Statement of Corporate Intent

2016/17
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Chairman’s Introduction

The Water Corporation (‘Corporation’) is pleased to put forward its Statement of Corporate Intent (SCI).

This SCI represents the agreement between the Corporation and the Minister for Water on our expected level of performance for the 2016/17 financial year. It meets the requirements of the Water Corporations Act 1995.

We are the principal supplier of water, wastewater, drainage and bulk irrigation services in Western Australia (WA).

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

The Corporation is committed to delivering on its Purpose by partnering with the Government, its agencies and the community for the safe provision of water services.

Eva Skira
Chairman
Key Themes

Our Objectives
The Corporation exists to deliver safe, reliable water services to the West Australian community and as such, serving the community is our ultimate objective.

Our Act (and good governance) requires the Corporation to perform its functions in accordance with prudent commercial principles. This requirement underpins the Corporation’s continued focus on operating efficiently, reflected in the financial forecasts shown on page 11.

This prudent commercial practice is an important part of providing a value for money service that the Government and community expect of us. However, the Board is acutely aware that this cannot be the Corporation’s sole objective.

Preserving the Corporation’s social licence to operate necessitates finding a balance between all of the financial, social and environmental objectives that the community expects us to deliver.

Delivering safe, high quality water products and services to the community is an objective that is applied across the entire 2.6 million square kilometres of the State, with our regional services representing approximately half of our business. Accordingly, regional WA will always be a significant focus for the business.

Partnering with the Community
As a Government owned organisation, we endeavour to support the State Government in delivering its strategic objectives. This must be done in partnership with the community and other government agencies.

Under the leadership of the Minister for Water, we are working closely with the community and the Department of Water (DoW) to examine options to optimise water outcomes across the whole water portfolio. The Corporation and the DoW will continue to work collaboratively to improve outcomes for the whole water portfolio including areas such as:

- community engagement;
- drainage;
- water planning and governance;
- services to Aboriginal communities;
- treated wastewater management; and
- regional water services.

There is a strong regional focus for each of these areas, with the intention to adapt to the changing needs of our customers and the community to deliver social and environmental outcomes.

Environmental Responsibilities
Our primary product, water, is sourced from the environment and ultimately returned to it. The wellbeing of the natural environment is essential to our business and as such, it is essential that we focus on it over the long term.

Regional programs focused on continually improving the quality of the wastewater discharged to the environment are testimonies to this commitment.

The more immediate focus however, is the requirement to continually adapt to a drying climate. This challenge necessitates the pursuit of recycling opportunities (notably, groundwater replenishment), new source development and ongoing community support for water use efficiency measures.

Safety
The Corporation has, and always will make safety a high priority. Over the past four years, we have halved our injury rate, but we still have further improvements to make.

Delivering this safety objective is a journey that includes embedding the various tools, systems and processes that support a safe working environment. It also necessitates encouraging a culture where safety is a priority of all our employees and contractors, with no injury considered acceptable.
About Us

Our Purpose

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

Our Act

We were established on 1 January 1996 as a statutory corporation by an Act of Parliament - the Water Corporation Act 1995 revised in 2012, now known as the Water Corporations Act 1995. As a body corporate with perpetual succession, 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 allowed to be part of the Public Service.

Our Owner

We are owned by the State Government, accountable to the Minister for Water for delivery of our services in a commercial manner.

The State Government currently determines the price for our regulated services each year during the State Budget process. We receive Operating Subsidies from the State Government as payment for community service obligations that we provide that are not otherwise commercially viable.

Our Regulators

We deliver water to our customers to a common standard and dispose of it within conditions required by the Departments of Water, Health, Environment Regulation and Parks & Wildlife, the Environmental Protection Authority and the Economic Regulation Authority (ERA).

Our Operating Licence obligates us to deliver the high service standards we strive for. The ERA conducts audits every three years to understand the extent to which we meet our Operating Licence requirements.

Our Vision

There are three key areas of our Vision which need to be balanced:

• Water Forever: Provide water services for the long-term.
• Great Place: Contribute to a positive quality of life/lifestyle for all Western Australians and organisations based in WA as well as building a corporation that is a great place to work.

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

Key Corporate Risks

We manage the following key organisation risks:

• Climate change, reducing availability of surface water and in some instances, groundwater;
• Delivering safe drinking water;
• Returning wastewater to the environment and conveying drainage in accordance with our licence; 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);
• Michael Hollett (Deputy Chairman);
• Ross Holt;
• David Lock;
• Nicole Lockwood;
• David Rowe; and
• Sue Murphy (Chief Executive Officer).

Our Executive team

Our Executive team is as follows:

• Sue Murphy (Chief Executive Officer);
• Ashley Vincent (GM, Assets Planning);
• Catherine Ferrari (GM, Customer & Community);
• Don Johnston (GM, Strategy & Stakeholders);
• Mark Leathersich (GM, Assets Delivery);
• Peter Moore (GM, Operations);
• Ross Hughes (Chief Financial Officer); and
• Steve Capewell (GM, Operations Services).
About Us

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, public institutions and trading enterprises.

We currently manage $35 billion (replacement value as at 30 June 2015) of assets to deliver water services across the full 2.6 million square kilometre expanse of the State, part of which is undertaken in alliances with the private sector.

In 2014/15 we supplied 366.5 gigalitres (GL) of water, treated it at 81 water treatment plants and transported it through 34,424 kilometres of water mains to over one million properties.

We then collected 163.9 GL of wastewater, transported it through 16,416 kilometres of sewer mains, treated it at 113 wastewater treatment plants before disposing or recycling it for use at more than 80 sites across the State.

Figure 1: Map of Water Corporation water and wastewater schemes.
Delivering on our Purpose

Our Purpose explains why we exist: to provide sustainable management of water services to make WA a great place to live and invest.

Under the leadership of the Minister for Water, we will pursue our Purpose by working closely with the community and the Department of Water (DoW) to optimise water outcomes across the whole water cycle.

Providing Water Services

Water

The drying climate has significantly impacted the environment in which we operate – impacting total rainfall and its variability. It will continue to be a significant challenge and is being experienced across the State, most acutely in the South West.

Our strategy is to focus on increasing water recycling and reducing demand, supported by operational initiatives such as leak detection and water use efficiency programs.

The decision by the State Government to adopt groundwater replenishment as a viable source will play a vital role in addressing the challenges of a drying climate. It also means that the target to recycle 30% of all treated wastewater by 2030 is likely to be achieved.

Over the planning period, a number of major metropolitan and regional water projects are planned. These projects are focussed on: developing climate independent water sources, meeting the demands of growth, continuing to meet water quality standards and maintaining the Corporation’s asset base.

Wastewater

Over the planning period, major wastewater projects include: capacity upgrades to Wastewater Treatment Plants (WWTPs) at Bunbury, Woodman Point and Subiaco, WWTP improvements at Albany, diversion of wastewater flows from Bullsbrook to Beenyup WWTP, and installation of an energy recovery system at Beenyup WWTP, which will reduce energy costs and make the plant largely immune to power outages.

In addition, a considerable number of smaller, though crucial investments in wastewater conveyance assets will be made across the state.

Furthermore, the Corporation will explore treated wastewater management upgrades. This project will undertake a high level strategic overview of treated wastewater management and in conjunction with the community develop selected business cases for locations where community expectations or concerns exceed existing regulatory or growth requirements.

There is a particular focus on increasing reuse or decreasing direct discharge to inland waterways and the goal is to deliver tangible improvements for the community and the environment.

Drainage

As a provider of main drains in the metropolitan region, the South West and the Great Southern regions, the principal drainage challenges are to maintain the condition of the assets and ensure compliance with our Operating Licence.

Strategically, the Corporation will enter into a Memorandum of Understanding with the Department of Water to embed collaborative processes to help industry and the community to achieve better drainage outcomes and improve policies, guidelines and practice for drainage.
Delivering on our Purpose

Serving the Community

Water is a key enabler of the sustainability, growth and prosperity of all communities across Western Australia. We do not underestimate the importance of the role we have as the principal supplier of water, wastewater and drainage services across the state.

Central to finding a balance between the financial, social and environmental objectives that the community expects of us is listening to and involving our customers.

The Customer Advisory Council and the many focus groups, community meetings and market research programs undertaken each year all help shape our decision making.

But we know that we can always improve.

We are implementing projects designed to improve key areas such as:

- **Customer engagement**: a program to embed and enhance our customer centred design principles across the business.
  
  The program will establish a state-wide vision for community engagement that incorporates long-term planning in a way that builds and maintains relationships, ensuring that the way we deliver community engagement activities is built into our business as usual practices.

  We also know at times our activities can impact customers. That’s why for major construction and upgrade projects we will continue to use our dedicated community engagement team to keep customers informed and to act quickly in resolving any issues.

- **Services to Aboriginal Communities**: in consultation with key stakeholders (Department of Aboriginal Affairs, Department of Regional Development, Department of Housing) the Corporation and the DoW will outline a water portfolio position on how water and wastewater services to Aboriginal communities in WA could be supported.

  This includes offering advice and expertise to the Regional Services Reform Unit, providing options for the management, service delivery, regulation and funding of water and wastewater services to Aboriginal communities.

  Finally, the Corporation recognises its responsibility to provide its services to the community as safely as possible. Over the past four years, we have halved our injury rate. We aspire to reduce this rate even further.

  We are acutely aware of the dangers of a momentary lapse of concentration and are striving to build a culture where safety is front of mind in everything we do.

Environmental Responsibilities

The Corporation is very attentive towards its environmental responsibilities as they relate to our ability to draw and return water to the environment with minimal impact.

In addition to a continued focus on wastewater recycling, we have identified other opportunities to reduce our environmental footprint. These include:

- **Energy use**: approximately 80% of our environmental footprint is generated by our energy use. Optimising our use and renewable energy sources are two opportunities that we continue to explore.

- **Biodiversity**: catchment management and land acquisition/use strategies that help mitigate biodiversity risk.

- **Waste recovery**: we continue to explore possibilities for recovering value from “waste” products collected in our wastewater system.

  Our environmental objectives are strongly guided by the community’s values: we will continually seek to engage with the community to ensure their values guide us on this path.
Sustainable water services snapshot

**OUR PURPOSE**

Sustainable management of water services to make WA a great place to live and invest

Affordable water
- Water is supplied to Perth customers at a median price, compared to Australian water utilities of similar size

Net return to Government
- $335 million
  - for reinvestment by the State Government in health, transport, education and other public benefits in 2014/15

Financial subsidy
- $573 million
  - to offset costs for regional customers, pensioners and other concessions through operating subsidy in 2014/15

Water Recycling
- 9.3 billion litres
  - supplied in Perth alone in 2014/15 for industrial reuse, public open space irrigation, groundwater replenishment and woodlot irrigation

Biosolids Recycling
- 100%
  - In Perth for agricultural purposes in 2014/15

ISO 14001 certified
- The Water Corporation's Environmental Management System

Renewable energy
- The entire output of Mumbida Wind Farm and Greenough River Solar Farm purchased. We also have solar powered bores in Exmouth and Broome

Promoting Reconciliation
- Our Reconciliation Action Plan has been in place since 2008, driving positive change. The Aboriginal employment rate in 2014/15 was around 2.8%, up from 1.8% in 2013 and progressing toward a target of 3.2% by 2018

Sustainable Water Services

Co-generation
- ~ 7,000 MWh produced annually from biogas at Woodman Point Wastewater Treatment Plant, equating about 20% of its electricity requirements

Safety performance
- 95.9%
  - as measured through Safety Index* in 2014-15. This includes halving the Significant Injury Frequency Rate since 2012

Customer Experience
- 7.08 out of 10
  - as measured through Customer Performance Index** in 2014-15

Community Engagement
- 202
  - Capital projects in 2014/15 included community engagement

Perth water use reduction
- 191,000 litres per person in 2001
  - to 126,000 litres per person in 2014/15

* Safety Index includes the Significant Injury Frequency Rate, hazards addressed and incidents investigated on time
** Customer Performance Index is a survey-based measure of our customers’ perceptions of the Water Corporation’s effectiveness

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Our Measures

Our Targets and financial outcomes are as follows (also refer to the Notes on page 13):

### Our Community Targets

<table>
<thead>
<tr>
<th></th>
<th>2015/2016 * Target</th>
<th>2016/17 Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Performance Index</td>
<td>6.75</td>
<td>6.85</td>
</tr>
<tr>
<td>Perth total per capita consumption</td>
<td>129 kL</td>
<td>129 kL</td>
</tr>
<tr>
<td>Total cost per property</td>
<td>1,965</td>
<td>1,965</td>
</tr>
<tr>
<td>Safety Index</td>
<td>80</td>
<td>80</td>
</tr>
</tbody>
</table>

Table 1: Business Targets

### Our Financial Outcomes

<table>
<thead>
<tr>
<th></th>
<th>2015/2016 * Projected ($m)</th>
<th>2016/2017 Projected ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating revenue</td>
<td>2,404</td>
<td>2,411</td>
</tr>
<tr>
<td>Direct operating expenses</td>
<td>891</td>
<td>904</td>
</tr>
<tr>
<td>Depreciation / amortisation</td>
<td>466</td>
<td>478</td>
</tr>
<tr>
<td>Earnings before interest, tax &amp; developer contributions (EBIT)</td>
<td>1,047</td>
<td>1,029</td>
</tr>
<tr>
<td>Net interest expense</td>
<td>271</td>
<td>274</td>
</tr>
<tr>
<td>Developers' contribution</td>
<td>245</td>
<td>253</td>
</tr>
<tr>
<td>Operating surplus before income tax</td>
<td>1,022</td>
<td>1,008</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>306</td>
<td>302</td>
</tr>
<tr>
<td>Operating surplus after income tax</td>
<td>715</td>
<td>706</td>
</tr>
<tr>
<td>Capital expenditure (including Capitalised Interest)</td>
<td>678</td>
<td>782</td>
</tr>
<tr>
<td>Borrowings taken (repaid)</td>
<td>210</td>
<td>245</td>
</tr>
<tr>
<td><strong>Accruals to Government</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indirect tax equivalents</td>
<td>5.8</td>
<td>5.9</td>
</tr>
<tr>
<td>Income tax equivalents (net of deferred tax adjustments)</td>
<td>308</td>
<td>306</td>
</tr>
<tr>
<td>Dividends provided</td>
<td>572</td>
<td>546</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>887</strong></td>
<td><strong>858</strong></td>
</tr>
</tbody>
</table>

### Payments from Government

**Operating Subsidies**
- Non-Commercial Country Services | 421 | 340 |
- Revenue Concessions            | 142 | 146 |
- Metropolitan Operations        | -   | 0.5 |
| **Total Operating Subsidies**   | 562 | 486 |

**Net Accrual to Government**

<table>
<thead>
<tr>
<th></th>
<th>2015/2016 * Projected ($m)</th>
<th>2016/2017 Projected ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>324</td>
<td>372</td>
</tr>
</tbody>
</table>

Table 2: Financial Outcomes

### Our Financial Performance Measures

<table>
<thead>
<tr>
<th></th>
<th>2015/2016 * Projected ($m)</th>
<th>2016/2017 Projected ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on equity</td>
<td>7.0%</td>
<td>6.8%</td>
</tr>
<tr>
<td>Return on assets</td>
<td>6.1%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Debt to total assets ratio</td>
<td>34.5%</td>
<td>35.0%</td>
</tr>
</tbody>
</table>

Table 3: Financial Performance Measures

* Numbers as at December 2015

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Capital Investment

As a State Government-owned enterprise, our capital program must be framed within the State Government’s budgetary parameters. The program has been prioritised using a risk management framework.

Risk Management

As part of our commitment to continuous improvement, the approach used to formulate the Capital Investment Program (CIP) is progressively reviewed and updated.

This approach is based on Strategic Investment Business Cases that consider various scenarios over a 20 year period, in addition to a focus on the near term (five year) plan.

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

- State growth, both in size and shape;
- Condition of existing assets;
- Rainfall and streamflow patterns; and
- Customer per capita demand for services.

The result is a set of drivers that form the challenge of selecting solutions and planning or scheduling construction, upgrades and replacement of assets.

The capital investment framework will continue to be revised and improved to support optimum business solutions against both short and long-term planning.

The end result is an investment program that benefits the customer and further improves our ability to provide value for money water services over the long term.

Capital Investment Program (CIP)

For 2016/17 financial year, our planned CIP is $781.8 million (including Capitalised Interest). This budget includes significant items such as:

- An allocation of $335.5 million (43%) of the total capital budget to upgrade and construct water and wastewater assets in the metropolitan region;
- An allocation of $300.4 million (38%) of the total capital budget to upgrade and construct water and wastewater assets in regional WA;
- An allocation of $130.3 million (17%) on support activities (IT programs, property, fleet etc.) across all regions – country and metropolitan; and
- Capitalised Interest of $15.6 million (2%).

Key projects within this investment plan include:

1. Ellenbrook 80 megalitre (ML) Tank;
2. Cunderdin 75ML Storage Tank Facility;
3. Armadale Pump Station, Pressure Main and Storage Tank 1; and
4. Woodman Point Wastewater Treatment Plant Interim Upgrade to 180ML/d.
Notes: Financial Accounts

a) Reporting to the Minister

Reports which monitor performance against the targets outlined under this section of the SCI 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 Corporations 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 Corporations 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, borrowings and a financial arrangement under a Public Private Partnership for the Mundaring Water Treatment Plant.

d) Dividend Policy

85% of after-tax surplus (excluding developers’ hand-over assets, State 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 State Government sourced borrowings. 98% of the anticipated dividend is paid out at year end with the remainder paid on completion of the audited financial statements.

e) Approvals

State Government approval will be obtained prior to any change in commitments and / or actions outside of approved parameters. This approval also extends to new projects not included within the State Government’s approved financial parameters.

f) 2016/17 Supply Assumption

This SCI has been prepared based on the assumption of adequate surface water storage at the end of the 2016 winter. Should storage be below this it may have a material impact on our ability to supply water as projected and deliver the financial outcomes presented.

g) Operating Subsidies

Operating Subsidies, previously known as Community Service Obligations, are payments for services that are not otherwise commercially viable. They reflect the State Government’s commitment to meet the community’s broader economic, environmental and social needs.

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.
Notes: Financial Accounts

**g) Operating Subsidies cont.**

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

The Operating Subsidies provided are:

- Non-commercial country services - losses we incur in providing services to customers in non-profitable country schemes.
- Due to the State Government’s commitment to providing services at affordable prices, regulated prices charged in country regions are typically less than the cost of supply. This includes net losses incurred from the Country Infill Sewerage Program in country non-commercial areas.
- Revenue concessions - concessions to pensioners, seniors and other customers, provided at the request of the State Government.
- Metropolitan Operations – subsidy for scoping works for Forrestfield Infill Sewerage.

**h) Efficiency Dividends**

The 2012/13 State Budget sought Efficiency Dividends from Government Trading Enterprises. These continue to be delivered over the course of this SCI.

**i) Assumptions**

These assumptions have been used to determine our Measures shown on page 10:

<table>
<thead>
<tr>
<th></th>
<th>2015/16 Projected</th>
<th>2016/17 Projected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth in services (%)</td>
<td>1.7%</td>
<td>1.7%</td>
</tr>
<tr>
<td>Operating efficiency (%)</td>
<td>1.8%</td>
<td>2.0%</td>
</tr>
<tr>
<td>CPI annual change (%)</td>
<td>2.3%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Dividend payout rate (%)</td>
<td>85.0%</td>
<td>85.0%</td>
</tr>
</tbody>
</table>

The Operating Efficiency shows the efficiency savings included in the operating budget. The operating budget delivers the efficiency target of the 2% annual efficiency recommended by the ERA plus the additional efficiency dividends sought by Government and delivered through operating cost reductions, by 2020/21.