alternative format of hydrogen) from wastewater treatment plant secondary effluent.
- **Supporting an award-winning PHD project with RMIT**
See our *Other achievements during the year* section on page 17.
- **Supporting research to detect coronavirus in wastewater**
See our case study '*Joining the fight to track coronavirus*' on page 61.

How we're investing in technology to support innovation

Our product development capability is unique in the Australian water industry. Our mechanical, hardware and software engineers work directly on design and development of new devices and sensors, as well as collaborating with external developers and manufacturers. This capability ensures integration with our systems and helps us manage costs in line with business cases.

Some of our development highlights over the past year include:

- completed successful small scale trials to prove the effectiveness of our vibration sensor for leak detection
- filed a new patent on our vibrations sensing technology for leak detection, and the updated control systems for Aquarevo rainwater hotwater
- began manufacturing the first batches of digital meters we co-developed with partners
- significantly improved design, communications and cost of Onebox® for pressure sewer control
- continued work with Parks Victoria on improving their solar pressure sewer sites performance
- begun prototyping of a sensor network for monitoring urban cooling and controlling irrigation at Aquarevo through our Onebox® plus technology.

To protect our investment in technology, we also maintain an active intellectual property (IP) portfolio of trademarks, patents and registered designs. This supports future innovation and provides commercialisation opportunities for Iota to ensure our IP is available for the Australian water industry.

Over the last year we added significant assets to our IP portfolio with international patents granted for our OneBox® pressure sewer, Advanced Blokaid® and solar pressure sewer technologies.

Iota

Iota plays an integral role in achieving our vision *to create a better world for our customers with forward thinking water solutions, for all and always, that won't cost the earth* – by taking new innovations developed at South East Water and commercialising them for use beyond our borders. This not only helps other water organisations around the world become more efficient, but delivers economic and social benefit for South East Water, our customers, and Victoria.

Following several successful deployments of its OneBox® technology with utilities in Australia, New Zealand and as far as Ireland, Iota has continued to expand through the commercialisation of additional technology solutions.

There are now a dozen utilities trialling its Advanced BlokAid® technology to monitor levels in sewer and stormwater drains in near-real time, and Iota is sharing South East Water's digital meter and IoT Platform with industry including City West Water, following successful trials and preliminary installations in our network. Iota also manages South East Water's Priority Plumbing business, offering industrial and residential plumbing services in Melbourne's south east and beyond. For more information visit iota.net.au or see page 76.



Our crews installing Advanced BlokAid® in a residential drain in October 2019 to help protect local waterways.

Case study: Advanced BlokAid® technology supporting pollution prevention

Melbourne's waterways are home to precious aquatic wildlife and provide local communities with important, liveable spaces to gather, play and celebrate. Melbourne Water manages over 8,600 kilometres of Melbourne's waterways to ensure water quality and health. However, when Melbourne Water tested the water quality of Dandenong Creek and Old Joe's Creek, it found heavy metals in the water, which pose a risk to the health of the rivers and the animals and communities that rely on them.

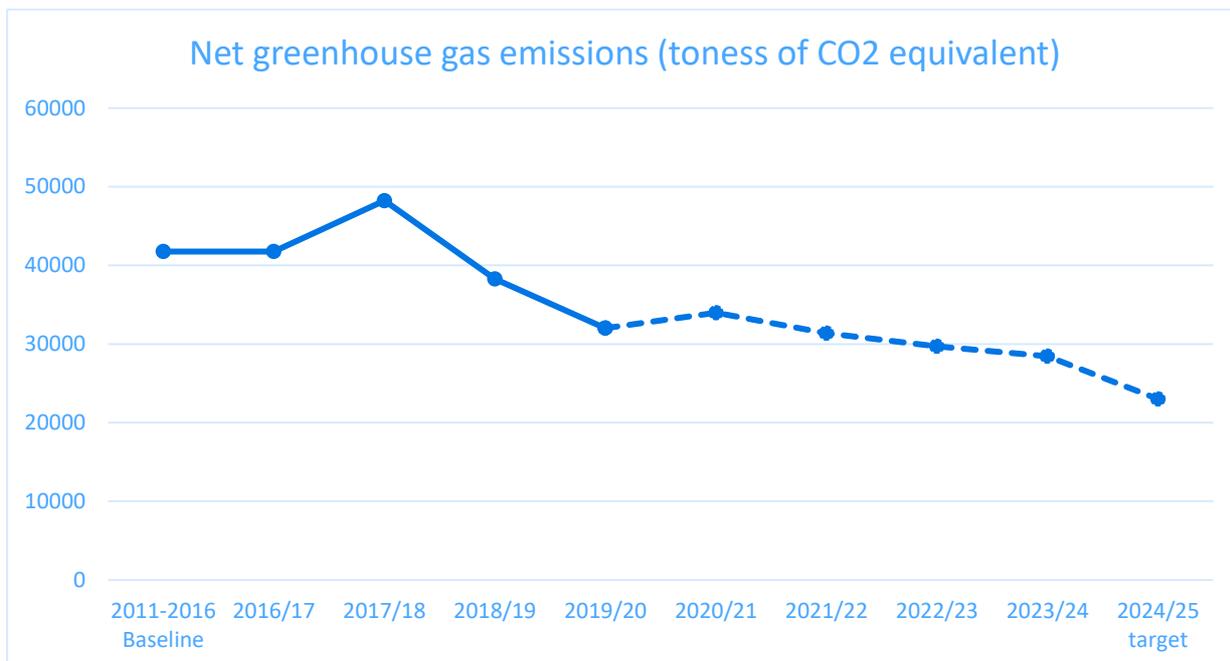
Iota has teamed up with Melbourne Water to trial seven Advanced BlokAid® devices in stormwater drains throughout Melbourne Water's Dandenong Creek catchment areas to monitor for potential contaminants. This project involved using Advanced BlokAid® to monitor stormwater levels into the creeks to help understand the water patterns and identify any unexpected peaks that could indicate illegal waste disposal.

Other statutory obligations

Greenhouse gas emissions and energy consumption

Table 10. Greenhouse gas

Performance indicator	Tonnes CO ² -e						Variance to Baseline	Commentary
	Baseline	2018-19	2019-20 target	2019-20 Scope 1	2019-20 Scope 2	2019-20 Total		
Water treatment and supply	5,607	5,784	N/A	18	5,228	5,246	-6%	
Sewage collection, treatment and recycling	32,259	31,884	N/A	9,978	24,653	34,631	7%	
Transport	1,448	1,541	N/A	1,400	0	1,400	-3%	
Other	2,430	-945	N/A	95	-9,365	-9,270	-481%	10,450 LGCs voluntarily surrendered
Net total emissions	41,744	38,265	36,122	11,491	20,516	32,007	-23%	11% variance to target



Dashed line represents future targets, not future forecasting.

Explanatory notes

The emissions stated of 32,007 tCO₂-e is an early estimate of the 2019–20 net total emissions.

There is expected Scope 1 fluctuations year-to-year due to the nature of sludge management practices including holding times, holding capacity and weather conditions.

In recognition that climate change is urgent and business have to do their bit, we purchased around 10,500 tonnes of greenhouse gas abatement from the commonwealth Renewable Energy Target (RET) scheme to bolster this year's emissions reductions. We were able to do this because we received a compensation from the delay of the commissioning of Kiamal solar farm which was contracted to begin operation this financial year. The purchase of greenhouse abatement from the RET scheme made up for the loss of abatement we expected to receive from the Kiamal Solar Farm (~8,000 tCO₂e) and our own project delays (~1,000 tCO₂e).

Table 11. Energy consumption

Performance indicator	(a) Total energy use (MWh)	Renewable energy use (MWh)							(h) Renewable energy use (%) ((h)/(a))*100	Renewable energy generated for Export (MWh)	Renewable energy use target (%)	Commentary
		(b) solar panels	(c) hydro	(d) wind power	(e) biogas	(f) green power	(g) other	(h) total				
Water treatment and supply	5,154.13	29.09	0	0	0	0	0	29.09	0.6%	1,037.44	N/A	<ul style="list-style-type: none"> • Garfield WPS • Fogarty WPS • Mini hydro (exported only)
Sewage treatment and management	24,169.81	0	0	0	0	0	0	0	0	0	N/A	
Other (headquarters, workshops, depots, etc.)	1,390.31	121.51	0	0	0	0	0	121.51	9%	0	N/A	99kW solar at WatersEdge
Total	30,714.25	150.60	0	0	0	0	0	150.60	0.5%	1,037.44	N/A	



Our performance

Outcome 1: Get the basics right, always

Our customers have told us that they want safe and reliable services, now and always. At its essence, this means clean and high quality drinking water, and the safe disposal of wastewater.



Our crews working at the high-traffic intersection of Clayton and Centre Roads in Clayton from May-June 2019. The majority of work took place at night to minimise disruption to the local residential and business communities.

Case study: Centre Road Renewal Project

In September 2019, we completed renewal works on 1,350 metres of pipeline along Centre Road in Clayton. These pipelines had a history of bursts and pinhole leaks, with some infrastructure dating back to the 1920s as part of the M1 pipeline to transfer drinking water from Notting Hill reservoir to the Moorabbin storage.

Due to the project site's location in a high-traffic, high-density residential and commercial district, we worked at night and on weekends to minimise disruption to traffic, local traders and the community.

Installing the new 630mm High Density Polyethylene (HDPE) pipe inside the redundant 750mm mild steel was a great win for the project and enabled a reduced footprint. We were also able to deliver trenchless installation for all sections of pipework, which greatly reduced the impact to customers and existing infrastructure.

Key initiatives	Our progress in 2019–20
We'll use technology to minimise unplanned water and sewer interruptions to our customers and prioritise our renewals in areas with high community and/or environment impact.	<ul style="list-style-type: none"> • Deployed 325 field sensors that have prevented over fifty dry weather spills. • Developed a geospatial web application to better inform renewal planning on potential impacts to community and environment.
We'll service population growth in both new and existing service areas by providing the capacity within our water and sewerage infrastructure that allows new customers to connect to our services, for example in the new growth areas of Clyde, Officer and Pakenham East.	<ul style="list-style-type: none"> • Completed Clyde trunk main recycled water works. • Completed Ballarto Road rising main and commissioned Pump Station.
Prepare for new customers to connect to our sewerage services on the southern Mornington Peninsula, by constructing a major upgrade of the Boneo Water Recycling Plant (now near capacity). This will support both population growth in the area and cater for customers switching from septic tanks to Peninsula ECO – helping to protect the peninsula's environment and Port Phillip Bay.	<ul style="list-style-type: none"> • Completed design on the Boneo Water Recycling Plant. • Progressed Stage 4 of the upgrade.
Start design and construction of the Longwarry Water Recycling Plant upgrade to ensure the safe discharge of wastewater to the environment and cater for growth within the catchment area of Nar Nar Goon, Tynong, Garfield, Bunyip and Longwarry.	<ul style="list-style-type: none"> • Requested revised licence conditions from EPA to ensure the continued protection of the receiving environment whilst also enabling the plant to effectively manage flows and loads. • This tender is currently on hold while we await approval from EPA on the revised licence conditions, which form the basis of the tender design specification.
We'll continue to invest in research and development to find better ways of delivering what our customers have told us they value through our engagement process.	<ul style="list-style-type: none"> • Offered financial and in-kind support for Water Security Cooperative Research Centre, Clean Australia CRC and bids by UoN/RMIT and UNSW/CSIRO for the Sustainable Communities and Waste Hub of the National Environmental Science Program.

UN Sustainable Development Goals

6, 9, 5, 10, 14, 15, 16

UN Principles

2, 3, 10

Outcome 2: Make my experience better

Our customers want a better experience with us, every time they talk to us, see us out and about or visit us online.



In response to stay-at-home advice issued to Victorians in March 2020, we shifted more than 600 people to remote working and enhanced our network to ensure our Call Centre could continue to support customers from home.

Case study: Changing the way we see complaints

Complaints are one of the best ways for us to understand our customers, communities and anyone who interacts with our organisation. Better understanding complaints helps us improve our processes and the service we deliver.

We're working on a new Complaints Management Framework for our industry to provide employees with a consistent approach to managing complaints, and to improve the experience for anyone making a complaint. As part of this new framework we engaged with customers who had previously made a complaint to get their feedback. We're now making it easier for people to make a complaint by simplifying the way complaints are registered and providing a central complaints point on our website.

Internally, we're adopting a shared understanding of what a customer complaint is and using a consistent process to manage complaints. We know complaints come through a variety of channels from our customers as well as people who work and play in our region so we're making sure every complaint, no matter how big or small, is recorded to help us improve. Complex and time sensitive complaints will be handled by a dedicated group of resolutions professionals to ensure the big issues are resolved quickly.

When complaints are recorded in the same way, we'll use regular reporting and data to fix recurring problems for customers and, in some cases, prevent issues before they occur.

Following a pilot of the new framework, our complaint numbers are increasing as expected however, we're maintaining positive results in our other metrics such as customer satisfaction, trust and value for money.

Key initiatives	Our progress in 2019–20
<p>We'll prepare for evolving customer expectations by enhancing digital experiences across a range of channels, in line with customer preferences.</p>	<ul style="list-style-type: none"> • Improved customer portal layouts for a simpler overview of billing information and water used, plus easy quick links to popular features of the portal. • Enhanced the payment plan feature in our customer portal to enable customers impacted by coronavirus to reduce their payment amounts below our usual minimum. • On track to deliver new website project in October.
<p>We'll be strengthening our relationships with local councils in our catchment area so we can help contribute to healthier communities.</p>	<ul style="list-style-type: none"> • Delivered the 'Think at the sink' fat and oil blockages community education campaign in partnership with City of Greater Dandenong. • Delivered the 'Rainwater tank hardship assistance project' in partnership with City of Casey to help residents recovering from domestic violence save money on their water bills. • Partnered with City of Frankston to deliver the Concessions campaign as part of their Public Health and Wellbeing Plan. The plan identified and registered customers who were eligible for but not receiving concessions. • Collaborated with local councils on the 'Choose Tap' partnership to install drinking water fountains at a range of high use, high visibility locations. • Strengthened our Integrated Water Management project partnerships with councils to develop and deliver alternative water infrastructure to benefit agriculture, industry, public open spaces and the environment.

UN Sustainable Development Goals

6, 3, 8, 11, 12, 17

Outcome 3: Warn me, inform me

Our customers want to be warned, and kept updated, about disruptions – both planned and emergency.



Digital meters are helping us warn customers about potential leaks and empowering them to take control of their water usage – one of our digital meters is pictured here on 4 March 2020.

Case study: Keeping our customers informed with digital meters

We've continued to make strides in our Digital Utility program throughout 2019–20 by increasing the number of digital meters in our network and implementing new ways to warn and inform our customers.

Through our digital metering trials we've already installed 867 digital meters and expect to have 20,000 deployed by the end of 2020 in advance of a full rollout within our network.

We're keeping our digital meter customers informed about their water usage by sending automated 'leak alert' notifications to customers when we think they might have a leak so they can get it fixed quickly to save water and money. Our digital meter customers also have access to view their daily water usage on mySouthEastWater, so they can take control of how much water they're using.

These sophisticated meters will enable data to feed back into our systems, but also allow us to remotely configure the meters to help us better identify leaks and other issues in the network.

Since launching automating our leak alert communications in May 2020, we've already helped 10 customers to find and fix leaks on their property – which benefits both the environment and their hip pocket.

In one instance, we alerted a customer about a potential leak on their property, which prompted them to find and fix a leaking toilet cistern. By finding this leak almost immediately, the customer was able to save around 92,000 litres and a subsequent \$380 off their next bill.

Key initiatives	Our progress in 2019–20
<p>We'll trial new technologies to enable earlier notification for customers about water supply interruptions that might impact them.</p>	<ul style="list-style-type: none"> • Improved the way we inform customers of emergency works and potential interruption to water supply services by sending (in most instances) an SMS or email about the works and providing opportunity to make alternative drinking water arrangements.
<p>We'll leverage our growing operational data to improve the way our customers experience our services by providing more proactive, and timely information about their service, our support options and the status of our operations. For example, we'll continue our use of social media to target customers who may be impacted by service interruptions.</p>	<ul style="list-style-type: none"> • Continued to use our social media channels to proactively warn and inform customers about planned and unplanned service disruptions • Received our highest ever organic (unpaid) engagement following our notification of a sewer spill in Tanti Creek (Facebook: 537 reach, 13 engagements, Twitter: 588 reach, 5 engagements) • Switched our focus to payment support and affordability in light of the coronavirus pandemic • Delivered payment support and affordability messaging via an insert sent to customers with their bill, following the onset of coronavirus. • Reached over 106,000 people through our support and affordability social media campaign, following the onset of coronavirus.

UN Sustainable Development Goals

6, 4, 16

Outcome 4: Fair and affordable for all

Our customers expect our services to be delivered in a fair and affordable way across our entire service region.



Our team in October 2019 at the pop-up shop we opened inside Bayside Shopping Centre, to let the local Frankston community know about our payment options, concession support and share helpful water-saving tips.

Case study: Fair and affordable water for all abilities

WaterAble is a network for people with a disability and their allies in the Victorian water industry, developed to promote and support disability inclusion and employment.

We're beyond proud of our partnership with WaterAble – we need the voices of all people in our communities to keep us on track and in touch with their individual needs.

Our vision is to help create a better world for our customers with forward-thinking water solutions, for all and always, that won't cost the earth. We also strive to deliver a service that's fair and affordable for all. For all means for everyone – our commitments don't discriminate.

As an employer and a service provider, we'll embrace the information and advice shared by the network, to continually raise the bar for inclusion and diversity within the water industry.

Key initiatives	Our progress in 2019–20
We'll continue to evolve our 'Customer First' program to tailor initiatives to the evolving needs of customers and build the capabilities of our employees to deliver these outcomes.	<ul style="list-style-type: none"> • Rolled out resilience training to all our customer-facing employees to ensure the team can continue to deliver great service, especially to customers experiencing high levels of vulnerability.
Empower our customers to better manage their water use and its effect on their bills by trialling new technologies that enable us to provide customers with greater visibility of water usage information in near real-time. For example, we'll give digital meter customers access to a new view in our online portal to manage their water use.	<ul style="list-style-type: none"> • Installed 867 digital meters in our network and automated our leak alert notifications. • Released our online portal to digital meter customers to manage their water use.
We'll advocate on behalf of our customers and provide input to Melbourne Water to help with the development of their price submission.	<ul style="list-style-type: none"> • Continued consultation on the development of Melbourne Water's pricing submission.
Review the effectiveness of our current waste management pricing and controls to improve how we use the existing sewerage system.	<ul style="list-style-type: none"> • Reviewed our trade waste pricing. • Progressed the overall review of our trade waste management pricing and controls.

UN Sustainable Development Goals

6, 9, 1, 7, 11, 12

UN Principles

1

Outcome 5: Support my community, protect our environment

Our customers want us to support their community and protect our environment – delivering long-term water security in a way that honours the environment and ongoing liveability.



Our contractor Samplescience collects a grab sample of raw sewage from a manhole in Frankston in April 2020 (photo supplied: Samplescience).

Case study: Joining the fight to track coronavirus

We're participating in an innovative, Australia-wide investigation to track and monitor the presence of coronavirus and its persistence in the Australian sewerage network.

Initiated by Melbourne Water and led by Water Research Australia (WaterRA), the national ColoSSoS Project - Collaboration on Sewage Surveillance of SARS-COV-2 – is helping health authorities identify potential infectious clusters and timelines of potential outbreaks.

The expertise of our people was drawn from across the organisation, including involvement from members of our Research and Development, Product Quality and Liveable and Sustainable Futures teams.

We're currently collecting weekly sewage samples for analysis of SARS-CoV-2 from our Boneo and Mount Martha wastewater treatment plants, as well as from strategic locations at various points within our sewerage network.

We joined a huge collaborative effort across 12 major water utilities, six health departments and ten research organisations. Experts in health, microbiology, laboratory testing, wastewater-based epidemiology and policy communication are working together with additional support from international experts.

The ColoSSoS Project demonstrates an innovative approach to re-framing our access to the network, as well as the skills of our people, as a resource to provide additional value to community health.

Key initiatives	Our progress in 2019–20
<p>We'll install a cogeneration plant at our Mount Martha Water Recycling Plant to replace our current boiler and generate our own green electricity and in turn, contribute to our reduction in CO2 emissions</p>	<ul style="list-style-type: none"> • Awarded project tender to Pipes and Structures Consortia FHDB. • Constructed a detailed concrete slab and retaining wall to house the new unit. <p><i>In March 2020, we chose to put project construction on hold to protect our employees from the risk of coronavirus transmission.</i></p>
<p>We'll continue to create and support liveable sustainable communities through the integration of water sensitive design principles into our planning for the provision of water services to urban areas.</p>	<ul style="list-style-type: none"> • Constructed and commissioned recycled water infrastructure for Pakenham East and Ballarto Road recycled water mains.
<p>Deliver on customer expectations to increase supply and use of recycled water, with a focus on new estates with recycled water infrastructure in our service area.</p>	<ul style="list-style-type: none"> • Completed commission of the Cranbourne West Tank/Pumping station. • Awarded the Cranbourne to Clyde recycled water main project to Zinfra-Jaydo-WSP. • Commenced construction on the Cranbourne to Clyde recycled water main ahead of schedule. • Converted 7,500 properties from potable water to recycled water. <p><i>Commissioning has been on hold since April 2020 due to coronavirus restrictions.</i></p>
<p>Work in partnership with our stakeholders to deliver liveable and sustainable communities through projects including; integrated water management funded projects, the Fishermans Bend and Aquarevo developments, recycled water use for agriculture and rainwater and stormwater solutions.</p>	<ul style="list-style-type: none"> • Presented a draft business case to DELWP to provide recycled water to the horticulture area near Cora Lynn. • Created and implemented a performance dashboard at Aquarevo to monitor the overall system performance at the estate level. • Partnered with City of Melbourne, City of Port Phillip, DELWP and the Fishermans Bend Taskforce, to develop case studies demonstrating how IWM targets can be met during the design and construction of private building. This research will be used to change the way planning permits are assessed to ensure appropriate IWM requirements are implemented.
<p>Continue to raise awareness with current and future customers about the long-term benefits of water efficiency</p>	<ul style="list-style-type: none"> • Delivered Save a Bucket Load campaign offering 10 simple water saving tips, like shaving 60 seconds off your shower time. Fifty-four per cent of campaign viewers said they'd taken shorter showers. • Introduced Melbourne-wide Make Every Drop Count campaign to help customers change their behaviour and save water. See case study '<i>Helping Melburnians make every drop count</i>' on page 37.

UN Sustainable Development Goals

6, 11, 13, 17, 2, 8, 7, 14, 15

UN Principles

7, 8, 9

Enabling our business

Our customer outcomes are supported by our four business enablers: **people, technology, financial capability** and **governance**. These provide the foundation for us to deliver high quality service to our customers in a changing world.

Key initiatives	Our progress in 2019–20
<p>People <i>We strive to ensure that our organisation reflects the community that we service. We put safety first. We'll continue to build on our capability and develop a diverse, inclusive workplace.</i></p>	
<p>We'll continue our commitment to implementing safety and wellbeing practices supported by a management system that achieves and maintains a safe and healthy workplace for all our employees, contractors and the community.</p>	<ul style="list-style-type: none"> • Updated our safety reporting system <i>MYOSH</i>, to cover the key areas of concern, including remodelling the input page for Senior Leader interactions and inspections in the field. • Progressed replacement of <i>MYOSH</i> and determined the new system will also be utilised to cover our Environmental factors as a Health, Safety and Environment system (HSE). • Employed our Training Coordinator on a full time basis.
<p>Continue to ensure that our people practices celebrate diversity and inclusion and the positive benefits diversity brings to our employees, organisation, customers and community, including the development and implementation of our Reconciliation Action Plan (RAP).</p>	<ul style="list-style-type: none"> • Implemented our Diversity and Inclusion Operational Plan. • Achieved strong inclusion and workforce flexibility results in our employee engagement surveys. • Started our Aboriginal and Torres Strait Islander student internship program. • Improved Gender equality in our leadership. • Received conditional endorsement of our RAP. • Started delivering some of our RAP actions
<p>We'll continue to prepare for the workforce of the future, by implementing approaches that strengthen our ability to attract, develop and retain the skills and capabilities needed for the future. We'll continue to enhance the way in which we work by leveraging the benefits of inclusive and flexible practices; creating a compelling place to work for our people.</p>	<ul style="list-style-type: none"> • Launched our new Learning Management System. • Launched our new Engineering, Science and Technical competency development guide. • Expanded our Leadership development programs to offer structured development for our Senior Leaders and Technical Experts. • Progressed towards our goal of becoming one of Oceania's top 25 per cent employers.
<p>Technology <i>Technology enables us to deliver innovative solutions that provide better outcomes for our customers and the management of our assets, while enhancing our IT systems and their security.</i></p>	
<p>Enhance our customer assistance systems to improve the way we manage our vulnerable customers.</p>	<ul style="list-style-type: none"> • Designed and deployed a number of system changes to support customers financially impacted by coronavirus.
<p>Continue to develop and enhance our cybersecurity landscape to manage any potential threats.</p>	<ul style="list-style-type: none"> • Increased monitoring and messaging to all employees in response to increased security threat posed by coronavirus.

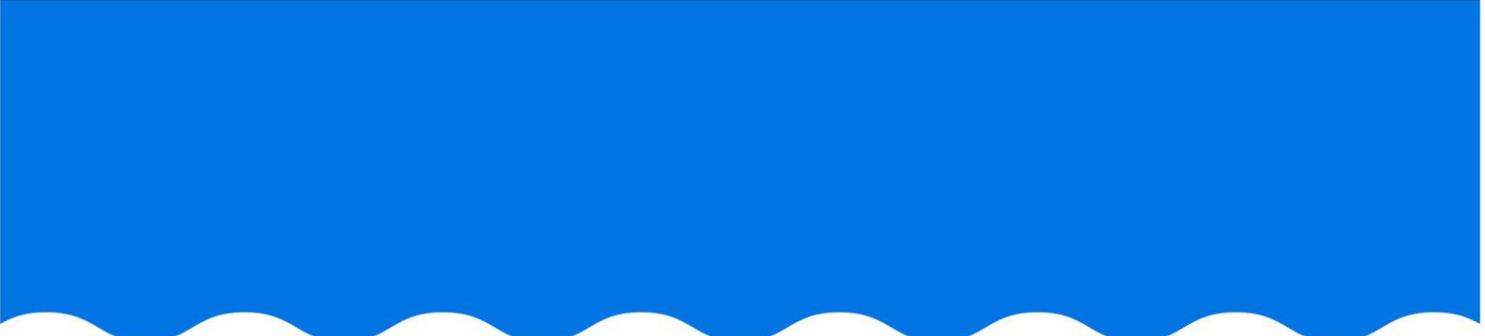
	<ul style="list-style-type: none"> • Ensured all systems patched and monitored and business continuity plans and disaster recovery sites are up to date.
Invest in and develop IT platforms to maintain and improve the services we deliver and be at the forefront of emerging technologies.	<ul style="list-style-type: none"> • Deployed an IoT platform that manages IoT devices, including on boarding, configuration, alarms and alerts. • Integrated digital information in to mySouthEastWater customer portal allowing customers to receive 30 minute reading data. • Built business processes around alarms to inform customers of a continuous flow event at their household.
Deliver a unified asset register and related processes to provide a framework and repository of key asset information which will support enhanced asset lifecycle management and analysis.	<ul style="list-style-type: none"> • Deployed an asset register to capture analogue and digital meters and IoT assets. The register will be expanded to capture all water and sewer assets in a centralised solution.
Financial capability <i>Our focus on efficiency, innovation and prudent financial management will continue to drive our financial strength over the next five years and ensure we deliver on our customer outcomes.</i>	
Leverage our strong financial capacity to invest in emerging opportunities to enhance the service we provide in the most efficient and affordable way.	<ul style="list-style-type: none"> • Operating expenditure remained below budget for 2019–20, with savings in employee wages due to vacancies in the first half of the year. • Delivered savings procurement of new contracts for hardship customers support services, chemicals and various maintenance contracts. • Completed 2020–21 business expenditure budget, including the efficiency commitments from our <i>Five-year Customer Commitment 2018–23</i>.
Governance We're committed to the highest standards of governance to ensure that we comply with all relevant legal, regulatory and internal policy requirements.	
Embed our new corporate risk appetite into our decision making process.	<ul style="list-style-type: none"> • Adopted our Risk Management Framework and embedded risk appetite in the framework and our business processes. • Leveraged statements, tolerances and metrics to proactively manage threats and opportunities across organisational decision-making forums.
Assess compliance training and induction policies, procedures, responsibilities and regulations affecting our business to ensure organisational culture around compliance is maintained.	<ul style="list-style-type: none"> • Achieved our new employee and existing employee training goals, enhanced reporting functionality and meet all audit requirements.

UN Sustainable Development Goals

5, 10, 8, 11, 16, 17

UN Principles

4, 5, 6



Our people

About our people

An inclusive workplace

Our people are as diverse as the communities we serve. We're proud to provide a safe workplace for everyone, and we understand that an inclusive, diverse workplace benefits everyone, by helping us better understand and serve our employees, customers and community.

We're continuing to embed flexible work to support work life balance for all of our employees, at all life stages, for whatever reason.

Innovation and transformation underpin everything we do

We know that when our people are engaged and empowered, our customers benefit. That's why we're continuing to develop our current and emerging leaders and creating clear links between customer and employee trust and our strategic outcomes.

We're getting ready for the future of work by creating an environment where our people challenge themselves to discover new solutions to existing and emerging issues, use their skills and knowledge to respond to climate change, and drive water efficiency in everything we do – so we can deliver on our promise to provide healthy water, for life.

Behind the scenes we have the full time equivalent of more than 618 employees (654 employees overall) working as engineers, scientists, analysts, emergency technicians, information technology and customer support people.

Our people are supported by a range of highly skilled partners. They're service providers, property developers, plumbers, builders, real estate agents and council workers, among others.

In 2019, we collaborated with the other metro water corporations in Melbourne to deliver a joint graduate program, winning the award for innovation at the Australian Association of Graduate Employers Awards in November. Teaming up with our fellow water organisations enabled us to provide graduates with improved professional development and networking opportunities.



Our 2020 graduates - pictured at the official Welcome to Water event on 21 January 2019, with General Manager for Future Water Strategy, Phil Johnson and General Manager for Liveable Water Solutions, Charlie Littlefair - are off to a flying start across the business, in engineering, finance and IT. Not present, Tim Lee.

Safety and wellbeing

Occupational Health and Safety (OHS)

We put safety first in everything we do and are focussed on employee wellbeing.

Safety underpins absolutely every element of our organisation and supports each and every employee (including our contractual partners) – from how we design and plan, issue and monitor work, to looking out for one another each day.

We believe everyone, regardless of their role, can be a safety and wellbeing leader. We all have a role to play to ensure we have a safe working environment.

Our continued commitment to a safe and healthy workplace, along with visible safety leadership, has enabled us to visibly grow our proactive safety culture in partnership with our contractors. We're committed to best practice health and safety systems, targeted mental health and wellbeing programs and relentlessly pursue the mitigation of all operational risks.

Our Safety, People and Wellbeing strategy played a key role in driving safety and wellbeing programs.

We've successfully delivered a number of key initiatives this year including:

Increased wellbeing program

- We're continuing to build and fine-tune our Mental Health First Aider program and partnered with health professional organisations including a local medical clinic and clinical psychologist to further assist our employees in accessing the required health, safety and wellbeing support.
We've partnered with an external organisational psychologist to develop a comprehensive organisation-wide psychosocial risk register.

Our safety culture journey and revised safety performance reporting metrics

- We're implementing new safety maturity evaluations and programs and collaborated on new KPIs with an increased focus on leadership, positive behaviours, accountability for safety, and wellbeing. New lead and lag indicators measure the effectiveness of our safety systems and demonstrate how each measure contributes to promoting our safety culture.

Revamping our safety management system

- A dedicated project team with support from cross-business groups is now creating and reviewing all of our safety and wellbeing procedures and practices to further strengthen our system.

Training and competency is an integral part of this project to provide up-to-date safety and wellbeing information to our employees and contractors by using newer digital systems. This project will ensure implementation of best practices and effective management of high risk activities aiming to reduce incidents across our network. Reporting on project progress is also part of our new KPIs.

Delivered safety and wellbeing training

- We delivered various accredited and non-accredited training and awareness sessions and provided guidelines on a safe and ergonomic working-from-home environment across the organisation.

Progressed implementation of digital safety solutions

- We successfully implemented digital innovation in safety at our treatment plants to promote engagement, drive continuous improvement and improve efficiency. We partnered with CodeSafe to introduce QR technology and mobile applications to all our water recycling plants as a new and improved way to track site attendance and deliver safety inductions. Plans are in place to further expand this technology to other streams including contractor safety induction. This technology is now also being used for location tracking.

Focussed on industry collaboration

- The Water Industry Operators Association (WIOA) recognised our work using technology to assess, design and implement safety controls for hazardous manual handling high risk activities - a key

cause of injury and area our industry is most challenged by. We engaged dorsaVi for primary work which showed we can reduce these incidents dramatically by using correct tools and techniques.

We've again achieved good results with our end of year Total Recordable Injury Frequency coming down from 11.59 to 9.89 per million work hours (15 per cent less than in 2018–2019).

Our safety performance continues to improve with plateauing of injuries despite a 17 per cent increase in hours worked.

This year we changed our focus from reporting of hazards and close calls, to how effectively and efficiently we close out actions arising from hazards and close calls. Our total actions being closed out on time increased by two per cent this year. This demonstrates an increased focus on proactive preventative measures toward our aspiration to create a workplace that's free from harm.

We recorded four lost time injuries (LTIs) for the year (a combination of our employees and contractors) compared to six in the previous year. The lost time injury frequency is 1.58 injuries per million work hours a decrease from 2.78 last year. We set a target of zero lost time injuries for the year.

There were four accepted WorkCover claims in the year; one was psychosocial with an average cost of \$67,317. This is an improvement from 10 accepted claims last year; six were psychosocial.

Table 12. Performance against our OHS indicators (based on our employee data only)

Measure	KPI	2017–18	2018–19	2019–20
Incidents*	Number of reported incidents	4	6	7
	Rate for 100 FTE	0.75	0.86	0.99
Hazards**	Number of reported hazards	178	140	58
	Rate for 100 FTE	33.19	20.02	8.19
Claims (WorkCover)	Number of standard claims	3	10	6
	Number of lost time claims	3	6	1
	Rate per 100 FTE	0.56	0.86	0.14
Fatalities	Fatality claims	nil	nil	nil
Claim costs	Average cost per standard claim	\$29,929	\$52,027	\$67,317
Management commitment	Management participation in planned safety observations	173	157	163
Consultation and participation	OHS committee meetings including employee elected and management representatives	24	30	29
Risk management	Safety management system audit actions closed	100%	100%	100%
Training	Safety compliance training completed within 10 days of commencement	100%	98%	94%

Note:

* Incidents include the sum of Lost Time Injury (LTI), Medical Treatment Injury (MTI) and Restricted Work Injury (RWI) for the year for our employee data only.

**South East Water employee data only

Diversity and inclusion in our workplace

In 2019–20, we implemented our Diversity and Inclusion Operational Plan which focused on ensuring we have an inclusive and diverse workplace, flexible workforce, an increased emphasis on gender equality, and employment opportunities for Aboriginal and Torres Strait Islander People.

Our RAP was conditionally endorsed in June and we've already delivered a number of actions from the plan including: cultural awareness training facilitated by the Koorie Heritage Trust, installed our RAP artwork; developed an Aboriginal and Torres Strait Islander employment strategy, and maintained our relationships by engaging with Traditional Owner Groups, Aboriginal and Torres Strait Islander Peoples and Communities in our service region.

Our employee engagement survey continued to achieve strong results with 85 per cent of our employees supporting us to offer a diverse and inclusive workplace, and a slight increase up to 87 per cent agreeing employees have the flexibility needed to balance their personal and work lives.

Throughout the year we held and participated in some great events to raise awareness and celebrate the inclusion of people with disability, the LGBTIQ community, and gender and cultural diversity. These events included International Men's Day, International Day of People with a Disability, Midsumma Pride, International Women's Day, Cultural Diversity Week and National Reconciliation Week.

We proudly joined Inclusive Australia, along with organisations like Optus and Coles to help lead the drive for social inclusion across Australia. Together we're committed to 'An inclusive Australia is where all people feel they belong and are valued, and difference is respected and celebrated'. We've also invited Inclusive Australia to support development of our next Inclusion and Diversity Strategy.

Case study: Enhancing Aboriginal employment outcomes

In 2019, we worked with the Victorian Public Sector Commission to foster the capabilities and careers of First Nations students through the Barring Djinang internship program.

In partnership with CareerTrackers, Barring Djinang (a Taungurung phrase meaning 'pathway of the feet') is part of a five year Victorian government strategy to enhance Aboriginal employment outcomes across the public sector.

We were fortunate to have three First Nations internship students join us as part of the program, with two securing ongoing positions with our organisation.

Our talented interns left a big impact through their work with our Customer and Community Engagement, Resource and Recovery and Liveable and Sustainable Futures teams.

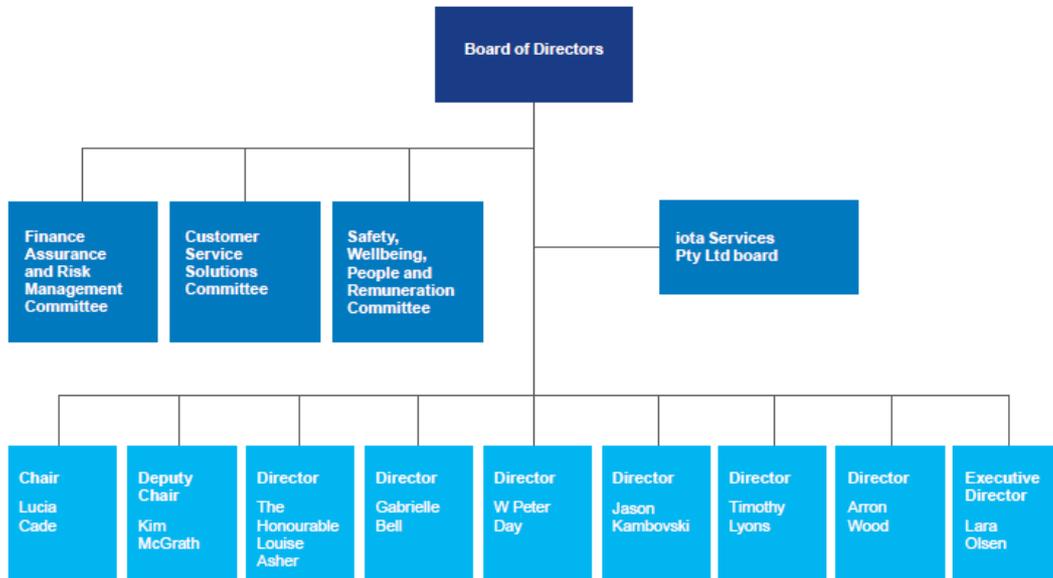
We're proud to be part of a program that has offered over 5,000 internships, helping students complete more than 1,000 degrees. We thank our students for their hard work, and look forward to supporting them to become leaders of the future.



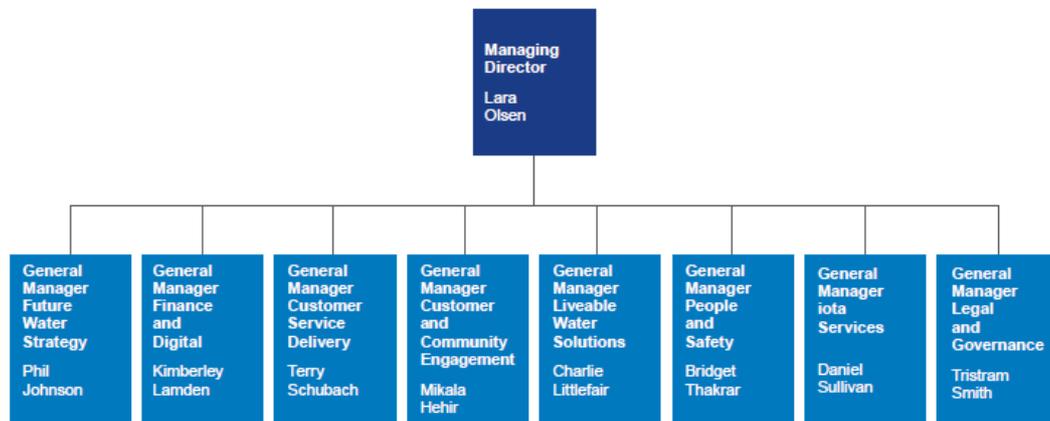
Our Barring Djinang interns Samantha Beaumont (middle), Evan Grosvenor (far right) and Japheth Langerak (kneeling) in January 2020, with their South East Water People Leaders Peter Chamberlain, Andrew Harman, Ella Linton-Smith and our Diversity and Inclusion Advisor Lisa Watene-Tapa.

Organisation and governance chart

Governance structure as at 30 June 2020



Organisation structure as at 30 June 2020



Our Board of Directors

We have eight non-executive directors (including the chair), and a managing director on our Board (at 30 June 2020).

They represent a diverse mix of skills, experience and backgrounds. The Minister for Water appoints the Board of Directors in consultation with the Treasurer. The Board's main role is to preside over all significant strategic, commercial, regulatory, financial and risk-focused business decisions as well as safety, people and customer matters.

The Board is of the view that each non-executive director is independent. No Board members have any relationships or interests, business or otherwise, that compromise their autonomy. The Board annually reviews and reports on its performance and effectiveness as required under the Statement of Obligations.

The Board conducts an annual assessment of its performance and effectiveness, as well as of its committees and individual directors. Directors and members of the executive completed a survey on Board performance and effectiveness. This year, directors also participated in individual interviews as part of this review. The annual assessment includes discussion and review of each committee, improvements from previous year as well as a consideration of future requirements, to make sure they're delivering what they need to.

We engage external experts as required to review certain aspects of the Board's activities and assist in the continuous improvement process. We compile these results and provide a written report to the chair.

Bringing the outside in

We report monthly to the Board on media, social media and engagement with key stakeholders. Our Board member W Peter Day is also a member of our Customer and Communication Advisory Council and provides updates from Council meetings to the Customer Service Solutions Committee and Board.

We regularly invite industry experts and members of our community to attend our Board meetings – bringing the outside in and sharing real customer stories. In 2019 /20, eight guest stakeholders attended our Board meetings. They represented a diverse cross-section of our customers and industry, including experts in science, innovation and research; building resilient leaders; industrial advocacy and the indigenous artist behind our RAP artwork. Each shared important insights that help us better understand our customers, community and the world we live in.

Month	Guest stakeholder
July 2019	Tim Piper and Tennant Reid , Australian Industry Group, discussed data, insights and trends related to the performance of State and National industries.
October 2019	Simon McKeon , Chair of South East Melbourne, discussed our role as a trusted community leader and the value of partnering with NGOs and the private sector to deliver on the top priorities for our region, including recycled water. Lucinda Hartley , Co-Founder of Neighbourlytics, shared how data insights can help us better understand liveability and the importance of human experiences. John Thwaites , Chair of Melbourne Water, discussed avoiding dangerous climate change through emissions reduction and the mitigation role of the water industry.
December 2019	Adam Magennis , Bunurong artist, shared his personal story and explained the stories reflected in the indigenous artwork he created for our RAP.
March 2020	James Deverell , Director CSIRO, discussed the Australian National Outlook, the drivers of predicted change in Australia, and the shifts needed to respond.
May 2020	James Garriock , InSync Consulting, presented our WSAA National Customer Perceptions Study results compared against 34 other water utilities and aligned the results to demonstrate performance against our five key customer outcomes.

Lucia Cade – Chair

BEng (Civil) (Hons), BEc, MEngSc, MBA, FAICD, FIEAust

Ms Cade was appointed Chair of South East Water in October 2015 and is a director of Iota Services Pty Ltd, a wholly owned subsidiary of South East Water. She has executive experience in the water utility, engineering consulting and construction industries. Ms Cade is currently Chair of Paintback and a non-executive director of Engineers Australia, Carbon Revolution, Regional Investment Corporation and the Cooperative Research Centre for Future Fuels. She is a Global Advisor to the UN Global Cities Compact and a member of the Engineering Dean's Advisory Council at Monash University.

Committees

- Finance Assurance and Risk Management Committee
- Customer Service Solutions Committee
- Safety, Wellbeing, People and Remuneration Committee

Kim McGrath – Deputy Chair (October 2019 – present)

BLaws, BA, MAICD

Ms McGrath was appointed as a Director of South East Water in October 2015. Ms McGrath is Principal Consultant at BKE Consulting, a public policy advisory and research service. She has over 20 years' experience in public policy formulation and implementation at international, federal and state levels including eight years as water policy adviser to the Premier of Victoria. She has provided strategic advice, research, policy development, writing and editorial services to governments, private companies, universities and not-for-profit organisations. Ms McGrath is a director of VicForests. She is currently a doctoral candidate at Monash University. Ms McGrath has previously served on the board of South Gippsland Water.

Committees

- Finance Assurance and Risk Management Committee
- Customer Service Solutions Committee

The Honourable Louise Asher – Director (appointed October 2019)

BA (Hons), MA, DipEd, BEc

Ms Asher was appointed as a Director of South East Water in October 2019. She is a retired Member of Parliament with considerable experience in government operations. Her expertise includes legislation and regulation, formulating budgets and policy development gained from her ministerial and shadow ministerial responsibilities in diverse portfolios such as trade, innovation, tourism, industry, water and manufacturing. It supports her deep understanding of industry and the importance of collaboration and compromise to achieve successful political and commercial outcomes. Ms Asher is a former director of Playbox Theatre and a former council member of Victorian College of the Arts.

Committees

- Safety, Wellbeing, People and Remuneration Committee

Tony Beach – Deputy Chair (October 2013 – September 2019)

MAICD, MIE Aust, BEng (Civil)

Mr Beach was appointed as a Director of South East Water in October 2013 and is a Director of Iota Services Pty Ltd, a wholly owned subsidiary of South East Water. His executive career includes foundation Managing Director of the Zinfra Group and he also undertook key executive management roles with Jemena, Asciano, AGL, Powercor Australia and HEC Tasmania. Mr Beach has extensive experience in essential infrastructure across electricity, gas, water, rail and ports and provides strategic advisory and non-executive director services via his role as the Managing Principal of Phase 10 Consulting Ltd.

Committees

- Customer Service Solutions Committee
- Safety, Wellbeing, People and Remuneration Committee

Gabrielle Bell – Director

LLB (Hons), BEng (Chem) (Hons), GAICD

Ms Bell was appointed as a Director of South East Water in October 2015 and is Chair of Iota Services Pty Ltd, a wholly-owned subsidiary of South East Water from December 2017. Ms Bell is a corporate lawyer with broad experience working in Australia and South East Asia. During her legal career, her practice has focused on corporate advisory (including corporate governance), mergers and acquisitions and capital markets. She is also a Director of V/Line Corporation, InLife Independent Living Ltd FSS Trustee Corporation and the Victorian Water Industry Association. Ms Bell was a Director of Southern Rural Water from October 2012 to September 2015.

Committees

- Finance Assurance and Risk Management Committee

Terri Benson - Managing Director (resigned on 13 December 2019)

Ms Benson was appointed Managing Director of South East Water on 29 May, 2017 and resigned on 13 December 2019. Ms Benson was also a director of Iota Services Pty Ltd, a wholly-owned subsidiary of South East Water, Director of the Cooperative Research Centre for Water Sensitive Cities, a director of Water Services Association of Australia, a director of The Centre for New Energy Technologies, an advisory board member with Birdon and a board member with Zero Emissions Water. A highly experienced chief executive officer, she has held a range of both executive and non-executive director roles in the government utility and private infrastructure sectors. She is a former CEO of Seqwater, a wholesale water utility in south-east Queensland, a former Managing Director of Essential Energy and a former Chair of the Energy and Water Ombudsman NSW. Ms Benson was the Managing Director of Birdon, a diversified engineering and services business providing innovative solutions to the military and marine industries with operations across Australia, USA and Europe.

Committees

- Finance Assurance and Risk Management Committee (attendee only)
- Customer Service Solutions Committee (attendee only)
- Safety, Wellbeing, People and Remuneration Committee (attendee only)

W Peter Day – Director

LLb (Hons), MBA, FCA, FCPA, FAICD

Mr Day was appointed as a Director of South East Water in October 2015. Mr Day previously held executive positions as Chief Financial Officer of Amcor, Chief Financial Officer and Executive Director at Bonlac Foods and Managing Director Business Services with the Rio Tinto group. He is currently a non-executive Director of a number of ASX listed companies including Alumina, Ansell, and Australian Unity Office Fund. Mr Day is also a Director of Authorities Online and Maurice Blackburn. Mr Day was a past Director of Gippsland Water from October 2008 to September 2015.

Committees

- Finance Assurance and Risk Management Committee (Chair from October 2019)
- Customer Service Solutions Committee
- Safety, Wellbeing, People and Remuneration Committee
- Customer and Community Advisory Council

Jason Kambovski – Director (appointed October 2019)

LLB (Commercial Law), BCom (Accounting, Finance), GAICD

Mr Kambovski was appointed as a Director of South East Water in October 2019 and is a director of Iota Services Pty Ltd, a wholly-owned subsidiary of South East Water. He brings more than 25 years of experience in the financial services, legal and accounting sectors and is currently Global Head of Public Sector at Westpac Institutional Bank. He is a former Member of the Board of Directors at Lower Murray Water where he was the Chair of the Finance and Audit Committee.

Committees

- Customer Service Solutions Committee

Timothy Lyons – Director

BA, DipFinSvcs, GAICD

Mr Lyons was appointed as a Director of South East Water in October 2015 and is Chair of South East Water's People, Remuneration, Safety and Wellbeing Committee. Mr Lyons is a qualified and experienced company director with an extensive track record in governance, accountability and risk management. His most recent role was Assistant Secretary at Australian Council of Trade Unions. Mr Lyons is Director at Host Plus and ME Bank and is a member of the Victorian Government Purchasing Board and Shareholder Advisory Board. He has also served on several other boards including LUCRF Super, HESTA Super Fund, The Union Education Foundation Ltd and Industry Super Australia Pty Ltd.

Committees

- Customer Service Solutions Committee
- Safety, Wellbeing, People and Remuneration Committee (Chair from December 2017)

Freya Marsden – Director (October 2015 – September 2019)

MComm, BAgResEc, GAICD

Ms Marsden was appointed as a Director of South East Water in October 2015 and was Chair of South East Water's Finance Assurance and Risk Management Committee. Ms Marsden is the Managing Director of The Acuity Group which provides governance, strategy, policy and economic advice. She has held senior advisory and economist roles across state and federal governments and federal parliament and is a former Director of Policy at the Business Council of Australia. An experienced non-executive Director, Ms Marsden's other current boards include the Victorian Planning Authority (Director and Chair of Risk and Audit), Chair of the Victorian Government's Sustainability Fund and Committee Member of VicRoads Risk, Audit and Governance Committee.

Committees

- Finance Assurance and Risk Management Committee (Chair)
- Safety, Wellbeing, People and Remuneration Committee

Lara Olsen – Managing Director (started February 2020)

BEng (Chem) (Hons), BArts, MBA, GAICD

Lara was appointed as our Managing Director on 17 February 2020, leading the delivery of water, sewerage and recycled water services to 1.87 million people who rely on us every day and every night. Ms Olsen is also a director of Iota, a wholly-owned subsidiary of our organisation and she is a Member of the Frankston Revitalisation Board. Ms Olsen has extensive experience in the utility sector, focused on customer experience and innovation. Before joining us, Ms Olsen was the Global Head of Business Development and Industrial Products at Tesla Energy based in the USA and also led the Business Development and Industrial Products team for Tesla Australia. Previous roles include head of strategy for CitiPower PowerCor and the Australian Renewable Energy Agency (ARENA), Project Leader with the Boston Consulting Group and co-founding Billcap, an energy platform that helps customers and retailers manage their usage and bills.

Committees

- Finance Assurance and Risk Management Committee (attendee only)
- Customer Service Solutions Committee (attendee only)
- Safety, Wellbeing, People and Remuneration Committee (attendee only)

Arron Wood – Director

BForSc, GAICD

Mr Wood was appointed as Director of South East Water in October 2017 and a director of Iota Services Pty Ltd, a wholly-owned subsidiary of South East Water. He is also Chair of South East Water's Customer Service Solutions Committee. He is Deputy Lord Mayor of the City of Melbourne and is a member of the council's Audit and Risk Committee, Chair of the Melbourne Sustainability Society Institute and Director of Firestarter Pty Ltd, an environmental communication and education consultancy business he founded in 2001. He is a former board member of the Port Phillip and Westernport Catchment Management Authority and Sustainability Victoria and has previously held water and environment management roles in state and local government entities. Mr Wood holds a Bachelor of Forest Science and is a graduate of the Australian Institute of Company Directors.

Committees

- Customer Service Solutions Committee (Chair from December 2017)

Board committees

Three committees provide the Board with strategic guidance and help deliver its responsibilities.

- Finance Assurance and Risk Management Committee
- Customer Service Solutions Committee
- Safety, Wellbeing, People and Remuneration Committee

The Board determines and reviews membership at least every two years. The Board selects a non-executive director to chair each committee, and each has its own charter which sets out its role, responsibilities, composition, structure, membership requirements and operation. Their performance is discussed and reviewed as part of the Board's annual assessment.

Our Board committees are made up of members of our Board and executive team. Right now, we don't have anyone identifying as Aboriginal or Torres Strait Islander on any of our Board committees.

Iota Services Pty Ltd, a wholly-owned subsidiary of South East Water, has a board which includes non-executive director members. In 2019, Iota Services changed its name to Iota.

Finance Assurance and Risk Management Committee

This committee helps the Board deliver its duties regarding our organisation's financial management, risk and control framework.

Four meetings were held during the financial year. The Victorian Auditor-General's Office and the internal auditor regularly attended these.

Customer Service Solutions Committee

This committee develops, reviews and monitors our strategies, frameworks, plans and processes for the delivery of services to our customers, community and stakeholders.

It provides direction and oversight of strategic planning and sustainable delivery of services, to make sure that performance is delivered in an effective, efficient, affordable and environmentally sustainable manner.

Safety Wellbeing People and Remueration Committee

This committee helps the Board to drive sustainable business performance by ensuring we provide a safe, constructive and rewarding employment environment.

It reviews, monitors and recommends to the Board for approval relevant policies and strategies particularly in relation to our executive remuneration, employer brand and reputation, strategic workforce planning, wellbeing and safety and delivery of our organisational cultural objectives.

The People Remuneration and Safety Committee changed its name to the Safety, Wellbeing, People and Remuneration Committee in December 2019.

Iota Services Pty Ltd. board

The Iota board is responsible for steering Iota in a way that ensures it fulfils its functions effectively and complies with its governance framework. The Iota board is accountable to South East Water and presides over all significant strategic, commercial, regulatory, financial and risk focused elements of Iota Services. Its board comprises a majority of independent directors: four non-executive directors from South East Water's board, the managing director and an executive director from South East Water.

Six meetings were held during the financial year. Meetings are generally held on a bi-monthly basis.

Iota board members:

- **Gabrielle Bell**
Chair since December 2017
- **Lucia Cade**
Independent
- **Tony Beach** (board member until September 2019)
Independent
- **Jason Kambovski** (board member since October 2019)
Independent
- **Arron Wood**
Independent
- **Terri Benson** (resigned from South East Water on 13 December 2019)
- **Lara Olsen** (started 17 February 2020)
- **Phil Johnson**

Table 13. Attendance at board and committee meetings

	Board of Directors meetings		Iota Services Pty Ltd board meetings		Finance Assurance and Risk Management Committee		Customer Service Solutions Committee		Safety Wellbeing People and Remuneration Committee	
	Eligible attendance	Attended	Eligible attendance	Attended	Eligible attendance	Attended	Eligible attendance	Attended	Eligible attendance	Attended
Lucia Cade	9	9	5	5	4	4	4	3	4	4
Louise Asher	6	5	N/A	N/A	N/A	N/A	N/A	N/A	3	3
Tony Beach	3	3	2	2	N/A	N/A	1	1	1	1
Gabrielle Bell	9	9	5	5	1	4	N/A	N/A	N/A	N/A
W Peter Day	9	9	N/A	N/A	4	4	4	3	4	3
Jason Kambovski	6	6	3	3	N/A	N/A	3	3	N/A	N/A
Tim Lyons	9	8	N/A	N/A	N/A	N/A	4	3	4	3
Freya Marsden	3	3	N/A	N/A	1	1	N/A	N/A	1	1
Kim McGrath	9	9	N/A	N/A	4	4	4	4	N/A	N/A
Arron Wood	9	8	5	5	N/A	N/A	4	4	N/A	N/A
Terri Benson	5	5	3	2	1	1	1	1	1	1
Lara Olsen	4	4	2	2	1	1	2	2	1	1
Philip Johnson	1	1	5	4	1	1	N/A	N/A	1	1

Our executive team

Lara Olsen – Managing Director (appointed February 2020)

BEng (Chem) (Hons), BArts, MBA, GAICD

Lara's biography is on page 74.

Terri Benson – Managing Director (resigned December 2019)

BBus (Act), CPA, GAICD

Terri's biography is on page 73.

Mikala Hehir – General Manager Customer and Community Engagement

Mikala was appointed General Manager, Customer and Community Engagement in January 2018. Mikala leads the Customer and Community Engagement group which is responsible for customer, community and stakeholder engagement and strategy, customer experience, complaints resolution, media, communications, design, campaigns, digital channels and reporting and insights. Mikala brings a wealth of experience to this position from roles at Australia Post, Medibank, NAB, Sensis, Ansett and Myer. Her functions have spanned from external communications, PR and promotions, strategic reputation management, media, government and stakeholder relations, internal communications and change and project management.

Phil Johnson – General Manager Future Water Strategy

BBus (Acc), CPA, GAICD

Phil leads the Future Water Strategy group, which oversees the strategy, planning, regulation, integrated water management and innovation functions. Oversight of the organisation's Digital Utility/Internet of Things (IoT) program is also within this group. Phil is also a director of Iota Services, a wholly-owned subsidiary of South East Water. Previous roles include Chief Financial Officer and General Manager of Corporate and Commercial, Group Manager Commercial and Technical Services for Utility Services (an alliance formed between South East Water, Thiess and Siemens) and other senior commercial positions within the utilities industry. Phil joined South East Water in 1995.

Kimberley Lamden – General Manager Finance and Digital, Chief Financial Officer

BBus (Acc), CPA, MBA, GAICD

Kimberley leads the finance and digital group which oversees the finance, business improvement and business technology services functions of the business. Kimberley has extensive experience in finance and has worked across a number of industries. Kim has previously held senior financial management roles in the energy sector at Jemena, Zinfra and United Energy and Multinet Gas as well as financial management roles for organisations such as Johnson & Johnson and RACV. Kimberley joined South East Water in 2016.

Charlie Littlefair – General Manager Liveable Water Solutions

BEng (Civil), FIEAust, CPEng, EngExec, NER, APEC Engineer, IntPE(NZ), CMEngNZ, GAICD

Charlie leads the Liveable Water Solutions group, which manages the land development, resource recovery, liveability, connections, reliability, growth and strategic asset management functions of the business. Previously he was General Manager Asset Investment and prior to that General Manager Operations for Metrowater in Auckland. Charlie has more than 30 years of international experience in the water and sewerage industry, having worked for both private and public water utility organisations including Opus International Consultants, Acer Engineering (a subsidiary of Severn Trent Water) and NZ Forest Products across New Zealand, Australia and the United Kingdom. Charlie joined South East Water in 2008.

Terry Schubach - General Manager Customer Service Delivery

Terry was appointed General Manager, Customer Service Delivery in January 2018. Terry leads the Customer Service Delivery group which oversees our customer service contact centres, water and sewerage network and treatment plants. The group incorporates network delivery, product quality, operational

technology, accounts, metering, faults and connections, and business support functional areas. Terry is a senior executive manager having held various senior roles in major corporations and government departments. He has over 27 years' experience in the planning and development, construction, operation and maintenance of infrastructure assets, projects and programs throughout Australia and internationally. Over the course of his career, Terry has worked in the water, energy, rail and gas sectors and is experienced in corporate business leadership and governance. He has a passion for leading people, safety and developing teams.

Tristram Smith - General Manager Legal and Governance

BCom, BIS, MAF

Tristram was appointed General Manager Legal and Governance and Corporate Secretary at South East Water in 2020. He leads the Legal and Governance group, which is responsible for our corporations legal, compliance, risk, audit and corporate secretarial functions. Tristram has over 15 years of senior management experience in governance related fields, working across a variety of industries including the utilities sector, big four accounting and global financial institutions, both locally and overseas. Tristram joined South East Water in 2015.

Daniel Sullivan - General Manager Iota

BBus, MBA

Daniel was appointed General Manager Iota, South East Water's commercial arm, in August 2017. He has 20 years' experience in senior management across a variety of sectors, holding senior roles in technology and consulting organisations. Daniel also has 12 years of international experience working with Austrade as a diplomatically-posted senior trade official. He has worked out of Australian embassies in Washington, D.C and Latin America where he developed a sectoral focus on water resource management.

Bridget Thakrar – General Manager People and Safety

BCom, GAICD

Bridget leads the People and Safety group, which is responsible for overseeing South East Water's key people functions of human resources, payroll, employee experience, and safety and wellbeing. She brings a wealth of experience in the people field, gained across various industries including construction and manufacturing at Grocon and Fonterra respectively. She is an Activator as part of the SheEO movement. Bridget joined South East Water in 2012.

Workforce data

Application of employment conduct principles

We have a comprehensive employment and conduct policy framework. It provides our employees with clear expectations about their conduct at work and operates in alignment with public sector values.

We ensure all employees are familiar with the policy framework and that their application is met by ensuring policies are read and understood during onboarding, and providing refresher sessions as required.

We review each employment policy on an annual basis in collaboration and consultation with relevant employee groups and other key stakeholders.

Legislation including the *Public Administration Act 2004* guides our policy framework. This ensures compliance and alignment with the public sector.

The policy framework ensures equal employment opportunity for all employees.

Table 14. Full time equivalents (FTE) staffing trends at 2017, 2018, 2019 and 2020

2020	2019	2018	2017
656.0	645.7	571.4	567.0

Table 15. Employment levels at June 2017, 2018, 2019 and 2020

	Ongoing employees				Fixed-term and casual
	Total	Full-time	Part-time	FTE	FTE
June 2020	654	558	96	618.8	37.2
June 2019	653	541	112	620.2	25.5
June 2018	585	474	111	550.8	21
June 2017	569	469	100	536.9	30.1

Aims for gender parity

Our Diversity and Inclusion Framework supports our continued move towards gender parity.

Our shortlisting process sets an expectation that all positions have a balanced shortlist of 50 per cent female and 50 per cent male applicants. We now expect that our interview panels will have both female and male representatives.

We have a projection of 50 per cent representation of women in senior leadership positions within the next five years and are actively working to achieve this.

Table 16. Details of gender distribution in management positions in June 2018, 2019 and 2020

June 2020						
Classification	Total	Female	Male	Self-described	Female %	Male %
Executive	9	4	5	0	44.4	55.6
Senior officers	187	51	136	0	27.3	72.7
June 2019						
Classification	Total	Female	Male	Self-described	Female %	Male %
Executive	9	5	4	0	55.6	44.4
Group managers	16	4	12	0	25.0	75.0
Senior officers	152	38	114	0	25.0	75.0
June 2018						
Classification	Total	Female	Male	Self-described	Female %	Male %
Executive	9	5	4	0	55.6	44.4
Group managers	18	3	15	0	16.7	83.3
Senior officers	129	33	96	0	25.6	74.4

For the 2019-20 FY, level 6+ Group Managers are classified as Senior Officers in this table.

Table 17. Details of employment levels at 30 June 2020

	All employees		Ongoing			Fixed term and casual	
	Number	FTE	Full-time	Part-time	FTE	Number	FTE
Gender							
Male	385	375.5	354	9	355.2	22	20.4
Female	309	280.5	204	87	263.6	18	16.8
Self-described	0	0	0	0	0	0	0
Age							
15–24	19	19.0	5	0	5.0	14	14.0
25–34	138	128.2	106	17	114.4	15	13.8
35–44	214	196.6	168	39	190.6	7	6.0
45–54	195	187.5	166	26	185.1	3	2.8
55–64	109	106.1	95	13	105.1	0	0.0
65+	19	18.6	18	1	18.6	0	0.0
Classification							
Executive	9	9.0	9	0	9.0	0	0
Senior officers	187	180.9	167	19	180.3	1	0.6
Officers	498	466.1	382	77	429.5	40	36.6
TOTAL	694	656	558	96	618.8	40	37.2

Executive officer disclosure

Annualised total salary, by \$20,000 bands, for executives and other senior non-executive staff who have a total salary of \$159,501 or more.

Table 18. Annualised total salary for senior employees

Income band (salary)	Executives	Senior non-executive staff
<\$160,000	0	1
\$160,000–179,999	0	37
180,000–199,999	0	22
200,000–219,999	1	8
220,000–239,999	1	4
240,000–259,999	1	0
260,000–279,999	2	0
280,000–299,999	1	1
300,000–319,999	2	0
320,000–339,999	0	0
340,000–359,999	0	0
360,000–379,999	0	0
380,000–399,000	0	0
400,000–419,000	1	0
Total	9	73

Notes:

The salaries reported above are as at 30 June 2020 and based on headcount, and the salary brackets based on FTE \$ (not actual \$ paid PTE).

Total remuneration package reported, inclusive of superannuation.

We employed five individuals on a part-time basis.

Governance and risk

We maintain a comprehensive framework of governance practices. They're designed to provide appropriate levels of review and oversight and mainly come from statutory requirements.

We've embedded good governance guidelines throughout our organisation.

Our management systems underpin our performance. These systems, frameworks and standards are subject to independent auditing and certification, including:

- ISO 9001 (Quality Management System)
- ISO 14001 (Environment Management System)
- AS/NZS 4801 (Occupational Health and Safety)
- Hazard Analysis and Critical Control Point (HACCP) for drinking water and recycled water management
- ISO 22000 (Food Safety Management) for sewage quality management.

We also apply ISO 31000 (Risk Management), ISO 19600 (Compliance Management System) and have committed to ISO 55001 (Asset Management) and ISO 27001 (Information Security Management and Victorian Protective Data).

Our systems are important in providing appropriate levels of assurance and accountability across our organisation. They perform a key role in ensuring the processes and controls against strategic and operational risks are functioning effectively.

Material risks

Managing risk is central to our ability to remain a reliable and successful essential services provider for our customers, today and tomorrow. That's why we've defined our risk appetite in line with our strategy in order to provide internal boundaries for better decision making and ensure highly efficient governance.

Risk management will always be a key focus and is embedded across all of our management systems and processes. We maintain an enterprise risk management framework consistent with the Australian/New Zealand Risk Management Standard (AS/NZS 31000) and the requirements of the Victorian Government Risk Management Framework.

Our risk framework incorporates risk appetite. It's built on implementing a consistent, forward-looking approach to identifying and assessing uncertainty that may positively or negatively impact our ability to achieve our purpose and ambition.

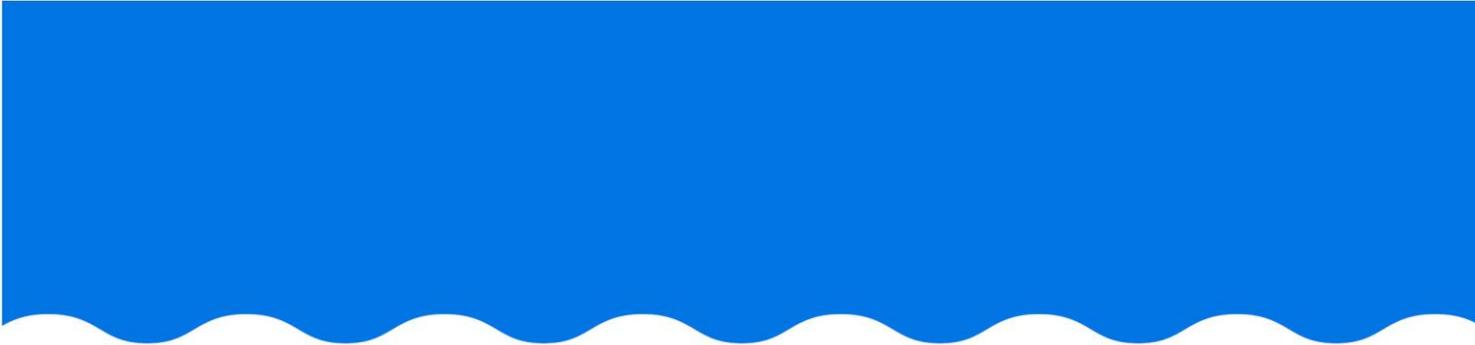
Our framework reflects the following key elements:

- A Board approved risk management policy, framework and appetite statements
- Active management and review of the key strategic risks that may impact the achievement of our objectives through our Board and Board committees
- An internal attestation over the management of our material risks at both Board and executive level to ensure an appropriate level of risk governance
- Continuity and emergency resilience management plans to guide our business in case of disruption or to manage incidents and emergencies when they occur
- Assurance over key controls through a risk-based audit plan
- A comprehensive insurance program.

The following table describes, at a whole of entity level, our material risk areas (in no particular order) and how we seek to manage them. Details on how we manage various financial risks are explained within the 'Financials' section.

Risk area	Description	Plans to manage
Safety and wellbeing	To reduce serious workplace injury which may be physical, mental, health or wellbeing related.	We believe safety and wellbeing are not just important, they're absolutely essential. We're always improving our certified safety management system and have a comprehensive wellbeing program aimed at improving employee health.
Water quality	To provide safe drinking water that meets expectations of customers and complies with regulatory obligations.	Our vision is to provide healthy water for life. This underpins everything we do so our focus in this area is strong, comprising a number of product quality management systems, frameworks and standards the organisation abides by and that are subject to stringent audit.
Customers and communities	To better understand the customers and the communities we serve (and for them to better understand its services) and to provide them with a positive experience that meets their expectations.	<p>Our customer engagement and research program informs our strategies on how to improve services in areas that matter most to our customers. It has in place a number of key programs that strive to constantly deliver value for money and enhanced outcomes for the entire customer base.</p> <p>Ensuring we communicate with our customers around disruption at the right time and in their preferred method is important. We're managing this exposure by ensuring we have up-to-date customer contact details (across a number of different channels), exploring different forms of communication (e.g. social media) as well as managing disruption away from peak times.</p>
People	To attract, recruit and retain the right people for the right role to take our business forward and help achieve our strategic goals.	As the needs of our business evolve, we've committed to initiatives that continually improve our culture, capability and diversity and inclusion practices so that we develop our people and attract high calibre talent.
IT/OT and data security	To effectively manage the information technology and operational technology (IT/OT) assets that underpins business operations and to protect customer and corporate data in line with regulatory and customer expectations.	We manage IT/OT infrastructure to an asset management plan to ensure the stability and reliability of all of our platforms. We align our data security to the Victorian Protective Data Security Standards and have mandatory data security awareness training and network controls in place to protect the data we store.
Asset management	To plan, build, operate and maintain assets reliably and efficiently to meet the service expectations of customers.	We have comprehensive asset management plans in place and constantly monitor asset condition. We're driving further improvement in this area by aligning our practices to ISO 55001 Asset Management.
Regulatory environment and stakeholder management	To respond and influence the regulatory and policy environment to outcomes aligned to strategic goals, with the proactive and consistent engagement of key stakeholders.	We've fostered and continue to develop strong relationships with key stakeholders, built on a platform of transparency and trust. Our underlying approach is to engage in a constructive and collaborative manner to achieve positive solutions for our customers. We also take compliance seriously and manage our compliance obligations

		in line with AS/ISO 19600 Compliance management systems.
Climate change	To understand and plan for the impacts of a changing climate on assets and effectively transition to a carbon free future.	Climate change is real and we're refining adaptation and mitigation plans for our assets and business operations. We've also committed to reducing our greenhouse gas emissions and formalised our pledge of net zero emissions by 2030.
Disruption and non-traditional markets	To be able to adapt our business and positively respond to major changes in industry composition, technology or consumer behaviours.	We have a long and proud history of innovation and continue to monitor shifts inside (and outside of) the industry and trial emerging technologies. The Aquarevo development and establishment of Iota are just two examples of how we're challenging the conventional approach of a regulated water business. Longer term, we see innovation and our investment in becoming increasingly digital, in particular, as a key platform to deliver greater benefits to our customers.
Organisational resilience	To effectively manage and learn from planned or unplanned significant impact events that disrupt the services provided to our customers.	We have a comprehensive resilience framework in place that comprise business continuity plans, incident and emergency management response as well as crisis management procedures to help prevent service interruptions and to respond and recover in the event they occur.



Financials

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Statutory certification

We certify that, in our opinion, the attached consolidated financial statements for South East Water Corporation and its controlled entity (the Group) have been prepared in accordance with Direction 5.2 of the Standing Directions of the Assistant Treasurer issued under the *Financial Management Act 1994*, applicable Financial Reporting Directions, Australian Accounting Standards including Interpretations and other mandatory professional reporting requirements.

We further state that, in our opinion, the information set out in the consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement and notes to and forming part of the financial statements, presents fairly the financial transactions during the year ended 30 June 2020 and the financial position of the Group as at 30 June 2020.

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

We authorise the attached financial statements for issue on this 31st day of August 2020.



Lucia Cade
Chair



Lara Olsen
Managing Director



Kimberley Lamden
Chief Financial Officer

Independent auditor's report



Independent Auditor's Report

To the Board of South East Water Corporation

Opinion	<p>I have audited the consolidated financial report of South East Water Corporation (the corporation) and its controlled entity (together the consolidated entity), which comprises the:</p> <ul style="list-style-type: none">• consolidated entity and corporation balance sheet as at 30 June 2020• consolidated entity and corporation comprehensive operating statement for the year then ended• consolidated entity and corporation statement of changes in equity for the year then ended• consolidated entity and corporation cash flow statement for the year then ended• notes to the financial statements, including significant accounting policies• statutory certification. <p>In my opinion, the financial report presents fairly, in all material respects, the financial position of the consolidated entity and the corporation as at 30 June 2020 and their financial performance and cash flows for the year then ended in accordance with the financial reporting requirements of Part 7 of the <i>Financial Management Act 1994</i> and applicable Australian Accounting Standards.</p>
Basis for Opinion	<p>I have conducted my audit in accordance with the <i>Audit Act 1994</i> which incorporates the Australian Auditing Standards. I further describe my responsibilities under that Act and those standards in the Auditor's Responsibilities for the Audit of the Financial Report section of my report.</p> <p>My independence is established by the <i>Constitution Act 1975</i>. My staff and I are independent of the corporation in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to my audit of the financial report in Victoria. My staff and I have also fulfilled our other ethical responsibilities in accordance with the Code.</p> <p>I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.</p>
Key audit matters	<p>Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial report of the current period. These matters were addressed in the context of my audit of the financial report as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.</p>

Independent auditor's report

Key audit matter

How I addressed the matter

Revenue from service and usage charges

Note 2.1 – Revenue from contracts with customers

Revenue from service and usage charges: \$888.7 million.

I considered this to be a key audit matter because:

- revenue is financially significant to the corporation
- the corporation's IT billing system and business rules are complex, and it uses several inputs, some from different sources
- a key input, customer water volume consumption, relies on external service providers to conduct meter readings
- revenue includes a significant accrual for unbilled water and sewerage services at year end that involves a higher degree of estimation uncertainty
- the applicable accounting standard AASB 15 *Revenue from Contracts with Customers* requires detailed and complex financial report disclosures.

My key procedures included:

- testing the operating effectiveness of key application controls in the billing system and key manual controls in the billing process
- assessing management's model, key assumptions and inputs for estimating the value of unbilled water and sewerage services accrued revenue at 30 June 2020
- performing substantive analytical procedures by developing an expectation of usage and service charges revenue for the period based on water volumes, number of serviced properties and approved prices, compared against the revenue recorded by the corporation
- reviewing the adequacy of revenue recognition and measurement policies
- assessing the adequacy of financial statement disclosures against AASB 15 *Revenue from Contracts with Customers*.

The fair value estimate of infrastructure assets

Note 4.1 – Infrastructure, property, plant and equipment

Fair value estimate of infrastructure assets: \$3.766 billion

I considered this to be a key audit matter because:

- infrastructure assets are financially significant to the corporation
- the fair value estimate is derived from an income-based valuation approach that uses a discounted cashflow (DCF) model
- the fair value estimate relies on management's use of an external valuation expert
- the DCF model is highly complex and involves significant management judgements, underpinned by various subjective assumptions
- the calculated value is sensitive to small changes in key assumptions used in the DCF model
- the model's forecast period is long, and includes a terminal value, which increases the difficulty in accurately estimating the fair value
- accounting standard AASB 13 *Fair Value Measurement* (AASB 13) and the Assistant Treasurer issued Financial Reporting Direction 103H *Non-financial physical assets* (FRD 103H), both require extensive financial report disclosures.

My key procedures included:

- obtaining an understanding of management's approach to estimating the fair value of infrastructure
- assessing the competence and capability of management's expert engaged to assist with the valuation process
- engaging a subject matter expert to assist us in obtaining sufficient appropriate audit evidence, including:
 - the appropriateness of using an income-based valuation approach
 - identification of any changes to the DCF model and/or assumptions.
 - the reasonableness and consistency of all the assumptions used in the DCF model
 - the reasonableness of all inputs used in the model, with specific reference to underlying data and supporting documentation
 - the DCF model's computational accuracy
 - assessing the completeness and adequacy of the financial report disclosures with regard to AASB 13 and FRD 103H, including the significant observable and unobservable inputs utilised in the model and the sensitivity analysis
- evaluating our subject matter expert's workings and concluding the work was adequate for the purposes of our audit.

Independent auditor's report

Board's responsibilities for the financial report The Board of the corporation is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the *Financial Management Act 1994*, and for such internal control as the Board determines is necessary to enable the preparation and fair presentation of a financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Board is responsible for assessing the corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is inappropriate to do so.

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

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

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

Independent auditor's report

Auditor's responsibilities for the audit of the financial report (continued)

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

From the matters communicated with the Board, I determine those matters that were of most significance in the audit of the financial report of the current period and are therefore key audit matters. I describe these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

MELBOURNE
4 September 2020



Paul Martin
as delegate for the Auditor-General of Victoria

Consolidated statement of comprehensive income

For the year ended 30 June 2020

Consolidated entity	Note	2020 \$'000	2019 \$'000
Revenue from contracts with customers	2.1	1,043,651	1,040,304
Other income	2.2	2,954	3,180
Total revenue		1,046,605	1,043,484
Operating expenses	3.1	(633,956)	(620,885)
Employee benefits	3.2.1	(61,453)	(56,034)
Depreciation and amortisation	4.2, 4.3, 5.5	(103,976)	(95,573)
Finance costs	6.2	(83,780)	(83,616)
Environmental contribution	7.3	(40,693)	(40,693)
Total expenses		(923,858)	(896,801)
Net result before income tax		122,747	146,683
Income tax expense	7.1	(35,668)	(43,068)
Net result after income tax		87,079	103,615
Other comprehensive result			
Items that will not be reclassified to net result			
Change in asset revaluation surplus - infrastructure assets	4.2	(18,795)	78,191
Change in asset revaluation surplus - land and buildings assets	4.2	-	(13,935)
Actuarial gains/(losses) on defined benefit fund		(6,585)	(7,886)
Deferred income tax relating to other comprehensive income		7,613	(22,526)
Other comprehensive result		(17,767)	33,844
Total comprehensive result		69,312	137,459

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated balance sheet

As at 30 June 2020

Consolidated entity	Note	2020 \$'000	2019 \$'000
CURRENT ASSETS			
Cash		2,788	2,237
Receivables	5.1	82,229	95,503
Contract assets	5.3	71,145	69,289
Income tax asset	7.1	-	2,537
Other assets ^(a)	5.6	13,864	11,160
Assets classified as held for sale	4.4	4,640	4,895
Total current assets		174,666	185,621
NON-CURRENT ASSETS			
Infrastructure, property, plant and equipment	4.1	4,297,868	4,115,956
Intangible assets	4.3	147,975	137,440
Right-of-use assets	5.5	10,379	-
Defined benefit superannuation asset	9.3	-	568
Total non-current assets		4,456,222	4,253,964
TOTAL ASSETS		4,630,888	4,439,585
CURRENT LIABILITIES			
Payables	5.2	115,313	113,784
Interest bearing liabilities	6.1	53,169	42,300
Employee benefits provision	3.2.2	21,675	19,109
Income tax payable	7.1	2,561	-
Contract liabilities	5.3	17,056	20,639
Deposits and advances	5.4	12,304	12,695
Other provisions ^(b)		4,045	497
Total current liabilities		226,123	209,024
NON-CURRENT LIABILITIES			
Interest bearing liabilities	6.1	1,904,870	1,670,000
Deferred tax liabilities	7.1	527,397	532,458
Employee benefits provision	3.2.2	2,755	2,585
Defined benefit superannuation liability	9.3	7,413	-
Total non-current liabilities		2,442,435	2,205,043
TOTAL LIABILITIES		2,668,558	2,414,067
NET ASSETS		1,962,330	2,025,518
EQUITY			
Contributed equity		386,148	386,148
Reserves		877,079	890,236
Retained profits		699,103	749,134
TOTAL EQUITY		1,962,330	2,025,518

^(a) Inventories and prepayments have been reclassified into other assets.

^(b) The other provision balance includes a provision of \$3.4 million for a small cohort of commercial customers who may be eligible for a service charge refund. These customers owned properties that were part of an owner's corporation and did not have their own direct water and/or sewage connections.

Contingent assets and contingent liabilities – Note 8.3

Commitments – Notes 2.3, 3.3, 4.5, 7.3

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

Consolidated statement of changes in equity

For the year ended 30 June 2020

Consolidated entity	Note	Asset revaluation surplus:			Retained profits \$'000	Total equity \$'000
		Contributed equity \$'000	Land and buildings \$'000	Infrastructure assets \$'000		
Balance at 1 July 2018		408,328	209,801	641,071	709,739	1,968,939
Total comprehensive result for the year						
Net result after income tax		-	-	-	103,615	103,615
Other comprehensive income		-	(15,371)	54,735	(5,519)	33,844
Total comprehensive result		-	(15,371)	54,735	98,095	137,459
Transactions with the State in its capacity as owner						
Dividends paid	7.2.1	-	-	-	(58,700)	(58,700)
Return of capital to owners	7.2.2	(22,180)	-	-	-	(22,180)
Total transactions with the State in its capacity as owner		(22,180)	-	-	(58,700)	(80,880)
Balance at 30 June 2019		386,148	194,431	695,805	749,134	2,025,518
Total comprehensive result for the year						
Net result after income tax		-	-	-	87,079	87,079
Other comprehensive income		-	-	(13,157)	(4,610)	(17,767)
Total comprehensive result		-	-	(13,157)	82,469	69,312
Transactions with the State in its capacity as owner						
Dividends paid	7.2.1	-	-	-	(132,500)	(132,500)
Return of capital to owners	7.2.2	-	-	-	-	-
Total transactions with the State in its capacity as owner		-	-	-	(132,500)	(132,500)
Balance at 30 June 2020		386,148	194,431	682,648	699,103	1,962,330

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

Consolidated cash flow statement

For the year ended 30 June 2020

Consolidated entity	Note	2020 \$'000	2019 \$'000
Cash flows from operating activities			
Receipts from customers		990,396	993,673
Interest received		403	358
GST refunded from the ATO ^(a)		27,090	22,520
Payments to suppliers and employees		(773,102)	(738,447)
Interest and other costs of finance paid		(84,415)	(83,612)
Income tax paid		(28,017)	(64,661)
Net cash inflow from operating activities	6.3.1	132,355	129,831
Cash flows from investing activities			
Proceeds from sale of infrastructure, property, plant and equipment		1,659	2,010
Payments for infrastructure, property, plant and equipment, and intangibles		(249,389)	(192,709)
Net proceeds from joint operations		14,386	15,776
Net cash outflow from investing activities		(233,344)	(174,923)
Cash flows from financing activities			
Proceeds from borrowings ^(b)		392,600	266,000
Repayment of borrowings ^(c)		(157,500)	(140,000)
Payment of principal element of lease liabilities		(1,060)	-
Capital repatriation		-	(22,180)
Dividends paid		(132,500)	(58,700)
Net cash inflow/outflow from financing activities		101,540	45,120
Net increase/decrease in cash held		551	28
Cash at the beginning of the financial year		2,237	2,209
Cash at the end of the financial year		2,788	2,237

^(a) GST refunded from the Australian Taxation Office (ATO) is presented on a net basis.

^(b) Proceeds from borrowings includes the amount of borrowings that are new and refinanced during the year.

^(c) Repayment of borrowings represents borrowings that were paid down and refinanced during the financial year.

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

Notes to the financial statements

1. About this report

The consolidated financial report is a general purpose financial report that consists of a consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement, statutory certification and notes accompanying these statements for the year ending 30 June 2020. These are the consolidated financial statements for South East Water Corporation and its controlled entity, Iota Services Pty Ltd, collectively referred to as the Group. South East Water Corporation is a state government owned corporation which has been classified as a for-profit entity for the purposes of financial reporting.

This general purpose financial report has been prepared in accordance with the requirements of Australian Accounting Standards (including Australian Interpretations) and the *Financial Management Act 1994* and other mandatory professional reporting requirements.

The consolidated financial report has been prepared on an accrual and going concern basis and under the historical cost convention, except for infrastructure, property, plant and equipment and the defined benefit obligation, which have been measured at fair value. The consolidated financial report is presented in Australian dollars and all amounts have been rounded to the nearest \$1,000 unless otherwise stated.

The consolidated financial report of South East Water Corporation (the Group) for the year ended 30 June 2020 was authorised for issue in accordance with a resolution of the directors on 31 August 2020.

Principles of consolidation

The Group consists of South East Water Corporation (Parent entity) and its controlled entity, Iota Services Pty Ltd. Information relating to the parent entity is disclosed in Note 9.6. In preparing the consolidated financial statements, all intercompany balances and profit and losses resulting from intra-group transactions have been eliminated. Refer to Note 9.6 for information relating to the parent entity and details of the controlled entity.

Significant accounting judgements, estimates and assumptions

In the application of Australian Accounting Standards, management is required to make judgements, estimates and assumptions about the financial information presented. Estimates and associated assumptions are based on professional judgements derived from historical knowledge and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Financial impacts of the Novel Coronavirus

The Novel Coronavirus (COVID-19) outbreak first reported in late 2019 is currently having an unprecedented health and economic impact both internationally and domestically. To reduce the spread of the virus, a series of public health measures were imposed across the world and in Australia, including travel restrictions, a nation-wide call to work from home and significantly reduced levels of activity in both the economy and community. In response to the global health pandemic, the Federal and State governments have been providing a number of economic stimulus packages and policies in support of Victorian families and businesses.

The consequential impacts on the Group have included, but are not limited to:

- ensuring a strong response and putting provisions in place to continue to provide essential water and sewerage services for South East Water customers;
- support for employees transitioning to working from home;
- uplifting our IT network capability to support remote working;
- supporting customers experiencing financial difficulties through arrangements such as our hardship program, more time to pay arrangements and payment plans; and
- providing waivers to our trade waste customers and commercial tenants who are experiencing financial hardship.

Management are continuously reviewing budgets and forecasts while monitoring cash flow requirements and customer payment trends during this period of uncertainty and conclude that the going concern assumption still remains appropriate.

The following account balances that are affected by COVID-19 due to management's judgement and assumptions about the future and sources of estimating uncertainty include:

- Note 5.1.1 – impairment of contractual receivables

- Note 8.2.2 – fair value of infrastructure valuation
- Note 9.3 – actuarial assumptions on defined benefit superannuation

Other areas involving a high degree of judgements, estimates and assumptions that can materially impact the financial statements include:

- Note 2.1 – revenue from contracts with customers
- Note 3.2.2 – employee benefits provision
- Notes 4.1 and 8.2.2 – fair value of infrastructure, property, plant and equipment
- Note 4.1 – estimated useful lives of assets and impairment of non-financial assets
- Note 5.3 – accrued revenue
- Note 5.5 – lease liabilities
- Note 7.1 – income tax and deferred tax recognition
- Note 8.3 – contingent assets and liabilities

Joint arrangements - Aquarevo

Joint arrangements are contractual arrangements between the Group and one or more other parties to undertake an economic activity that is subject to joint control.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about relevant activities of the joint arrangement require the unanimous consent of the parties sharing control.

Investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement.

The Group has a 39 per cent interest in the joint operation called Aquarevo with Villawood Properties to develop, subdivide, market and sell land owned by the Group at Evans Road in Lyndhurst through the signing of a Development Deed on 8 December 2015. The Group established that joint control of the operation exists as a Project Control Group (PCG) is in place which:

1. Consists of four members, two from each party to the arrangement
2. Decisions made by the PCG require a majority vote, which therefore requires consent from both parties
3. Major project decisions made by the PCG require unanimous approval.

The Group recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses.

The Group retains ownership of the land throughout the project until sold to a third party and therefore it remains an asset of the Group and is recognised as such in the financial statements. As the land associated with the arrangement is subdivided and made available for sale, the value is transferred from non-current assets to current assets held for sale, refer Note 4.4.

Accounting policies

All accounting policies applied are consistent with those of the prior year, unless otherwise stated below.

Application of new accounting standards effective 1 July 2019

AASB 16 *Leases* replaces AASB 117 *Leases*. The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet as the distinction between operating and finance leases is removed for leases.

The Group has adopted AASB 16 as at 1 July 2019 and has applied the new rules on a modified retrospective basis as mandated by the Department of Treasury and Finance through FRD 123 *Transitional requirements on the application of AASB 16*. Accordingly, comparatives for 2018–19 have not been restated in the 2019–20 financial report and there were no transitional adjustments to retained earnings.

On adoption of AASB 16, the Group recognised a lease liability in relation to the lease which had previously been classified as an ‘operating lease’ under the principles of AASB 117, and an asset, being the right to use the leased item.

Under AASB 16, lessor accounting remains unchanged. Income from these leases are accounted for on a straight line basis over the lease term and included in revenue in the consolidated statement of comprehensive income.

Further disclosures in relation to AASB 16 are provided in Notes 5.5 and 9.9 of this report.

2. Funding delivery of our services

Introduction:

This section provides information on income generated by the Group and accounting policies, key estimates and judgements relevant to the understanding of the items recognised in the financial statements.

Structure:

- 2.1 Revenue from contracts with customers
 - 2.1.1 Revenue from service and usage charges
 - 2.1.2 Developer contributions
 - 2.1.3 Other revenue
- 2.2 Other income
- 2.3 Commitments from lease receivables

2.1 Revenue from contracts with customers

The Group derives revenue from the transfer of goods and/or services over time and at a point in time in the following revenue streams.

Revenue is recognised when, or as, the performance obligations to the customer are satisfied. Consideration received in advance of recognising the associated revenue from the customer is recorded as a contract liability (refer Note 5.3). Where the performance obligations is satisfied but not yet billed, a contract asset is recorded (refer Note 5.3).

Summary of revenue from contracts with customers

Consolidated entity	Note	2020 \$'000	2019 \$'000
Revenue from service and usage charges	2.1.1	888,702	861,479
Revenue from developer contributions	2.1.2	99,090	121,293
Other revenue	2.1.3	55,859	57,532
Total revenue from contracts with customers		1,043,651	1,040,304

2.1.1 Revenue from service and usage charges

Consolidated entity	Service charges		Usage charges		Total	
	2020	2019	2020	2019	2020	2019
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Major services						
Water	87,408	86,738	397,540	375,770	484,948	462,508
Sewerage	268,059	268,211	104,682	100,805	372,741	369,016
Trade waste	5,960	5,760	19,909	18,887	25,869	24,647
Recycled water	891	797	4,253	4,511	5,144	5,308
Total	362,318	361,506	526,384	499,973	888,702	861,479

The Group has an ongoing obligation to provide a continuous supply of the major services to our customers in our service region, and so customers simultaneously receive and consume the benefit in line with the group performing its obligations. Service and usage charges are recognised over time.

Service charges are billed quarterly based on a fixed fee and revenue is recognised over time as the customer simultaneously receives and consumes the services provided by the Group. Where payments are made in advance by customers to unbilled accounts at reporting date, these payments are classified as contract liabilities as the Group has yet to provide the service (refer Note 5.3).

AASB 15 *Revenue from contracts with customers* usually requires the disclosure of the aggregate amount of revenue expected to be derived from performance obligations which are unsatisfied as at the end of the reporting period. Management consider that such an amount cannot be reliably estimated, primarily because the Group's obligation to supply customers with major services will continue in perpetuity. As a result, the Group has applied the practical approach given in AASB 15, paragraph 121(b), not to disclose this amount in relation to service charges.

Usage charges are billed quarterly in arrears and revenue is recognised over time as the Group has the right to receive an amount of consideration based on the unit of water or recycled water consumed by and sewage or trade waste disposed of during the financial year and the regulated price. The Group

has applied the practical approach given in AASB 15, paragraph B16, where revenue can be recognised in the amount which it has a right to receive, since the amount is considered by management to correspond directly with the value to the customer of the Group's performance to date. This revenue stream includes an estimate of the amount of water consumed by and sewerage disposed for customers that are not yet billed at the end of the period. This estimate is classified as contract assets (refer Note 5.3).

2.1.2 Revenue from developer contributions

Consolidated entity	2020	2019
	\$'000	\$'000
Developer contributed assets	64,679	78,525
New customer contributions	34,411	42,768
Total developer contributions	99,090	121,293

Developer contributed assets arise when developers pay for the cost of construction of new infrastructure assets and subsequently gift these assets to the Group to maintain in perpetuity.

Revenue from developer contributed assets is recognised at a point in time when the Group has satisfied its performance obligation. Depending on the type of developer application, this can result in the performance obligation being satisfied:

- when the Statement of Compliance is issued to the customer, or
- when the customer is connected to the Group's infrastructure network for the provision of water and sewerage services when no Statement of Compliance is required to be issued.

Revenue is recognised at the fair value of the gifted assets by assessing the value of the works using schedule of rates.

New customer contributions represents non-refundable upfront charges applicable when customers request to build or develop a property and connect to the Group's water supply and sewerage infrastructure network. The charges contribute towards the cost of augmenting the Group's water supply distribution systems and sewerage disposal systems.

Revenue from new customer contributions is recognised at a point in time when the Group has satisfied its performance obligation. The point in time when the Group satisfies its performance obligation will vary depending on the type of application submitted by the customer. As a result, a performance obligation could be satisfied when:

- the Statement of Compliance is issued to the customer, or
- the customer is connected to the Group's infrastructure network for the provision of water and sewerage services when no Statement of Compliance is required to be issued, or
- the customer receives consent from the Group to proceed with their application.

The rates applied to calculate the new customer contributions are regulated by the Essential Services Commission.

2.1.3 Other revenue

Consolidated entity	2020	2019
	\$'000	\$'000
Sale of goods and services - Iota	6,984	8,617
Other services rendered	32,816	33,071
Net gain on sale of non-current physical assets	192	299
Net gain on sale of asset classified as held for sale	4,112	3,598
Miscellaneous revenue	11,755	11,947
Total other revenue	55,859	57,532

Sale of goods and services (Iota) relate to the sale of Iota's products, such as OneBox® products, pumps, and the provision of services, such as plumbing solutions and field services. Revenue from sale of goods is recognised at a point in time, where the performance obligation is satisfied when the customer receives the goods purchased and has the ability to direct use of the goods. Revenue from

the provision of services is recognised at a point in time, where the performance obligation is satisfied when the services are completed. These services are billed at the completion of the service.

Revenue from **other services rendered** is recognised following completion of services being performed and certified, relating to various plumbing services, application, recycled water inspection and meter installation fees. Revenue associated with other services rendered is recognised at a point in time when the Group satisfies its performance obligation for the specified service requested by the customer.

A **net gain on sale of non-current physical assets** is recognised at a point in time when the asset is disposed and transferred to the customer, therefore the performance obligation is satisfied. It is measured as revenue from the sale of an asset less the asset's book value and costs of disposal.

A **net gain on sale of assets classified as held for sale** is recognised at a point in time when the asset is disposed and transferred to the customer, therefore the performance obligation is satisfied. The net gain on sale is calculated as the net of the sales proceeds of the joint operation less costs associated with the development and the carrying value of the land (refer Note 4.4).

Miscellaneous income mainly consists of charges for services to third parties such as administration fees for the collection of drainage and parks rates on behalf of Melbourne Water and the Department of Environment, Land, Water and Planning. The Group acts as an agent to the third parties. Revenue is recognised over time based on the number of customers serviced the customer simultaneously receives and consumes the benefits provided by the third parties.

Revenue from contracts with customers

Consolidated entity	2020	2019
	\$'000	\$'000
Total revenue recognised over-time	896,525	869,352
Total revenue recognised at a point in time	147,126	170,952
Total revenue from contracts with customers	1,043,651	1,040,304

2.2 Other income

Consolidated entity	2020	2019
	\$'000	\$'000
Rent income	2,552	2,823
Interest income	402	357
Total other income	2,954	3,180

Rent income is recognised in accordance with AASB 16 on a straight line basis across the term of the rental lease agreement.

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

2.3 Commitments for lease receivables

Revenue for operating leases, where substantially all the risks and benefits remain with the lessor, are recognised as revenue in the periods in which they are incurred. These commitments recorded below are at their nominal value and inclusive of GST. These commitments primarily represent mobile telephone tower rental income on the Group's land and infrastructure, sublease of the depot office area and leases for shop space at Frankston office.

The following table represents non-cancellable operating leases, contracted for at balance date but not provided in the financial statements, receivable:

Consolidated Entity	2020	2019
	\$'000	\$'000
Not later than 1 year	1,503	1,896
Later than 1 year and not later than 5 years	3,291	3,635
Later than 5 years	2,896	3,713
Total lease receivables (inclusive of GST)	7,690	9,244
Less GST payable to Australian Taxation Office	(699)	(840)
Total lease receivables (exclusive of GST)	6,991	8,404

3. Cost of delivering our services

Introduction:

This section provides information on the expenses incurred by the Group in delivering its services and generating income. It also includes accounting policies, key estimates and judgements that are relevant for an understanding of how these items are recognised in the financial statements.

Structure:

- 3.1 Operating expenses
- 3.2 Our people
 - 3.2.1 Employee benefits cost
 - 3.2.2 Employee benefits provision
- 3.3 Commitments for operating expenditure

3.1 Operating expenses

Consolidated entity	2020	2019
	\$'000	\$'000
Bulk water and sewerage charges	530,400	513,570
Operating contracts	78,221	75,112
Taxes, fees and charges	4,637	5,509
Bad debts and expected credit losses	4,474	2,561
Asset write-offs	637	1,111
Impairment write down of assets to recoverable amount	-	164
Other expenses	15,587	22,858
Total operating expenses	633,956	620,885

Bulk water and sewerage charges, comprising of fixed and variable charges, are levied by Melbourne Water for the cost of water the Group purchases, and for sewage treated at Melbourne Water's eastern and western treatment plants. Fixed charges are levied once a month, and are recognised on receipt of an invoice from Melbourne Water. Variable charges are levied in arrears and recognised as an expense upon receipt of an invoice. Any variable charges that remain outstanding at period end are accrued.

Operating contracts relate mainly to costs incurred for maintenance services, chemicals, electricity costs are expensed in the reporting period in which they are incurred.

Taxes, fees and charges are made up of land tax, fringe benefits tax, council valuation charges and commercial expenses. They are expensed in the period in which they are incurred.

Other expenses comprise of materials, insurance and IT costs, which are all recognised as an expense in the reporting period in which they are incurred.

3.2 Our people

3.2.1 Employee benefits cost

Consolidated entity	2020	2019
	\$'000	\$'000
Salaries and wages, annual leave and long service leave	53,317	49,297
Superannuation expense	8,136	6,737
Total employee benefits cost	61,453	56,034

Salaries and wages, annual leave and long service leave

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

Superannuation expenses

The amount charged to the consolidated statement of comprehensive income in respect of superannuation represents the contributions made by the Group to superannuation funds for the current service of current staff. Contributions to superannuation plans are charged to the consolidated

statement of comprehensive income as the contributions are paid or become payable. The Group's defined benefit superannuation is further disclosed in Note 9.3.

3.2.2 Employee benefits provision

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

Consolidated entity	2020	2019
	\$'000	\$'000
Current		
Annual leave:		
Unconditional and expected to settle within 12 months	4,628	4,254
Unconditional and expected to settle after 12 months	766	-
Long service leave:		
Unconditional and expected to settle within 12 months	1,551	1,588
Unconditional and expected to settle after 12 months	11,438	10,277
Provisions for on-costs:		
Unconditional and expected to settle within 12 months	1,223	1,064
Unconditional and expected to settle after 12 months	2,069	1,926
Total current employee benefits provision	21,675	19,109
Non-current		
Long service leave - conditional	2,333	2,177
On-costs	422	408
Total non-current employee benefits provision	2,755	2,585
Total employee benefits provision	24,430	21,694

Salaries and wages, annual leave and sick leave

Liabilities for salaries and wages (including non-monetary benefits, annual leave and on-costs) are recognised as part of the employee benefits provision as current liabilities because the Group does not have an unconditional right to defer settlements of these liabilities. The liabilities are measured using remuneration rates which are current at the reporting date.

Depending on the expectation of the timing of settlement, liabilities for salaries and annual leave are measured at:

- undiscounted value – if the Group expects to wholly settle within 12 months
- present value – if the Group does not expect to wholly settle within 12 months

No provision has been made for sick leave as all sick leave is a non-vesting benefit and is not expected to exceed current and future sick leave entitlements.

On-costs including payroll tax, workers' compensation premiums and superannuation are not employee benefits. They are disclosed separately as a component of provision for employee benefits when the employment to which they relate has occurred.

Long service leave (LSL)

Unconditional long service leave is disclosed as a current liability even where the Group does not expect to settle the liability within 12 months because it will not have the unconditional right to defer the settlement of the entitlement should an employee take leave within 12 months.

The components of this current LSL liability are measured at:

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

Conditional long service leave is disclosed as a non-current liability and measured at present value. In this case there is an unconditional right to defer the settlement of the entitlement until the employee has completed the requisite years of service.

Any gain or loss following revaluation of the present value of the non-current liability is recognised as an income or expense.

Discount rates, probability factors and wage/salary growth assumptions are provided by Victoria's Department of Treasury and Finance as part of its long service leave financial model.

3.3 Commitments for operating expenditure

Commitments for operating expenditure arise from contracts entered into prior to balance date. These commitments disclosed below are at their nominal value and inclusive of GST.

Total other operating expenditure contracted for at balance date but not provided in the financial statements, are payable:

Consolidated Entity	2020	2019
	\$'000	\$'000
Not later than one year	9,132	5,468
Later than 1 year and not later than 5 years	21,910	6,625
Later than 5 years	25,534	4,262
Total expenditure (inclusive of GST)	56,576	16,355
Less GST recoverable from Australian Taxation Office	(5,143)	(1,487)
Total expenditure (exclusive of GST)	51,433	14,868

Refer Note 4.5 and Note 7.3 for details on capital and environmental commitments, respectively.

4. Key assets available to support delivery of our services

Introduction:

This section provides information on infrastructure, property, plant and equipment, and intangible assets that are controlled by the Group and used to deliver its services. It includes relevant accounting policies, key estimates and judgements.

Where the assets included in this section are carried at fair value, additional information is disclosed in Note 8.2 in connection with how those fair values were determined.

Structure:

- 4.1 Infrastructure, property, plant and equipment
- 4.2 Reconciliation of movements in carrying values of infrastructure, property, plant and equipment
- 4.3 Intangible assets
- 4.4 Non-current assets held for sale
- 4.5 Capital commitments

4.1 Infrastructure, property, plant and equipment

Consolidated entity	Gross carrying amount		Accumulated depreciation		Net carrying amount	
	2020	2019	2020	2019	2020	2019
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Infrastructure assets at fair value	3,765,700	3,697,199	-	-	3,765,700	3,697,199
Land at fair value	181,900	187,590	-	-	181,900	187,590
Buildings at fair value	87,014	85,882	(2,512)	(1)	84,502	85,881
Plant and equipment at fair value	58,143	51,915	(34,839)	(30,303)	23,304	21,612
Leasehold improvements at fair value	2,164	2,143	(1,924)	(1,764)	240	379
Capital works in progress at cost	242,222	123,295	-	-	242,222	123,295
Total	4,337,143	4,148,024	(39,275)	(32,068)	4,297,868	4,115,956

Initial recognition

Items of infrastructure, property, plant and equipment are recognised initially at cost. Where an asset is acquired for no or nominal cost, the cost is its fair value at the date of acquisition, being the actual or estimated cost of construction. South East Water has a capitalisation threshold of greater than \$100 exclusive of GST and the asset must be used for more than one reporting period.

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

The cost of leasehold improvements is capitalised and depreciated over the shorter of the remaining term of the lease or their estimated useful lives.

In accordance with the Group's land development policy, the Group will reimburse developers, subject to the nature of additional works involved, for all or part of their costs incurred in constructing water, sewerage and/or recycling assets. Reimbursements are generally paid on completion of the works, however, in cases where reimbursements are to be paid at an agreed date in the future, a contingent liability is recognised (refer Note 8.3). Developer reimbursements are capitalised with the asset recognised as infrastructure, property, plant and equipment in the consolidated balance sheet.

Subsequent measurement

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

Revaluations

Revaluations are performed annually for infrastructure assets and for all other assets on a cyclical basis in accordance with FRD 103H *Non-financial physical assets* such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of the reporting period. 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.

Revaluation increases or decreases arise from difference between an asset's carrying value and fair value. Revaluation increments are credited directly to equity in the revaluation surplus, except to the extent that an increment reverses a revaluation decrement in respect of the same asset previously recognised as an expense in the net result, the increment is recognised as revenue in determining the net result. Revaluation decrements are recognised immediately as expenses in the net result, except that, to the extent that a credit balance exists in the revaluation surplus in respect of the same asset then they are debited to the asset revaluation surplus.

If land and buildings were measured at historical cost, the carrying amount would be \$94.7 million. The carrying amount for infrastructure assets would be \$2,975 million if measured using the cost model.

Refer Note 8.2.2 for additional information on fair value determination of infrastructure, property, plant and equipment.

Derecognition and disposal

The carrying amount of an item of infrastructure, property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use.

Gains or losses on the sale of infrastructure, property, plant and equipment are calculated in accordance with AASB 116 *Property, Plant and Equipment*. This is the gross sale proceeds less the book value of the asset less selling expenses (refer Note 2.1.3). This is written off as an expense in the consolidated statement of comprehensive Income. When significant revalued assets are sold, amounts included in the asset revaluation surplus relating to that asset are transferred to retained earnings.

Depreciation

All infrastructure, property, plant and equipment and other non-financial physical assets that have finite useful lives are depreciated. The exceptions to this rule include assets held for sale and land. Depreciation commences from the date of acquisition or, in respect of constructed assets, from the time an asset is completed or held ready for use. Depreciation rates are reviewed annually.

Items of infrastructure, property, plant and equipment are depreciated over their expected useful lives to the Group on the following basis:

Description	Depreciation method	Useful life
Buildings	Straight line	20 – 50 years
Leasehold improvements	Straight line	2 – 10 years
Infrastructure assets	Straight line	2 – 99 years
Plant and equipment	Reducing balance	5% – 70%
Plant and equipment (Iota)	Straight line	3 - 20 years

Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be less than its recoverable amount. For the purposes of assessing for impairment, assets are grouped at a whole of business level which is considered to be the lowest level for which there are separately identifiable cash flows (cash generating unit).

The assets concerned are tested as to whether their carrying value exceeds their recoverable amount. Where an asset's carrying value exceeds its recoverable amount, the difference is written off as an 'other economic flow', except to the extent that it can be debited to an asset revaluation surplus amount applicable to that class of asset.

If there is an indication that there has been a reversal in impairment, the carrying amount shall be increased to its recoverable amount. However, this reversal shall not increase the asset's carrying amount above what would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised in prior years.

The recoverable amount for most assets is measured at the higher of depreciated replacement cost and fair value less costs to sell. Recoverable amount for assets held primarily to generate net cash inflows is measured at the higher of the value in use and fair value less costs to sell.

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

2020 Consolidated entity	Infrastructure assets	Land	Buildings	Plant and equipment	Leasehold improvements	Capital works in progress	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening balance	3,697,199	187,590	85,881	21,612	379	123,295	4,115,956
Additions	-	1,112	1,132	10,398	22	285,133	297,797
Fair value of assets received from developers	63,438	-	-	-	-	(63,438)	-
Transfers	102,768	-	-	-	-	(102,768)	-
Disposals	(505)	(2,162)	-	(1,457)	-	-	(4,124)
Revaluations	(18,795)	-	-	-	-	-	(18,795)
Depreciation expense	(78,405)	-	(2,511)	(7,249)	(161)	-	(88,326)
Transfer to disposal group held for sale	-	(4,640)	-	-	-	-	(4,640)
Closing balance	3,765,700	181,900	84,502	23,304	240	242,222	4,297,868
<hr/>							
2019 Consolidated entity	Infrastructure assets	Land	Buildings	Plant and equipment	Leasehold improvements	Capital works in progress	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening balance	3,490,469	218,382	79,118	17,008	534	78,845	3,884,356
Additions	-	382	1,089	12,732	5	249,295	263,503
Fair value of assets received from developers	76,875	-	-	-	-	(76,875)	-
Transfers	127,970	-	-	-	-	(127,970)	-
Disposals	(1,051)	(3,985)	-	(1,872)	-	-	(6,908)
Revaluations	78,191	(22,294)	8,195	-	-	-	64,092
Depreciation expense	(75,255)	-	(2,521)	(6,256)	(160)	-	(84,192)
Transfer to disposal group held for sale	-	(4,895)	-	-	-	-	(4,895)
Closing balance	3,697,199	187,590	85,881	21,612	379	123,295	4,115,956

4.3 Intangible assets

2020 Consolidated entity	IT software \$'000	Works in progress \$'000	Water entitlements \$'000	Other \$'000	Total \$'000
Gross carrying amount					
Opening balance as at 1 July 2019	121,250	9,089	96,916	373	227,628
Additions	41	25,232	-	-	25,273
Transfers	27,212	(27,212)	-	-	-
Disposals	(121)	-	-	-	(121)
Closing balance as at 30 June 2020	148,382	7,109	96,916	373	252,780
Accumulated amortisation					
Opening balance as at 1 July 2019	(89,862)	-	-	(326)	(90,188)
Amortisation	(14,570)	-	-	(47)	(14,617)
Closing balance as at 30 June 2020	(104,432)	-	-	(373)	(104,805)
Net book value as at 30 June 2020	43,950	7,109	96,916	-	147,975

2019 Consolidated entity	IT software \$'000	Works in progress \$'000	Water entitlements \$'000	Other \$'000	Total \$'000
Gross carrying amount					
Opening balance as at 1 July 2018	103,238	6,698	96,916	373	207,225
Additions	-	20,403	-	-	20,403
Transfers	18,012	(18,012)	-	-	-
Closing balance as at 30 June 2019	121,250	9,089	96,916	373	227,628
Accumulated amortisation					
Opening balance as at 1 July 2018	(78,528)	-	-	(279)	(78,807)
Amortisation	(11,334)	-	-	(47)	(11,381)
Closing balance as at 30 June 2019	(89,862)	-	-	(326)	(90,188)
Net book value as at 30 June 2019	31,388	9,089	96,916	47	137,440

Intangible assets comprise of IT software, works in progress and water entitlements arising from the Group's investment in Stage 1 of the Goulburn-Murray Water Connections Project (formerly Northern Victoria Irrigation Renewal Project).

Intangible assets acquired separately are initially recognised at cost. Subsequent to initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses. Costs incurred subsequent to initial acquisition are capitalised when it is expected that additional future economic benefits will flow to the Group.

Internally generated intangible assets primarily include the development costs of information management systems. These costs are capitalised only if they satisfy the criteria as defined by AASB 138 *Intangible assets*.

Items recognised as intangible assets (excluding water entitlements) are amortised over their useful lives from date of acquisition on the following basis:

Description	Amortisation method	Useful life
IT software	Diminishing value	2 – 5 years
Other	Straight line	15 years

Amortisation rates are reviewed annually.

Water entitlements have an indefinite useful life as they are held in perpetuity. As such they 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.

Impairment

In addition, an assessment is made at the end of each reporting period to determine whether there are indicators that the intangible asset concerned is impaired. If so, the intangible assets concerned are tested as to whether their carrying value exceeds their recoverable amount.

4.4 Assets classified as held for sale

Consolidated entity	2020 \$'000	2019 \$'000
Freehold land held for sale	4,640	4,895
Total assets classified as held for sale	4,640	4,895

The majority of the land held for sale balance of \$4.6 million is the portion of land at Evans Road, Lyndhurst in relation to the Aquarevo joint arrangement (refer Note 1) that is available for immediate sale as at 30 June 2020 and will remain in land held for sale until settlement. The total book value of the land to be sold under the joint arrangement is currently valued at \$11.7 million and the remaining \$7.1 million balance is accounted for as a non-current asset under land at 30 June 2020 as it's not expected to be sold until the 2021–22 financial year.

Non-financial physical assets are treated as current and classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when:

- the asset is available for immediate use in the current condition, and
- the sale is highly probable and the asset's sale is expected to be completed within 12 months from the date of classification.

Freehold land held for sale is measured at the lower of carrying amount and fair value less costs to sell. Freehold land held for sale are not subject to depreciation or amortisation. Refer Note 8.2 for the valuation technique applied to non-specialised land.

Aquarevo joint arrangement

During 2019–20, \$7.1 million of land associated with the Aquarevo joint arrangement was settled (2018–19 \$19.6 million), resulting in:

- \$4.1 million in net gain from sale of assets classified as held for sale (2018–19 \$3.6 million) (refer Note 2.1.3)
- \$10.3 million net decrease to the consolidated balance sheet (2018–19 \$12.2 million decrease)
- \$14.4 million in net cash inflow from investing activities in the consolidated cash flow statement (2018–19 \$15.8 million).

4.5 Capital commitments

Capital commitments arise from contracts for costs associated with growth and renewal works for water and sewer assets. These commitments are recorded at their nominal value and inclusive of GST.

Total capital expenditure, contracted for at balance date but not provided in the financial statements, payable:

Consolidated Entity	2020 \$'000	2019 \$'000
Not later than one year	78,076	129,320
Later than 1 year and not later than 5 years	821	8,810
Total capital expenditure (inclusive of GST)	78,897	138,130
Less GST recoverable from the Australian Taxation Office	(7,172)	(12,557)
Total capital expenditure (exclusive of GST)	71,725	125,573

5. Other assets and liabilities

Introduction:

This section provides information on other assets and liabilities utilised and controlled by the Group in its operations.

Structure:

- 5.1 Receivables
 - 5.1.1 Impairment of contractual receivables
- 5.2 Payables
- 5.3 Contract assets and contract liabilities
- 5.4 Deposits and advances
- 5.5 Right-of-use assets and lease liabilities
 - 5.5.1 Right-of-use assets
 - 5.5.2 Lease liabilities
- 5.6 Other assets

5.1 Receivables

Consolidated entity	2020	2019
	\$'000	\$'000
Contractual		
Trade debtors (service and usage charges)	68,007	74,561
Allowance for impairment of contractual receivables	(5,364)	(2,954)
Other debtors	11,878	15,558
	74,521	87,165
Statutory		
GST input tax credits receivable	7,708	8,338
Total receivables	82,229	95,503

Contractual receivables, such as trade debtors in relation to goods and services, are classified as financial assets at amortised cost. They are initially recognised at fair value plus any directly attributable transaction cost. The Group holds the contractual receivables with the objective to collect the contractual cash flows and therefore subsequently measures them at amortised cost using the effective interest method, less any impairment.

Trade debtors are normally required to be settled within 14 days. In light of the current environment, South East Water recognises the significant impact COVID-19 may be having on residential and non-residential customers and is offering additional support options, such as more time to pay and payment plans. The potential impact on customers is further reflected in management's assessment of impairment of contractual receivables in Note 5.1.1.

Statutory receivables, such as Goods and Services Tax (GST) input tax credit recoverable are not classified as financial instruments as they do not arise from contracts. They are recognised and measured similarly to contractual receivables (except for impairment).

5.1.1 Impairment of contractual receivables

The Group applies the simplified approach to calculate expected credit losses which uses a lifetime expected loss allowance for contractual receivables based on historical credit loss experiences adjusted for forward looking forecast assumptions about risk of default and expected loss rates. The assessment is completed at the end of each reporting period.

To measure the expected credit losses, trade receivables have been grouped on shared customer profile characteristics and the days past due. The expected loss rates are based on the bad debts profiles over a period of three years and adjusted to reflected current and forward looking information affecting the ability of customers to pay their receivables, such as existing market conditions, customer growth rates with South East Water's service region, as well as hardship arrangements and payment plans and paused debt collection activities in support for customers.

Consolidated entity	Current	More than 30 days past due	More than 90 days past due	Total
30 June 2020	\$'000	\$'000	\$'000	\$'000
Expected loss rate	2.65%	12.19%	25.93%	
Gross carrying amount - trade debtors	49,112	6,086	12,809	68,007
Loss allowance	1,301	742	3,321	5,364

Consolidated entity	Current	More than 30 days past due	More than 90 days past due	Total
1 July 2019	\$'000	\$'000	\$'000	\$'000
Expected loss rate	1.11%	5.90%	21.20%	
Gross carrying amount - trade debtors	59,460	5,848	9,253	74,561
Loss allowance	647	345	1,962	2,954

Contractual receivables are written off when there is no reasonable expectation of recovery and impairment losses are classified as a transaction expense. Indicators of non-recovery include, but not limited to, the failure of a debtor to engage in a repayment plan and failure to make contractual payments for a period of greater than 90 days past due. Subsequent recoveries of amounts previously written off are credited against the same line item.

Indicators that there is no reasonable expectation of recovery include, but not limited to, the failure of a debtor to engage in a repayment plan with the Group and a failure to make agreed payments for a period of greater than 180 days past due. There are no material financial assets that are individually determined to be impaired.

No loss allowance is recognised for statutory receivables because there is minimal risk of default.

The closing allowance for expected credit losses for trade receivables reconciles to the opening loss allowances as follows:

Consolidated entity	2020	2019
	\$'000	\$'000
Balance at 30 June	(2,954)	(2,576)
(Increase)/decrease in provision recognised in the net result	(6,886)	(2,567)
Receivables written off during the year as uncollectible	4,538	2,236
Reversal of unused provision recognised in the net result	(62)	(47)
Balance at the end of the year	(5,364)	(2,954)

5.2 Payables

Consolidated entity	2020	2019
	\$'000	\$'000
Contractual		
Trade creditors	10,981	13,050
Accrued expenses	102,230	98,899
	113,211	111,949
Statutory		
Taxes payable	2,102	1,835
Total payables	115,313	113,784

Payables consists of:

- **contractual payables**, classified as financial instruments and measured at amortised cost. Trade creditors and accrued expenses represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid.
- **statutory payables**, that are recognised and measured similarly to contractual payables, but are not classified as financial instruments, because they do not arise from a contract.

Payables for supplies and services normally have an average credit period of 30 days, with all payables due and payable within 12 months.

In light of the current environment, South East Water has reduced the credit period to within 10 days in support of the Government's Economic Survival and Jobs Package to support Victorian businesses through the current unprecedented pandemic.

5.3 Contract assets and contract liabilities

Consolidated entity	2020	2019
	\$'000	\$'000
Accrued revenue	67,687	65,636
Developer contributed assets	2,666	2,901
Other income	792	752
Total contract assets	71,145	69,289
Developer contributed assets	1,898	3,140
New customer contributions	9,495	12,326
Other income	5,663	5,173
Total contract liabilities	17,056	20,639

Accrued revenue is recognised to account for water and sewage services that have been provided to customers at balance date but not yet billed.

Accrued revenue takes into account the total volume of water purchased from Melbourne Water less the estimated non-revenue water to determine the volume of water available for consumption. Non-revenue water relates to water that is unmetered for, leak adjustments in the water distribution network before reaching customers or authorised unmetered consumption (such as usage for firefighting and other fire service activities). The accrued revenue is then calculated by taking the difference between what has been billed during the year and the volume of water available for consumption multiplied by the price approved by the ESC.

Contract assets primarily relate to the Group's rights to consideration for work completed but not billed at the reporting date on developer contributions and other income. The contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the Group issues an invoice to the customer.

Contract liabilities represents consideration received in advance of the Group performing its contract obligations and will be recognised as revenue when the services are performed. Refer Note 2.1 for further details of the performance obligation. The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities.

Consolidated entity	Developer contributed assets \$'000	New customer contributions \$'000	Other income \$'000	Total \$'000
Balance at 30 June 2019	3,140	12,326	5,173	20,639
Revenue recognised in the reporting period for the completion of a performance obligation	(2,904)	(10,182)	(4,097)	(17,183)
Payments received for performance obligations yet to be completed during the period	1,662	7,351	4,587	13,600
Balance at 30 June 2020	1,898	9,495	5,663	17,056

Consolidated entity	Developer contributed assets \$'000	New customer contributions \$'000	Other income \$'000	Total \$'000
Balance at 1 June 2018	4,785	14,191	4,367	23,343
Revenue recognised in the reporting period for the completion of a performance obligation	(4,634)	(12,698)	(3,593)	(20,925)
Payments received for performance obligations yet to be completed during the period	2,989	10,833	4,399	18,221
Balance at 30 June 2019	3,140	12,326	5,173	20,639

Revenue recognised in the reporting period from performance obligation satisfied in previous periods was nil.

5.4 Deposits and advances

Consolidated entity	2020 \$'000	2019 \$'000
Advances	11,401	11,999
Unearned income	903	696
Total deposits and advances	12,304	12,695

Advances consists mainly of monies held by the Group as security deposits from developers for capital works.

Unearned income represents rental income received in advance.

5.5 Right-of-use assets and leases liabilities

5.5.1 Right-of-use assets

Consolidated entity	Land \$'000	Buildings \$'000	Equipment \$'000	Total \$'000
Balance at 1 July 2019	861	10,268	15	11,144
Additions	-	62	206	268
Depreciation expense	(52)	(946)	(35)	(1,033)
Balance at 30 June 2020	809	9,384	186	10,379

Under AASB 16 the Group assesses at contract inception whether a contract is, or contains a lease. That is, if the contract conveys the right to control the use of an identified asset for a period time in exchange for consideration.

The Group leases various properties (buildings, car parks and land under infrastructure assets) and equipment. Lease agreements are typically made for fixed periods of 2 to 25 years, but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets, except for short-term leases and leases of low value assets. The right-of-use asset and corresponding liability are initially measured at the present value of the future lease payments.

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities initially recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The net present value of the remaining lease payments is often an appropriate proxy for the fair value of relevant right-of-use assets at the time of initial recognition.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Description	Depreciation method	Useful life
Buildings	Straight line	2 – 15 years
Land under infrastructure assets	Straight line	2 – 25 years
Equipment	Straight line	2 – 5 years

Subsequently, the right-of-use assets are measured under a fair value model. The Group applies the revaluation model in AASB 116 to right-of-use assets that relate to a class of property, plant and equipment. The revaluation model is applied to all of the right-of-use assets that relate to that class of property, plant and equipment.

5.5.2 Lease liabilities

The following table presents liabilities under leases:

Consolidated entity	2020
	\$'000
Balance at 1 July 2019	11,144
Additions	268
Interest expense	287
Payment of principal element of lease liabilities	(1,060)
Balance at 30 June 2020	10,639

The following amounts were recognised in the consolidated statement of comprehensive income for the year ending 30 June 2020 in respect of leases where the Group is the lessee:

	2020
	\$'000
Interest expense	287
Expenses relating to short term leases ^(a)	617
Expenses relating to leases of low-value assets ^(a)	72
Income from sub leasing right-of-use assets	(106)
Depreciation expense of right-of-use assets	1,033
Total amounts recognised in consolidated statement of comprehensive income	1,903

^(a) These expenses are recognised in other expenses in Note 3.1.

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term.

Lease payments include:

- fixed payments less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- lease extensions where there is an option to extend the term of the lease; and
- the exercise price of purchase options reasonably certain to be exercised by the Group.

The lease payments are discounted using the lessee's incremental borrowing rate, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. The carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g. changes to future payments resulting from a change in an index or rate used to determine such lease payment) or a change in the assessment of an option to purchase the underlying asset. The lease liability is remeasured in the year when the change occurs and adjusted against the right-of-use asset.

The Group's lease liabilities are included in interest bearing liabilities (refer Note 6.1).

Lease extensions and termination options

Some land and building leases contain extension options exercisable by the Group. In determining the lease term, the Group considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. The Group assesses at the commencement date of the lease whether it is reasonably certain to exercise the extension options. In addition, the Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or changes in circumstances within its control.

Short-term leases and leases of low-value assets

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the consolidated statement of comprehensive income. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise land, IT equipment and photocopiers with individual values less than \$10,000 when new.

5.6 Other assets

Consolidated entity	2020	2019
	\$'000	\$'000
Inventories	5,605	4,813
Prepayments	8,259	6,347
Total other assets	13,864	11,160

Inventories consists of a variety of items on hand including stock, stores and materials for operational and maintenance purposes. These items are measured at the lower of weighted average cost and net realisable value.

Prepayments represents payments in advance of receipt of goods and services or that part of expenditure made in one accounting period covering beyond that period.

6. Financing our operations

Introduction:

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

Structure:

- 6.1 Interest bearing liabilities
 - 6.1.1 Maturity analysis of interest bearing liabilities
- 6.2 Finance costs
- 6.3 Cash flow information
 - 6.3.1 Reconciliation of net result to cash flow from operating activities

6.1 Interest bearing liabilities

Consolidated entity	2020	2019
	\$'000	\$'000
Current		
11am borrowings	52,400	42,300
Lease liabilities	769	-
Total current interest bearing liabilities	53,169	42,300
Non-current		
Fixed rate borrowings	1,895,000	1,670,000
Lease liabilities	9,870	-
Total non-current interest bearing liabilities	1,904,870	1,670,000
Total interest bearing liabilities	1,958,039	1,712,300

Borrowings are sourced from the Treasury Corporation of Victoria and secured by the Treasurer in the form of a government guarantee.

Borrowings are classified as financial instruments. All interest bearing borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. The measurement basis subsequent to initial recognition is based on the classification of interest bearing liabilities as financial liabilities at 'amortised cost'. This classification is determined at initial recognition.

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

During the current and prior year, there were no defaults and breaches of any of the borrowings.

Lease liabilities are determined in accordance with AASB 16 (refer Note 5.5).

6.1.1 Maturity analysis of interest bearing liabilities

Consolidated entity	Less than	1 to 5	More than	Total
	1 year	years	5 years	
	\$'000	\$'000	\$'000	\$'000
30 June 2020				
11am borrowings – floating interest rate	52,400	-	-	52,400
Borrowings – fixed interest rate	-	734,725	1,160,275	1,895,000
Lease liabilities	769	3,123	6,747	10,639
Total interest bearing liabilities	53,169	737,848	1,167,022	1,958,039
30 June 2019				
11am borrowings – floating interest rate	42,300	-	-	42,300
Borrowings – fixed interest rate	-	653,875	1,016,125	1,670,000
Total interest bearing liabilities	42,300	653,875	1,016,125	1,712,300

6.2 Finance costs

Consolidated entity	2020	2019
	\$'000	\$'000
Interest expense from financial liabilities at amortised cost	59,925	61,244
Financial accommodation levy	23,555	22,359
Interest expense from lease liabilities	287	-
Bank charges	13	13
Total finance costs	83,780	83,616

Finance costs consists of interest and other costs incurred in connection with the borrowing of funds and are recognised as expenses in the period in which they are incurred. All qualifying assets (being assets that necessarily take a substantial period of time to get ready for their intended use or sale) are measured at fair value. Therefore any finance costs directly attributable to the acquisition, construction or production of these qualifying assets are not required to be capitalised and will continue to be expensed in the period in which they are incurred.

Financial accommodation levy is a levy applied to the Group to remove the market advantage that government entities may experience in borrowings as a result of being guaranteed by the State of Victoria. The financial accommodation levy is charged a commercial rate for new borrowings based on the Groups underlying credit rating and is paid into the State's Consolidated Fund in accordance with section 40N of the *Financial Management Act 1994* in respect of financial accommodation provided to the Group by the State Government of Victoria.

6.3 Cash flow information

For the purposes of the consolidated cash flow statement, cash includes cash at bank and on hand.

6.3.1 Reconciliation of net result to cash flow from operating activities

Consolidated entity	2020	2019
	\$'000	\$'000
Net result after income tax	87,079	103,615
Depreciation and amortisation	103,977	95,573
Write-off of non-current assets	637	1,111
Net (profit) / loss on sales of assets	(4,304)	(3,897)
Developer contributed assets	(64,679)	(78,525)
Defined benefit (income) / expenses	1,396	1,053
(Gain) / loss on revaluation of non-current asset	-	164
Net (gain) / loss on financial instruments	6,871	2,567
Other non-cash movements lease related	287	-
Adjustment due to change in accounting policy	-	(19,335)
Changes in operating assets and liabilities		
(Increase) / decrease in receivables	2,704	(1,140)
(Increase) / decrease in contract assets	(1,856)	19,881
(Increase) / decrease in income tax asset	2,537	(2,537)
(Increase) / decrease in other assets	(722)	(1,028)
Increase / (decrease) in payables	(8,073)	4,927
Increase / (decrease) in contract liabilities	(4,820)	20,639
Increase / (decrease) in income tax payable	2,561	(17,744)
Increase / (decrease) in net deferred tax liabilities	2,552	(1,311)
Increase / (decrease) in provisions	6,284	3,006
Increase / (decrease) in deposits and advances	846	2,808
Increase / (decrease) in accrued interest payable	(922)	4
Net cash inflow from operating activities	132,355	129,831

7. Statutory obligations

Introduction:

This section provides information on the statutory financial obligations of the Group.

Structure:

- 7.1 Income tax
- 7.2 Dividend and capital repatriation
 - 7.2.1 Dividend
 - 7.2.2 Capital repatriation
- 7.1 Environmental contribution

7.1 Income tax

Consolidated entity

	2020	2019
	\$'000	\$'000
(a) Income tax expense		
The major components of income tax expense are:		
Current tax	33,115	44,377
Income tax under provided in prior year	-	(20)
Deferred tax expense / (income) relating to timing differences	2,553	(1,289)
	35,668	43,068
(b) Deferred income tax recognised in other comprehensive income		
Gain / (loss) on revaluation of infrastructure assets	(5,637)	23,457
Gain / (loss) on revaluation of land and buildings	-	1,435
Gain / (loss) on defined benefit superannuation plan actuarial	(1,976)	(2,366)
	(7,613)	22,526
(c) Reconciliation of income tax expense to prima facie tax payable		
Accounting profit before tax	122,747	146,681
Income tax calculated @ 30%	36,824	44,004
Add		
Non-deductible depreciation	14	3
Non-assessable gain from the sale of pre-CGT land	(1,234)	(1,079)
Non-assessable (gain) / non-deductible loss from asset revaluation	-	8
Non-deductible expenses	64	132
	35,668	43,068
(d) Income tax position		
Income tax asset	-	2,537
Current tax payable	2,561	-
(e) Deferred tax items		
Deferred tax liabilities		
Defined benefit superannuation asset	-	170
Contract assets	1,037	1,096
Land and buildings	7,410	7,387
Infrastructure assets ^(a)	538,367	540,175
Total deferred tax liabilities	546,814	548,828
Recognised directly in equity	356,439	364,053
Recognised directly in net profit	190,375	184,775
Total deferred tax liabilities	546,814	548,828

^(a) The majority of South East Water's deferred tax liability relates to infrastructure assets and the deferred tax payment will only be required if and when the Group is sold.

Consolidated entity	2020	2019
	\$'000	\$'000
Deferred tax assets		
Provisions	(1,804)	(1,032)
Contract liability	(4,558)	(6,123)
Employee benefits	(7,329)	(6,508)
Property, plant and equipment	(3,021)	(1,703)
Leasehold improvements future deductible amounts	(326)	(324)
Defined benefit superannuation liability	(2,224)	-
Other	(155)	(679)
Total deferred tax assets	(19,417)	(16,370)
Recognised directly in equity	-	-
Recognised directly in net profit	(19,417)	(16,370)
Total deferred tax assets	(19,417)	(16,370)
Net deferred tax liabilities	527,397	532,458

The Group is subject to the National Tax Equivalent Regime (NTER) which is administered by the Australian Taxation Office (ATO). The essential difference between the NTER and the Commonwealth legislation is that the tax liability is paid to the Victorian State Government rather than the Commonwealth Government.

Income tax on the consolidated statement of comprehensive income for the year comprises current and deferred tax. Income tax is recognised in the consolidated statement of comprehensive income except to the extent that it relates to items recognised directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes at balance date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax assets and liabilities are recognised at the tax rates expected to apply when the assets are recovered or liabilities are settled based on those tax rates which are enacted or substantively enacted at balance date. Deferred tax liabilities are reported net of any deferred tax assets.

The Group has formed an income tax consolidated group consisting of South East Water Corporation and Iota Services Pty Ltd. South East Water Corporation is the head entity of the tax consolidated group.

7.2 Dividends and capital repatriation

7.2.1 Dividends

Consolidated entity	2020	2019
	\$'000	\$'000
Final dividend paid during 2018-19 in respect of 2017-18	-	58,700
Final dividend paid during 2019-20 in respect of 2018-19	51,000	-
Special dividend paid during 2019-20 in respect of 2019-20	65,300	-
Interim dividend paid during 2019-20 in respect of 2019-20	16,200	-
Total dividends	132,500	58,700

Under the *Water Act 1989*, the Group is required to pay a dividend to the State of Victoria in accordance with a determination by the Treasurer of Victoria. An obligation to pay a dividend only arises after a formal determination is made by the Treasurer following consultation between the Board, the relevant portfolio Minister and the Treasurer.

7.2.2 Capital repatriation

Consolidated entity	2020	2019
	\$'000	\$'000
Capital repatriation	-	22,180
Total capital repatriation	-	22,180

Pursuant to FRD 119A *Transfers through Contributed Capital* under the *Financial Management Act 1994*, the Minister for Water designated the Group to repatriate capital back to the state.

7.3 Environmental contributions

Consolidated entity	2020	2019
	\$'000	\$'000
Environmental contribution levy	40,693	40,693
Total environmental contribution levy	40,693	40,693

The *Water Industry (Environmental Contributions) Act 2004* (the Act) amended the *Water Industry Act 1994* to make provision for environmental contributions to be paid by water authorities. The Act establishes an obligation for authorities to pay annual contributions into a consolidated fund in accordance with the pre-established schedule of levy payments, which sets out the amounts payable by water authority. The levy payments commenced on 1 October 2004 and has since been extended until 30 June 2024.

The purpose of the environmental contribution is set out in the Act and the funding may be used for financing initiatives that seek to promote the sustainable management of water or address water-related initiatives. The Group has a statutory obligation to pay the environmental contribution to the Department of Environment, Land, Water and Planning.

Environmental contribution levy commitment

The environmental contribution at balance date, committed to in the future:

Consolidated entity	2020	2019
	\$'000	\$'000
Not later than one year	43,461	40,693
Later than 1 year and not later than 5 years	130,382	-
Total environmental contribution levy commitment	173,843	40,693

8. Risk, valuation judgements and contingencies

Introduction:

The Group is exposed to financial risk from its activities and outside factors. In addition, it is often necessary to make judgements and estimates associated with recognition and measurement of items in the financial statements.

This section sets out financial instrument specific information (including exposures to financial risks), as well as those items that are contingent in nature or require a higher level of judgement to be applied, which for the Group related mainly to fair value determination.

Structure:

- 8.1 Financial instruments specific disclosures
- 8.2 Fair value determination
 - 8.2.1 Fair value determination of financial assets and liabilities
 - 8.2.2 Fair value determination of non-financial physical assets
- 8.3 Contingent assets and contingent liabilities

8.1 Financial instruments specific disclosures

Financial instruments arise out of contractual arrangements that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Due to the nature of the Group's activities, certain financial assets and financial liabilities arise under statute rather than a contract (for example taxes, fines and penalties) – these assets and liabilities are not considered financial instruments.

Categories of financial instruments

Financial assets at amortised cost

Financial assets are measured at amortised costs if both of the following criteria are met:

- the asset is held within a business model whose objective is to collect the contractual cash flows
- the contractual terms give rise to cash flows that are solely payments of principal and interest.

Initial recognition

These assets are initially recognised at fair value plus any directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method less any impairment. The Group recognises the following assets in this category:

- cash
- contract assets
- receivables (excluding statutory receivables).

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

- the rights to receive cash flows from the asset have expired, or
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement, or
- the Group has transferred its rights to receive cash flows from the asset and either:
 - has transferred substantially all the risks and rewards of the asset, or
 - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has neither transferred nor retained substantially all the risks and rewards or transferred control, the asset is recognised to the extent of the Group's continuing involvement in the asset.

Impairment of financial assets: The Group has been recognising an allowance for expected credit losses for the relevant financial instruments. For further details, refer Note 5.1.1.

Financial liabilities at amortised cost

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

- payables (excluding statutory payables)
- contract liabilities
- deposits and advances
- interest bearing liabilities.

Derecognition of financial liabilities: A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised as an 'other economic flow' in the consolidated statement of comprehensive income.

The Group considers that the carrying amount of financial assets and financial liabilities (excluding borrowings) recorded in the consolidated financial report to be a fair approximation of their fair values, because of the short term nature of the financial instruments and the expectation that they will be paid in full.

The Group's principal financial instruments are loans sourced from the Treasury Corporation of Victoria. The loans include overnight borrowings and fixed rate loans which are used to meet working capital requirements and fund capital expenditure programs.

Financial risk management objectives and policies

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and interest rate risk. The board reviews and endorses policies for managing these risks. The Group uses different methods to measure and manage the different risks to which it is exposed. Primary responsibility for the identification and management of financial risks rests with the Group's Finance, Assurance and Risk Management committee.

As a whole the Group's financial risk management program seeks to manage these risks and the associated volatility of its financial performance. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement, and the basis on which income and expenses are recognised, are disclosed in the financial asset and financial liability categories above.

The main purpose in holding financial instruments is to prudentially manage the Group's financial risks within the policy parameters adopted by the board.

Financial instruments: Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's exposure to credit risk is influenced by the individual characteristics of each customer.

The Group has a broad customer base dispersed across the Group's service area. Receivable balances are monitored on an ongoing basis and as such the Group is not exposed to significant bad debts. The Group applies the AASB 9 simplified approach to measuring expected credit losses using a lifetime expected loss allowance for all receivables.

The Group is continuously monitoring and assessing its credit risk profile due to the current economic impacts affecting customers. As a result, the Group has adjusted the credit risk profile in assessing the expected loss allowance in 2019–20. Refer Note 5.1.1.

At 30 June 2020, the Group has no other significant credit risk.

Financial instruments: Liquidity risk

Liquidity risk refers to the risk of not being able to meet short term working capital needs and the financing of new and maturing debt as they fall due.

The Group is exposed to liquidity risk mainly through the financial liabilities as disclosed in the face of the balance sheet and the amounts related to financial guarantees. The Group manages liquidity risk by maintaining and conducting efficient banking practices and account structures, sound cash management practices and regular monitoring of the maturity profile of assets and liabilities, together with anticipated cash flows.

The Group obtains annual approval from the Treasurer of Victoria for new borrowings, borrowings to refinance maturing and non-maturing loans and temporary purpose borrowing facilities.

The Group has adopted a long term capital structure that targets a gearing ratio of less than 60 per cent and funds from operations (FFO) net interest coverage of 2.0 to 3.0 times. These targets are used to ensure the Group is financially sustainable in the medium to long term. The gearing and interest coverage ratios for the years ended 30 June 2020 and 30 June 2019 are:

	2020	2019
Gearing - Net Debt/(Net Debt + Equity) ^(a)	49.9%	45.8%
FFO net interest cover (times)	2.6	2.6

^(a) The gearing ratio for 2019–20 includes additional lease liabilities due to the new lease (AASB 16) standard coming into effect on 1 July 2019.

The Group's exposure to liquidity risk is deemed insignificant based on prior periods' data and current assessment of risk. The carrying amounts detailed in the following table of contractual financial liabilities recorded in the financial statements represents the Group's maximum exposure to liquidity risk.

Financial instruments: Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of adverse movements in interest rates relates primarily to its debt obligations with terms to maturity or next interest rate reset of less than one year.

The Group minimises its exposure to interest rate changes by holding a mix of fixed and floating rate debt. Debt is sourced from Treasury Corporation Victoria and is managed within a range of Board approved limits with debt levels and interest rates being monitored regularly.

The carrying amounts of financial assets and financial liabilities that are exposed to interest rates are set out in the following table.

2020	Weighted average interest rate	Carrying amount \$'000	Fixed interest rate \$'000	Variable interest rate \$'000	Non-interest bearing \$'000
Financial assets					
Cash	0.90%	2,788	-	2,788	-
Receivables		74,521	-	-	74,521
Contract assets		71,145	-	-	71,145
Total financial assets		148,454	-	2,788	145,666
Financial Liabilities					
Payables		(113,211)	-	-	(113,211)
Contract Liabilities		(17,056)	-	-	(17,056)
Deposits and advances		(12,304)	-	-	(12,304)
Borrowings - floating interest rate	0.83%	(52,400)	-	(52,400)	-
Borrowings - fixed interest rate	3.13%	(1,895,000)	(1,895,000)	-	-
Lease liabilities	2.60%	(10,639)	(10,639)	-	-
Total financial liabilities		(2,100,610)	(1,905,639)	(52,400)	(142,571)

2019	Weighted average interest rate	Carrying amount \$'000	Fixed interest rate \$'000	Variable interest rate \$'000	Non-interest bearing \$'000
Financial assets					
Cash	1.40%	2,237	-	2,237	-
Receivables		87,165	-	-	87,165
Contract assets		69,289	-	-	69,289
Total financial assets		158,691	-	2,237	156,454
Financial Liabilities					
Payables		(111,949)	-	-	(111,949)
Contract Liabilities		(20,639)	-	-	(20,639)
Deposits and advances		(12,695)	-	-	(12,695)
Borrowings - floating interest rate	1.45%	(42,300)	-	(42,300)	-
Borrowings - fixed interest rate	3.63%	(1,670,000)	(1,670,000)	-	-
Total financial liabilities		(1,857,583)	(1,670,000)	(42,300)	(145,283)

Interest rate risk sensitivity

As at 30 June 2020, if interest rates changed by +/- 25 basis points from the year end rates with all other variables held constant, post-tax profit would have been \$0.597 million higher / lower (2018–19: \$0.855 million at +/- 50 basis points) as a result of higher / lower interest expense from variable interest rate borrowings.

8.2 Fair value determination

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

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

The Group determines the policies and procedures for determining fair values for both financial and non-financial assets and liabilities as required.

8.2.1 Fair value determination of financial assets and liabilities

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

Level 1: the fair value of financial instrument with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market prices

Level 2: the fair value is determined using inputs other than quoted prices that are observable for the financial asset or liability, either directly or indirectly

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

The Group considers that the carrying amount of financial instrument assets and liabilities recorded in the financial statements to be a fair approximation of their fair values, because of the short term nature of the financial instruments and the expectation that they will be paid in full.

Where the fair value of the financial instruments is different from the carrying amounts, the following table shows the carrying amounts and fair values of financial assets and financial liabilities, including levels within the fair value hierarchy. The table does not include fair value information for financial assets and financial liabilities not measured at fair value.

	30 June 2020		30 June 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$'000	\$'000	\$'000	\$'000
Financial liabilities				
Borrowings	1,947,400	2,110,758	1,712,300	1,865,418

In the absence of an active market, the fair value of the Group's borrowings are valued using observable inputs such as recently executed transaction prices in securities of the issuer or comparable issuers and yield curves. Adjustments are made to the valuations when necessary to recognise differences in the instrument's terms. To the extent that the significant inputs are observable, the Group categorises these borrowings as Level 2 within the fair value hierarchy.

There have been no transfers between levels during the period.

8.2.2 Fair value determination of non-financial physical assets

In accordance with AASB 13 *Fair Value Measurement*, the Group determines the policies and procedures for both recurring fair value measurements such as infrastructure, property, plant and equipment and for non-recurring fair value measurements such as assets held for sale.

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

Level 1: quoted prices (unadjusted) in active markets for identical assets.

Level 2: valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3: valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The Group's non-financial assets have been categorised into the three levels of the fair value hierarchy:

Fair value measurement hierarchy

2020	Carrying amount at 30 June 2020	Fair value measurement at end of reporting period using:		
		Level 1	Level 2	Level 3
Consolidated entity	\$'000	\$'000	\$'000	\$'000
Infrastructure assets	3,765,700	-	-	3,765,700
Specialised land	159,109	-	-	159,109
Non-specialised land	22,791	-	22,791	-
Specialised buildings	84,502	-	-	84,502
Plant and equipment	23,304	-	-	23,304
Leasehold improvements	240	-	-	240
Freehold Land held for sale	4,640	-	4,640	-
Total	4,060,286	-	27,431	4,032,855

2019 Consolidated entity	Carrying amount at 30 June 2019 \$'000	Fair value measurement at end of reporting period using:		
		Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
Infrastructure assets	3,697,199	-	-	3,697,199
Specialised land	165,911	-	-	165,911
Non-specialised land	21,679	-	21,679	-
Non-specialised buildings	85,881	-	-	85,881
Plant and equipment	21,612	-	-	21,612
Leasehold improvements	379	-	-	379
Freehold Land held for sale	4,895	-	4,895	-
Total	3,997,556	-	26,574	3,970,982

Land and buildings were independently valued by the Valuer-General Victoria's Office at 30 June 2016, in accordance with FRD 103H.

At 30 June 2020 the fair value of the land and buildings were assessed against indices provided by the Valuer-General Victoria's Office to determine any material movements in fair value. There were no material movements in fair value at 30 June 2020. At 30 June 2019, a managerial revaluation resulted in a \$22.3 million decrement in the value of land and an \$8.2 million increment in the value of buildings were recognised.

Non-specialised land is valued using the market approach, being market value based on highest and best use permitted by relevant land planning provisions. Under this valuation method, the assets are compared to recent comparable sales or sales of comparable assets which are considered to have nominal or no added improvement value. The valuation of the assets was determined by analysing comparable sales and allowing for share, size, topography, location and other relevant factors specific to the asset being valued. From the sales analysed, an appropriate rate per square metre has been applied to the subject asset.

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

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

Non-specialised buildings are measured using the market approach or current replacement cost method, adjusting for the associated depreciations. As depreciation adjustments are considered as significant, unobservable inputs in nature, specialised buildings are classified as Level 3 fair value measurements.

Infrastructure assets are measured using the income approach (i.e. discounted cash flows). The 'income approach' can be used to determine the fair value of property, plant and equipment in circumstances where there is no market-based evidence of 'fair value' because of the specialised nature of the asset(s). As the Group is classified as a for-profit entity for financial reporting purposes, the future economic benefits of the business's infrastructure assets are primarily dependent on their ability to generate net cash inflows. Accordingly, valuing infrastructure assets based on 'discounted cash flows' reflects their economic value.

The valuation model includes:

- calculating the forecast cash flows to debt and equity investors over a 10 year forecast period. Cash flows to debt and equity investors are those cash flows available after all operating expenses (including taxes) have been paid and necessary investments in working and fixed capital have been made.
- calculating a terminal value at the end of the 10 year forecast period. The terminal value is calculated by adopting the Gordon Growth methodology by applying the mid-point of the WACC, terminal growth rate and terminal cash flows. A single terminal value has been adopted due to the sensitive nature of the terminal value in the model.

- discounting the cash flows to the valuation date using the selected high and low WACC to adopt a mid-point (\$3.7 billion).
- deducting non-infrastructure related assets and liabilities to derive the implied water infrastructure assets valuation.
- calculating the tax amortisation benefit (TAB) on the water infrastructure assets, which is an estimate of the present value of future tax amortisation benefits that may be received by a hypothetical market participant.
- adding the TAB to the implied water infrastructure assets valuation to arrive at the total value of the water infrastructure assets.

Key assumptions and management estimates applied in the valuation model based on known impacts by COVID-19 (up to Stage 3 restrictions) include:

- WACC reflecting the recent volatility in market conditions and the downward trend in government bond yields
- cash flow forecasts adopted in the valuation model have been updated to reflect the uncertainty and duration of impact on the business of COVID-19, including consequential impacts from government economic support policies.

The valuation resulted in a valuation decrement of \$18.8 million (2018–19: \$78.2 million increment). The effective date of the valuation is 30 June 2020.

The Group engaged KPMG to independently perform both the 30 June 2019 and 2020 infrastructure assets valuation. As the assumptions used to determine the value of infrastructure assets are considered significant unobservable inputs, infrastructure assets are classified as Level 3 fair value measurements.

Plant and equipment is held at fair value. As there is little evidence of a reliable market-based fair value for plant and equipment (or any such evidence does not indicate a fair value significantly different from depreciated cost), current replacement cost is used to calculate the fair value for these types of assets. To the extent that the fair value estimate of plant and equipment is based on significant unobservable inputs, these assets are classified as Level 3 assets.

Leasehold improvements are held at fair value. As there is no evidence of a reliable market-based fair value (or other relevant fair value indicators) for leasehold improvements (or any such evidence does not indicate a fair value significantly different from depreciated cost), current replacement cost is the fair value for these types of assets. To the extent that leasehold improvements is based on significant unobservable inputs, these assets are classified as Level 3 assets.

There were no other changes in valuation techniques throughout the period to 30 June 2020.

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

Reconciliation of Level 3 fair value

Reconciliations of the carrying amounts of each class of infrastructure, property, plant and equipment between the beginning and the end of the current financial year are set out in the following table.

2020	Infrastructure assets	Specialised land	Specialised buildings	Plant and equipment	Leasehold improvements	Total
Consolidated entity	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening balance	3,697,199	165,911	85,881	21,612	379	3,970,982
Transfer into class from work in progress	166,206	-	1,132	10,398	22	177,758
Disposals	(505)	-	-	(1,457)	-	(1,962)
Depreciation	(78,405)	-	(2,511)	(7,249)	(161)	(88,326)
Sub total	3,784,495	165,911	84,502	23,304	240	4,058,452
Revaluation gains/(losses)	(18,795)	-	-	-	-	(18,795)
Sub total	(18,795)	-	-	-	-	(18,795)
Closing balance	3,765,700	165,911	84,502	23,304	240	4,039,657
2019	Infrastructure assets	Specialised land	Specialised buildings	Plant and equipment	Leasehold improvements	Total
Consolidated entity	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening balance	3,490,469	185,934	-	17,008	534	3,693,945
Transfer into class from work in progress	204,845	-	1,089	12,732	5	218,671
Transfer in/(out) of Level 3	-	-	79,118	-	-	79,118
Disposals	(1,051)	-	-	(1,872)	-	(2,923)
Depreciation	(75,255)	-	(2,521)	(6,256)	(160)	(84,192)
Sub total	3,619,008	185,934	77,686	21,612	379	3,904,619
Revaluation gains/(losses)	78,191	(20,023)	8,195	-	-	66,363
Sub total	78,191	(20,023)	8,195	-	-	66,363
Closing balance	3,697,199	165,911	85,881	21,612	379	3,970,982

Description of significant unobservable inputs to Level 3 valuations for 2020 and 2019

Consolidated entity	Valuation technique	Significant unobservable inputs	2020 range (weighted average)	2019 range (weighted average)	Sensitivity of fair value measurement to changes in significant unobservable inputs
Infrastructure assets	Income approach (discounted cash flow)	Discount rates (WACC)	4.6% to 5.3% (5.0%)	5.0% to 5.6% (5.3%)	An increase/ (decrease) of 25 bps in the discount rate would result in a decrease of (\$729.2) million, or (19.4%), or an increase of \$987.8 million, or 26.2% to the fair value.
		Terminal value growth rate	3.25%	3.25%	An increase/ (decrease) of 25 bps in the terminal growth rate would result in an increase of \$838.9 million, or 22.3% or a decrease of (\$623.8) million, or (16.6%) to the fair value.
		Terminal value capital expenditure	\$160.0 million	\$177.4 million	An increase/ (decrease) in the terminal value capital expenditure of 10% would result in an increase/ (decrease) of \$520.4 million or 13.8% to the fair value.
Specialised land	Market approach	Community service obligation adjustment	20% – 40% (21%)	20% – 40% (21%)	A significant increase/ (decrease) in the community service obligation adjustment would result in a significantly lower (higher) fair value.
Non-specialised buildings	Current replacement cost (deemed fair value)	Cost per unit	\$3,000- \$45,030,000 (\$4,024,000)	\$3,000 – \$41,400,000 (\$4,316,000)	A significant increase/ (decrease) in cost per unit would result in a significantly higher or lower fair value.
		Useful life of plant and equipment	20 - 50 years (30 years)	20 – 50 years (44 years)	A significant increase/ (decrease) in the estimated useful life would result in a significantly higher or lower valuation.
Leasehold improvements	Current replacement cost (deemed fair value)	Cost per unit	\$2,900 – \$77,000 (\$17,000)	\$4,900 – \$135,000 (\$31,600)	A significant increase/ (decrease) in cost per unit would result in a significantly higher or lower fair value.
		Useful life of leasehold improvements (lease term)	3 – 10 years (7 years)	3 – 10 years (7 years)	A significant increase/ (decrease) in the lease term would result in a significantly higher or lower valuation.
Plant and equipment	Current replacement cost (deemed fair value)	Cost per unit	\$1 – \$2,005,000 (\$6,100)	\$1 – \$2,300,000 (\$8,000)	A significant increase/ (decrease) in cost per unit would result in a significantly higher or lower fair value.
		Useful life of plant and equipment	4 – 30 years (6 years)	3 – 20 years (6 years)	A significant increase/ (decrease) in the estimated useful life would result in a significantly higher or lower valuation.

8.3 Contingent assets and contingent liabilities

Contingencies are not recognised on the balance sheet but are disclosed and if quantifiable are measured at nominal value. Where applicable, contingencies are disclosed inclusive of GST recoverable from, or payable to, the Australian Taxation Office.

Contingent assets

In the ordinary course of business, developers often provide a commitment to the Group to construct water and sewerage assets. The assets are constructed within an agreed timeframe, generally 12 months, and upon completion are transferred to the Group at no cost.

As at 30 June 2020, various developers have agreed to construct water and sewerage infrastructure assets to the value of \$98.5 million (2018–19 \$96.8 million). This value relates to \$67.4 million of assets which are under construction (2018–19 \$71.6 million) and \$31.0 million of assets which have not commenced construction (2018–19 \$25.3 million).

Contingent liabilities

Contingent on the construction of assets, the Group is liable to reimburse developers a total amount of \$30.7 million (2018–19 \$22.9 million) for additional works constructed at the Group's request. This reimbursement together with future investment for urban growth by the Group or developers will be recovered through a combination of new customer contributions, plus service and usage charges from all customers. This is consistent with the Essential Services Commission's final determination for water and sewerage prices in June 2018 (for the 2020–21 year).

Other contingent assets and liabilities

Consolidated entity	2020	2019
	\$'000	\$'000
Contingent assets – legal matters	36	-
Contingent liabilities – legal matters	-	52

The Group has contingent liabilities arising from disputes in the ordinary course of business and considered immaterial (30 June 2019: nil).

9. Other disclosures

Introduction:

This section provides information on other disclosures as required by Australian Accounting Standards or Victorian Government Financial Reporting Directions.

Structure:

- 9.1 Responsible persons and executive officer disclosures
 - 9.1.1 Responsible persons
 - 9.1.2 Executive officers
- 9.2 Related parties
 - 9.2.1 Key management personnel
 - 9.2.2 Significant transactions and balances with key management personnel and other related parties
 - 9.2.3 Significant transactions and balances with government related parties
- 9.3 Defined benefits superannuation
- 9.4 Ex-gratia expenses
- 9.5 Auditor remuneration
- 9.6 Controlled entities
 - 9.6.1 Parent entity information
- 9.7 Subsequent events
- 9.8 Australian Accounting Standards issued not yet effective
- 9.9 Change in accounting standards

9.1 Responsible persons and executive officer disclosures

9.1.1 Responsible persons

The relevant Minister and directors of the Group are deemed to be the responsible persons by ministerial direction pursuant to the provisions of the *Financial Management Act 1994*.

The responsible Minister during the 2019–20 reporting period was the Hon Lisa Neville MP, Minister for Water. Remuneration paid to the responsible Minister is shown in the financial statements of the Department of Parliamentary Services.

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

Ms L Cade	1/07/2019 – 30/06/2020	Chair
Ms G Bell	1/07/2019 – 30/06/2020	Director
Mr P Day	1/07/2019 – 30/06/2020	Director
Mr T Lyons	1/07/2019 – 30/06/2020	Director
Ms K McGrath	1/07/2019 – 30/06/2020	Director
Mr A Wood	1/07/2019 – 30/06/2020	Director
Mr T Beach	1/07/2019 – 30/09/2019	Director
Ms F Marsden	1/07/2019 – 30/09/2019	Director
Ms. L Asher	1/10/2019 – 30/06/2020	Director
Mr J Kambovski	1/10/2019 – 30/06/2020	Director
Ms T Benson	1/07/2019 – 16/12/2019	Managing Director and Accountable Officer
Mr P Johnson	16/12/2019 – 16/02/2020	Acting Managing Director and Accountable Officer
Ms L Olsen	17/02/2020 – 30/06/2020	Managing Director and Accountable Officer

The number of directors who received remuneration from the Group within the specified bands as follows:

			2020	2019
			No	No
\$10,000	–	\$19,999	2	-
\$30,000	–	\$39,999	2	-
\$50,000	–	\$59,999	5	7
\$60,000	–	\$69,999	1	-
\$90,000	–	\$99,999	1	1
\$160,000	–	\$169,999	1	-
\$240,000	–	\$249,999	1	-
\$430,000	–	\$439,999	-	1
Total			13	9

9.1.2 Executive officers

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

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

Short-term employee benefits include amounts such as wages, salaries, annual leave or sick leave that are usually paid or payable on a regular basis, as well as non-monetary benefits such as allowances and free or subsidised goods or services.

Post-employment benefits include pensions and other retirement benefits paid or payable on a discrete basis when employment has ceased.

Other long-term benefits include long service leave, other long service benefits or deferred compensation.

Termination benefits include termination of employment payments, such as severance packages.

	2020	2019
	\$'000	\$'000
Short-term employee benefits	2,162	2,102
Post-employment benefits	174	165
Other long-term benefits	37	46
Termination benefits	79	-
Total remuneration	2,452	2,313
Total number of executives	10	9
Total annualised employee equivalents ^(a)	8.0	8.0

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

9.2 Related parties

The Group is a wholly owned and controlled entity of the State of Victoria.

Related parties of the Group include:

- all key management personnel and their close family members and personal business interests (controlled entities, joint ventures and entities they have significant influence over)
- all cabinet ministers and their close family members
- all departments and public sector entities that are controlled and consolidated into the whole of state consolidated financial statements.

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

9.2.1 Key management personnel

Key management personnel (as defined in AASB 124 *Related Party Disclosures*) includes the responsible Minister, the Managing Director and all other directors listed under responsible persons in Note 9.1.1 who have the authority and responsibility for planning, directing and controlling the activities of the Group directly or indirectly, during the financial year.

The compensation detailed below excludes the salaries and benefits the responsible Minister receives. The Minister's remuneration and allowances is set by the *Parliamentary Salaries and Superannuation Act 1968* and is reported within the Department of Parliamentary Services' financial report.

	2020	2019
	\$'000	\$'000
Short-term employee benefits	862	816
Post-employment benefits	62	60
Other long-term benefits	13	9
Total remuneration ^(a)	937	885

^(a) There are two executive officers who are deemed KMPs of Iota Services Pty Ltd, subsidiary of South East Water Corporation. Their remuneration is disclosed under Note 9.1.2 in discharging their responsibility as executive officers of the Group.

9.2.2 Significant transactions and balances with key management personnel and other related parties

Outside of normal citizen type transactions (such as water bills), there were no material related party transactions that involved key management personnel, their close family members and their personal business interests during the reporting period other than remuneration for employment. No provision has been required, nor any expense recognised, for impairment of receivables from related parties.

9.2.3 Significant transactions and balances with government-related parties

Department of Environment, Land, Water and Planning

The Department of Environment, Land, Water and Planning (DELWP) leads and directs the Group for implementing the framework for achieving the Victorian Government's responsibilities for sustainability of the natural and built environment.

The Group, under a normal commercial agency agreement, bills and collects charges relating to Parks Victoria services on behalf of DELWP. Due to the nature of the agency/principal relationship the Group does not recognise these amounts in its accounts. The Group recognises an administration fees for the collection of Parks Victoria charges as revenue.

The Group also receives and makes various other payments to and from DELWP which are recognised as revenue and expenses.

Consolidated entity	2020	2019
	\$'000	\$'000
Payments		
Parks charge collected on behalf of Parks Victoria	67,004	64,314
Environmental contribution	40,693	40,693
Receipts		
Administration fees for collection of Parks Victoria charges	2,724	2,785
Payable at 30 June		
Parks charge collected on behalf of Parks Victoria	7	29
Receivable at 30 June		
Administration fees for collection of Parks Victoria charges	156	129

Department of Treasury and Finance

The Department of Treasury and Finance (DTF) administers the *Water Act 1989* and the *Financial Management Act 1994* with which the Group is required to comply. The Group is required to pay income taxes, the financial accommodation levy and dividends to DTF.

Consolidated entity	2020	2019
	\$'000	\$'000
Payments		
Dividend payments	132,500	58,700
Capital repatriation	-	22,180
Taxes and levies	51,489	87,268
Payable at 30 June		
Taxes and levies	9,120	6,301
Receivable at 30 June		
Taxes and levies	-	3,653

Melbourne Water Corporation

Melbourne Water Corporation has the same controlling entities as the Group, and is therefore considered to be a related party. The Group transacts solely with Melbourne Water Corporation for the purchase of potable water and disposal of sewage.

The Group, under a normal commercial agency agreement, bills and collects drainage rates on behalf of Melbourne Water Corporation. Due to the nature of the agency/principal relationship the Group does not recognise these amounts in its accounts. The Group recognises administration fees for the collection of Melbourne Water Corporation's charges as revenue.

Consolidated entity	2020	2019
	\$'000	\$'000
Payments		
Bulk water and sewage charges	531,813	510,705
Drainage charges collected on behalf of Melbourne Water	92,721	90,519
Receipts		
Administration fees for collection of drainage and other charges	5,286	5,236
Payable at 30 June		
Bulk water and sewage charges and drainage charges	2,753	5,718

Treasury Corporation of Victoria

The Group borrows from, and invests with, the Treasury Corporation of Victoria (TCV) with transactions based on market interest rates. TCV also provides advisory and administrative services under normal commercial terms (these services are included in the interest rate).

Consolidated entity	2020	2019
	\$'000	\$'000
Payments		
Finance and interest costs	43,431	43,525
Receipts		
Interest revenue received	-	6
Proceeds from borrowings	235,100	126,000
Payable at 30 June		
Total borrowings and accrued interest expense	1,963,893	1,730,033

Department of Health and Human Services

The Department of Health and Human Services (DHHS) provides a number of services to the community including the provision of rebates and grants to concession holders. The Group receives various payments from and makes various payments to DHHS which are recognised as revenue and expenses.

Consolidated entity	2020	2019
	\$'000	\$'000
Receipts		
Customer rebate reimbursements	46,228	45,373
Administration expenses	274	267
Receivable at 30 June		
Customer rebate reimbursements	2,244	1,818

Iota Services Pty Ltd

Iota Services Pty Ltd is a wholly-owned subsidiary of South East Water Corporation. During the financial year ended 30 June 2020, South East Water Corporation purchased goods and services and provided accounting and administrative assistance to Iota Services Pty Ltd.

Iota Services Pty Ltd has a financial accommodation facility to borrow up to a maximum of \$5.0 million from South East Water. At 30 June 2020, Iota Services Pty Ltd is not using this facility.

All loans are unsecured and the interest rate on the loan is based on the prevailing Treasury Corporation of Victoria's floating interest rate applied to South East Water Corporation, which is directly on passed to Iota Services Pty Ltd. All financial transactions between South East Water Corporation and Iota Services Pty Ltd are eliminated upon consolidation.

Water and sewerage services

Water and sewerage services were provided to related parties for properties within the Group's boundary on the same terms and conditions that apply to all other customers.

Zero Emissions Water – Power Purchase Agreement

South East Water Corporation is one of 13 water corporation Members of Zero Emissions Water Limited (ZEW), a public company limited by guarantee. ZEW's substantial objective is to acquire electricity, contracts for difference and other derivative products in relation to electricity, and/or green products from an energy and emissions reduction facility/(ies) in Victoria and in turn supply these products to its Members. This vehicle provides the opportunity for water corporation members to collaboratively promote energy and emissions reduction initiatives in Victoria and to reduce emissions.

On 30 October 2018, a Members' Agreement was entered into between the water corporations and ZEW in order to regulate their rights and obligations as members of ZEW and as participants in the project. The Members' Agreement establishes the operating activities of ZEW and the decision-making responsibilities of the ZEW Directors. South East Water Corporation's Managing Director was a Director of ZEW during 1 July 2019 to 16 December 2019. South East Water Corporation's General Manager Future Water Strategy is a Director of ZEW during 22 January 2020 to 30 June 2020.

Under the Members' Agreement, South East Water Corporation's liability as a member is limited to \$10 in the event of a wind up.

As required by Australian Accounting Standards, South East Water Corporation has assessed the nature of its relationship with ZEW, and has concluded that it does not have control, joint control or significant influence over ZEW. South East Water Corporation will account for its investment in ZEW as a financial instrument within the scope of AASB 9 *Financial Instruments*. ZEW is a related party of South East Water Corporation.

On 30 October 2018, ZEW entered into an 11-year Power Purchasing Agreement (PPA) with a solar farm energy generator. In relation to the PPA, ZEW will act as a central intermediary between the energy generator and the water corporations. The PPA contains a contract for difference (CFD) payment mechanism in respect of electricity generated by the facility and the sale and supply of large-scale generation certificates (LGCs) from the facility. The PPA contains certain conditions precedent with the target commercial operation date of 1 October 2019.

The solar farm energy generator experienced a construction delay due to redesign of electrical infrastructure and a connection delay relating to generator restrictions and revised connection procedures advised by the Australian Electricity Market Operator (AEMO). Renegotiated terms have resulted in an extension of the target commercial operation date to 1 October 2020 and a compensation settlement to ZEW for the delay. South East Water's share of the settlement is \$406,013 which has been recognised in the Comprehensive Operating Statement as other income.

At 30 June 2020, the conditions precedent in the PPA are not completed yet and ZEW does not have a contractual obligation for the CFD derivative. Therefore, there are no transactions to recognise as at 30 June 2020.

Upon satisfaction of the conditions precedent, the CFD derivative will be recognised as a financial liability and will be measured at its fair value. Subsequent changes in the fair value of the derivative will be recognised in profit and loss.

The Members' Agreement specifies that ZEW may call on South East Water Corporation to make a loan available to ZEW amounting to \$233,000. The loan, if requested by ZEW would meet the definition of a financial asset as it gives rise to a contractual right for South East Water Corporation to receive cash from ZEW at the end of the loan term. At 30 June 2020, no request has been made by ZEW.

Once the facility is operational, the financial impact of the members' agreement with ZEW is expected to be an increase in revenue, expenses, and recognition of LGCs as intangible assets. The LGCs will be subject to an annual impairment assessment detailed in Note 4.3.

Other transactions

All other transactions with Victorian Government related party entities were made on normal commercial terms and conditions.

No provision for doubtful debts has been raised in relation to any of the above outstanding balances, and no expense has been recognised in respect of bad and doubtful debts due from related parties.

Guarantees given/received

The State Government of Victoria has provided a guarantee on loans sourced from the Treasury Corporation of Victoria (*Borrowing and Investment Powers Act 1987*). There were no other guarantees given to or received from any related parties.

9.3 Defined benefit superannuation

Defined benefit members receive lump sum benefits on retirement, death, disablement and withdrawal. Some defined benefit members are also eligible for pension benefits in some cases. The defined benefit section of the Equipsuper Plan is closed to new members. All new members receive accumulation only benefits.

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 reporting date and the net market value of the superannuation plan's assets at that date.

Actuarial gains and losses arising from the Group's defined benefit superannuation scheme are recognised immediately in Other Comprehensive Income in the Consolidated Statement of Comprehensive Income in the year in which they occur.

The Superannuation Industry (Supervision) (SIS) legislation governs the superannuation industry and provides the framework within which superannuation plans operate. The SIS Regulations require an actuarial valuation to be performed for each defined benefit superannuation plan every three years, or every year if the plan pays defined benefit pensions unless an exemption has been obtained.

The Plan's Trustee is responsible for the governance of the Plan. The Trustee has a legal obligation to act solely in the best interests of Plan beneficiaries. The Trustee has the following roles:

- administration of the Plan and payment to beneficiaries from Plan assets when required in accordance with the Plan rules;
- management and investment of the Plan assets; and
- compliance with superannuation law and other applicable regulations.

The prudential regulator, the Australian Prudential Regulation Authority (APRA), licenses and supervises regulated superannuation plans.

There are a number of risks to which the Plan exposes the Group. The more significant risks relating to the defined benefits are:

- **investment risk** – The risk that investment returns will be lower than assumed and the Group will need to increase contributions to offset this shortfall.
- **salary growth risk** – The risk that wages or salaries (on which future benefit amounts will be based) will rise more rapidly than assumed, increasing defined benefit amounts and thereby requiring additional employer contributions.
- **legislative risk** – The risk is that legislative changes could be made which increase the cost of providing the defined benefits.
- **pension risks** – The risk is firstly that pensioner mortality will be lighter than expected, resulting in pensions being paid for a longer period. Secondly, that a greater proportion of eligible members will elect to take a pension benefit, which is generally more valuable than the corresponding lump sum benefit.
- **inflation risk** – The risk that inflation is higher than anticipated, increasing pension payments, and thereby requiring additional employer contributions.

The defined benefit assets are invested in the Equipsuper Defined Benefit and Cash investment options. The assets are diversified within these investment options and therefore the Plan has no significant concentration of investment risk.

Description of significant events

There were no plan amendments affecting the defined benefits payable, curtailments or settlements during the year.

Movement reconciliation

2020	Fair value of plan assets \$'000	Defined benefit obligation \$'000	Net defined benefit asset/ (liability) \$'000
Opening balance at 1 July 2019	68,056	67,488	568
Current service cost	-	1,405	(1,405)
Interest income	830	-	830
Interest expense	-	821	(821)
Actual return on plan assets less interest income	211	-	211
Contributions by plan participants	477	477	-
Actuarial gains/(losses) arising from changes in demographic assumptions	-	7,473	(7,473)
Actuarial gains/(losses) arising from changes in financial assumptions	-	(1,185)	1,185
Actuarial gains/(losses) arising from liability experience	-	508	(508)
Benefits paid	(8,452)	(8,452)	-
Taxes, premiums and expenses paid	(235)	(235)	-
Closing balance at 30 June 2020	60,887	68,300	(7,413)

2019	Fair value of plan assets \$'000	Defined benefit obligation \$'000	Net defined benefit asset/ (liability) \$'000
Opening balance at 1 July 2018	68,709	59,202	9,507
Current service cost	-	1,276	(1,276)
Interest income	1,736	-	1,736
Interest expense	-	1,513	(1,513)
Actual return on plan assets less interest income	1,131	-	1,131
Contributions by plan participants	515	515	-
Actuarial gains/(losses) arising from changes in demographic assumptions	-	-	-
Actuarial gains/(losses) arising from changes in financial assumptions	-	7,021	(7,021)
Actuarial gains/(losses) arising from liability experience	-	1,996	(1,996)
Benefits paid	(3,796)	(3,796)	-
Taxes, premiums and expenses paid	(239)	(239)	-
Closing balance at 30 June 2019	68,056	67,488	568

The asset ceiling has no impact on the net defined benefit liability/(asset).

Fair value of plan assets	Total	Quoted prices in active markets for identical assets - Level 1 \$'000	Significant observable inputs - Level 2 \$'000	Unobservable inputs - Level 3 \$'000
30 June 2020	\$'000	\$'000	\$'000	\$'000
Asset category				
Investment funds	60,887	-	60,887	-
Total	60,887	-	60,887	-

The percentage invested in each asset class at the reporting date is:

As at	30 June 2020	30 June 2019
Australian equity	11%	9%
International equity	15%	14%
Fixed income	13%	14%
Property	5%	5%
Growth alternatives	10%	10%
Defensive alternatives	14%	8%
Cash	32%	40%

The fair value of Plan assets includes no amounts relating to:

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

Significant actuarial assumptions at reporting date

	Assumptions to determine defined benefit cost for the year ending:		Assumptions to determine defined benefit obligation as at:	
	30 June 2020	30 June 2019	30 June 2020	30 June 2019
Discount rate	1.30%	2.70%	1.10%	1.30%
Expected salary increase rate	3.00%	3.50%	2.79%	3.00%
Expected pension increase rate	2.50%	2.50%	2.00%	2.50%

The discount rate was indirectly affected by COVID-19 as government bond yields were driven down. Further the underlying assets were affected due to the negative returns on equities and other growth type assets.

Sensitivity analysis

The defined benefit obligation as at 30 June 2020 under several scenarios is presented below.

- Scenario A: 0.5% p.a. lower discount rate assumption
 Scenario B: 0.5% p.a. higher discount rate assumption
 Scenario C: 0.5% p.a. lower salary increase rate assumption
 Scenario D: 0.5% p.a. higher salary increase rate assumption
 Scenario E: 0.5% p.a. lower pension increase rate assumption
 Scenario F: 0.5% p.a. higher pension increase rate assumption

	Base case	Scenario A	Scenario B	Scenario C	Scenario D	Scenario E	Scenario F
		-0.5% p.a. discount rate	+0.5% p.a. discount rate	-0.5% p.a. salary increase rate	+0.5% p.a. salary increase rate	-0.5% p.a. pension increase rate	+0.5% p.a. pension increase rate
Discount rate	1.1%	0.6%	1.6%	1.1%	1.1%	1.1%	1.1%
Salary increase rate	2.79%	2.79%	2.79%	2.29%	3.29%	2.79%	2.79%
Pension increase rate	2.0%	2.0%	2.0%	2.0%	2.0%	1.5%	2.5%
Defined benefit obligation ^(a) (\$'000)	68,300	72,628	64,379	66,441	70,242	66,391	70,400

^(a) includes contributions tax provision

The defined benefit obligation has been recalculated by changing the assumptions as outlined above, whilst retaining all other assumptions.

No asset and liability matching strategies have been adopted by the Plan.

Funding arrangements

The Equisuper Contribution and Funding Policy provides for a review of the financial position of the Plan each six months, as at 30 June and 31 December, with the Group's contribution rate comprising a long-term contribution rate and an adjustment to meet the financing objective of a target funding ratio of 104 per cent.

The target funding ratio reflects the proportion of salary related benefits and the allocation to "growth" assets for each EBA. The funding ratio is the ratio of assets to accrued liabilities, being the greater of vested benefits and the present value of past membership benefits.

Where the funding ratio is greater than 100 per cent the financing objective is to achieve the target funding ratio over five years. Where the funding ratio is less than 100 per cent the primary financing objective is to achieve 100 per cent over three years and the target funding ratio over five years.

A review of the financial position of the plan occurs twice a year at 30 June and 31 December, every year. The Group continues to contribute salary sacrifice contributions and at the required rates for accumulation members.

The expected employer contributions for the financial year ending 30 June 2021 is nil.

Maturity profile of defined benefit obligation

The weighted average duration of the defined benefit obligation as at 30 June 2020 is nine years (2018–19: eight years).

Expected benefit payments for the financial year ending on:	\$'000
30 June 2021	3,762
30 June 2022	4,271
30 June 2023	4,303
30 June 2024	4,590
30 June 2025	4,868
Following 5 years	21,633

9.4 Ex-gratia expenses

Consolidated entity	2020	2019
	\$'000	\$'000
Forgiveness or waiver of debt ^(a)	171	124
Termination payments ^(b)	65	26
Closing balance	236	150

^(a) Forgiveness or waiver of customer debt due to financial hardship or not economical to pursue. These ex-gratia expenses are recognised as part of bad and doubtful debts in the consolidated statement of comprehensive income.

^(b) Termination payments relate to additional amounts provided in excess of the employees' entitlements. These ex-gratia expenses are recognised as part of employee benefit costs in Note 3.2.1.

Ex-gratia expenses greater than or equal to \$5,000 or those considered material in nature are disclosed above.

9.5 Auditor remuneration

Consolidated entity	2020	2019
	\$'000	\$'000
Victorian Auditor-General's Office - audit of the Group's financial statements	160	156

9.6 Controlled entities

The consolidated financial statements at 30 June 2020 include the following controlled entity. The financial year of the controlled entity is the same as that of the parent entity.

Controlled entity	Place of incorporation	Book value of parent entity's investment		Percentage of shares held		Contribution to the results in \$'000	
		2020	2019	2020	2019	2020	2019
Iota Services Pty Ltd	Australia	\$1	\$1	100	100	(142)	(57)

Prior to 1 January 2015 Iota operated as an unregulated business division of South East Water Corporation. The relevant activities of Iota Services Pty Ltd include plumbing services, low pressure sewer solutions and the sale of OneBox® products.

There are no restrictions (statutory, contractual or regulatory) that can affect South East Water Corporation's ability to access or use the assets and settle the liabilities of the group.

South East Water is not contractually required to provide any other financial support to Iota Services Pty Ltd. Iota Services Pty Ltd has a financial accommodation facility to borrow up to a maximum of \$5.0 million from South East Water. At 30 June 2020, Iota Services Pty Ltd is not using this facility.

9.6.1 Parent entity information – South East Water Corporation

Information relating to South East Water Corporation	2020 \$'000	2019 \$'000
Current assets	171,158	179,150
Non-Current assets	4,459,502	4,260,269
Total assets	4,630,660	4,439,419
Current liabilities	227,895	211,010
Non-current liabilities	2,442,434	2,205,043
Total liabilities	2,670,329	2,416,053
Contributed equity	386,148	386,148
Reserves	877,079	890,236
Retained earnings	697,104	746,982
Total equity	1,960,331	2,203,366
Net result after tax of parent entity	87,231	103,730
Total comprehensive result	69,464	137,515

9.7 Events occurring after balance date

COVID-19

Since balance date, the Federal government announced on 21 July 2020 the continuation of key economic support packages such as JobKeeper and JobSeeker to 28 March 2021 and the Coronavirus Supplement to 31 December 2020 with adjusted rates and eligibility requirements. In addition, the State government on 23 July 2020 extended the one-off payment scheme available to workers who are unable to work during their isolation and have no income nor entitled to any paid sick leave, special pandemic leave or other income support. Metropolitan Melbourne region entered into Stage 4 restrictions on 2 August 2020 to further limit community movements, including increased restrictions.

As at the time of completion of the 2019–20 consolidated financial report, the Group is continuing to monitor the non-financial and financial impacts however, due to the significant amount of uncertainty

around the severity and duration of this event, it is not possible to estimate the full economic consequences.

Some key areas of anticipated impact include:

- increase in customer debts, due to financial hardship caused by lockdown restrictions
- decrease in developer activities and potential construction delays, due to lockdown restrictions and social distancing measures
- expected change in investment values, due to a decline in equity markets
- potential change in the fair value of infrastructure assets.

The Group has a strong financial position, a robust financial framework and has put measures in place to manage the financial position. The measures taken are aimed at reducing discretionary expenditure and enhancing liquidity.

Other than disclosed above, there are no other matters or circumstances that have occurred after the reporting date that may significantly impact the Group's operations in future reporting periods.

9.8 Australian Accounting Standards issued that are not yet effective

The following applicable Australian Accounting Standards and interpretations have been issued but are not yet effective and therefore have not been adopted for the annual reporting period ending 30 June 2020:

Standard / Interpretation	Summary	Applicable for annual reporting periods beginning on or after	Impact on Consolidated Financial Report
AASB 2018-7 <i>Amendments to Australian Accounting Standards – Definition of Material</i>	This Standard principally amends AASB 101 Presentation of Financial Statements and AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors. The amendments refine and clarify the definition of material in AASB 101 and its application by improving the wording and aligning the definition across AASB Standards and other publications. The amendments also include some supporting requirements in AASB 101 in the definition to give it more prominence and clarify the explanation accompanying the definition of material.	1 January 2020	The standard is not expected to have a significant impact on the Group.
AASB 2020-1 <i>Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-Current</i>	This Standard amends AASB 101 to clarify requirements for the presentation of liabilities in the statement of financial position as current or non-current. A liability is classified as non-current if an entity has the right at the end of the reporting period to defer settlement of the liability for at least 12 months after the reporting period. The meaning of settlement of a liability is also clarified.	1 January 2022. However, ED 301 has been issued with the intention to defer application to 1 January 2023.	The standard is not expected to have a significant impact on the Group.

9.9 Change in accounting policy

This note explains the impact of the adoption of AASB 16 *Leases* from 1 July 2019 and adjustments to the amounts recognised in the financial statements.

AASB 16 requires the Group to account for all leases under a single on-balance sheet model. As the lessee, the Group recognises a liability and right-of-use asset at the inception of the lease.

The lease liabilities is measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 2.6%.

The corresponding right-of-use asset is measured at the value of the lease liability adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 30 June 2019.

The Group has adopted the modified retrospective option in AASB 16, where the cumulative effect of initially applying AASB 16 is recognised on 1 July 2019 and the comparatives for the year end 30 June 2019 are not restated.

In applying AASB 16 for the first time, the Group has used the following practical expedients:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 July 2019;
- applying the short term leases exemptions to leases with a lease term that ends within 12 months of date of application – these leases are expensed;
- excluding non-lease components of leases from determining the right-of-use asset and the corresponding lease liability. These non-lease components include items such as outgoings and maintenance; and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The change in accounting policy affected the following items in the balance sheet on 1 July 2019:

Consolidated entity	\$'000
Increase right-of-use assets	11,144
Total assets	11,144
Increase in current interest bearing liabilities	690
Increase in non-current interest bearing liabilities	10,454
Total liabilities	11,144

There was no impact on retained earnings on transition as at 1 July 2019.

The lease liabilities as at 1 July 2019 can be reconciled to the operating lease commitments as of 30 June 2019 as follows:

Consolidated entity	\$'000
Operating lease commitments disclosed as at 30 June 2019	3,004
Discounted using the lessee's incremental borrowing rate at the date of initial application	2,836
Less:	
Commitments relating to short term leases adjustments relating to changes to the index or rate affecting variable payment	(113)
Add:	
Commitments reassessed as lease contracts	29
Lease payments relating to renewal periods not included in operating lease commitments as at 30 June 2019	8,392
Lease liability recognised as at 1 July 2019	11,144
Of which are:	
Current lease liabilities	690
Non-current lease liabilities	10,454
Lease liability recognised as at 1 July 2019	11,144

The Group is not required to make any adjustments on transition for leases for which the underlying asset is of low value. The Group shall recognise the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

The Group has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying AASB 117 and Interpretation 4 *Determining whether an arrangement contains a lease*.

No adjustments are required under lessor accounting on transition for leases in which it is a lessor and accounts for those leases applying this Standard from the date of initial application.

Financial management compliance attestation statement

I, Lucia Cade, on behalf of the South East Water board, certify that South East Water Corporation has no material compliance deficiencies with respect to the applicable Standing Directions under the *Financial Management Act 1994* and Instructions.



Lucia Cade

Chair, South East Water Corporation

31 August 2020



Appendicies

Appendix 1 – performance reporting

Financial performance indicators

KPI number	Key performance indicator	2019-20 result	2018-19 result	2019-20 target	Variance to prior year	Notes	Variance to target	Notes
F1	Cash Interest Cover Net operating cash flows before net interest and tax / net interest payments	2.9	3.3	2.5	-12.1%	1a	16.0%	1b
F2	Gearing Ratio Total debt (including finance leases) / total assets * 100	42.3%	38.6%	43.4%	9.6%		-2.5%	
F3	Internal Financing Ratio Net operating cash flow less dividends / net capital expenditure * 100	-0.1%	40.7%	20.1%	-100.2%	2a	-100.5%	2b
F4	Current Ratio Current assets / current liabilities (excluding long-term employee provisions and revenue in advance)	1.0	1.1	1.2	-9.1%		-16.7%	3
F5	Return on Assets Earnings before net interest and tax / average assets * 100	4.5%	5.3%	4.5%	-15.1%	4	0.0%	
F6	Return on Equity Net profit after tax/average total equity * 100	4.4%	5.2%	4.0%	-15.4%	5a	10.0%	5b
F7	EBITDA Margin Earnings before interest, tax, depreciation and amortisation/total revenue * 100	29.7%	31.2%	29.9%	-4.8%		-0.7%	

* The gearing ratio for 2019–20 includes additional lease liabilities in the total debt balance due to the new lease (AASB 16) standard coming into effect on 1 July 2019.

Notes:

1a. The unfavourable cash interest cover variance to prior year is largely caused by higher payments to suppliers as a result of an increase in bulk water and sewer charges to Melbourne Water, as well as reducing our payment terms to suppliers from 30 days to 10 days in line with the State government COVID-19 stimulus packages.

1b. The favourable cash interest cover variance to target is largely due to interest payments being less than budget as a result of lower interest rates and lower than expected level of new borrowings.

2a and 2b. The unfavourable internal financing variance to prior year and target is largely due to higher dividend payments in 2019–20 of \$132.5 million compared with \$58.7 million in 2018–19, and \$47.0 million against budget. A special dividend of \$65.3 million was determined by the Treasurer of Victoria and paid in 2019–20, therefore was not included in the Corporate Plan budget.

3. The unfavourable current ratio variance to target is largely due to lower trade debtors and accrued revenue from lower bills as a result of above average rainfalls across the summer and autumn months in 2020.

4. The unfavourable return on assets variance to prior year is driven by a decrease in the EBIT result of \$23.9 million due partly to lower developer activity in the current COVID-19 environment. Whilst revenue from usage charges increased, this was largely offset by the increases to Melbourne Water bulk water and sewer charges. Further, depreciation and amortisation expenses also increased as a result of expanding South East Water's infrastructure network across the service region. The average asset base also increased by \$201.4 million due to required growth in the capital program to meet our price submission commitments.

5a. The unfavourable return on equity variance to prior year is driven by a decrease in net profit after tax of \$16.5 million due to increases in Melbourne Water bulk water and sewer charges and increases in depreciation and amortisation expenses as noted above in note 4. In addition, the average total equity has increased by \$35.0 million despite lower equity balance at 30 June 2020, as a result of prior year net valuation increments to land, building and infrastructure assets.

5b. The favourable return on equity variance against target is largely due to lower interest expenses of \$83.8 million compared to budget of \$94.3 million as a result of lower interest rates and lower than expected level of new borrowings. Similar to the above, the average total equity at 30 June 2020 is higher than budget, as a result of prior year net valuation increments to land, building and infrastructure assets.

Water and sewerage service performance indicators

KPI number	Key performance indicator	2019-20 result	2018-19 result	2019-20 target	Variance to prior year	Notes	Variance to target	Notes
WS1	Unplanned water supply interruptions* Number of customers receiving 5 unplanned interruptions in the year / total number of water (domestic and non-domestic) customers x 100	0.031%	0.029%	0.065%	6.9%	6a	-52.3%	6b
WS2	Interruption time Average duration of unplanned water supply interruptions (minutes)	81.6	82.2	88.0	-0.7%		-7.3%	7
WS3	Restoration of unplanned water supply Unplanned water supply interruptions restored within 5 hours / total unplanned water supply interruptions x 100	97.0%	97.7%	98.5%	-0.7%		-1.5%	
SS1	Containment of sewer spills (*) Sewer spills from reticulation and branch sewers contained within 5 hours/total sewer spills from reticulation and branch sewers x 100	99.8%	99.9%	100%	-0.1%		-0.2%	
SS2	Sewer spills customer interruptions Number of residential sewerage customers affected by sewerage interruptions restored within 4 hours / total residential sewerage interruptions x 100	97.8%	98.5%	98.6%	-0.7%		-0.8%	

* In the 2019–24 Corporate Plan, there was a typographical error in appendix C where this indicator defined the number of customers as receiving 5 or more unplanned interruptions, instead of greater than 5 unplanned interruptions. The target of 0.065% set in Appendix C was correctly reported to reflect greater than 5 unplanned interruptions.

Notes:

6a. The unfavourable variance against last year is caused by the change in weather conditions and above average rainfalls. In particular, the impact of ground movement on bursts and leaks of water mains can cause unplanned water supply interruptions. Further focus will be applied to the renewals program.

6b. The favourable result against target is largely driven by the renewals program which prioritises works based on the number of customers receiving greater than five unplanned water supply interruptions.

7. The favourable variance from target reflects a higher proportion of shorter duration fault repairs. Shorter duration tasks include repairs to hydrants, fireplugs and property service pipes which reflected 49% of works during 2019-20. Further efficiencies to repairs of water mains has also seen a 3 minute average reduction for these types of works. An example contributing to reduced duration of water main repairs is enhanced management of repairs adjacent to council trees.

Customer responsiveness performance indicators

KPI number	Key performance indicator	2019-20 result	2018-19 result	2019-20 target	Variance to prior year	Notes	Variance to target	Notes
CR1	Water quality complaints No. of water quality complaints per 1000 customers	1.07	1.06	1.80	0.9%		-40.6%	8
CR4	Billing and account complaints No. of complaints per 1000 customers	0.71	0.61	0.50	16.4%	9a	42.0%	9b

Notes:

8. Ongoing management of planned water main shutdowns and working with field teams to ensure that water quality is considered prior to undertaking activities has enabled the complaint numbers to be favourable against the target. A program to upgrade the chlorine dosing units to provide better remote control and operation has commenced at a number of sites, with a greater opportunity to proactively manage taste and odour complaints.

9a and 9b. A complaints management framework project began implementation in February 2020. The project included the rollout of our new complaint definition resulting in better identifying and more reporting. The continued rollout of the framework will mean an incremental increase to the number of general complaints captured and reported. In response to this increase from 1 July 2020, the annual KPI for Billing Complaints will be increased to 3.5 per every 1,000 customers, this is an increase from 2019–20 KPI of 0.5 per every 1,000 customers.

Environmental performance indicators

KPI number	Key performance indicator	2019-20 result	2018-19 result	2019-20 target	Variance to prior year	Notes	Variance to target	Notes
E1	Effluent re-use volume (end use) Volume of treated sewage effluent reused	23.5%	34.7%	22.0%	-32.3%	10a	6.8%	10b
E2	Total net CO₂ emissions Net tonnes CO ₂ equivalent	32,007	38,265	36,122	-16.4%	11a	-11.4%	11b

Notes:

10a and 10b. The unfavourable variance compared to last year is consistent with the climatic conditions for 2019–20. A wet summer and autumn resulted in increased inflows to our treatment plants (13% higher) whilst also reducing the demand for recycled water (23% lower). The consumption of recycled water is significantly impacted by weather conditions which can vary greatly from year to year. The favourable performance against target is due to more reuse than forecast, as the company expected a sharper decline than resulted across 2019–20.

11a and 11b. The emissions stated of 32,007 tCO₂-e is an early estimate of the 2019–20 net total emissions. Due to the delay of the commissioning of Kiamal solar farm, South East Water purchased 10,450 tonnes of greenhouse gas abatement. The purchase of greenhouse abatement from the Renewable Energy Target scheme made up for the loss of abatement we expected to receive. As a result, net emissions are forecast to meet the annual greenhouse gas abatement target.

Certification of performance report 2019–20

We certify that the accompanying Performance Report for South East Water Corporation and its controlled entity (the Group) in respect of the 2019–20 financial year is presented fairly in accordance with the *Financial Management Act 1994*.

The Performance Report outlines the relevant performance indicators for the financial year as determined by the Minister for Water and as set out in the 2019–20 Corporate Plan, the actual and comparative results achieved for the financial year against predetermined performance targets and these indicators, and an explanation of any significant variance between the actual results and performance targets and/or between the actual results in the current year and the previous year.

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

Dated this 31st day of August 2020.



Lucia Cade
Chair



Lara Olsen
Managing Director



Kimberley Lamden
Chief Financial Officer

Independent Auditor's Report

To the Board of the South East Water Corporation

Opinion	<p>I have audited the accompanying performance report of the South East Water Corporation (the corporation) for the year ended 30 June 2020, which comprises the:</p> <ul style="list-style-type: none">• financial performance indicators• water and sewerage service performance indicators• customer responsiveness performance indicators• environmental performance indicators• the certification of performance report. <p>In my opinion, the performance report of the South East Water Corporation in respect of the year ended 30 June 2020 presents fairly, in all material respects, in accordance with the performance reporting requirements of Part 7 of the <i>Financial Management Act 1994</i>.</p>
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Basis for Opinion	<p>I have conducted my audit in accordance with the <i>Audit Act 1994</i> which incorporates the Australian Standards on Assurance Engagements. I further describe my responsibilities under that Act and those standards in the <i>Auditor's Responsibilities for the Audit of the performance report</i> section of my report.</p> <p>My independence is established by the <i>Constitution Act 1975</i>. My staff and I are independent of the corporation in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 <i>Code of Ethics for Professional Accountants</i> (the Code) that are relevant to my audit of the performance report in Victoria and have also fulfilled our other ethical responsibilities in accordance with the Code.</p> <p>I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.</p>
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Board's responsibilities for the performance report	<p>The Board is responsible for the preparation and fair presentation of the performance report in accordance with the performance reporting requirements of the <i>Financial Management Act 1994</i>, and for such internal control as the Board determines is necessary to enable the preparation and fair presentation of the performance report that is free from material misstatement, whether due to fraud or error.</p>
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Independent auditor's report on performance

Auditor's responsibilities for the audit of the performance report

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

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

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

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

MELBOURNE
4 September 2020



Paul Martin
as delegate for the Auditor-General of Victoria

Victorian Water Industry Performance Reporting Framework

All Victorian water organisations are required to report against the following measures set out in the Victorian Water Industry Performance Reporting Framework:

Priority Area	KPI	Measure	Reference
Climate change Provide services that minimise environmental impacts, mitigate climate change and put in place adaptation strategies.	E2	Total net CO ₂ emissions equivalent tonnes.	49-50
	E3	Adaption to climate change	44-46
Customer and community outcomes All aspects of service delivery will be customer and community centered.	CR1	Number of water quality complaints per 1,000 customers.	153
	CR4	Number of billing / payment issue complaints per 1,000 customers.	154
	C2	Development and delivery of an engagement strategy/plan/policy and publication of the engagement strategy/plan/policy or equivalent explanation.	5, 28-30, 56
Water for Aboriginal cultural, spiritual and economic values Recognise and support Aboriginal cultural values and economic inclusion in the water sector.	AC1.1	A strategy that demonstrates how the water corporation will build capability and understanding of procurement processes to address barriers for Aboriginal enterprises to supply Goods/services to water corporations.	17
	AC1.2	Number of sponsorships of Aboriginal people in relevant study and training courses, including scholarships, vocational education and traineeships.	69
	AC1.3	Staff have undertaken a cross-cultural training course (by relevant Traditional Owner) in the last 5 years.	13
	AC2.1	Number of engagements with Traditional Owners in water planning and management and report on outcomes.	13
	AC3	Development of a Reconciliation Action Plan, reflecting measures AC1.1 to AC 1.3 and AC2.1	2, 13, 63
	Resilient and liveable cities and towns Contribute to healthy communities by supporting safe, affordable, high quality services and resilient environments.	L1	Participation in Integrated Water Management forums in our region.
L2		Collaboration on the Victorian Water Efficiency strategy.	44
L3		Total residential bill based on a) average consumption b) 200kl consumption	31
L4		a) number of instalment plans at the end of the reporting period	15 and 27

		b) number of customers awarded hardship grants.	
Recognising recreational values Support the wellbeing of rural and regional communities by considering the recreational values in water management.	R1	Inclusion of recreational values in planning and reporting activities	35-41
Leadership and culture Water corporations reflect the needs of our diverse communities.	G1.1	Delivery of the South East Water Diversity and Inclusion Framework	69
	G1.2	Number of females occupying senior leadership positions over projected five-year period	80-81
	G1.3	Adoption of a 1% target for Aboriginal people in the business, consistent with the Victorian government policy and work to a stretch target of 3% by 2020.	63, 69
	G1.4	Improve participation by Traditional Owners in board committees and other organisational committees	28-29, 71, 75
	G3	Safety and wellbeing performance measures	67-68
Financial sustainability Delivering safe and cost effective water and wastewater services in a financially sustainable way.	F1	Interest cover	150
	F2	Gearing ratio	150
	F3	Internal financing ratio	150
	F4	Current ratio	150
	F5	Return on assets	150
	F6	Return on equity	150
	F7	EBITA margin	150

Appendix 2 – other disclosures

Consultancy expenditure

Details of consultancies (valued at \$10,000 or greater).

We engaged consultants for three projects where the total fee payable was \$10,000 or greater (GST exclusive).

Total expenditure incurred during the reporting period in relation to these consultants was \$316,119 (GST exclusive).

Details of individual consultancies are outlined on our website: southeastwater.com.au

Details of consultancies (valued at less than \$10,000)

We engaged one consultant for projects where the total fees payable was less than \$10,000 (GST exclusive).

Total expenditure incurred for this consultancy was \$8,140 (GST exclusive).

Details of individual consultancies are outlined on our website: southeastwater.com.au

Government advertising expenditure

In 2019-20, we participated in one government advertising campaign with total media spend of \$100 000 or greater (exclusive of GST).

The details of our share of this campaign are outlined below.

Details of government advertising expenditure campaigns with a media spend of \$100 000 or greater

Name of campaign	Campaign summary	Start/ end date	Advertising (media) expenditure (excl. GST) (\$'000s)	Creative and campaign development expenditure (excl. GST) (\$'000s)	Research and evaluation expenditure (excl. GST) (\$'000s)	Print and collateral expenditure (excl. GST) (\$'000s)	Other campaign expenditure (excl. GST) (\$'000s)	Total (\$'000s)
Make Every Drop Count	Melbourne-wide water efficiency campaign, in partnership with City West Water, Melbourne Water and Yarra Valley Water, to raise awareness of and influence water use behaviours in the community.	December 2019 - March 2020	374,857	120,143	20,000	0	0	515,000

Information Communications Technology (ICT) expenditure

ICT refers to our costs in providing business-enabling ICT services. It comprises business as usual (BAU) ICT expenditure and non-business as usual (non-BAU) ICT expenditure. Non-BAU ICT expenditure relates to extending and enhancing our current ICT capabilities.

BAU ICT expenditure is all remaining ICT expenditure which primarily relates to ongoing activities to operate and maintain the current ICT capability.

We had a total ICT expenditure of \$32.1 million, with details shown below:

(\$'000s)			
BAU ICT expenditure (Total)	Non-BAU ICT expenditure (Total = Operational expenditure and Capital expenditure)	Non-BAU ICT expenditure	
16,282	15,815	Operational expenditure	Capital expenditure
		0	15,815

Disclosure of major contracts

We have disclosed, in accordance with the requirements of government policy and accompanying guidelines, all contracts greater than \$10 million in value entered into during the financial year ended 30 June 2020:

Reinstatement Services (\$14 million):

- Asphalt FX Pty Ltd
- Prestige Paving Pty Ltd

Minor Works Panel (\$28 million):

- Fulton Hogan Construction Pty Ltd
- JHL Civil Pty Ltd
- Jaydo Construction Pty Ltd
- Land Engineering Pty Ltd
- Chadoak Pty Ltd
- FJB Enterprises Pty Ltd (trading as Able Drainage)
- Aus-Eire Enterprises Pty Ltd (trading as Ryan's Plumbing & Drainage)
- Manhole Builders Pty Ltd

Details of contracts that have been disclosed in the Victorian Government Contracts Publishing System, can be viewed at: www.tenders.vic.gov.au. Application and operation of *Freedom of Information Act 1992*

Application and operation of *Freedom of Information Act 1982*

The *Freedom of Information Act 1982* allows the public a right of access to documents that we hold. In 2019–20, we received nine requests to access documents. Access was granted to six requests. The average time taken to finalise these requests was 30 days. All requests were received from the general public.

We made six Freedom of Information (Fol) decisions during 2019–20, all were made within the statutory 30-day time period.

In addition:

- no reviews or complaints were received by the Freedom of Information Commissioner.
- no appeals were submitted to VCAT by Freedom of Information applicants.
- most requests related to details about water and sewer faults.

If an applicant is not satisfied by a decision made by South East Water, they have the right to seek a review by the Office of the Victorian Information Commissioner (OVIC) within 28 days of receiving a decision letter. Further information regarding the operation and scope of FoI can be obtained from the Act; regulations made under the Act; and foi.vic.gov.au

Requests for access to our documents under the *Freedom of Information Act 1982* may be made in writing to:

Freedom of Information Officer
 South East Water
 PO Box 2268, Seaford, 3198

Each application must be accompanied by a \$29.60 application fee and clearly identify the documents sought.

Compliance with Public Interest Disclosures Act 2012

The *Public Interest Disclosure Act 2012* (PID Act) enables people to make disclosures about improper conduct by public officers and public bodies. It aims to ensure openness and accountability by encouraging people to make disclosures and protecting them from reprisals when they do.

A protected disclosure is a complaint of corrupt or improper conduct by a public officer or a public body. We're a 'public body' for the purposes of the PID Act.

Improper or corrupt conduct involves substantial:

- mismanagement of public resources, or
- risk to public health or safety or the environment, or
- corrupt conduct.

Making a 'public interest disclosure'

Anyone can make a public interest disclosure about us or our board members, officers or employees by contacting the Independent Broad-Based Anti-Corruption Commission on the contact details provided below.

Please note that we're not able to receive public interest disclosures.

Accessing our procedures for the protection of persons from detrimental action

We've established procedures for the protection of persons from detrimental action in reprisal for making a protected disclosure about us or our employees.

You can access our procedures on our website southeastwater.com.au.

Contact

Independent Broad-Based Anti-Corruption Commission (IBAC) Victoria

IBAC
 GPO Box 24234, Melbourne Victoria 3001
ibac.vic.gov.au
 1300 735 135

Compliance with the *Building Act 1993*

We own our headquarters in Frankston (WatersEdge). We operate warehousing facilities in Heatherton and Lynbrook and buildings associated with water recycling plants at Blind Blight, Boneo, Koo Wee Rup, Lang Lang, Longwarry, Mount Martha, Somers and Pakenham.

We comply with the *Building Act 1993*, the Building Regulations 2006 and associated statutory requirements and amendments. We maintain internal control systems to ensure compliance with our Certificate of Occupancy and engage the expertise of qualified service providers to conduct regular and annual building inspection routines to make sure the building's assets are efficiently maintained and to ensure the workplace is safe for our people. Service provider's compliance is closely monitored for compliance, inspections and maintenance reports and regular service provider meetings.

We completed three major projects in 2019-20 across our headquarters and treatment plants at a sum greater than \$50,000:

- Installation of decking and garden area on Level One (WatersEdge)
- Installation of additional office space on Levels One and Two (WatersEdge)
- Construction of new Critical Spares Shed (Mount Martha Water Recycling Plant)

There were two building permits, six certificates of final inspection, two temporary occupancy permits and one permanent occupancy permit processed for WatersEdge. An additional building permit was issued for works at our Mount Martha Water Recycling Plant.

Competitive neutrality policy

Competitive neutrality seeks to enable fair competition between government and private sector businesses.

Any advantages or disadvantages that government businesses may experience, simply as a result of government ownership, should be neutralised. We continue to implement and apply this principle in our business undertakings.

Local Jobs First Policy (LJFP)

The *Local Jobs First Act 2003* introduced in August 2018 brings together the Victorian Industry Participation Policy (VIPP) and Major Project Skills Guarantee (MPSG) policy which were previously administered separately.

Departments and public sector bodies are required to apply the Local Jobs First policy in all projects valued at \$3 million or more in Metropolitan Melbourne or for state-wide projects, or \$1 million or more for projects in regional Victoria.

MPSG applies to all construction projects valued at \$20 million or more.

The MPSG guidelines and VIPP guidelines will continue to apply to MPSG-applicable and VIPP-applicable projects respectively where contracts have been entered prior to 15 August 2018.

Projects Commenced – Local Jobs First Standard

During 2019–20, we commenced one Local Jobs First Standard project (Reinstatement Services) totalling \$14 million, located in metropolitan Melbourne. The MSPG does not apply for the project.

The outcomes expected from the implementation of the Local Jobs First policy to the project are as follows:

- An average of 98.2 per cent of local content commitment was made;
- A total of 39 jobs (AEE) were committed, including the creation of one (1) new job and the retention of 38 existing jobs (AEE), that includes the retention of five (5) existing apprenticeships, traineeships and cadets.

Reporting Requirements – All Projects

During 2019-20, there were two small to medium-sized businesses that prepared a Local Industry Development Plan (LIDP) for contracts, successfully appointed as Principal Contractors for Reinstatement Services. Thirty-three small to medium-sized businesses were also engaged through the supply chain on this project.

Additional information available on request

In compliance with the requirements of the Standing Directions of the Minister for Finance, details in respect of the items listed below have been retained by our organisation and are available (in full) on request, subject to the provisions of the *Freedom of Information Act 1982*:

- a. A statement of completion of declarations of pecuniary interests by relevant officers.
- b. Details of shares held by a senior officer as nominee or held beneficially in a statutory authority or subsidiary.
- c. Details of publications produced by South East Water about itself, and how these can be obtained.
- d. Details of changes in prices, fees, charges, rates and levies charged by South East Water.
- e. Details of any major external reviews carried out on South East Water.
- f. Details of major research and development activities undertaken by South East Water.
- g. Details of overseas visits undertaken, including a summary of the objectives and outcomes of each visit.
- h. Details of major promotional, public relations and marketing activities undertaken by South East Water to develop community awareness of the entity and its services.
- i. Details of assessments and measures undertaken to improve the occupational health and safety of employees.
- j. A general statement on industrial relations and time lost through industrial accidents within South East Water.
- k. A list of South East Water's major committees; the purposes of each committee; and the extent to which the purposes have been achieved.
- i. Details of all consultancies and contractors including:
 - i. consultants/contractors engaged
 - ii. services provided
 - iii. expenditure committed for each engagement.

This information is available on request from us and requests can be made in writing to the Governance and Legal Group, PO Box 2268, Seaford 3198.

Office based environmental reporting

The data below represents energy consumed for running and operating WatersEdge.

We collected data through the building management system and retailer billing information.

Energy use

Indicator	2019-20			2018-19		
	Electricity	Natural gas	Green power	Electricity	Natural gas	Green power
Total energy usage segmented by primary source (MJ)	4,266,104	1,847,682	0	4,746,382	1,726,818	0
Greenhouse gas emissions associated with energy use, segmented by primary source and offsets (t CO ₂ e)	1,209	95	0	1,411	89	0
Percentage of electricity purchased as Green Power (%)	0	0	0	0	0	0
Units of energy used per FTE (MJ/FTE)	6,543	2,834	0	7,653	2,784	0
Units of energy used per unit of office area (MJ/m ²)	364	157	0	405	147	0

Actions undertaken

In 2019-20, there was a continued approach to adjust our heating and cooling times specific to the usage and demand at WatersEdge. We've been able to achieve marginal improvements in electricity usage each month through ensuring a strong focus on maintenance of key equipment.

We're working hard to minimise our per capita energy use and our overall electricity usage has gone down. This year, it's hard to attribute the reduction to our energy efficiency measures due to the fact a significant proportion of our workforce began working remotely as a result of the coronavirus pandemic.

Although we don't procure any green power, we do have rooftop solar that helps generate electricity for our WatersEdge building at a cost effective price.

Waste

Indicator	2019–20					2018–19				
	Landfill	Co-mingled recycling	Coffee capsule	Secure document	Compost	Landfill	Co-mingled recycling	Coffee capsule	Secure document	Compost
Total units of waste disposed of by destination (kg/yr)	6,552	2,086	865	2,281	1,161	9,000	2,865	1,188	3,134	1,595
Units of waste disposed of per FTE by destinations (kg/FTE)	10.0	3.2	1.3	3.5	1.8	14.5	4.6	1.9	5.1	2.6
Recycling rate (percentage of total waste)	49.4	N/A				49.6	N/A			
Greenhouse gas emissions associated with wasted disposal (kg CO ₂ –e)	10,010	N/A				16,483	N/A			

Actions undertaken

Due to most employees working from home as part of the coronavirus pandemic, we didn't partake in our annual waste audit. This year's figures were extrapolated using last year's audit results to estimate waste over the period that employees were physically working at WatersEdge.

During 2019–20, the ECO Office working group met regularly to help reduce waste and single use items at WatersEdge. This included updating bin signage, creating a 'How to Recycle' video and various promotional campaigns. Over 65 kilograms of batteries were disposed of via best practice mechanisms by this group.

Paper

We're becoming more efficient at using paper and started programs during the reporting period to try and minimise consumption.

The table below shows office-based consumption.

Indicator	2019–20	2018–19
Total units of copy paper used (reams)	378	3,717
Units of copy paper used per FTE (reams/FTE)	0.58	6.0
Percentage of 100 per cent recycled content	91	89.8

In 2019-20 we updated the way we report on paper used to only account for copier paper.

Actions undertaken

We kept our default white A4 / A3 paper 100 per cent recycled and reduced the amount of paper invoices printed from 100 per cent at the start of 2017, down to 8 per cent as of 30 June 2020.

Transport

We operate a fleet of vehicles for field and maintenance operations, and salary packaged vehicles for senior employees. Consideration is given to fuel efficiency and related emissions. With the working from home arrangement there has been a significant decrease in the use of our petrol-based fleet.

	2019–20 diesel	2019–20 petrol	2018–19 diesel	2018–19 petrol
Total energy consumption by vehicles (MJ)	8,166,856	7,815,905	8,005,640	9,579,420
Total vehicle travel associated with entity operations (km)	2,262,730	2,589,422	2,311,123	2,979,134
Total greenhouse gas emissions from vehicle fleet (t CO ₂ –e)	576	545	565	668
Greenhouse gas emissions from vehicle fleet per 1,000 km travelled (t CO ₂ –e)	0.254	0.210	0.245	0.224

- T5 – Total distance travelled by air – 502,300 kilometres
- T6 – Employees regularly using public transport, cycling, walking or carpooling to and from work – nine per cent (from Pulse Check Survey February 2020)

Greenhouse gas emissions

Indicator	2019-20	2018-19
Total greenhouse gas emissions associated with energy use (tonnes CO2-e)	1,304	1,500
Total greenhouse gas emissions associated with vehicle fleet (tonnes CO2-e)	1,121	1,233
Total greenhouse gas emissions associated with air travel (tonnes CO2-e)	68	117
Greenhouse gas total greenhouse gas emissions associated with waste disposal (tonnes CO2-e)	10.01	13.75
Greenhouse gas emissions offsets purchased (tonnes CO2-e)	0	0

Greener Procurement

Our main areas of procurement are construction (34 per cent), maintenance, repairs and operations (33 per cent), and other goods and services (33 per cent).

We continued to include environmental and sustainable considerations in our procurement guidelines, and recently in our Social Procurement Strategy, in alignment with Victoria's Social Procurement Framework Sustainable Procurement objectives. While value for money is the core principle governing our procurement activities, we also require environmental factors to be included in the procurement planning stage, tender specifications and tender evaluation criteria, where applicable to the scope, with considerations to the environmental impacts of the goods, services and/or construction being procured.

Examples of how we've incorporated environmental considerations into procurement decision making include:

- questions in tender documents requiring tenderers to disclose environmental breaches
- questions in tender documents requiring tenderers to disclose environmental practices, recycling and recycled content
- weighting of environmental considerations in tender evaluations.

New tenders, contracts, or products for which we've developed or are using sustainability clauses or specifications include:

- Use of recycled materials and recycling of waste in our Reinstatement Services
- Supply and install of the Combined Heat and Power (CHP) Generation unit for our Mount Martha Water Recycling Plant (WRP) to convert the biogas produced from our anaerobic treatment process into heat to self-run the anaerobic process itself, as well as generate electricity to power the treatment plant. The new CHP unit will meet roughly 40 per cent of the electricity demand for Mount Martha WRP, thereby reducing our need for non-renewable produced power from the electricity grid. The CHP unit should reduce the site's carbon emissions by around 2,300tCO2-e in the first 12 months, once it's been commissioned (estimated by end of 2020).

Targets

The following targets have been set for 2020–21:

- Always purchase printing paper containing at least 100 per cent recycled properties and/or FSC certified paper.
- Continue to roll out more solar panels at our water recycling plants.
- Develop carbon-based decision making tools to help determine the greenhouse gas impacts of the projects we design, deliver and procure.
- Explore market based options to complement our Emission Reduction Pledge on-site projects including innovative Power Purchase Agreement contracts.

Appendix 3 – Bulk entitlements

We hold bulk entitlements to the water resources of the Greater Yarra System – Thomson River pool, the Victorian Desalination Project and bulk entitlements in the River Murray and Goulburn System.

South East Water's bulk entitlements reporting requirements

Our reporting requirements	Greater Yarra System - Thomson River Pool ^{1, 2}	Desalinated water ^{6, 7}	Goulburn System ^{11, 12, 20}	Murray River ^{16, 17, 20}
The annual volume of water taken	Clause 16.1 (a) 155,247.0 ML	Clause 13.1 (a) 0 ML	N/A	N/A
The water allocation volume made available	Clause 16.1 (b) 176,315.3 ³ ML	Clause 13.1 (a) 42,200.2 ⁸	Clause 14.1(c) 7,132.0 ML ¹³	Clause 11.1(a) 5,219.3 ML ¹⁸
The volume of carry over	Clause 16.1 (b) 151,272.7 ML	Clause 13.1 (a) 42,200.2	7,790.4 ML ¹⁴	2,247.3 ML ¹⁹
Compliance with the entitlement volume	Clause 16.1 (c) Yes ⁴	Clause 13.1(e) Yes ⁹	N/A	N/A
Any temporary assignment or permanent transfer of all or part of entitlement	Clause 16.1(d) 1407.1 ML ¹⁰	Clause 13.1(b) 1407.1 ML ¹⁰	Clause 14.1(d) -4,000.0 ML Clause 14.1(e) 0 ML	Clause 11.1(b) -8,199.5 ML Clause 11.1(c) 0 ML
The approval, amendment and implementation of the metering program	Clause 16.1 (e) Continuing ⁵	N/A	N/A	N/A
Any amendment to this entitlement	Clause 16.1 (f) No	Clause 13.1(c) No	Clause 14.1(f) Nil	Clause 11.1(d) Nil
Any new entitlement of water granted	Clause 16.1(g) Nil	Clause 13.1(d) Nil	N/A	N/A
Any failure to comply with any provision of this entitlement and any remedial action taken or proposed	Clause 16.1(h) None	Clause 13.1(f) None	Clause 14.1(g) None	Clause 11.1(e) None
Any difficulties experienced or anticipated in complying with this entitlement and any remedial action taken or proposed	Clause 16.1(i) None	Clause 13.1(g) None	Clause 14.1(h) None	Clause 11.1(f) None
Daily amount of water taken from the waterway	N/A	N/A	N/A	N/A

Annual amount of water taken from the waterway	N/A	N/A	Clause 14.1(b) 0 ML ¹⁵	N/A
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Notes for compliance with bulk entitlements

Greater Yarra System - Thomson River Pool

1. South East Water holds Bulk Entitlement (Greater Yarra System-Thomson River Pool - South East Water) Order 2014 – WSE000077.
2. South East Water is a primary entitlement holder with a delivery bulk entitlement to 206,281.0 ML.
3. The Resource Manager – Melbourne Water makes seasonal allocations monthly.
4. Compliance with the Entitlement volume is measured by compliance with the overall Cap within the source entitlements for the Thomson and Yarra systems (held by Melbourne Water). The caps were complied with. Further, South East Water understands that Melbourne Water has meet all minimum environmental flow obligations contained in its source entitlements.
5. Metering programs for this bulk entitlement are continually maintained and reviewed via the Bulk Water Supply Agreement between South East Water and Melbourne Water and System Management Rules established by Melbourne Water.

Victorian Desalination Project

6. South East Water holds Bulk Entitlement (Desalinated Water – South East Water) Order 2014 – WSE000053.
7. South East Water may take an average annual volume of up to 53,454 ML of desalinated water over any period of five consecutive years that is delivered to a delivery point to the Melbourne headworks system.
8. The Hon Lisa Neville MP, Minister for Water announced a 125 GL desalinated water order for the 2019-20 year, of which South East Water's share is 44,545 ML. The Minister for Water has also announced a further water order of 125 GL to be delivered during 2020-21. 6,868 ML of the 2019-20 order was delivered in June 2019. The volumes were delivered into the Melbourne water supply system.
9. Compliance with the entitlement volumes is measured with respect to whether the annual volume taken exceeds the entitlement. This did not occur this year.
10. In 2019-20, South East Water undertook reciprocal trades with South Gippsland Water and Westernport Water of 1,222.8 ML and 184.3 ML of water allocation respectively. This is part of an ongoing administrative process to enable South Gippsland Water and Westernport Water to continue to access, by substitution, its entitlement in the Greater Yarra System – Thomson River Pool via their offtakes on the desalination transfer pipeline while the transfer pipeline is pumping desalinated water from the Victorian Desalination Project to Cardinia Reservoir. South East Water trades the required volume of desalinated water allocation to South Gippsland Water / Westernport Water and South Gippsland Water / Westernport Water trades the same volume from its Greater Yarra System – Thomson River pool bulk entitlement back to South East Water resulting in a net 0 ML trade. This is required because South Gippsland Water and Westernport Water do not hold an entitlement to desalinated water. This ongoing administrative process was agreed between South East Water, South Gippsland Water, Melbourne Water, Westernport Water and DELWP.

Goulburn System

11. South East Water holds Bulk Entitlement (Goulburn System – South East Water) Conversation Order 2012 – WSE000009.
12. South East Water is entitled to a water entitlement in the Goulburn System equal to one-ninth of the total Phase 4 water savings achieved in the Goulburn component of the Goulburn Murray Irrigation District (GMID) from Goulburn Murray Water Connections Project Stage 1 as verified in the latest audit.

13. South East Water's annual water allocation in a given year from the Goulburn System is equal to one-ninth of the total Phase 3 water savings achieved in the previous year of the Goulburn component of the GMID from the Goulburn Murray Water Connections Project Stage 1 as verified in the latest audit.
14. South East Water's commencement volume on 1 July 2019 was 5,068.4 ML. At 30 June 2020, South East Water held 7,790.4 ML.
15. Diversion limits are specified in Clause 9 of the Bulk Entitlement.

Murray River

16. South East Water holds Bulk Entitlement (Murray River – South East Water) Conversion Order 2012 – WSE000133.
17. South East Water is entitled to a water entitlement volume in the following parts of the River Murray System equal to one-ninth of the total Phase 4 water savings achieved in these parts of the GMID from Goulburn Murray Water Connections Project Stage 1 as verified in the latest audit.
18. South East Water's annual water allocation in a given year from the River Murray is equal to one-ninth of the total Phase 3 water savings achieved in the previous year of the Goulburn component of the GMID from the Goulburn Murray Water Connections Project Stage 1 as verified in the latest audit.
19. South East Water's commencement volume on 1 July 2019 was 5,345.8 ML (2,648.7 ML in Zone 6 and 2,697.1 ML in Zone 7). At 30 June 2020, South East Water held 2,247.3 ML (1,170.4 ML in Zone 6 and 1,079.9 ML in Zone 7).

General

20. South East Water has in place water management strategies to manage water allocations holdings in the Murray River and Goulburn System to maximise the value of the resources held to our customers and minimise risk of spilling water allocation. These strategies include the transfer of allocations between bulk entitlement allocation accounts and trading water allocations.
21. The metropolitan retailers make water available in Tarago Reservoir to Gippsland Water under a Bulk Water Supply Agreement. This is used by Gippsland Water to supplement their Tarago Bulk Entitlement during periods of high demand. South East Water provided 82.2 ML under the BWSA in 2019-20.

Appendix 4 – Disclosure index

This annual report is prepared in accordance with all relevant Victorian legislation and pronouncements.

This index has been prepared to identify our compliance with statutory disclosure requirements.

Legislation	Requirement	Reference
Charter and purpose		
FRD 22H	Manner of establishment and the relevant Ministers	5
FRD 22H	Purpose, functions, powers and duties	5
FRD 22H	Key initiatives and projects	13-17 and 21-22
FRD 22H	Nature and range of services provided	5
FRD 22H	Message from the Chair and Managing Director	11-12
Management and Structure		
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FRD 15E	Executive officer disclosures in the Report of Operations	82
FRD 22H	Employment and conduct principles	80
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FRD 22H	Summary of the financial results for the year	19-20
FRD 22H	Current financial year review	19-20
FRD 22H	Significant changes in financial position during the year	20
FRD 22H	Major changes or factors affecting performance	20
FRD 22H	Subsequent events	20
FRD 22H	Application and operation of Freedom of Information Act 1982	161-162
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FRD 22H	Statement on Competitive Neutrality Policy	163
FRD 22H	Application and operation of the Public Interest Disclosure Act 2012	162
FRD 22H	Details of consultancies over \$10 000	160
FRD 22H	Details of consultancies under \$10 000	160
FRD 22H	Disclosure of government advertising expenditure	160
FRD 22H	Disclosure of ICT expenditure	161
FRD 22H	Statement of availability of other information	164
FRD 24D	Reporting of office based environmental data by government entities	165-168
FRD 25D	Local Jobs First disclosures in the report of operations	163
FRD 27C	Presentation and reporting of performance information	150-154
FRD 29C	Workforce data disclosures in the Report of Operations	80-81
FRD 30D	Standard requirements for the publication of annual reports	Entire report

Ministerial reporting directions		
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Compliance attestation and declaration		
SD 5.1.4	Financial Management Compliance Attestation	148
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Financial statements		
5.2.2	Declaration in financial statements	89
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SD 5.2.1(a)	Compliance with Ministerial Directions	Entire report
SD 5.2.1(b)	Compliance with Model Financial Report	Entire report
Other disclosures as required by FRDs in notes to the financial statements		
FRD 03A	Accounting for dividends	123
FRD 07B	Early adoption of authoritative accounting pronouncements	N/A
FRD 10A	Disclosure index	172-173
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FRD 103H	Non-financial physical assets	107-109
FRD 105B	Borrowing costs	119
FRD 106A	Impairment of assets	107-108
FRD 110A	Cash flow statements	97
FRD 112D	Defined benefit superannuation obligations	140-143
FRD 114C	Financial instruments	124-127
FRD 120M	Accounting and reporting pronouncements applicable for 2019–20	145-147

Legislation

Water Act 1989, Water Industry Act 1994, Freedom of Information Act 1982, Building Act 1993, s.70 (1) Public Interest Disclosure Act 2012, Victorian Industry Participation Policy Act 2003, Financial Management Act 1994 and Public Administration Act 2004.

Supporting the United Nations Global Compact

We're a member of the United Nations Global Compact (UNGC), the world's largest corporate sustainability initiative. The initiative has established a path to help end extreme poverty, fight inequality and injustice and protect our planet by 2030.

Communications on progress

As a member of the Compact, we've committed to working to achieve the ten principles that align to responsible business practice and also support the broader 17 United Nations Sustainable Development Goals. Each of the ten principles falls under one of four key banners of human rights, labour, environment and anti-corruption.

Our Communication on Progress to the United Nations Global Compact is cross referenced below and describes our policies, procedures and actions that align with the ten principles of the Global Compact and the outcomes that we've achieved.

Principle	Key Highlights	Reference
Human Rights	Progressing our Reconciliation Action Plan	2, 13
	Helping customers manage their bills	27
	Case study: Fair and affordable water for all abilities	59
	Diversity and Inclusion in our workplace	69
	Supporting First Nations communities	13
Labour	Empowering our new parents	17
	We put safety first	63, 67-68
	Training future water professionals	66, 69
	Employee wellbeing	14, 67
	Case study: Enhancing Aboriginal employment outcomes	69
Environment	Case study: Supporting Victorian communities impacted by bushfire	26
	Greenhouse Gas Emissions Abatement	35
	Targeting sewage spills	35-36
	Recycled water network	39
	Integrated Water Solutions	39-40
	Adaptation to climate change	23, 44
	Investing in technology to support innovation	11-12, 46-47
	Case study: Joining the fight to track coronavirus	61
	Case study: Launching our community grants	38
Anti-corruption	Cybersecurity	24, 63-64
	Maintaining our governance and risk frameworks	83-85

Sustainable Development goals

As a member of the Compact, we've also committed to supporting the principles that align to responsible business practice and to also support the broader 17 United Nations Sustainable Development Goals.

We've identified five Sustainable Development Goals that align most closely to our organisation, however our work also supports Sustainable Development Goal 1: No Poverty – economic growth must

be inclusive to provide sustainable jobs and promote equality, and Sustainable Development Goal 7, Affordable and Clean Energy – energy is central to nearly every major challenge and opportunity.

The United Nations Sustainable Development Goals most relevant to our organisation are:

SDG 6: Ensure availability and sustainable management of water and sanitation for all.

SDG 9: Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation.

SDG 11: Make cities and human settlements inclusive, safe, resilient and sustainable.

SDG 13: Take urgent action to combat climate change.

SDG 17: Revitalize the global partnership for sustainable development.

Throughout this report, we've highlighted how our performance aligns with the Sustainable Development Goals after each of our customer outcomes. We're actively working to recognise all 17 goals across the organisation and embed them into our projects and values.

Some key projects demonstrating our work towards obtaining a better future for all this year include:

- Enhancing Aboriginal employment outcomes (Case Study page 69)
- Fair and affordable water for all abilities (Case Study page 59)
- Supporting Victorian communities affected by bushfire (Case Study page 26)
- Helping Melburnians make every drop count (Case Study page 37)
- Aims for gender parity (Page 80)

Outcome	Sustainable Development Goals	Reference
Outcome 1: Get the basics right, always	6, 9, 5, 10, 14, 15, 16	53
Outcome 2: Make my experience better	6, 3, 8, 11, 12, 17	55
Outcome 3: Warn me, inform me	6, 4, 16	57
Outcome 4: Fair and affordable for all	6, 9, 1, 7, 11, 12	59
Outcome 5: Support my community, protect our environment	6, 11, 13, 17, 2, 8, 7, 14, 15	61
Enabling our business	5, 10, 8, 11, 16, 17	63

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