

Statement of Corporate Intent

2012/2013



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Chairman's Introduction

This Statement of Corporate Intent (SCI) represents the agreement between the Water Corporation and the Minister for Water on our expected level of performance for the 2012/13 financial year. It meets the requirements of the Water Corporation Act 1995.

As the principal supplier of water, wastewater, drainage and bulk irrigation services in Western Australia (WA), our role is to provide services to over 874 thousand residential properties and over 180 thousand commercial / industrial properties, stretched across 6 regions and covering a total area of 2.6 million square kilometres.

As Western Australia continues to record rapid economic growth and demographic changes, our major tasks are to manage both a significant existing business and lay the foundations for new and growing areas of population development.

Delivering for customers and maintaining a healthy infrastructure network and market confidence in the integrity and efficiency of existing services is our principal area of focus.

The second significant priority is delivering a major capital program that will enable the existing infrastructure to continue to do its job plus building new infrastructure for the strongly growing areas of the State, especially the Pilbara.

We undertake our work as a State owned entity and will continue to work closely and in alignment with all regulators and Government agencies in delivering our mandated legislative intent.

While the key challenge for 2012/13 will be delivering in a timely fashion on resource constrained capital and operational initiatives, we are also required to consider and plan for the full life of our infrastructure, some of which can last for 100 years. The aim is to ensure that tomorrow's future for Western Australia is never compromised and is shaped by long term, well-conceived, fully funded, regulatory compliant decisions.

Capital Investment Program

We are acutely aware of the capital hungry nature of our business. With an asset base of \$29 billion (replacement value), population growth of 2.3% and massive resource development in the Pilbara, the need for capital to keep up with growth and meet our operating licence is approaching \$1 billion per annum. This adds pressure to the State balance sheet.

Of the \$1,071 million capital investment program in 2012/13, half will be spent in the metropolitan region with the rest distributed across the country regions.

Delivering a program of this magnitude on time and on budget is our focus, especially given competition for skilled labour. While the program comprises over 2,000 projects underway, three stand out as significant:

- Completion and commissioning of the second tranche of 50 GL capacity at the Southern Seawater Desalination Plant (SSDP) for the Integrated Water Supply Scheme;
- Upgrade of the South Hedland Wastewater Treatment Plant to enable relocation of the Port Hedland Wastewater Treatment plant in support of the Pilbara Cities Vision; and

- Completion and commissioning of the Mundaring Water Treatment Plant through our first Public Private Partnership (PPP).

Operational Investment Program

2012/13 sees the beginning of our triennial refresh of our Management Priorities program. The new program has two areas of external focus – Customer Connect and Climate Resilience, and three areas of internal focus – Zero Harm, People First and Reduce-Reuse-Recycle.

Complementing these Management Priorities is our ever-present focus on efficiency and productivity improvement.

The last two State Budgets have raised the bar regarding efficiency. In 2004/05 we committed to the Economic Regulation Authority and Government to deliver a 2.0% year-on-year efficiency to our operating expenses. The compounding nature of delivering this is double that of any peer water utility in Australia and has effectively reduced operating expense by an estimated \$350 million since 2004/05 – a far higher and more significant relative reduction than any other utility or Department in the State.

Delivery of this level of efficiency has positioned us with a robust track record of acting efficiently and commercially – one of which even the private sector would be proud.

We rose to the additional challenge during 2011/12 to deliver a further \$20.8 million Efficiency Dividend. This was achieved by reducing some programs of work.

The 2012 State Budget asks for a further operating cost reduction on top of these existing efficiencies. We have included the achievement of an additional Efficiency Dividend of \$17.1m. We have committed to delivering this partly from further operational efficiency, with the remaining value generated through several means including non-regulated revenue and reductions in interest expense.

Committed to Innovation & Efficiency

The Water Corporation is well regarded by many and is recognised nationally and globally for its leadership, innovation and efficiency. This legacy began some 120 years ago including past achievements such as the C.Y. O'Connor Pipeline to Kalgoorlie and in more recent years, energy efficient desalination, Public Private Partnership / private sector alliances and groundwater replenishment.

In 2011/12 we received global awards for two significant items of infrastructure to be delivered or partially constructed in 2012/13; Southern Seawater Desalination Plant, and Mundaring Water Treatment Plant (PPP).

Our drought response / climate resilience program is also recognised internationally both for its forward thinking consultative approach and implementation.

It is the commitment of the current Board and Executive to lead an organisation in 2012/13 that will continue to deliver on its legislated mandate, to be a premier customer focused utility in the State and to understand its business and customer needs better than anyone else.

EVA SKIRA
CHAIRMAN



About Us

Our Act

We were established on 1 January 1996 as a statutory corporation by an Act of Parliament - the *Water Corporation Act 1995*.

We are owned by the Government of Western Australia with the Minister for Water our sole shareholder. We are a body corporate with perpetual succession and proceedings may be taken by us or against us.

We are referred to as a Corporatised Entity. This status and our Act require us to act commercially and, as we are not an agent of the Crown, we explicitly do not have the status, immunities and privileges of the Crown. The Act also states we are not part of the Public Service.

Our Owner

We are owned by the WA Government and are accountable to our sole shareholder, the Minister for Water, for delivery of our services in a commercial manner. 85% of our profits are returned to Government as dividends. We also pay income tax to the WA Government according to the National Tax Equivalents Regime.

Our Regulators

We deliver water to each and every customer to a common standard and dispose of it within conditions required by the Department of Water, Department of Health, Department of Environment and Conservation and Environment Protection Authority.

The price of our regulated services is reviewed and proposed by the Economic Regulation Authority (ERA). Government determines the price for our regulated services each year during the State Budget process.

Our Business

Our Operating Licence positions us as the principal supplier of water, wastewater, drainage and bulk irrigation services in WA; supplying reliable and safe drinking water to hundreds of thousands of homes, businesses, farms and Government agencies (Figure 1).

We do this by managing the collection / abstraction of water from 102 dams / weirs, 140 Licenced bore fields, 72 recycled water schemes and two seawater desalination plants.

In the last year we have supplied 370 GL of this water, treated it through 266 water treatment plants, before transporting it through 33 thousand kilometres of water mains to 1.1 million properties.

We then collected 150 GL of this water from these properties, transported it through 15 thousand kilometres of sewer mains, treated it at 105 wastewater treatment plants before disposing of it to the environment or recycling a small portion of it for use at 72 sites across the State.

We currently directly employ approximately 2,800 people located in regional offices in Perth, Bunbury, Albany, Karratha, Geraldton, Northam and Kalgoorlie which allow our people to provide a high level of professional expertise to customers in communities throughout the State.

We currently participate in alliances with the private sector to manage more than \$14 billion of assets to deliver water, wastewater, drainage and irrigation services across the full 2.6 million square kilometre expanse of the State

Our Strategic Risks

We manage the following strategic risks:

- Climate change reducing surface water availability;
- Delivery of safe drinking water;
- Disposing of wastewater to the environment and conveying drainage in accordance with our Operating Licence;
- Delivery of a large Capital Investment Program; and
- Conducting business in a manner that does not expose our people, partners and the public to undue safety and health risks.

Our Board of Directors

Our Board of Directors are:

- Eva Skira (Chairman);
- Brian Hewitt (Deputy Chairman);
- Andrew Bantock;
- Karen Field;
- Robert Harvey;
- Michael Hollett; and
- Sue Murphy (Chief Executive Officer).

Our Executive Team

Our Executive are:

- Sue Murphy (Chief Executive Officer);
- Peter Moore (Chief Operating Officer);
- Ross Hughes (Chief Financial Officer);
- Catherine Ferrari (General Manager Communications);
- Ashley Vincent (General Manager Regional Customer Services);
- Graham Cargeeg (General Manager Metropolitan Customer Services);
- Paul Ferguson (General Manager Planning and Capability);
- Keith Cadee (General Manager Acquisition); and
- David Luketina (General Manager Business Services).

Our Purpose

Our Purpose is “to provide sustainable management of water services to make WA a great place to live and invest”.

Our Vision

There are three key areas of our Vision: Water Forever-Zero Footprint-Great Place.

Water Forever: Provide water services for the long-term.

Zero Footprint: Borrow water from the environment and return it to the environment with minimal impact.

Great Place: Contribute to a positive quality of life / lifestyle for all Western Australians, organisations based in WA and building a Corporation that is a great place to work.

The three aspects of our Vision are in tension. In providing Water Forever, we need to balance it with our desire to achieve a Zero Footprint and create a Great Place.



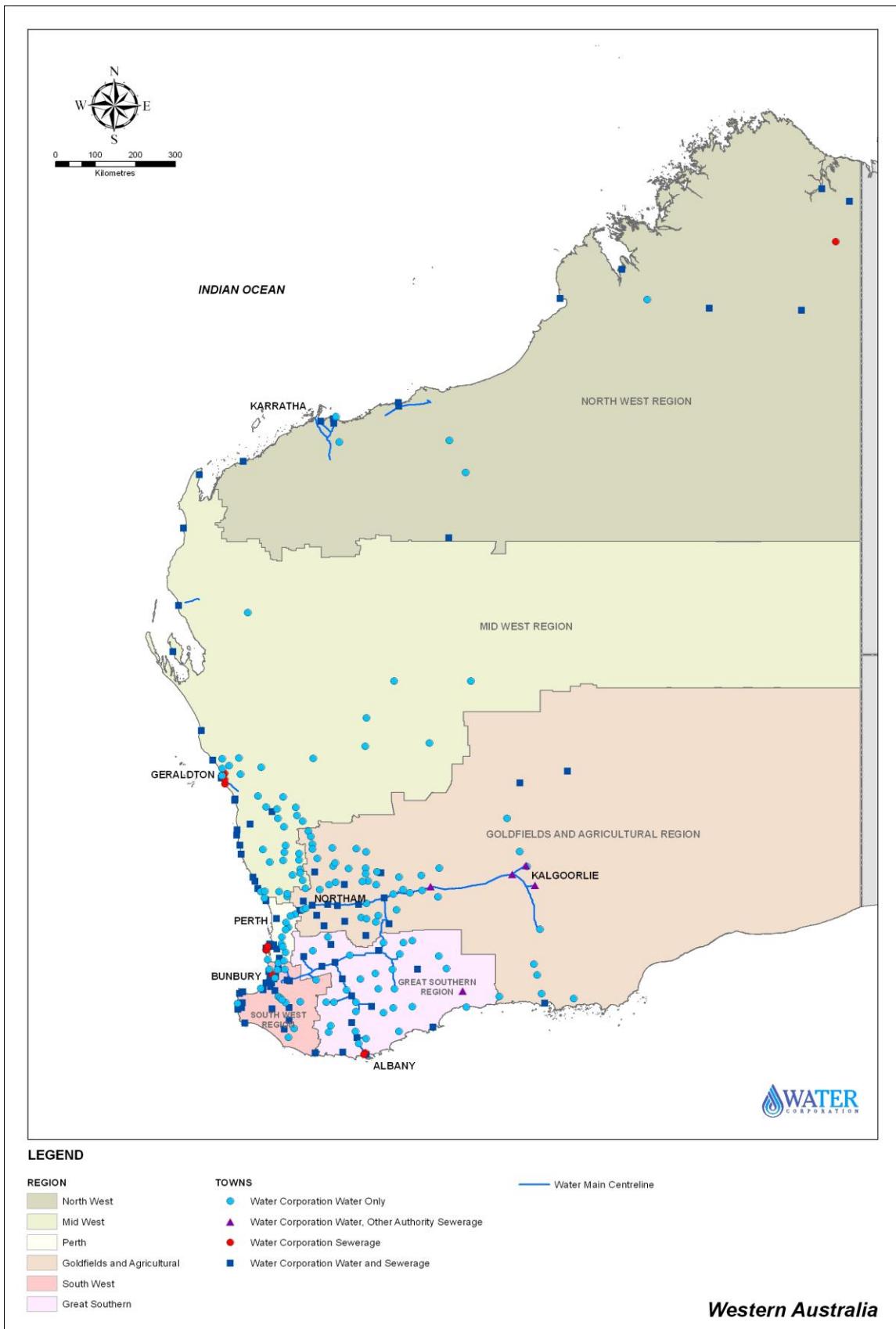


Figure 1: Map of Water Corporation Water and Wastewater schemes.

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Our Challenges

When considering 2012/13, there are three key areas to be managed to fulfil our purpose “to provide sustainable management of water services to make WA a great place to live and invest”. They are:

1. To secure the water, wastewater and drainage services to our customers;
2. To deliver value for money to customers and Government; and
3. To deliver our services in an environmentally responsible manner.

When taken together, these three areas combine to form a single and central challenge:

“How can we continue to sustainably deliver water, wastewater and drainage services to the WA Community while maintaining acceptable returns to our Shareholder and a price that is acceptable to our customers?”

Securing Services Water

WA has experienced significant climate change. The State's run-off into Metropolitan dams alone has dropped to a quarter of the inflows of 30 years ago as shown below.

Integrated Water Supply Scheme (IWSS)

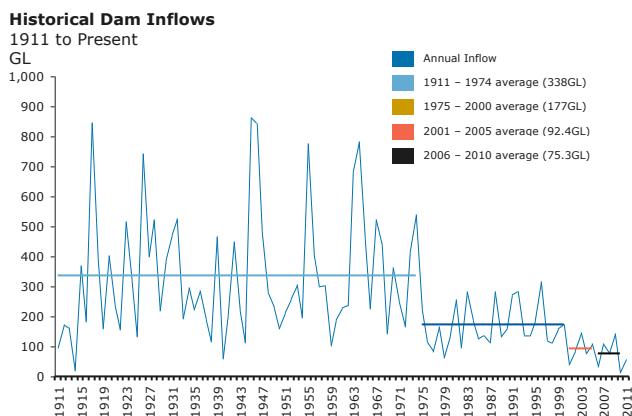


Figure 2: Historical Inflow to Dams 1911-2011.

The Integrated Water Supply Scheme (IWSS) provides water to Metropolitan Perth and parts of the Goldfields & Agricultural and South West regions.

Water delivered through the IWSS is sourced from a combination of:

- Surface water – Water sourced from dams and weirs;
- Groundwater – Water sourced from underground aquifer systems; and
- Desalination – Water sourced from the Ocean.

The design of the IWSS has historically been dependent on surface water with groundwater being used as a source in increasing volumes.

Figure 2 shows that we can no longer have the same certainty that surface water will continue to be reliable.

Groundwater draw peaked at 165 GL from the Metropolitan Groundwater System. A portion of this is from superficial aquifers. The Department of Water has deemed this to be unsustainable. Therefore, a reduction of the draw to a sustainable average yield of 120 GL is proposed, yielding a potential supply shortfall in years of low rainfall. The innovative Groundwater Replenishment Trial (GWRT) is a key enabler of this outcome. It is hoped that regulatory sign off to this scheme will occur during this financial year.

Together, this means the risk is that, if we were to experience consecutive dry winters, then the community served by the IWSS would have a high probability of having to accept severe water restrictions.

Regional Water Supply

The IWSS is a large integrated scheme, with the safeguard of multiple sources and the ability to move water great distances.

By contrast regional schemes are more isolated and not interconnected. These schemes are typically single or dual source and have grown with the needs of the town.

This security of supply is at risk when major growth or dramatic shifts in weather patterns occur. For example:

- The growth associated with the Pilbara Cities initiative targeting two cities of 50,000 people in the North West, are examples of step change growth that challenges the capacity, capability and design of the water and wastewater services in Karratha and Port Hedland;
- The planned growth associated with the Super Towns initiative will emerge when the impact of the economic investment in these towns is known; and
- The Wheatstone LNG facility, potential expansion of Pilbara Iron Ore projects and the further development of Browse Basin Precinct are all examples of Industry driven events that increase the risk of supply to affected communities.

Our Purpose defines that we support the successful development of the State; therefore the mitigation of the risk to the security of supply, across the State, is essential to delivering within our Purpose.

Wastewater & Drainage

The assets that comprise our various wastewater systems across the State have seen a slow rise in their risk rating in recent years. This is as a result of growth in demand combined with lower than optimal levels of maintenance repair and replacement works across many schemes due to constraints on capital funding.

This risk could manifest as:

- Lower quality effluent from wastewater treatment plants being disposed of into sensitive marine areas; and
- More frequent overflows from wastewater ponds and sewer blockages.

The wastewater system, as a whole, is currently performing within the key terms of our Operating Licence.

Delivering Value for Money

Our Purpose is "to provide sustainable management of water services to make WA a great place to live and invest".

Central to our Purpose is an expectation to provide value for money services. In our context value for money is:

- Delivering efficient water services that are priced at a rate that the customer can afford; and
- Delivering a sufficient return to Government so as to contribute to the economic prosperity of WA.

Value for Our Customers

The key areas associated with delivering value for money outcomes for customers are:

- To deliver services within the parameters as set out in our Operating Licence and associated regulatory framework; and
- To price services at a rate that the customer can afford.

The strategy of delivering value to the State is essential to the long term success of water services in WA.

The investment in capacity ahead of demand is a critical part of our role in securing services. With growth in demand accelerating and the climate drying, we have been compelled to bring forward investment.

Investment in securing water supply is significant. As water sourced from dams is replaced by desalination, recycling and groundwater the result is higher cost of supply.

Recovering this cost drives upward pressure on price.

This upward pressure on price is balanced against the need to provide safe water for consumption, in the required volumes and with the capacity to dispose of it once used.

Therefore, care is taken to work with our Regulator, the Economic Regulation Authority (ERA), to assess what we propose to invest in, the benefits to customers / the State and compare it to the impact on price. Their determination informs Government in the yearly assessment of investment and pricing of Government services in the annual State budget. This triennial review is underway.

It is our aim to work with our Regulator and other Government Agencies to ensure that investment is appropriate so that customers can be assured that the price they pay is value for money.

Value for the State

The key areas associated with delivering value for money outcomes for the State are:

- To fund and deliver an appropriate program of work within the debt parameters set by Government;
- To self-fund operating expenses from revenues and a short term debt facility, within parameters set by Government; and
- To deliver a yearly Net Accrual to Government¹ (NATG) within parameters set by Government.

Reflecting on past performance we have generated significant value to the State and WA Government since Corporatisation in January 1996. In 2012/13 we will continue to work with the public / private sector to deliver:

- The Public Private Partnership (PPP) for the Mundaring Water Treatment Plant;
- The additional 50 GL capacity at the Southern Seawater Desalination Plant through the Southern Seawater Alliance; and
- The Integrated Alliances for the provision of services in the Metropolitan Region.

The above components are representative of the flexible manner in which we work with the private sector to deliver value and services for the State.

Managing Our Impact

We operate as a commercial entity that holds a licence to discharge effluent to the environment in accordance with Department of Health and Department of Environment and Conservation regulations.

In addition, we are a significant consumer of energy, chemicals and land. Through this consumption and as a discharger of effluent, we are a significant contributor to greenhouse gas emissions and the consumption of carbon.

Therefore, the integration of these considerations into planning, asset creation and operations is an ongoing process.

Summary

What is clear is that our purpose is "to provide sustainable management of water services to make WA a great place to live and invest". In doing so our key risks over the period of the SCI are:

1. To secure the supply of water, wastewater and drainage services to our customers;
2. To fund the program of work that supports the delivery of services at a price that customers can afford; and
3. To deliver our services in an environmentally responsible manner.

By pursuing the following Priorities in 2012/13 we aim to address these risks, take a stride forward in realising our Vision and do so within the parameters set out by Government.

¹ Net Accrual to Government is the combined return received by Government from the Corporation. This return includes Dividends, Tax and Operating Subsidies.

Our Planned Initiatives

We respond to our challenges and deliver change through two programs:

- The Capital Investment Program – Delivers new infrastructure and improves existing infrastructure to enable the delivery of service as set out by our Operating Licence; and
- The Operational Investment Program – Delivers the efficiency outcomes required by Government and improves performance based on five Management Priorities set on a rolling three-year basis.

Capital Investment Program

The 2012/13 capital investment program of \$1,071 million will be distributed across the State with 47% in country regions and 50% in the metropolitan region (the remaining 3% is the capitalised asset financing cost).

We are acutely aware of the capital hungry nature of our business. With an asset base of \$14 billion, with many assets at or near the end of their useful lives, the need for capital to keep existing assets operating is approaching \$1 billion per annum. Factor in population growth of 2.6% and the figure will be significantly higher.

In 2009/10 we initiated two improvements to the planning and delivery of our Capital Investment Program, they were:

- Capital Planning – The process for the assessment, evaluation and planning of infrastructure needs was improved to extend the timeframe of planning to 20 years, and improve the risk assessment approaches used in planning. The result is a new Strategic Investment Business Case methodology that has significantly improved the understanding of the future base and growth infrastructure requirements of the State. These requirements then drive the long term capital plan submitted to Government for review and approval;
- Capital Delivery – The process for the initiation, design and delivery of infrastructure projects was improved to reduce the time taken to initiate and design projects.

During 2012/13 we will continue this work and continue to improve the efficiency of our Capital Investment Program. The key goal is to reduce the capital hungry nature of our business, because it is capital that fundamentally drives increase in prices.

Operational Investment Program

In 2009/10, we set out the inaugural tranche of Management Priorities aimed at providing a focus for management to drive performance.

2012/13 sees the beginning of our next tranche of Management Priorities. This program is designed to bring focus to the achievement of specific operational goals that, through their achievement, position us to take strides towards achieving our Vision.

The proposed Management Priorities have a dual focus, improving outcomes that are external to us and improving internal performance.

External

The customer and climate are in focus for our externally focused Management Priorities.

Customer Connect

Customer service is critically important to us. In measurement terms, we will focus on:

- Improving customer satisfaction;
- Reducing the cost per service;
- Reducing residential consumption; and
- Growing the understanding of our organisation by the public.

Based on feedback from our customers, we, like other large organisations, can be quite daunting to work with. Our goal is to change this and make us easy to work with.

The way customers want to interact with large organisations is changing. Consultation with customers during 2011 has indicated a shift in how customers would like to have their inquiry or service request resolved. Online has become the first choice channel for contacting us followed by being able to talk with our people, on the phone or in person.

Beyond this, our customers have expressed their willingness and desire to be part of the water supply solution. This was best expressed during January to March 2011, when the Target 60 campaign to encourage IWSS consumers to reduce their water consumption delivered an estimated 14 GL reduction over the three month campaign period.

We have been encouraged by these recent experiences with our customers and will focus upon:

- Enabling customers to work with us online;
- Enabling customers to understand their bill more effectively;
- Enable customers to pay their bill in a smoother, more modern manner; and
- Enabling customers to become more water efficient.

In doing so, we will also benefit. Customers who can be serviced online will reduce demand on more expensive channels such as our call centre. In addition, the more water efficient our customers are reduces the overall cost of supply.

If both of these things are achieved, the customer also benefits as the cost of services should grow far more slowly, therefore reducing pressure for price increases above that of the cost of living.

Climate Resilience

Water Forever has provided the platform to engage the community regarding the shift towards climate resilient sources, schemes and lifestyle.

Part of its success has been to embed the principles of climate resilience within our business and the community.

With this now embedded, the role of Climate Resilience is to look ahead and begin a new wave of activity in the wider context of not just water supply, but the context of all of the water services – *forever*.

In the immediate term, the focus will be delivering significant outcomes that were started some four years ago, they are:

- Driving the performance of the Southern Seawater Desalination Plant and the construction of the expansion of the plant to 100 GL capacity;
- Working with commercial and industrial customers to continue their great progress in reducing consumption; and
- Facilitating the debate and framework for the embracing of recycling and groundwater replenishment as viable water sources.

In addition, Climate Resilience is charged with beginning the debate with regard to securing the long term viability of our wastewater and drainage services.

Internal

Safety, our people and reducing our footprint are in focus for our internally focused Management Priorities.

Zero Harm

Safety is our first priority.

Safety and health form part of our broader cultural move towards constructive behaviours, encouraging corporate compliance and working towards one effective system.

In measurement terms, we will focus on reducing the Significant Injury Frequency Rate (SIFR).

We are a complex organisation which performs work through a mixture of people employed by us, through Alliances, through Outsourcing Agreements and Contracts.

In essence people can be doing work with us however, can be doing so from a diverse range of safety backgrounds.

Our goal is to have one safety culture and set of behaviours that transcends all of these arrangements and delivers the safest working environment to all people who work with us.

To do so we will focus upon:

- Growing our safety culture;
- Growing our safety leadership & supervision capability; and
- Enabling each person to take personal responsibility for their safety and those around them.

People First

Behind the service we provide to customers are our people. The experience of our customer is as a result of our behaviour and culture.

With a shift in culture required to enable the delivery of an improvement in both safety and customer service, our People Management Priority will also focus on the cultural challenge.

In measurement terms, we will focus on:

- Improving culture;
- Growing employee satisfaction;
- Growing people leadership and supervision capability; and
- Enabling greater productivity across all people groups.

Shifting culture requires clarity, perseverance and growth of people at all levels.

We embarked on our long term cultural improvement journey in 2004. It is clear where we need to get to and we have already made significant strides towards a constructive, achievement based culture where safety and customer service are paramount.

The People Management Priority is the embodiment of our perseverance on continuing on this journey.

Given the shifts that have already occurred, the focus will now be brought to:

- Expanding the leadership development framework to encompass all people managers and supervisors;
- Developing a new, more interactive employee satisfaction measure that can be deployed swiftly; and
- Developing sharper productivity based measurement and improvement tools to help all people get more from their day.

Reduce, Reuse, Recycle

Over half of our business deals with waste.

With the preceding four priorities bringing focus to customers and our people, this priority is focused on the inputs and outputs of our business.

Delivering water services consumes energy, chemicals and land.

Firstly, streamlining the consumption of energy, chemicals and land and therefore reducing the wasted inputs to the system is a significant opportunity for us.

Secondly, rethinking what to do with the outputs from our business presents a significant opportunity, similar to downstream processing in oil and gas.

To enable progress on both of these fronts we will focus on:

- Improving our energy efficiency and thus reducing the major contributor to our greenhouse gas emissions;
- Improving reparations to land, thus improving biodiversity;
- Reducing our use of water; and
- Generating useful products from the wastewater process.

Summary

Together the Capital Investment Program and Operational Investment Program are focused on improving the sustainability of our business by improving the economic, social and environmental impact of our business.

Our Measures

Our Targets and financial outcomes are as follows (also refer to the Notes on page 15):

Our Business Targets	2011/2012 Target	2012/2013 Target
Water Forever		
Perth total per capita consumption	Improvement towards 145kl ²	Improvement towards 136kl
Great Place		
Customer Performance Index	To be measured / calibrated	TBC
Total cost per property	\$1,898	\$1,974
Safety Index	80	80
Zero Footprint		
Physical Footprint	To be measured / calibrated	TBC

Table 1: Business Targets

Our Financial Outcomes

	2011/2012 Forecast (\$m)	2012/2013 Projected (\$m)
Operating revenue	1,918	2,017
Direct operating expenses	(774)	(832)
Depreciation / amortisation	(368)	(390)
Earnings before interest, tax & developer contributions (EBIT)	776	795
Net interest expense	(206)	(247)
Developers' contribution	167	180
Operating profit before income tax	736	729
Income tax expense	(217)	(217)
Operating profit after income tax	519	512
Capital expenditure (including capitalised interest)	913	1,071
Borrowings taken (repaid)	545	580
Accruals to Government		
Indirect tax equivalents	5	5
Income tax equivalents (net of deferred tax adjustments)	210	217
Dividends provided	395	386
Total	611	608
Payments from Government		
Operating Subsidies		
Non-Commercial Country Services	274	259
New or Changed OS	34	32
Revenue Concessions	109	116
Infill Sewerage Program	34	35
Total Operating Subsidies	(450)	(443)
Net Accrual to Government	160	165

Table 2: Financial Outcomes

Our Financial Performance Measures

	2011/2012 Forecast (%)	2012/2013 Projected (%)
Return on equity	5.6%	5.4%
Return on assets	4.2%	4.0%
Debt to total assets ratio	31.8%	34.0%

Table 3: Financial Performance Measures

² The peak historical per capita consumption has been as high as 180kl.

Capital Investment

As a Government-owned enterprise, our capital program must be framed within the State Government's budgetary parameters. The program has been prioritised based on risk management, with the most urgent projects being funded within the State budget levels.

Each project in the Capital Investment Program (CIP) is categorised to an industry standard investment driver based on the main objective or purpose of the project.

Capital Investment Program

For 2012/13 financial year, our planned CIP is \$1,071 million. This budget includes significant items such as:

- An allocation of \$535 million (50%) of the total capital budget to upgrade and construct water, wastewater and drainage assets in the Metropolitan Perth region, including:
 - An allocation of \$450 million for completion of the second tranche of 50 GL capacity at the Southern Seawater Desalination Plant;
 - An allocation for the first year of the five year, \$676 million investment in Metropolitan Region wastewater treatment capacity; and
 - An allocation of funds to complete the Groundwater Replenishment Trial and gain approval to move to a full scale plant in future years.
- An allocation of \$504 million (47%) of the total capital budget to upgrade and construct water, wastewater and drainage assets in the Country Regions including:
 - An allocation for the first year of the four year, \$138 million investment in North West Region wastewater treatment capacity.

Across all Regions the budget has been increased to take account of the forecast capital budget to support growth.

Risk Management of the CIP

As part of our commitment to continuous improvement, the approach used to formulate the CIP was reviewed and improved during 2009-2011.

The previous approach was reviewed and endorsed by the Economic Regulation Agency (ERA) and Department of Treasury and Finance (DTF) in 2009. This approach had been successfully used to estimate the CIP for many years however, with advances in approaches and the increased data becoming available through the embedding of an Enterprise Resource Planning System, the opportunity to improve the approach was taken.

The outcome is a new process that delivers Strategic Investment Business Cases (SIBCs) that consider various scenarios over a twenty year period.

The scenarios include, but are not limited to, changes in:

- State growth, both in size and shape across the State;
- Rainfall and stream-flow patterns;

- Operating conditions of existing assets; and
- Customer consumption behaviour.

The result is a more probabilistic based approach, considering the real options available in the planning / scheduling of construction, upgrades and replacement of assets.

The SIBCs are nested in five categories:

- Mandatory: Work that is required by regulation;
- Growth: Work that is required based on growth in demand for services:
 - Metro Water; Country Water; Metro Wastewater; and Country Wastewater;
- Asset Renewal: Work that is required to maintain levels of service:
 - Water Mains; Water Production and Storage; Sewers; Wastewater Treatment and Pumping;
- Enhanced Service: Work to invest in improving the risk of services over the long term:
 - Drinking Water Quality; Water Re-cycling; Pressure Management; Dam Safety;
- Support: Work required in supporting activities:
 - Information Technology; Operational Information and Control; Real Estate Facilities; Fleet; Land.

This improvement in the formulation of the CIP has already begun to flow through. It has provided the opportunity for a new way of assessing and responding to some long term challenges. This has yielded new thinking as to the solutions that could be pursued. Invariably this has led to a more cost efficient solution being considered, planned and scheduled, therefore, benefiting the customer and further improving our ability to provide value for money water services over the long term.

Notes: Financial Accounts

a) Reporting to the Minister

Reports which monitor performance against the targets outlined under this section of the Statement of Corporate Intent, along with information on our financial position and capital expenditure, are provided to the Minister quarterly.

In addition, the Board and Chief Executive Officer advise the Minister of any significant variations in our performance. Reporting of operational performance to Authorities and Departments of Government occurs in addition to this reporting to the Minister. An Annual Report is provided to the Minister within the timeframe specified by the Water Corporation Act 1995.

Copies of our major public documents including the Annual Report, Quarterly Performance Reports and Statement of Corporate Intent can be accessed through our website at: www.watercorporation.com.au.

b) Accounting policies

Details of our significant accounting policies can be found in the notes accompanying the Financial Report in our Annual Report.

Our annual Financial Report is a general purpose financial report which has been prepared in accordance with AASB Australian Accounting Standards (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Water Corporation Act 1995. The Financial Report is prepared on the accrual accounting basis and in accordance with the historical cost convention, except for certain financial assets and liabilities which are stated at their fair value.

c) Borrowings

Our Capital Investment Program is funded from operational cash flows and borrowings.

d) Dividend policy

85% of after-tax profit (excluding developers' hand-over assets, Government grants and grants received from Government for Capital Expenditure purposes) is distributed to the State Government as a dividend and is dependent on continued access to Government sourced borrowings.

e) Operating Subsidies

Operating Subsidies (OS) are government payments for services that are not otherwise commercially viable. They result from the WA Government's commitment to satisfy the broader economic, environmental and social needs of the community.

Remoteness, diseconomies of scale, topographical considerations and in some instances, harsh climatic conditions all contribute to the high cost of providing water and wastewater services in the country regions.

Under a formal agreement with Government, we provide these services and are compensated by the Government for the shortfall between customer revenue and the cost of providing the services.

The OS provided by us are:

- Non-Commercial Country Services - Losses we incur as a result of providing services to customers in non-profitable country schemes. Due to the Government's commitment to providing services at reasonable prices, regulated prices charged in country regions are typically less than the cost of supply.
- New or Changed OS - All new programs, projects and services delivered in country areas, which are not recovering full costs and/or are not included in any other category.
- Revenue Concessions - Concessions to pensioners, seniors and other customers, provided at the request of the Government.
- Infill Sewerage Program - Net loss incurred from the development of infill assets in non-commercial areas.

f) Approvals

The financial parameters within this document contain unapproved capital expenditure, net debt and net flows to/from Government. WA Government approval will be obtained prior to any commitments and/or actions being undertaken which will affect approved parameters. WA Government approval will also be sought prior to commencing new projects not included within the Government's approved financial parameters.

g) 2012/13 Supply Assumption

This SCI has been prepared based on the assumption of adequate surface water storage at the end of the 2011/12 summer. Should storage be below this it will have a material impact on our ability to supply water as projected and deliver the financial outcomes presented.

f) Efficiency Dividend

Payment of the Efficiency Dividend for the second year has been included in the preparation of the financial forecasts herein, including an additional \$17.1 million in 2012/13.

g) Assumptions

The following assumptions have been used in determining our Measures shown on page 13:

	2011/2012 Forecast	2012/2013 Projected
Growth (general customers) (%)	2.6%	2.6%
Operating efficiency (annual target) (%)	2.0%	2.0%
Efficiency Dividend (\$) ³	\$ 20.8	\$ 39.0
CPI (annual change) (%)	3.0%	3.25%
General Price Increase (GPI) (%)	3.0%	3.6%
Specific Price Increase – water (%)	9.2%	5.6%
Specific Price Increase – wastewater (%)	1.8%	1.8%
Specific Price Increase – drainage (%)	0.0%	0.0%
Dividend payout rate (%)	85.0%	85.0%

Table 4: Assumptions

³ The Efficiency Dividend was announced in the 2011/12 State Budget and is in addition to the efficiency level delivered by the Corporation in accordance with the recommendation of the Economic Regulation Authority. In 2012/13 an additional Efficiency Dividend of 2.5% was sought by Government. The Corporation has committed to delivering the value of this additional return through several means including non-regulated revenue, operational efficiency and interest savings.