

# Statement of Corporate Intent

2011/2012





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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 2011/12 financial year. It meets the requirements of the Water Corporation Act 1995.

As the principal supplier of water, wastewater, drainage, bulk water and 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.

Significant challenges exist for us in 2011/12 and we welcome these as opportunities to continue to deliver to our customers in line with our Purpose of "sustainable management of water services to make WA a great place to live and invest."

During 2010/11, our regions experienced a very diverse set of weather patterns:

- The North West and Midwest experienced the full force of tropical rains, filling their dams, but significantly challenging the capacity of our water distribution assets and wastewater systems to maintain service; and
- The Goldfields and Agricultural, Metropolitan Perth, South West and Great Southern regions experienced a sharp fall in rainfall during the 2010 winter. In fact, the Metropolitan Perth and South West regions experienced the lowest run-off in recorded history, leaving our dams at their lowest levels since the 1970's.

This 2011/12 SCI has been prepared based on the assumption of adequate run-off to enable the supply of the projected 2011/12 water demand. Should adequate run-off not occur during the 2011 winter, being an approximate combined input to the system or demand reduction of 76 Giga Litres<sup>1</sup> (GL), this will have a material impact on our ability to supply water as projected and deliver the financial outcomes presented in this document.

The proposed 2011/12 capital investment program of \$860.7 million will be distributed across the State with \$268 million (31%) in country regions, \$532 million (62%) in the metropolitan region, and \$60 million (7%) on common services. Of note will be the commissioning of a new 50 GL desalination plant for the Integrated Water Supply Scheme.

<sup>1</sup> 76GL is the supply gap assuming an unrestricted IWSS demand of 325GL, groundwater allocation of 165GL, desalination output of 70GL, an opening storage position of 11GL and savings of 3GL from the winter sprinkler ban.

In 2011/12 we will:

- Put safety first by further empowering our employees, contractors and alliance partners to safely and effectively work across all areas of our business;
- Continue to recognise the impact on customers of price increases above the Consumer Price Index as a result of the required capital investment to meet the demands of securing system reliability and growth;
- Manage and deliver a significant level of upgrades, replacements and maintenance work to water services infrastructure for the benefit of all water users;
- Commission the new Southern Seawater Desalination Plant as a new source for the Integrated Water Supply Scheme servicing the South West of the State;
- Successfully conclude the agreements for and commence construction of the Public Private Partnership for the provision of a new water treatment plant at Mundaring;
- Work in partnership with Government and the business community to develop water source options for the Pilbara Cities Vision;
- Continue with the next phase of the Groundwater Replenishment Trial at Beenyup to further our ability to safely recharge groundwater aquifers;
- Respond to the lowest rainfall on record in the South West of WA by implementing a range of contingency actions, working closely with Government to reduce the risk of severe water restrictions and review the need for new source options or opportunities for supply argumentation to support the Integrated Water Supply Scheme;
- Manage the impact on our customers in the event of severe water restrictions and work to maintain our relationship with and trust of our customers;
- Manage the impact of a lower economic return to Government as a result of potential water supply restrictions that will reduce consumption and revenue, combined with higher production costs, leading to a lower dividend;
- Work in partnership with Government to understand the impact of a Carbon Tax on us and our customers;
- Continue to meet the key terms of our operating licence requirements, a fundamental challenge that we have met to date; and
- Continue delivering the outcomes of our 'Water Forever' 50 year plan developed through extensive customer and community consultation during 2009/10;

We look forward to 2011/12 and meeting our customers expectations whilst striving to achieve our longer term Vision of Water Forever, Zero Footprint, Great Place.



PATRICK O'CONNOR  
CHAIRMAN

# About Us

We are the principal supplier of water, wastewater, drainage, bulkwater and irrigation services in WA and supply reliable and safe drinking water to nearly 2 million customers.

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. The majority 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 Board and Executive Team comprise a wide diversity of specialist and general skills and experience which are critical to delivering our Purpose.

## Our Board of Directors

- Patrick O'Connor (Chairman);
- Brian Hewitt (Deputy Chairman);
- Zelinda Bafile;
- Andrew Bantock;
- Karen Field;
- Robert Harvey; and
- Sue Murphy (Chief Executive Officer).

## Our Corporate Executive Team

- 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 “sustainable management of water services to make WA a great place to live and invest”.

We manage for both the present and the future, ensuring that our water sources, services and infrastructure meet community needs without compromising the needs of future generations or the environment. We are proud Western Australians and aspire to make our State a great place.

To assist in the development of our State we deliver essential water services and infrastructure that enable investment in new residential areas, public facilities, commercial and other industrial enterprises, and contribute considerable taxes and dividends to the WA Government.

We engage with businesses to understand their needs and plans and work with them to create sustainable outcomes. We partner extensively with private enterprise in the ongoing delivery of water services and infrastructure, thereby directly contributing to the health and growth of WA's economy.

# Our Culture

Our Culture is as a result of a common set of values, beliefs and attitudes that unite us. It is our way of working - from our behaviours to our processes.

We seek to consistently build a high performing, achievement-oriented culture that is customer and safety focused.

We adhere to high standards of business conduct and strive for best practice workplace standards of behaviour in our dealings with each other, our customers and the community.

We will:

- Behave in a way that upholds our Values and good reputation;
- Behave honestly and with integrity;
- Act with care and diligence;
- Treat everyone with respect, fairness and courtesy;
- Maintain a safe and healthy workplace;
- Comply with any lawful and reasonable direction given in relation to our work;
- Maintain appropriate confidentiality about our dealings;
- Maintain, use and continuously develop our knowledge and skills;
- Disclose and take reasonable steps to avoid any conflict of interest (real or apparent) in connection with our work;
- Respect our property and systems and use them properly and lawfully;
- Not make improper use of inside information or of our position to gain, or seek to gain, benefit or advantage for ourselves or for another person; and
- Comply with all applicable laws and regulations.

# Our Values

Our Values are a key component of our culture. They are the principles that guide the way we work, drive our behaviour and help us to achieve our goals.

Our Values reflect our commitment to:

- **Our Community**

We are dedicated to excellence in customer service, and this includes playing our part in supporting local communities and involving them in our decision-making processes.

- **Our Responsibilities**

We take our responsibilities very seriously and pride ourselves on delivering on the commitments we make. We want people to recognise our organisation as reliable and trustworthy, and this often means we will go well beyond what is accepted as the minimum we are required to do.

- **The Future**

Sustainability is a key principle of our organisation. When we make decisions, we make them for both the present and the future – in terms of water needs and services, the economy, the community and the environment. No decision is made without thorough examination of all possible environmental consequences.

- **Delivering Quality**

A commitment to quality is at the heart of our approach to every facet of our organisation and operations. We always take a long term view and do everything to the best of our ability and without compromising quality.

- **Supporting People**

We want our people to grow personally and professionally as our organisation also grows. We respect them as individuals and promote the maintenance of balance between work and life. We encourage initiative and ideas; provide access to ongoing training and development and work diligently to maintain a safe and healthy workplace so that employees and contractors go home unharmed at the end of each day.

# Our Vision

**Water Forever.**

**Zero Footprint.**

**Great Place.**



Our Vision is where we want to be in the future and will guide our decisions and our work.

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

**Water Forever** is at the heart of our Vision because we are a forever business – we are here for the long term. Our work has an important impact on the water cycle and we need to make sure that the decisions we make today take us where we want to go in the future.

**Zero Footprint** is aspirational. We are committed to continuing to move towards this part of our Vision by seeking to deliver our water services using less power and fewer chemicals in a more efficient way, while restoring and repairing any damage done in the past.

**Great Place** applies on two levels - it is about securing quality of life and lifestyle for all Western Australians to achieve our Purpose. It is also about the Corporation being 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.

In doing so we are positioning ourselves to make prudent and considered decisions that will positively impact the long term viability of the State.

Our objectives in realising our Vision are to:

- Provide value for money;
- Deliver quality water services;
- Protect public health and safety;
- Conserve and restore healthy ecosystems;
- Become more climate resilient; and
- Build community capacity.

# Our Business

We provide water, wastewater, drainage, bulk water and irrigation services to hundreds of thousands of homes, businesses, farms and government agencies.

We do this by managing the collection / abstraction of water from 102 dams / weirs, 140 licensed bore fields, 72 recycled water schemes and one (soon to be two) IWSS seawater desalination plants.

In recent years 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 1.1million 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 deliver water to each and every customer to a single minimum standard and dispose of it within agreed terms with the Department of Water, Department of Health and Department of Environment and Conservation.

We have regional offices located 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 directly employ approximately 3,000 people and 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.

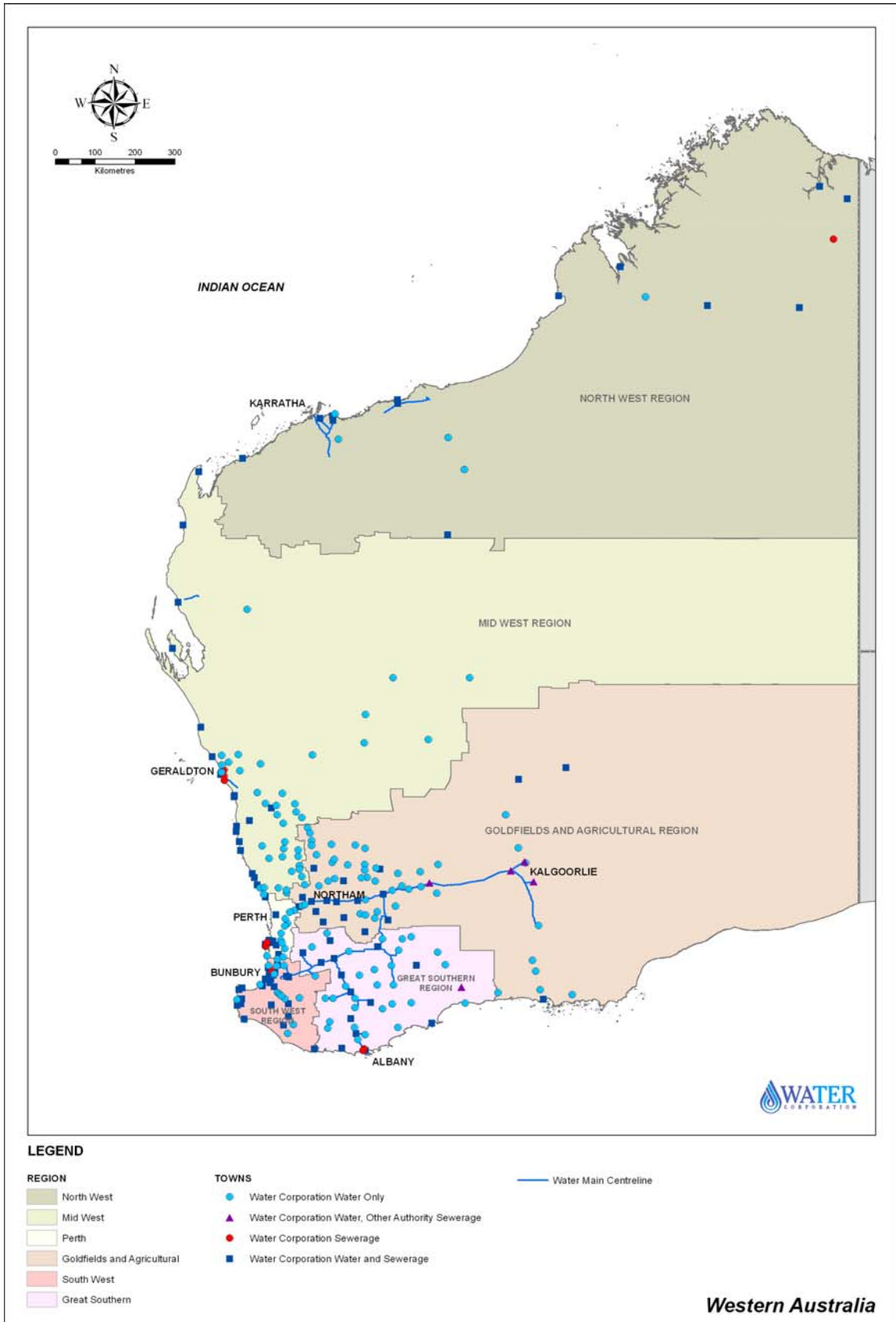


Figure 1: Map of Water Corporation Water and Wastewater schemes.



# Our Priorities



To achieve our Purpose and our Vision, we will continue to maintain our high standards of service and build genuine relationships with stakeholders through timely and meaningful engagement.

In 2009/10, we set out five Priorities for the next three years aimed at providing a focus for management to drive our continued improvement. 2011/12 is the final year of these Priorities and much has been delivered, with more identified on the road ahead.

Our five Priorities are:

- **Zero Harm**
- **Climate Resilience**
- **Efficiency and Effectiveness**
- **People Capability**
- **Integrated Service Delivery**

## Zero Harm

Zero Harm is our expectation around safety and health and is a part of our broader cultural move towards constructive behaviours, encouraging corporate compliance and working towards one effective system.

In 2011/12 we will focus on:

- Safety leadership;
- Personal responsibility; and
- Empowerment to act safely.

We will:

- Measure safety performance and focus on safety leadership, fatigue management, health of the workforce, prevention of falls and safety management of our contractors;
- Provide a safe and healthy working environment for all people associated with our activities through sound job planning, good communication and ensuring that unsafe situations or practices are immediately brought to the attention of those undertaking the work and their immediate supervisor. This may mean work stops until we are sure it can be done in a safe manner; and
- Provide injury management support to all employees who sustain a work-related injury or illness.

## Climate Resilience

Climate resilience is at the heart of meeting the long term challenges that climate change brings to us and our ability to continue to provide safe, quality water services to all communities in WA. It is our priority to meet the challenges of climate change, population growth and an environment under stress.

WA has experienced significant changes in climate, particularly in the southern half of the State where run-off into dams has dropped to a quarter of the inflows received 30 years ago.

The winter of 2010 saw the lowest run-off in recorded history. This is part of a wider trend of reducing run-off that has brought into question the long term reliability of surface water infrastructure.

Through our climate resilience priority we will secure WA's water future through a diverse portfolio of supply and demand programs. In October 2009 we released our 50 year plan Water Forever to inform water and wastewater service delivery for Perth and connected communities and towns, including the Goldfields and Agricultural Regions. We have since extended this consultation into the Lower Great Southern area, and are actively adopting the Water Forever planning approach to continually engage with the community on their water future.

In 2011/12 we will focus on:

- Reducing water use:
  - Encourage more water efficient behaviour through targeted programs;
  - Implement efficiency programs for high water using businesses, who account for an estimated 20% of consumption per annum;
  - Support the use of water efficient appliances and irrigation systems; and
  - Investigate leakage and pressure management programs to reduce water losses in the system.
- Increasing water recycling:
  - Implement our community recycling policy to make treated wastewater available as a resource when it can be used for community purposes (such as schools and parks); and
  - Develop guidelines and approaches for dual reticulation in residential areas and sewer mining.
- Developing new sources:
  - Develop a diverse array of water source options;
  - Complete the Southern Seawater Desalination Plant construction with an expected commissioning in late 2011; and
  - Continuing the Groundwater Replenishment Trial to investigate its potential as a major new source of drinking water, subject to community and regulator acceptance.

We will:

- Acknowledge the risks climate change presents to society and our responsibility to play our part in greenhouse gas abatement, particularly through reducing our direct and indirect emission of greenhouse gases; and
- Manage groundwater abstraction from the Metropolitan Groundwater System to ensure any risks to environmentally sensitive areas are minimised.

## Efficiency and Effectiveness

We have agreed to deliver an improvement in our financial operating efficiency of 2% per annum. This is to ensure that a base level of efficiency is achieved by us year on year, which ensures prices are able to be recommended by the Economic Regulation Authority on an efficient cost basis for the Corporation.

In May 2011, the State Budget requested Government Trading Entities to provide an Efficiency Dividend, paid each year over four years of the State's forward estimates period. Under this arrangement, we are requested to give effect to this by implementing cost reductions of \$20.8 million in 2011/12 with a cumulative impact of \$89 million over four years.

The challenge of effectively managing costs and activities to deliver the regulator's required level of efficiency and the Government's Efficiency Dividend whilst still meeting the combined obligations of our Operating Licence is expected to become more difficult given trends in major cost inputs and external factors such as:

- Short term increases to costs in meeting service obligations in 2011/12 given the reduced rainfall and run-off to surface water sources. These costs included:
  - Carting water to severely impacted areas;
  - Increased treatment costs of surface water stores as a result of increased dam / weir water turbidity;
  - Additional marketing spend to influence the consumer to reduce water consumption; and
  - Higher than expected rises in the consumption of energy.
- Higher than expected workforce costs as competition for suitably skilled workers intensifies with the resources, construction and engineering sectors that is largely driven by the continuation of the resources super-cycle / boom.

To meet this challenge will require:

- Ongoing focus on the operating model of our business and the performance expectation that Government places on us; and
- Active management and focused implementation of efficiency measures to achieve the targeted level of efficiency.

In 2011/12 we will focus on:

- Continue to identify opportunities to improve the efficiency of our operations, assets and support services; and
- Continue to implement a more efficient process by which capital works are delivered.

We will:

- Identify and implement opportunities to reduce costs and sustainably deliver improvements to how we operate; and
- Deliver effective and efficient processes by using the principles in the external quality standards ISO 9001 and ISO 14000 and embrace the principles of industry standards for all of our other processes.

## People Capability

People Capability is about investing sustainably in building our workforce capability and capacity.

We currently directly employ approximately 3,000 people in a broad range of occupations across the State.

In 2011/12 we will focus on:

- Building our leadership capability;
- Engaging and developing our employees;
- Attracting and retaining people with the right capability; and
- Improving and building systems, processes and tools to harness and enable the capability of our people.

We will:

- Continue the mobilisation of a leadership framework to build leadership capacity and capability and enable the desired progression of our culture;
- Engage our employees in understanding our business and how they can make a difference;
- Provide the work environment and support mechanisms to ensure that employees have a development pathway that gives them the opportunity to succeed and contribute to the best of their ability;
- Build and prepare our workforce to meet current and future business needs through programs of action, for example, repositioning of our Career Entry Programs and focusing on Indigenous Employment;
- Improve our understanding of the workforce to provide the work environment to engage and enable them to maximise their contribution and job satisfaction; and
- Improve people processes and practices to embrace best practice and utilisation of technology to ensure we have an effective workplace environment that harnesses and deploys the capability of our people.

## Integrated Service Delivery

Integrated Service Delivery (ISD) aims to ensure sustainable improvements to the delivery of services to our customers and to optimise business activities undertaken as part of this process. ISD is based on delivering business improvements enabled through the integration of technology, business processes and workforce development. These improvements are focused on business activities associated with customer service delivery, asset management, and scheme and field operations.

In 2011/12 we will focus upon:

- Further develop our asset management processes and their application within the business;
- Establish more effective field work planning & scheduling practices; and
- Make improvements in how people can access and receive their bills.

We will:

- Improve our current approach to the delivery of services and ensures that improvement opportunities are delivered in an effective and integrated manner.

# Capital Expenditure



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 2011/12 financial year, our planned CIP is \$860.7 million. This budget includes significant items such as:

- An allocation of \$532 million (62%) of the total capital budget to upgrade and construct water and wastewater assets in the Metropolitan Perth region, including:
  - An allocation of \$139 million for completion of the Southern Seawater Desalination Plant and Integration Assets; and
  - An allocation of \$80 million for the Mundaring Water Treatment Plant <sup>2</sup>;
- An allocation of \$268 million (31%) of the total capital budget to upgrade and construct water and wastewater assets in the Country Regions of WA, including allocations of:
  - \$123.2 million for the Pilbara Cities Program;
  - \$21.9 million for Busselton Wastewater Treatment Plant;
  - \$19.8 million for Yarragadee Source Margaret River;
  - \$14 million for Picton Water Treatment Plant;
  - \$14 million for Millstream Dam raising;
  - \$12.6 million for pipeline improvements to service the Perdaman Urea Project in Collie; and
  - \$5 million for Royalties for Regions to fund the relocation of the Port Hedland WWTP to South Hedland as part of the Pilbara Cities Program.
- An allocation of \$60 million (7%) of the total capital budget for projects common to both Metropolitan and Country Regions.

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

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<sup>2</sup> The Mundaring Water Treatment Plant is under negotiation for procurement as a Public Private Partnership. Financial Close is targeted in July 2011 and will result in changes to the accounting treatment of associated costs.

# Our Measures

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

FINANCIAL OUTCOMES	2010/2011 Forecast	2011/2012 Projected
<b>Assumptions</b>		
Growth (general customers) (%)	2.6	2.6
Operating efficiency (annual target) (%)	2.0	2.0
Efficiency Dividend (\$) <sup>3</sup>	n/a	20.8
CPI (annual change) (%)	2.75	3.0
General Price Increase (GPI) (%)	2.1	3.0
Specific Price Increase – water (%)	10.4	9.2
Specific Price Increase – wastewater (%)	1.8	1.8
Specific Price Increase – drainage (%)	-6.6	0.0
Dividend payout rate (%)	85.0	85.0
<b>Financial Outcomes</b>		
Operating profit before income tax (\$m)	754.2	734.7
Operating profit after income tax (\$m)	536.0	516.9
Dividends provided (\$m)	427.1	384.3
Net debt (\$m)	4,125.8	4,569.3
Borrowings taken (repaid) (\$m)	525.0	425.0
Capital expenditure (including capitalised interest) (\$m)	958.6	860.7
<b>Performance Indicators</b>		
Return on equity (%)	5.9	5.6
Return on assets (%)	4.2	4.3
Debt to total assets ratio (%)	29.2	31.0
<b>Accruals to Government</b>		
Indirect tax equivalents (\$m)	4.6	4.7
Income tax equivalents (net of deferred tax adjustments) (\$m)	208.2	212.1
Dividends provided (\$m)	427.1	384.3
Total	639.8	601.1
<b>Payments from Government</b>		
<b>Community Service Obligations (\$m)</b>		
Non-Commercial Country Services	305.6	272.3
New or Changed CSOs	31.6	39.0
Revenue Concessions	110.8	112.8
Infill Sewerage Program	35.1	39.8
Total Community Service Obligations	483.2	464.0
<b>Net Accrual to Government (\$m)</b>	<b>156.7</b>	<b>137.1</b>

BUSINESS TARGETS	2010/2011 Target	2011/2012 Target
<b>Our Customers and Stakeholders</b>		
Customer Perception of Value	85%	85%
Perth total per capita consumption	improvement towards 145kL	improvement towards 145kL
<b>Our Business</b>		
Total cost per property	\$1,793	\$1,856
Net accruals to Government	\$156.7m	\$137.1m
<b>Our People</b>		
Significant incident frequency rate (rolling year)	8.4	To be confirmed

<sup>3</sup> 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.



## 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](http://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

Our dividend policy is to provide 85% of after-tax profit (excluding developers' hand-over assets and Government grants) to Government.

## e) Community Service Obligations

Community Service Obligations (CSOs) 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 CSOs 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 CSOs - 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) 2011/12 Supply Assumption

The 2011/12 SCI has been prepared based on the assumption of adequate run-off to allow for the maintaining of the projected 2011/12 supply requirements. Should adequate run-off not occur during the 2011 winter, being an approximate combined input or demand reduction to the system of 76 GL<sup>4</sup>, this will have a material impact on our ability to supply water as projected and the financial outcomes presented in this document.

<sup>4</sup> 76GL is the supply gap assuming an unrestricted IWSS demand of 325GL, groundwater allocation of 165GL, desalination output of 70GL, an opening storage position of 11GL and savings of 3GL from the winter sprinkler ban.