



# Statement of Corporate Intent Post Budget

2018/19



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1	20/11/2017	Preliminary Draft	Board Strategic Planning Workshop
2	29/11/2017	Draft with final amendments	Special Board Workshop 29/11/2017
3	29/11/2017	Final	Special Board Meeting 29/11/2017
4	18/12/2017	Updates to capital works program 2017/2018 forecasts and profit flow on effects.	Lisa Brockman, A/MCS Brad Bevis, CEO
5	21/12/2017	Updates to Glen Iris timing of capex and borrowing requirements	Lisa Brockman, A/MCS Brad Bevis, CEO
6	21/12/2017	Remove track changes	Lisa Brockman, A/MCS
7	25/01/2018	Changes requested by Minister's Office	Brad Bevis, CEO
8	18/05/2018	Increases to Tariffs, Capital Works and Borrowings as requested by Treasury and the Minister.	Lisa Brockman, MA

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## **CHAIR'S INTRODUCTION**

As required by the *Water Corporations Act 1995* (the Act) the Board of the Bunbury Water Corporation (trading as Aqwest) prepares an annual Statement of Corporate Intent (SCI).

This SCI is consistent with the Strategic Development Plan (SDP) and, in accordance with s.52 (2) of the Act, specifies the following for the 2018/19 financial year;

- An outline of objectives including the continuity of the provision of water services, the maintenance of assets to ensure the proper provision of water services and the delivery of an optimum service to customers in meeting their requirements for water services; and
- the performance targets and other measures by which performances may be judged and related to objectives; and
- measures to be taken to protect the environment; and
- an outline of the nature and scope of the functions proposed to be performed during the relevant financial year; and
- an outline of the borrowings to be undertaken or proposed to be undertaken; and
- an outline of main undertakings; and
- the dividend policy; and
- accounting policies that apply to the preparation of accounts; and
- the type of information to be given to the Minister, including information to be given in quarterly and annual reports; and
- the nature and extent of community service obligations that are to be performed; and
- the costing of, funding for, or other arrangements to make adjustments relating to, community service obligations; and
- the ways in which, and the extent to which, compensation will be made for performing community service obligations; and
- such other matters as may be agreed on by the Minister and the Board.

Neville Eastman

**ACTING BOARD CHAIR**

December 2017

## ABOUT US

Aqwest is the trading name of the Bunbury Water Corporation and has been "Your Local Water Supplier" for the City of Bunbury and surrounds since 1906.

### Act

We are established as an organisation under the *Water Corporations Act 1995* and are not an agent of the Crown and are not part of the Public Service.

### Owner

Aqwest is owned by the Western Australian Government and we operate as a "corporatised entity" with direct accountability to the Minister for Water.

### Regulation

The Economic Regulation Authority (ERA) is an independent statutory authority established by the Parliament of Western Australia, which has two key relationships;

1. To Issue and monitor Aqwest's Water Services Operating Licence.
2. At the request of the Treasurer conduct pricing reviews.

Aqwest also operates under a range of regulatory requirements as stipulated by the Department of Health and Department of Water and Environmental Regulation.

### Purpose

Maximise value to the owner and customer by providing locally managed water services.

### Vision

To be an independent, viable and competitive water utility in the Western Australian water industry.

### Values

- Integrity
- Accountability
- Transparency
- Trust

### Guiding Principles

We are;

- committed to customer service excellence
- customer, community and commercially focused
- striving for innovative solutions

## Strategic Risks

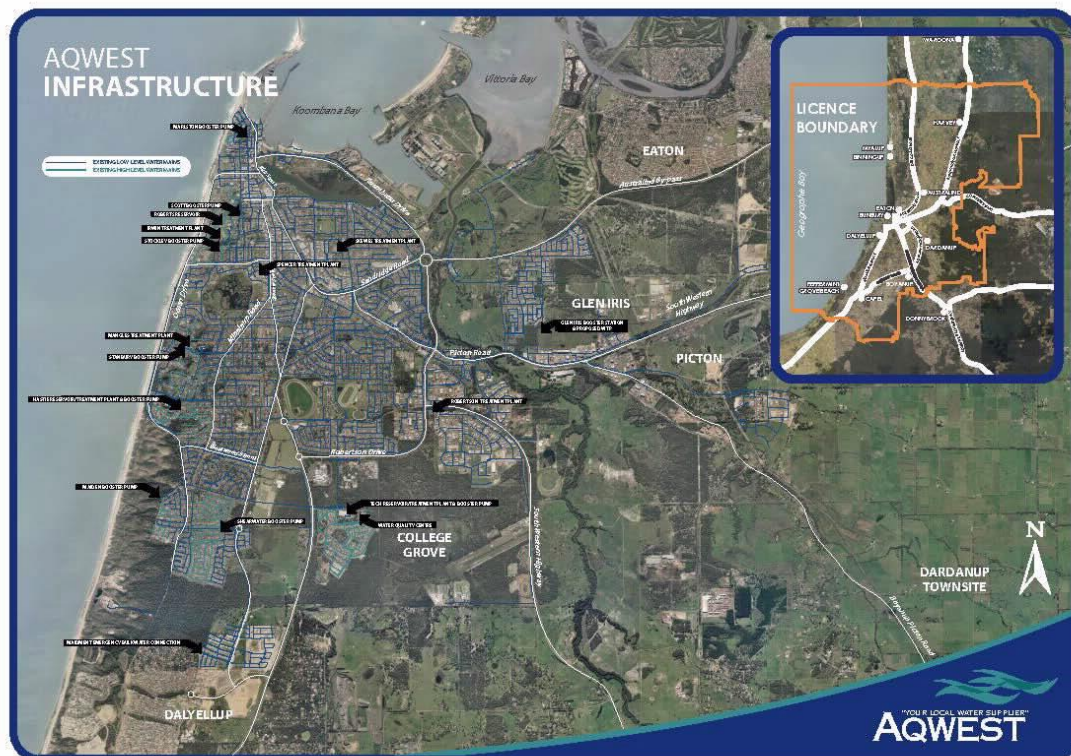
We have a Risk Management Committee and maintain a Risk Management Charter. The committee takes an organisation wide, strategic approach to the management of risk. The effective operation of the Risk Management Committee is overseen by the Board.

## The Board

- Robert (Neville) Eastman, Director and Acting Chair
- Hans Dopheide, Director
- Robert Nicholson, Director
- John Barratt, Director

## The Executive

- Brad Bevis, Chief Executive Officer
- Gary Hallsworth, Manager Water Services
- Joe Smith, Manager Corporate Services



## KEY PERFORMANCE INDICATORS

### Our financial targets 2018/19

	2018/19 Budget (\$000's)
<b>Total operating revenue</b>	<b>16,983</b>
Less : Direct operating expenses	9,970
Less: Depreciation	2,586
<b>Earnings before interest and tax (EBIT)</b>	<b>4,427</b>
Less: Interest expense	133
Add: Developer contributions	315
<b>Operating profit before tax</b>	<b>4,609</b>
Less: Income tax expense	1,683
Less: Dividend	2,048
<b>Operating profit after tax and dividend</b>	<b>878</b>
Capital expenditure	15,833
Borrowings taken (repaid)	9,622
Net debt	7,736

### Financial Performance Measures

	2018/19 Budget (\$000's)
Return on assets (%)	7.3%
Net debt to equity (%)	8.7%
<b>Net Accruals to Government (\$000's), Represented by:</b>	
Tax equivalents	1,683
Local Government Rate Equivalent	72
Land Tax	36
Dividends provided	2,048
Total Operating Subsidies	(692)
<b>Net Accrual to Government</b>	<b>3,147</b>

<b>Quarterly Projections (cumulative)</b>				
	<b>30 Sep 2018 (\$000's)</b>	<b>31 Dec 2018 (\$000's)</b>	<b>31 Mar 2019 (\$000's)</b>	<b>30 Jun 2019 (\$000's)</b>
<b>Total operating revenue</b>	<b>6,086</b>	<b>8,673</b>	<b>11,743</b>	<b>16,983</b>
Less : Direct operating expenses	2,493	4,985	7,478	9,970
Less: Depreciation	647	1,293	1,940	2,586
<b>Earnings before interest and tax (EBIT)</b>	<b>2,946</b>	<b>2,395</b>	<b>2,325</b>	<b>4,427</b>
Less: Interest expense	33	67	100	133
Add: Developer contributions	79	158	236	315
<b>Operating profit before tax</b>	<b>2,992</b>	<b>2,486</b>	<b>2,461</b>	<b>4,609</b>
Less: Income tax expense	421	842	1,262	1,683
Less: Dividend	0	2,048	2,048	2,048
<b>Operating profit after tax and dividend</b>	<b>2,571</b>	<b>(404)</b>	<b>(849)</b>	<b>878</b>
Capital expenditure	3,958	7,917	11,875	15,833
Borrowings taken (repaid)	1,985	3,927	5,825	9,622
Net debt	1,934	3,868	5,802	7,736



## Key Result Areas

<b>Sustainability</b>		
<b>Commitment:</b>		<b>Permanence</b>
<b>Objectives</b>		
<ul style="list-style-type: none"> <li>• Manage the long term viability of the water resource</li> <li>• Act in an environmentally responsible way</li> <li>• Identify renewable energy opportunities and implement these when cost effective</li> <li>• Continue to invest in demand management and water conservation initiatives</li> <li>• Seek to secure and maintain access to quality water resources</li> <li>• Manage aquifer extraction regimes to preserve long term supply</li> <li>• As appropriate, monitor the ongoing impact of climate change on the South West.</li> </ul>		
<b>Performance Indicators</b>		<b>Target</b>
<b>S1</b>	Quantity of water produced within licensed allocation (GL)	< 7.6 GL
<b>S2</b>	Real water losses (Litres/ connected property /day) Note: Connected property as per definition contained within NPR definition booklet.	<105kL
<b>S3</b>	Average annual residential water supplied (kL/connected property )	< 270 kL
<b>S4</b>	Operating cost of water supplied (kL/Connected Property)	<2% increase

<b>People</b>		
<b>Commitment:</b>		<b>Development, Equity &amp; Safety</b>
<b>Objectives</b>		
<ul style="list-style-type: none"> <li>• Maintain Strategic Workforce Plan</li> <li>• Maintain an Equal Employment Opportunity &amp; Diversity Plan</li> <li>• Improve capabilities of both employees and systems to support growth opportunities</li> <li>• Ensure that we maintain an effective and efficient organisation</li> <li>• Develop a multi skilled and flexible workforce through effective training and mentoring programs</li> <li>• Maintain a safe working environment and culture</li> <li>• Provide a work environment where employees have the opportunity to thrive</li> <li>• Engage the necessary expertise to undertake staff profiling, early intervention and maintain staff services programs</li> </ul>		
<b>Performance Indicators</b>		<b>Target</b>
<b>P1</b>	Staff Attitudinal Survey Completed	Yes
<b>P2</b>	Safety Index measured and monitored	Yes

<b>Customer Service</b>		
<b>Commitment:</b>		<b>Excellence</b>
<b>Objectives</b>		
<ul style="list-style-type: none"> <li>• Achieve excellence in the provision of service to customers</li> <li>• Meet all requirements of the Operating Licence and Water Services Code of Conduct</li> <li>• Provide water quality in accordance with the Australian Drinking Water Guidelines (ADWG)</li> <li>• Deliver better services through digital transformation.</li> </ul>		
<b>Performance Indicators</b>		<b>Target</b>
<b>CS1</b>	Microbiological compliance	100%
<b>CS2</b>	Water quality complaints (per year, per 1,000 properties)	< 2
<b>CS3</b>	Water service complaints (per year, per 1,000 properties)	< 0.8
<b>CS4</b>	Billing and account complaints (per year, per 1000 properties)	< 2
<b>CS5</b>	Percentage of connections meeting pressure and flow requirements	100%
<b>CS6</b>	Percentage of customer complaints resolved in less than 15 business days	100%

<b>Owner</b>		
<b>Commitment:</b>		<b>Value</b>
<b>Objectives</b>		
<ul style="list-style-type: none"> <li>• Ensure the long term financial viability of the business</li> <li>• Adhere to Corporate Governance Principles</li> <li>• Proactively investigate opportunities to add value to the business</li> <li>• Maintain an Asset Management Plan</li> <li>• Maintain an effective risk management system.</li> </ul>		
<b>Performance Indicators</b>		<b>Target</b>
<b>SV1</b>	Return on assets – Based on Regulatory Asset Value (RAV) and Weighted Average Cost of Capital (WACC)	7.5%
<b>SV2</b>	Percent of fixed costs recouped by supply fee	45.0%
<b>SV3</b>	Net debt to equity ratio	<10.0%

## Assets

**Commitment:** Efficiency

### Objectives

- Ensure that facility location, system capacity and capability are always sufficient to meet future demand
- Ensure compliance with all other relevant Regulations and Statutory requirements
- Keep abreast of emerging water treatment technology and continue to invest in water production, treatment and distribution infrastructure
- Ensure that sufficient resources are available to fund the full life cycle costs of assets.

Performance Indicators		Target
<b>OP1</b>	Average frequency of an unplanned interruption (per 1000 properties)	< 250
<b>OP2</b>	Average duration of an unplanned interruption (minutes)	< 60 mins
<b>OP3</b>	Energy Consumption (kWh/kL)	< 0.45
<b>OP4</b>	Properties served per km of water main	> 40
<b>OP5</b>	Water main breaks (per 100km of water main)	< 20
<b>OP6</b>	Off peak energy use	> 70.0%
<b>OP7</b>	Operating cost per ML produced	<2% increase

## Community and Stakeholders

**Commitment:** Engagement

### Objectives

- Remain accountable and responsive to community needs
- Develop corporate relationships through active consultation, communication and engagement with the community
- Maintain a positive public profile
- Meet all community obligations and responsibilities
- Meet all requirements of the Water Services Code of Conduct and Hardship Policy.

## **DIRECTIONS FOR THE 2018/19 FINANCIAL YEAR**

1. Maintain an ongoing focus on our core business of providing sustainable high quality water services
2. Complete the approved Glen Iris Water Treatment Plant business case
3. Respond to any demand to provide bulk water services
4. Proceed with the completion of Stage 2 of the Aqwest Greater Bunbury Integrated Water Management Strategy.

## **MEASURES TAKEN TO PROTECT THE ENVIRONMENT**

Water production was 6.3GL in 1982 and 35 years later in 2016/17 it was 6.5GL. In that time customer numbers have doubled but water production has basically been 'straight line' for a long period.

In June 2014 Aqwest produced a Report titled 'Aqwest Long Term Public Water Supply Strategy 2014 – 2065'. That Report demonstrated that over the next 10 years, water use for the existing Aqwest supplied network will remain relatively stable. This assumption relies on the continuation of the water use behavior trends observed over the past 30 years, that is, average consumption per service, per annum will continue to reduce at a rate at least equal to the additional demand created by service growth (new services).

Aqwest is progressing the long term plan to relocate production away from the sensitive seawater / freshwater interface of the Yarragadee aquifer.

### **Environmental Obligations**

It is the responsibility of all staff involved in the planning and conduct of activities to consider and prevent or minimise the impacts on the environment.

### **Carbon and Greenhouse Emissions**

We are committed to reducing greenhouse gas emissions and will identify renewable energy opportunities and implement these when cost effective.

### **Sustainability**

Water is a scarce resource. We are committed to ensuring the sustainable long term provision of potable water services. This will be achieved by acting in an environmentally, socially and financially responsible way.

We will manage the long term viability of the resource.

Aqwest will continue to devote resources to educate, encourage and inform customers on the benefits of water conservation and water efficiency practices.

## CAPITAL INVESTMENT

The plan for non-recurrent works and capital expenditure provides the Board and other key stakeholders with clear visibility of how the strategic directions are being delivered.

For the 2018/19 financial year, our planned capital investment program is \$15.833 million.

This includes:

Asset Category	Budget (\$000's)
Mains	830
Services	92
Bores and Pumps	282
Reservoirs	732
Treatment Plants	13,460
Office Equipment	192
Plant	0
Motor Vehicles	245
<b>TOTAL</b>	<b>15,833</b>

**Construct Glen Iris Water Treatment Plant** - Provides a new sustainable water source away from the seawater/freshwater interface of the aquifer, reducing the likelihood of water quality failure and supply risk.

**Fit for purpose water network** - Ensures sufficient trunk and distribution capability to support growth of business and community. Includes replacement of aging network components and upgrading to meet industry needs.

**Reservoir reliability** - The reservoir inspection program and the Tech School remediation works form an integral part of ensuring the major storage assets are reliable for the long term.

## FINANCES

### Borrowings

The bulk of the capital investment program is funded from operational cash flows. A loan facility will be required for the construction of the Glen Iris Water Treatment Plant project.

### Dividend Policy

A 75% of operating profit after tax (excluding developers' hand-over assets) dividend is planned to be paid to the State Government. An 85% dividend is planned to commence in 2019/2020.

### Accounting Policies

The financial statements are prepared on the accrual accounting basis and in accordance with the historical cost convention. The general purpose financial report has been prepared in accordance with Australian Accounting Standards adopted by the Australian Accounting Standards Board (AASB) and the *Water Corporations Act 1995*.

Details of the significant accounting policies can be found in the notes accompanying the financial report in the Annual Report.

### Reporting To the Minister

We provide quarterly reports to the Minister which detail our performance against the targets set in this statement of corporate intent.

We provide an Annual Report to the Minister within the time frame specified by the *Water Corporations Act 1995*.

### Operating Subsidies

Operating Subsidies are payments for services that are not otherwise commercially viable and result from the Government's desire to satisfy the broader economic, environmental and social needs of the community.

The operating subsidies we provide include concessions to seniors and pensioners.

Under an agreement with Government, we provide these services and are compensated by the Government for the difference between the cost incurred in providing these services and the revenue received from our customers.

Operating subsidies are projected at \$692,300 for the 2018/19 year.

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