

Annual Report 2017



About this report

The 2017 Annual Report is a review of our performance for the financial year ended 30 June 2017.

This report is produced in accordance with the provisions of the Water Corporations Act 1995 and other relevant legislation, which governs our operations.

Provided to the Minister for Water; Fisheries; Forestry; Innovation and ICT; Science the Hon David Kelly MLA, the report is tabled in the Parliament of Western Australia.

The objective of this report is to provide our customers, community, stakeholders, as well as our owner, the Western Australian Government with information about our operational and financial performance and our contribution to the state's economy for the 2016-17 financial year.

To provide feedback on this report please email

report@watercorporation.com.au

Previous annual reports can be found at **watercorporation.com.au**

For customer enquiries or feedback about our services, visit

watercorporation.com.au/contact

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Our year at a glance

361
billion litres
of water supplied

eighty two
water
treatment
plants

488
water pump
stations



34,799
kilometres
of water mains


16,903
kilometres
of sewer mains

2,549
kilometres
of drains

164
billion litres
of wastewater
collected


772,032
customer telephone
calls answered

2.1
million
visitors to
our website



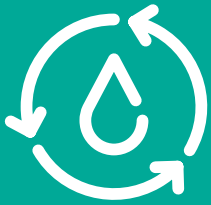

2,758
employees

128
dams & weirs



\$875
million
in operating
expenditure

\$274
million
invested in
regional projects

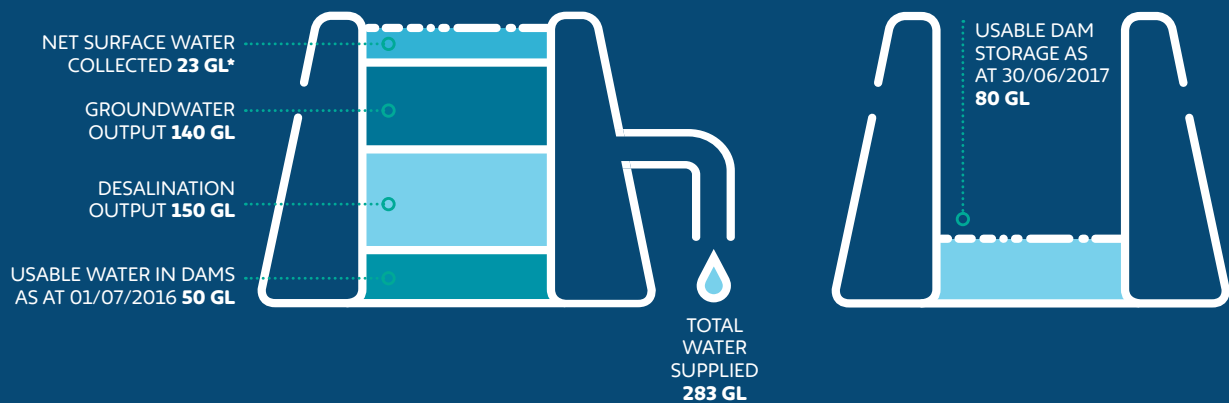


75
recycled
water schemes

\$806
million
investment in
capital works



Our largest scheme, the Integrated Water Supply Scheme (IWSS) supplied 283 billion litres of water to our customers. This consisted of:



*Streamflow less evaporation and riparian releases.

Chairman's report



I was honoured to take up the role of Board Chairman from 1 January 2017, and acknowledge the exceptional contribution of outgoing Chairman, Eva Skira.

Eva was incredibly passionate about the Water Corporation, and provided consistently strong leadership to the Board and Executive. Thank you to Eva for her many years of service to our State through her role on the Water Corporation Board.

The first few months of this year also brought a change of State Government, and a new Minister for Water, the Hon. David Kelly. We very much look forward in continuing to build a strong working partnership in the coming years and delivering on our owner's objectives.

Over the last 12 months the focus for the Water Corporation Board has been to define our strategy for the next 10 years.

Our first priority is, of course, our core business of sustainably managing water supply and demand, at the same time continuously improving the way we work, doing more for less and ensuring we have strong governance in place.

WA has been one of the areas of the globe most profoundly affected by climate change and Water Corporation continues to be internationally recognised for the way we have responded over the last decade or more.



We can anticipate that the drying climate will intensify in the coming years. So, while we continue to deliver to our customers' needs today, as a Board we are considering what our source mix will look like in the next 20 years, particularly examining the role of groundwater and non-potable water in our supply mix.

Our customers are the only reason we exist, so we also have a strong focus on continuing to build our understanding of what our customers' value and using these insights to drive our strategic decision making. Through our 'Tap In' program we will better understand what customers think our areas of focus should be, what issues need to be addressed as a priority and which initiatives should be prioritised for implementation in our business. This is an important piece of work, and one which will ensure our future investment is aligned to the priorities of our customers.

As a Board we have set ourselves the challenge to support Perth to become the leading water sensitive city in Australia. This is very much in keeping with what our customers want, too. Feedback from our community tells us that sustainable, positive and liveable communities are a high priority. As a government owned-water utility we are in a unique position to support Perth on the journey to become a water sensitive city, having involvement across the whole water cycle - public water supply, wastewater and drainage.

This is an audacious goal but one that is very much in line with our purpose - sustainably managing water services to make WA a great place to live and invest.

As a Board we are very excited about the work ahead, guiding the Water Corporation executive team to deliver on our strategy and help make Perth Australia's leading water sensitive city.

Thank you to my fellow directors for the energy and commitment which they bring to their roles. I also acknowledge the leadership of our CEO, Sue Murphy and her executive team for their continued excellent work and look forward to working together in the year ahead.

Mr Michael Hollett
Chairman

Chief Executive Officer's year in review



Our climate gets drier and drier. June 2017 was one of the hottest and driest on record for the South West of Western Australia, so our story of managing climate change continues.

After reasonable winter rains in 2016 - still well below average - we luckily had a very mild summer and above average rainfall from January to March. It was heartening to see that our customers responded to this so proactively keeping water use below target.

This year comes off the back of a long spate of dry, hot years which culminated in 2015-16 - a year of highest temperatures, lowest runoff and soaring water consumption in the Integrated Water Supply Scheme. So, anticipating similar patterns in the future, our efforts to achieve climate-resilience have continued without pause.

Stage one of our Groundwater Replenishment Scheme is in the final stages of commissioning, and has the capacity to recharge 14 billion litres of water each year, providing Perth's drinking water supplies with a new climate independent water source. Plans are also underway to double the size of the plant to deliver 28 billion litres of water a year within three years.

Big projects like this attract a great deal of interest from all quarters, but what largely goes unnoticed is the huge, 24-7 job done by the men and women of Water Corporation throughout this huge State to ensure safe water comes out of every tap and wastewater disappears from every home and business to be safely treated.

I am immensely proud of our people, who are all dedicated to doing their part to safely deliver critical water services to the people of Western Australia and care a great deal about our customers and community.



While we continuously improve our core business, when it comes to planning for the future we want to make sure that we understand what our customers value and can respond to their needs.

So, this year we have launched a major community engagement program called 'Tap In', where we are asking our customers to be directly involved in helping us make decisions about our future products and services through a series of focus groups and surveys across the State.

This work will continue into the new financial year and will inform our planning for the future in all areas of our business.

I extend my thanks to all our staff, contractors, partners, stakeholders and regulators for their part in our business. We are nothing without you and appreciate your hard work.

Ms Sue Murphy
Chief Executive Officer

Corporate snapshot





Organisational profile



Our operations

Water Corporation is the principal supplier of water, wastewater, drainage and bulk irrigation services in Western Australia to hundreds of thousands of homes, businesses and farms.

We directly employ over 2,700 people located in offices in Perth, Bunbury, Albany, Karratha, Geraldton, Northam and Kalgoorlie, and a number of depots, providing a high level of expertise and strong commitment to communities across the State.

We manage \$36 billion (replacement value) of assets to deliver water services across the 2.6 million square kilometre expanse of the State, directly and through alliances with the private sector.

Our purpose is the sustainable management of water services to make WA a great place to live and invest.

Our vision

Our vision is where we want to be in the future. This is underpinned by our three pillars of Water Forever, Zero Footprint and Great Place. These pillars are continuously in tension and need to be balanced.

Our values

Guided by our values, it is our people who enable us to deliver on our purpose and vision.

One Team: We are one team. We work together in the best interests of Water Corporation and the community.

Think Safe, Act Safe: We put safety first in everything we do. We are responsible for ourselves and others.

Customer Focussed: We value our customers. We understand their needs and deliver great services.

Value Every Dollar: We add value to our customers. We manage every hour we work, every dollar we spend.

Future Thinking: We find clever and innovative ways to do things. We plan and deliver for the future.

Take Personal Ownership: We hold ourselves and each other to account. We each take responsibility for our own decisions and actions.

Our environment

We have a commitment and responsibility to be a leader in ensuring the sustainable future of Western Australia's water supply. We aim to maximise the re-use of our by-products to reduce our environmental footprint. We are committed to protecting and enhancing the environment.

Our owner

Water Corporation is owned by the Western Australian Government and accountable to the Minister for Water; Fisheries; Forestry; Innovation and ICT; and Science the Hon David Kelly MLA, for the delivery of our services. Most of our financial surplus is returned to the State Government as a dividend to contribute to the development of the State, with the remainder reinvested in capital infrastructure.

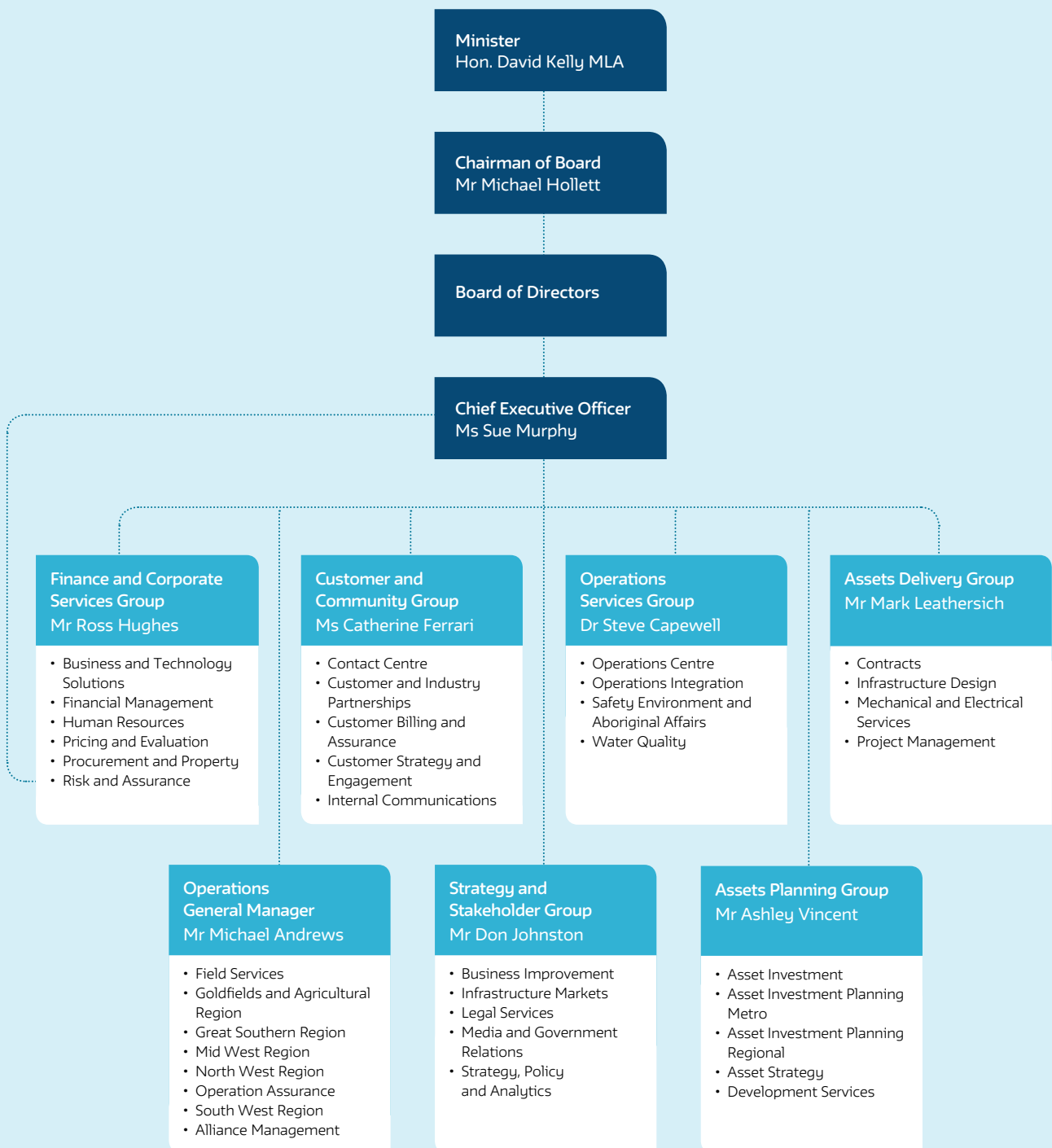
Our stakeholders

Our key stakeholders include relevant State and Australian Government agencies and regulators, Local Government and industry associations. The support and trust of our stakeholders and the broader community is critical to the achievement of our business objectives. We are proactive in ensuring that we engage our stakeholders and the community as we work to effectively manage current and future water services.

Our regulators

We deliver water to our customers and dispose of it within conditions set by the Departments of Water, Health, Environment Regulation, Parks and Wildlife, and the Environmental Protection Authority. The Economic Regulation Authority monitors our performance against our Water Services Licence. The State Government determines the prices of our regulated services each year through the State Budget process.

Organisational structure



Board profiles



Mr Michael Hollett

Chairman
GAICD

Mr Michael Hollett has extensive water industry and property development experience, and consults in both business and property development. Mr Hollett is currently Chairman of Ocean Gardens Inc and Director at H&H Development Enterprises Pty Ltd. Prior to this, Mr Hollett was the Chief Executive Officer of the National Lifestyle Villages Group and expanded the Group's delivery of affordable new housing estates, and senior and resource sector accommodation communities across the State and to Victoria. He is a qualified Hydrographer and worked in a variety of roles including regional and metropolitan land development, lead new pathways in water recycling, efficiency and strategic planning for Water Corporation and its predecessors from 1982 to 2004.

Appointed 1 January 2012, appointed Chairman 1 January 2017, term expires 31 December 2019.

Chair: Safety Committee and Remuneration Committee

Ms Sue Murphy

Chief Executive Officer

BEng (Hons), CP Eng, FIE Aust, GAICD

Ms Sue Murphy was appointed Chief Executive Officer of Water Corporation in November 2008. Ms Murphy is a Member of the University of Western Australia Senate and Board Member of the University of WA Business School, Board Member of the Water Services Association of Australia, Board Member of the Fremantle Football Club and Fellow of the Australian Academy of Technological Sciences and Engineering.

Appointed November 2008, term expires 31 December 2017.

Mr David Lock

Deputy Chairman

BComm (UNSW), CA, FAICD

Mr David Lock is Chief Executive Officer and Managing Director of Mareterram Limited, a listed agribusiness company. He is also the Chairman of the Western Australia Meat Industry Authority and a member of the Advisory Council of the Curtin Business School. Prior to joining Mareterram Limited in January 2016, Mr Lock was Chief Executive Officer of the Craig Mostyn Group for 12 years. He has also held managerial positions with PriceWaterhouseCoopers in Australia, Canada and the UK. In 2012, he was named NAB Agribusiness Leader of the Year and in 2013 he won the Australian Export Heroes Award. Mr Lock brings significant finance skills to the board, as well as a deep understanding of the Australian agribusiness industry. He was previously Chairman of the Food Industry Association of Western Australia.

Appointed 1 January 2014, appointed Deputy Chairman 1 January 2017, term expires 31 December 2019.

Chair: Audit and Compliance Committee

Member: Remuneration Committee

Mr Ross Holt

B. Econs (Hons)

Mr Ross Holt has been an integral part of the WA State Government finance and development landscape for almost 40 years. Previously the Chief Executive Officer of the WA Land Authority (LandCorp), Mr Holt retired in 2014. He is currently the Deputy Chancellor of Murdoch University, Chair of Forest Products Commission, Non-executive Director NS Projects and Non-executive Director of Nudge.

Appointed 8 June 2016, term expires 31 December 2018.

Member: Safety Committee



(l to r) Mr David Lock, Ms Sue Murphy, Mr David Rowe, Mr Michael Hollett, Mr Ross Holt, Ms Nicole Lockwood

Ms Nicole Lockwood LLB, BBus Environ, GAICD

Ms Nicole Lockwood is owner and principal of Lockwood Advisory which provides advice to government and industry in the areas of regional development, infrastructure and stakeholder engagement. Prior to the establishment of Lockwood Advisory, she was a Director at KPMG. Ms Lockwood is currently the Commissioner of Tourism WA, Board Member of Infrastructure Australia, Deputy Chairman of Leadership WA, Board Member of Internet of Things Alliance Australia, Chair of the Freights and Logistics Council, Chair of MNG Surveying and the Independent Chair of Sienna Wood JV. Previous board roles include Pilbara Development Commission, WA Planning Commission and Horizon Power.

Appointed 1 March 2016, term expires 31 December 2017.
Member: Audit and Compliance Committee

Mr David Rowe BA GradAASC JP GAICD

Mr David Rowe has worked in executive leadership positions within the residential development, construction and transport industries throughout Australia and in the Western Australian, Victorian and Commonwealth Governments. He is a Board Member of the South Metropolitan Health Service and was previously Deputy Chairman of the Western Australian Land Authority (LandCorp) and a Member of the South Metropolitan Health Service Governing Council.

Appointed 1 March 2016, term expires 31 December 2018.
Member: Safety Committee

Executive profiles



Mr Mike Andrews General Manager Operations MSc

Mr Andrews draws on over 25 years' experience in water utilities in both Australia and the UK, and brings a wealth of knowledge and expertise to his current position. Mr Andrews is also a Director for Dial Before You Dig WA, a national not-for-profit group that fosters unique partnerships with Australia's underground asset owners.

Dr Steve Capewell General Manager Operations Services BSc (Hons), PhD, GAICD

Dr Capewell has a broad background in the industrial and municipal water sectors in the areas of water quality management, operations and maintenance, asset management and service delivery. Dr Capewell is a member of the WA State Advisory Committee for the Purity of Water and the Curtin Water Quality Research Centre Advisory Board. He has considerable governance and assurance experience as a Board member for Water Research Australia, and Chairman of the Perth Seawater Desalination Plant Lead Team, the Southern Seawater Desalination Plant Lead Team and the Pilbara Clearwater Alliance.

Ms Catherine Ferrari General Manager Customer and Community BBus, PGradDipBus, MLM, FCPA, GAICD

Ms Ferrari is Deputy Chair of the West Australian Opera; a Board Member of the John Curtin Gallery, ScreenWest WA, Energy and Water Ombudsman, a trustee of the Legal Contribution Trust, Director of Water Corporation Superannuation Pty Ltd and is on the Southern Seawater Desalination Plant Lead Team.

Mr Ross Hughes Chief Financial Officer BBus, FCPA, FAICD

Mr Hughes had 25 years' experience in the financial services sector prior to joining the Corporation in 2006. He is a member of the Utility Excellence Committee for the Water Services Association of Australia and its Audit & Finance Committee. He is also member of the Perth Seawater Desalination Plant Lead Team.

Mr Don Johnston General Manager Strategy and Stakeholders BSc/Comm (Hons), MBA

Mr Johnston draws on experience from a wide variety of industries, with a proven track record in strategy and performance improvement. He previously worked with Bain & Co, and was a co-founder of Azure Consulting. Mr Johnston is a General Council member for the Chamber of Commerce and Industry of Western Australia, and is on the Industry Leadership Committee for the Water Services Association of Australia.

Mr Mark Leathersich General Manager Assets Delivery BSc (Hons), MSc

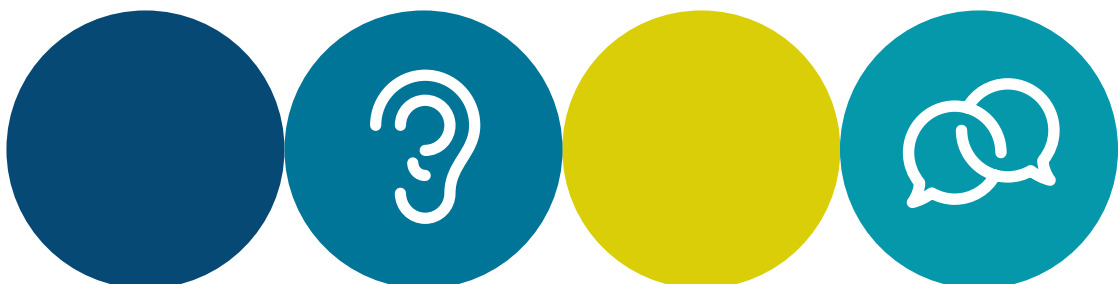
Mr Leathersich is Chair of the KEP Recharge Alliance, Chair of the Woodman Point 180 Alliance and Chair of the Perth Region Alliance. Mr Leathersich has over 25 years' experience in the water industry in Western Australia, with a focus on strategic planning for water and wastewater services, major project development and regulatory approvals.

Mr Ashley Vincent General Manager Assets Planning BE (Env), GradCert BusMgmt, MBA

Mr Vincent is a member of the KEP Recharge and Aroona Alliance Lead Teams.



*Back row (l to r) Mr Ashley Vincent, Mr Mark Leathersich,
Mr Don Johnston, Mr Ross Hughes, Mr Mike Andrews
Front row (l to r) Ms Catherine Ferrari, Ms Sue Murphy,
Dr Steve Capewell*



Key capital projects



Our capital investment program for 2016-17 was \$806 million. Some of the projects with large financial contributions are profiled in the map.

1 Groundwater Replenishment Scheme
Our new climate independent water source

1 Pipes for Perth
Replacing 100-year-old cast iron pipes to improve reliability

1 Ellenbrook Tank
Constructing our largest water storage tank (80 million litre capacity) to support growth in the north east metropolitan corridor

1 Woodman Point Wastewater Treatment Plant upgrade
Upgrades to increase capacity to support population growth

1 Subiaco Wastewater Treatment Plant upgrade
Upgrades to support population growth

1 Meter Renewal Program
Replacing water meters State-wide to improve our service

2 Upgrades to water treatment plants in Frankland, Ongerup and Jerramungup
Enhancements to plants to improve water quality

3 Cunderdin water storage tank
A new 74 million litre water storage tank to improve water quality and increase storage

4 Farmlands Project
Improving water supply to minimise disruptions and save water through the Wheatbelt

5 Goldfields Pipeline upgrade
Replacing sections of the 114-year-old pipeline to continue to improve reliability

6 Stirling Dam to Harris Dam Link
Interconnecting the Perth Integrated Water Supply Scheme with the Great Southern Town Water Supply Scheme

7 Divert Eaton wastewater to Bunbury wastewater main
Works to support population growth

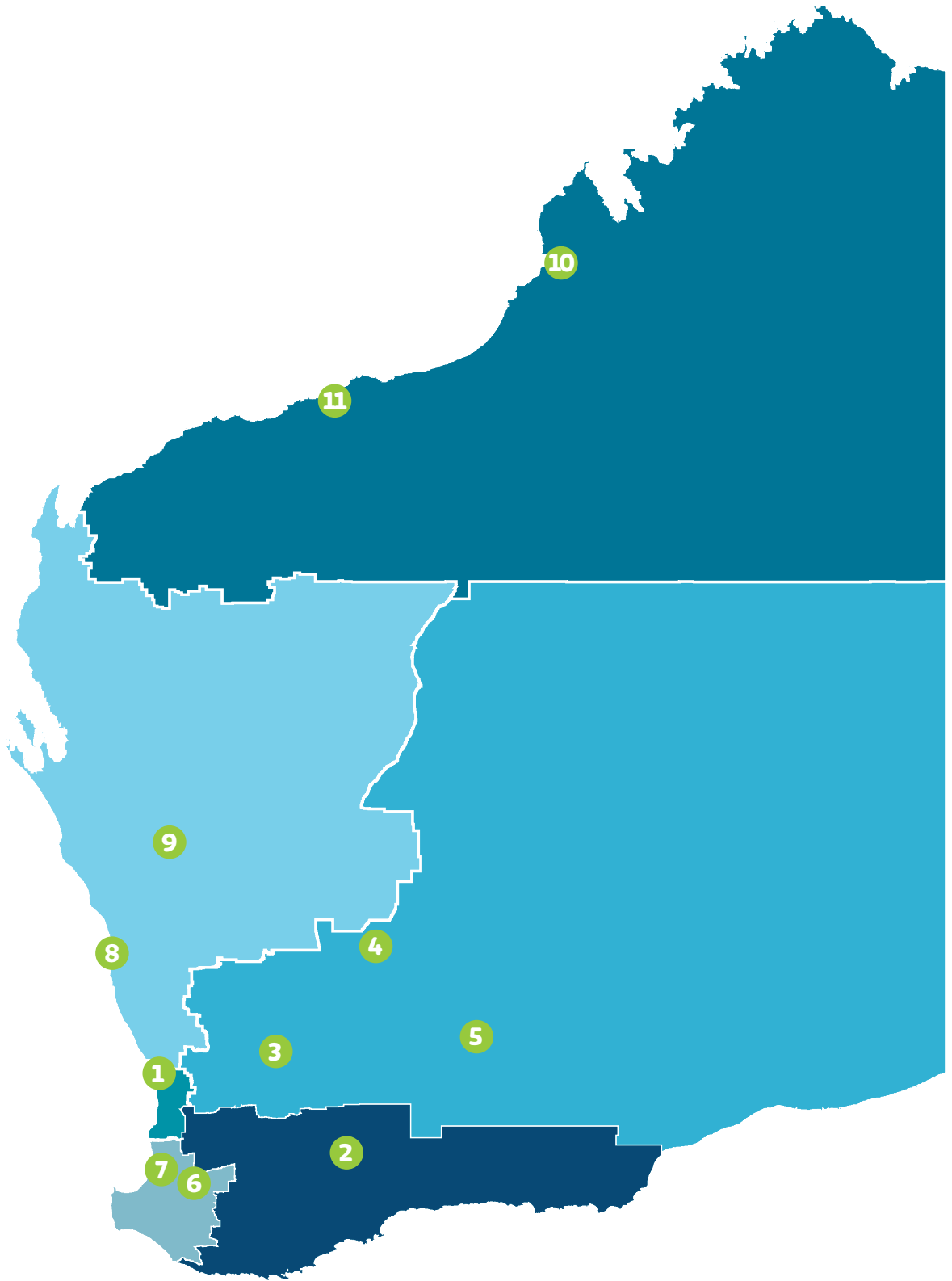
8 Dongara to Port Denison water supply upgrade
Improve supply capacity to both towns to meet peak demand times and cater for future growth

9 Murchison Project
Improve water quality starting in the town of Cue

10 Broome Water Supply Scheme
Upgrades to support the town's growth as a tourist destination and major regional centre

11 Port Hedland water pipe replacement
Improve water supply and cater for future growth

Further information on these projects can be found in 'Strengthening our operations' section on page 29.



Financial highlights



Our surplus for 2016-17 was lower than in recent years, influenced by reduced water consumption following a wetter than usual summer and lower levels of housing development activity from a subdued domestic economy. Our operating business delivered a surplus of \$503 million and contributions from developers towards infrastructure for new housing developments contributed a further \$142 million. These contributions were received either as cash from developers' fees or non-cash in the form of infrastructure handed over. In 2016-17, developers' fees represented \$83 million of the surplus, which will be invested in our future capital expenditure program, and pipeline and pump infrastructure assets handed over contributed a further \$59 million of surplus.

In a year when we continued to invest heavily in infrastructure with \$806 million of new capital expenditure, the results featured total revenue of \$2.5 billion and returns to the State Government by way of net accruals of \$323 million.

Excluding the impact from development activity, total revenue fell by 2.5 per cent during the year due to reduced water consumption together with lower operating subsidies received from the Government for the provision of non-profitable services. Climate change has seen an increasing proportion of our water delivered from sources that are independent of rainfall such as recycling and desalination, which has increased the cost of supplying into the scheme. Despite this, our customer tariffs continue to be among the lowest in Australia, and water in Western Australia remains one of the few commodities which can be delivered into our homes for less than \$1.70 per tonne^{1,2}.

Total expenditure decreased by 2.1 per cent to \$1.4 billion. On a per property basis, costs reduced 3.1 per cent as a result of savings from business transformation and continuous improvement activities, and our Operating Cost per Property remains one of the lowest in the Australian water industry for large scale supply¹. A continuing focus on cost management supported the achievement of our long term average annual efficiency target of 2.0 per cent.

Returns to the State

The Board approved dividend payments totalling \$483 million to the State Government.

We are also required by the Australian Tax Office to lodge an income tax return and pay tax equivalents to the State. Inclusive of local government rates, taxation payments made to the State in 2016-17 amounted to \$304 million.

We received an operating subsidy payment from the Government of \$464 million for the provision of non-profitable services, mostly in regional and remote areas of Western Australia, and concessions to customers.

When operating subsidies are offset against the dividends and taxes paid to Government, the resulting Net Accrual to Government (NATG) came to \$323 million in 2016-17.

The net returns form part of the State's consolidated results and are used to meet broader Government commitments.

Investing in infrastructure

Our capital investment program benefits the community and the wide range of local private industry partners who assist us in our construction, maintenance and operations. In doing so, we employ, both directly and indirectly, a significant number of Western Australians. The \$806 million capital investment program for 2016-17 included \$422 million in our water business, \$203 million in our wastewater business, and the remainder on irrigation, drainage, property and facilities.

Supporting the State's growth

In 2016-17, the value of our regional assets was in excess of \$6 billion. During the year we spent over \$274 million on the delivery of projects for regional Western Australia.

Net Accrual to Government					
\$ millions	2016-17	2015-16	2014-15	2013-14	2012-13
Dividend	483	567	562	487	366
Tax Equivalents	304	342	346	324	210
Operating Subsidy	(464)	(547)	(573)	(566)	(437)
NATG	323	362	335	245	140

1. Australian Government Bureau of Meteorology, March 2017, *National performance report 2015-16: Urban water utilities Part A*

2. Based on water demand charges for a typical 200kL p.a. household

Summary of performance

	Units	2016-17 Projected	2016-17 Actual
Financial Outcomes			
Operating Surplus before income tax			
Operating business	\$m	755	719
Developer asset handover before tax	\$m	89	84
Developer cash contributions before tax	\$m	164	118
Operating Surplus after income tax			
Operating business	\$m	528	503
Developer asset handover after tax	\$m	63	59
Developer cash contributions after tax	\$m	115	83
Capital expenditure (including capitalised interest)	\$m	782	806
Borrowings taken - (repaid)	\$m	245	199
Financial Performance Measures			
Return on equity	%	6.8	6.2
Return on assets	%	6.0	5.8
Debt to total assets ratio	%	35.0	34.3
Accruals to Government			
Indirect tax equivalents	\$m	5.9	6
Income tax equivalents (net of deferred tax adjustments)	\$m	306	298
Dividends provided	\$m	546	483
Total	\$m	858	788
Payments from Government			
Operating Subsidies			
Country Water, Sewerage and Drainage Operations	\$m	340	316
Pensioner and Senior Concessions ¹	\$m	146	145
Metropolitan Operations	\$m	0.5	3
Total operating subsidies	\$m	486	464
Net Accrual to Government	\$m	372	323

1. Includes Pensioners and Senior concessions, and concessions provided for non-rated and exempt properties.

	2016-17 Target	2016-17 Actual
Community Targets		
Water Forever		
Perth total per capita consumption	129 kL	122 kL
Great Place		
Customer Performance Index	6.85	7.09
Total cost per property	\$1,965	\$1,941
Safety Index (%)	90.0	100.0