Annual Report

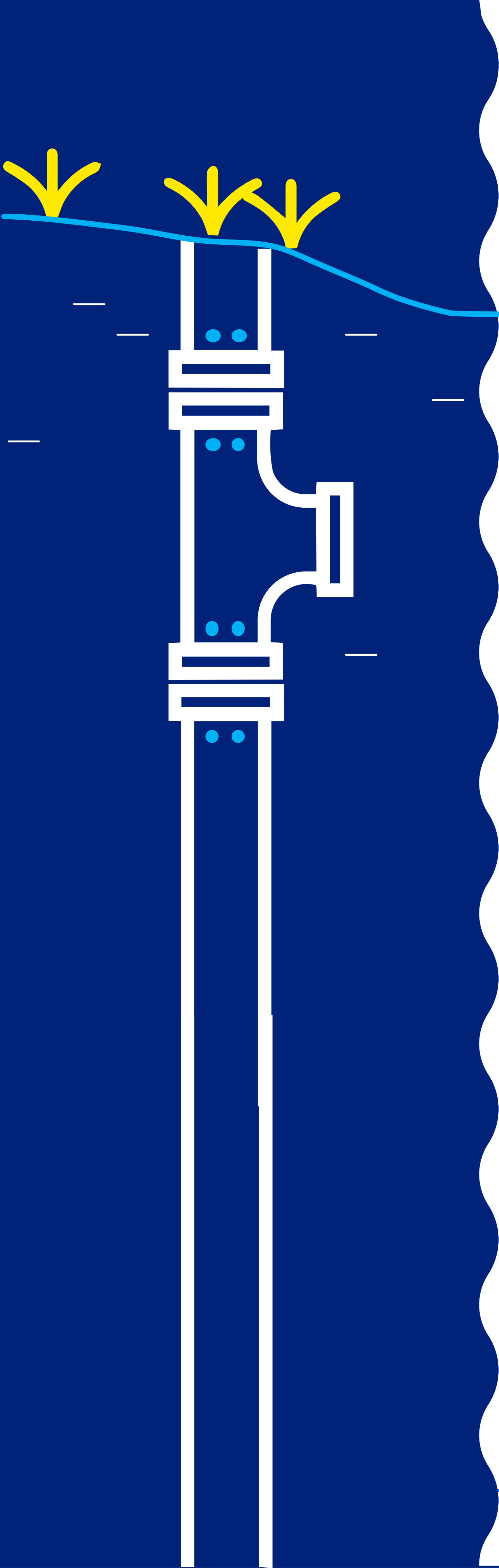
2022–23

Acknowledgement

South East Water proudly acknowledges the Bunurong, Gunaikurnai and Wurundjeri Woi Wurrung as the Traditional Owners of the land on which we work and live, and pay respect to their Elders past, present and future.

We acknowledge their songlines, cultural lore and continuing connection to the land and water.

We recognise and value their rich cultural heritage and continued contributions of Aboriginal people and communities to our society in Victoria.



Contents

Cover: Teachers from Pakenham Secondary College join representatives from Cardinia Shire Council, South East Water and Western Port Catchment Landcare Network. Western Port Catchment Landcare Network was a successful recipient of a $9,985 grant through South East Water's Community Grants program. The grant has helped the community group revitalise Ray Canobie Reserve and Henty Lilyponds in Pakenham.

Photo by Clinton Plowman, Flash Studio

Responsible body declaration

In accordance with the *Financial Management Act 1994*, I am pleased to present South East Water's Annual Report for the year ending 30 June 2023.

Lucia Cade

Chair

South East Water

28 August 2023

About us

Many of our customers and community don't think of us too often, because most of what we do is behind the scenes. But we're there for our 1.8 million customers every time they turn on the tap, flush the toilet, water the garden, take a shower, cook dinner or take a drink of water. We're also there when our customers harvest fresh produce from their farm, when the local footy team run out onto a luscious green oval or when local factories and restaurants safely dispose of their waste.

Our service area stretches across more than 270 km of coastline and covers a land area of 3,640 km^2 from Port Melbourne to Portsea and approximately 30 km east of Pakenham.

It spans across the lands and waters of the Bunurong people, the Wurundjeri Woi Wurrung people, the Gunaikurnai people and an area in our far north-east around Longwarry that currently has no Registered Aboriginal Party.

We support healthy and liveable communities by delivering water, sewerage and alternative water services to our customers all day, every day. We're developing and implementing new technologies that allow us to do this in more efficient, economical and environmentally friendly ways.

Each year we deliver 138 billion litres of drinking water and collect and treat more than 152 billion litres of wastewater at our local water recycling plants and at Melbourne Water's Eastern and Western Treatment plants.

From our water recycling plants, we produce around 1.6 billion litres of recycled water used for homes, businesses, agriculture and open spaces.

To deliver for our customers, we manage more than 27,400 km of pipeline. We own, operate and maintain $5.2 billion of assets including water, recycled water and sewerage networks.

Our people are a team of talented and passionate builders, planners, problem solvers, creators, helpers and communicators, but most importantly many are local people (with almost 50% as customers), and part of the communities we serve.

Our service region

Customers

1,797,349
people serviced

200+
languages spoken by our customers

7.6% (62,564)
non-residential customers

92.4% (761,533)
residential customers

Up 1.3% to 824,097
growth of customer base (%)

10,484
people who identify as Aboriginal and/or Torres Strait Islander in our region

Assets

14,531* km
water pipes

11
recycled water pump stations

1,450* km
recycled water pipes

13,560
pressure sewer pumps

11,479* km
sewer pipes

275
sewage pump stations

8
water recycling plants

82
water pump stations

1
stormwater treatment plant

$5.2 billion
assets we manage

**figure includes service connections*

We're a water corporation under the *Water Act 1989*

The *Water Act 1989* and the Statement of Obligations issued by the Minister for Water under Section 41 of the *Water Industry Act 1994* govern the activities of our organisation.

- We work in partnership with Melbourne Water, the bulk supplier of water and sewage treatment in Melbourne.
- The Victorian Government's Department of Energy, Environment and Climate Action (DEECA) and the Department of Treasury and Finance (DTF) oversee our activities.
- Environment Protection Authority Victoria (EPA) and the Victorian Government's Department of Health regulate our environmental impact and drinking water quality respectively.
- The Essential Services Commission (ESC) is our independent economic regulator.

Our direction

Our vision and purpose

INNOVATE WITH PURPOSE. ACT WITH CARE.

To deliver healthy water for life for our customers, community and environment.

Our strategic focus areas

EMPOWER OUR PEOPLE

We're one team that reflects the diversity of our customers. We welcome differences, and everyone's ideas and viewpoints are valued, building a safe space where people find inspiring opportunities in water.

DELIVER FOR OUR CUSTOMERS

As part of the community, we know how important it is to **get the basics right**, and make our **customers' experience better** every time. In delivering our customer outcomes, all our actions **support a thriving, more liveable community**.

PROTECT OUR ENVIRONMENT

As we're learning from the Traditional Owners, water is essential for healthy Country. We're driving long-term water security, net zero emissions and repurposing waste to **protect our environment, support our community**.

OPTIMISE OUR OPERATIONS

Committed to refining our processes, products and service, we strive for continuous improvement. We **warn and inform our customers** at the right time, as we deliver seamless, **fair and affordable services for all**.

DRIVE INNOVATION AT SCALE

Our innovation stretches beyond basic prototypes and is proven to work at scale in real-life communities. Through partnership and commercialisation, we share out data, expertise and technology to create step-change impact.

Our values

We put safety first

We're bold

We care

We discover

We're real

We deliver sustainably

A new way forward

To respond to the changing environment in which we operate and meet the changing expectations of our customers, during 2022–23 we launched a new vision and strategic focus areas for our organisation and refreshed our purpose.

- Our strategic focus areas are the 5 areas we're focussing on over the next 5 years to help drive the most impact for our customers, community and environment.
- We retained our values as they still resonate with us. They underpin everything we do.

Our customer outcomes

As part of each price submission to the Essential Services Commission we propose the outcomes that we'll deliver to our customers over a 5-year regulatory period, based on what our customers told us was important to them.

These customer outcomes have influenced our business decisions, including how we perform our daily operations, through to long-term planning for the past 5 years. They're also embedded in our new corporate strategy, helping drive our direction for 2023–28.

Our 5 customer outcomes:

- ***Get the basics right, always.***
- ***Warn me, inform me.***
- ***Fair and affordable for all.***
- ***Make my experience better.***
- ***Support my community, protect our environment.***

Find out how we delivered against our customer commitments for 2022–23 from page 11.

Year in review

Year in review

Message from our Managing Director and Chair

This year has been one of setting ourselves up for the future, while increasing the number of customers we support, to fix their water leaks and support them through payment difficulties. In June 2023, we were pleased to receive the Essential Services Commission's price determination. This equips us to deliver our new 5-year corporate strategy to deliver healthy water for life for our customers, community and environment.

Delivering for our customers and community

We continued our leading rollout of digital meters and our leak alert program for digital meter customers. With over 90,000 digital meter customers now able to track their daily usage, we supported our customers to save 800 million litres of water and reduce bills by over $3 million, just by alerting them quickly about a leak on their property. With work continuing in the background over the past year to improve customer systems and better understand the data we receive, we look forward to keep improving the experience we deliver for our customers.

We've also worked to support community groups. Now in its fourth year, we received a record number of applications for our 2023 Community Grants Program. We've been proud to help make 16 new community projects happen this year, and see the 2022 projects come to life.

Collaboration for shared outcomes

We continued to work with strategic partners representing our community and industry. Together with managing directors of neighbouring water corporations, we welcomed the signing in late 2022 of the Managing Directors' Accord. The accord is helping to guide future decision making and actions through the joint *Greater Melbourne Urban Water and Systems Strategy (GMUWSS): Water for Life* strategy.

To help us deliver on the commitments we've made to customers, we've established a new Integrated Planning and Delivery model. This will allow us to combine our expertise and innovation with that of our delivery partners, to together deliver $1.5 billion of major projects in the next 10 years, improving our customer service and environmental protection.

We also continued to learn from Traditional Owners and Aboriginal community to understand how they care for Country and how we can protect our environment, support self-determination and create a more inclusive and culturally safe organisation.

Innovating for our future

Our innovation continued to be recognised within the industry, with our Digital Utility (DU) program and Research and Innovation teams taking home awards for innovative smart tools and networks, which work together to improve our customers' experience.

We're also innovating to protect the health of our waterways. Our 2-year study to better understand how ever-present microplastics move through the sewer system and optimise water treatment processes in our recycling plants to remove them, continues to be recognised globally.

We also continued to rethink and bolster our efforts in alternative water. The launch of our Stormwater Plan, a first for a retail water corporation, reflects changed customer and stakeholder expectations on a previously overlooked resource. We were also pleased to receive Victorian Government funding for the Monterey Recycled Water Scheme to help secure water supplies for the growing south-east.

Enabling better environmental outcomes

Wet weather events continued to demonstrate the impact a changing climate is having on our customers and our organisation. We're taking steps to futureproof our operations, reduce our environmental footprint and ensure that our customers and community continue to have access to safe and reliable drinking water now and into the future.

We're reducing our carbon emissions by using renewable energy sources wherever we can, mapping potential future climate change risks through our risk assessment tool, implementing IoT-enabled sensors throughout our network to reduce the impacts of bursts and spills, and using environmental sensitivity mapping so we know which parts of our service region are vulnerable during an extreme weather event or sewer spill.

Recognising our people

This year has been a time of growth, transformation and spending more time working together in person as a team and an industry. With hybrid working arrangements here to stay, our people were also able to reconnect with colleagues in the office regularly and with their peers at industry events.

We've focused on shining a light on our people and the work they do, including through our thought leadership program. This seeks to recognise our people and innovation on both an Australian and global stage, helping to establish us as an employer of choice and inviting collaboration with likeminded organisations.

To meet the increasing expectations of our customers, we increased training and development opportunities for our people. This resulted in over 130 successfully appointed into secondments and/or higher duties and over 100 participating in leadership courses, as well as expanded self-service learning and development offerings.

On behalf of the Board, we endorse this Annual Report 2022–23 as a record of what we've achieved together over the financial year. As we look towards the 2023–24 financial year, and the start of a new price period, we're now better placed than ever to deliver healthy water for life for our customers, community and environment.

Lucia Cade
Chair

Lara Olsen
Managing Director

Dated on 28 August 2023

Delivering our customer commitments

Get the basics right, always: our progress in 2022–23

- Despite an increase in significant events in our network, we've continued to meet key targets and focus on improvements for water quality and associated complaints.
- With our water renewal program targeting failing assets, we've continued to reduce the overall number of customers impacted by multiple service interruptions.
- Launches of major water efficiency strategies have provided policy direction and built on work we've done to plan for the security of our future water supply.

	Corporate Plan (2022–27) initiative	Our progress in 2022–23
1.1	We'll continue to meet our safe drinking water regulations to maintain public health in our community.	• Introduced online monitoring tools, giving us greater visibility and control over chlorine residuals within our network, at a lower cost. • Introduced portable chlorine dosing units to help improve water quality where needed, as part of our chlorination strategy. • Addressed an *E. coli* detection and are responding to 2 water quality audit non-conformances.
1.2	We'll embed our maintenance service delivery model, with a view to developing strategic partnerships with our industry partners, improving the service and outcomes for our customers.	• In October 2022, we launched our new maintenance model, following extensive planning and transition. • Worked with our partners on resourcing, call allocation and reporting, to continually improve the service we deliver to customers.
1.3	We'll continue to plan for the security of our future water supply. We'll do this by developing the *Greater Melbourne Urban Water and System Strategy (GMUWSS)* to secure our water supplies for the next 50 years.	• Together with other Melbourne water corporations, we launched the *GMUWSS* in April 2023. • Continued participation in cross-organisation and sector working groups on implementation.
1.4	We'll seek certification of our asset management systems against ISO 550001.	• Now certified to ISO 55001.

See chapters:

- **'Delivering for our customers'** – from page 20.
- '**Thriving and liveable communities'** – from page 30.

- ‘**Performance and financial sustainability’** – from page 78.

Alignment with our obligations

- **Water for Victoria**

  Customer and community outcomes • Resilient and liveable cities and towns
- **UN Sustainability Development Goals**

  6, 9, 5, 10, 14, 15, 16
- **UN Principles**

  2, 3, 10

Make my experience better – our progress in 2022–23

- We've continued to gain further insights into our customers' experience and how we can improve it in the future – and started to build strategies and plans about how we'll do that.
- That includes expanding our customer surveys to capture sentiment across more of our key customer channels.
- We've also continued to improve the capability of our front-line people.

	Corporate Plan (2022–27) initiatives	Our progress in 2022–23
2.1	We'll develop a Channel and Customer Experience Strategy and Implementation Roadmap to support the 'next best conversation' with our customers through their preferred channel, anytime.	• Drafted our Customer Channel Strategy and supporting roadmap, to improve the experience for our customers who are after greater choice in how and when they interact with us. • Started the planning phase for the development of our Customer Strategy.
2.2	We'll develop and roll out a new approach to service our 60,000 non-residential customers, including local government, businesses and community sector organisations.	• Scoped the requirements of our Customer Strategy, lifting the focus on our non-residential customers. The strategy will help us improve how we service all our customers, both residential and non-residential.
2.3	We'll improve customer satisfaction and enhance customer interactions, with continuous training for front-line employees and investment in self-service channels.	• Delivered a collaborative cross-function team member training schedule, with a focus on Essential Services Commission code and pricing changes. • Delivered a capability-building and coaching plan for existing and emerging customer contact leaders.

See chapter:

- **'Delivering for our customers'** – from page 20.

Alignment with our obligations

- **Water for Victoria**

  Customer and community outcomes

- **UN Sustainability Development Goals**

  6, 3, 8, 11, 12, 17

Warn me, inform me: our progress in 2022–23

- We delivered strong results through our communication with customers to reduce the impact of planned and unplanned service disruptions.
- Through our digital installations, we allowed more customers to be informed of leaks, saving them water and money, while protecting our environment.

	Corporate Plan (2022–27) initiative	Our progress in 2022–23
3.1	An additional 50,000 customers will get access to new data from digital meters, enabling them to make informed and timely decisions on their water usage behaviours and obtain greater control on the cost of water.	• Installed 49,500 digital meters. • Prepared for mass rollout of digital meters in 2023–28 by starting strategic procurement for meters and developing a target operating model.
3.2	We'll continue to roll out digital sensors in our network to protect the environment and water resources, efficiently predicting and preventing our spills and water leaks.	• Installed 523 Advanced BlokAid® devices in our network. • Completed testing and feasibility for Multix manhole sensors. • Started installing Multix data loggers on water meters above 20mm.

See chapters:

- '**Thriving and liveable communities'** – from page 30.
- '**Performance and financial sustainability'** – from page 79.

Alignment with our obligations

- **Water for Victoria**

  Customer and community outcomes
- **UN Sustainability Development Goals**

  6, 4, 16

Fair and affordable for all: our progress in 2022–23

- Our commitment remains strong to assist as many customers as possible experiencing financial hardship or vulnerability.
- By driving early engagement with and proactively notifying customers of detected high usage or forecast higher-than-usual bills through a range of touchpoints, we're making sure that paying bills doesn't become an issue for them.

	Corporate plan (2022–27) initiative	Our progress in 2022–23
4.1	We'll continue to proactively identify, educate and assist our residential and non-residential customers through various initiatives to support affordability.	• In a challenging year for our customers, we: – provided 8,966 customers experiencing payment difficulties with financial support and assistance – expanded our hardship support thresholds so more customers were able to receive our help at an earlier stage – paused debt recovery.

See chapter:

- '**Delivering for our customers'** – from page 20.

Alignment with our obligations

- **Water for Victoria**

Customer and community outcomes / *Resilient and liveable cities and towns* / *Financial sustainability*.

- **UN Sustainability Development Goals**

  1, 7

- **UN Principles**

  1

Support my community, protect our environment: our progress in 2022–23

- We've continued to walk with Traditional Owners so we can learn more from and about them.
- We've continued to address our emissions and waste footprint and innovate around alternative water.

	Corporate plan (2022–27) initiative	Our progress in 2022–23
5.1	We'll submit our second innovate Reconciliation Action Plan (RAP) to Reconciliation Australia and continue to deliver Traditional Owner and First Nations partnerships.	• Closed out all actions in our first RAP. • Considered recommendations for how we could improve the recruitment and retention of Aboriginal and Torres Strait Islander employees and best engage with the wider community. • Welcomed key new Aboriginal employees to our organisation.
5.2	We'll use available resources to generate renewable energy, reducing our reliance on electricity sourced from the grid, and abating carbon emissions that contribute to climate change.	• Worked with Mornington Peninsula Shire Council to complete a feasibility study into the acceptance of organic waste into the Boneo Water Recycling Plant
5.3	We'll transition to a circular economy approach and look to better use resources to achieve positive outcomes for our community.	• Developed frameworks and models for circular economy objectives to be incorporated safely into planning for our water recycling plants. • That includes completion of a draft model to inform the future solids handling strategy for Western Port plants. • Partnered with LeSaffre and Melbourne Water to establish its first Molasses Extraction Plant in Australia, enabling the yeast manufacturer to use the nutrient-rich by-product of the fermentation process for numerous technical and agri-applications, while substantially reducing the impact of their wastewater on our systems and delivering benefit for our customers and community.

5.4	We'll continue to increase the supply and use of fit-for-purpose water as precinct structure plans continue to be developed in our eastern growth corridor. We'll also continue to work with our stakeholders to co-create liveable and sustainable communities through projects including Fishermans Bend.	• Continued to work collaboratively with our Integrated Water Management (IWM) forum partners to inform precinct plans and actions, mainly through the south-east growth corridor. • An extra 1,200+ residences were connected to our recycled water network, exceeding our 5-year target, reaching an all-time high of 78% of designated greenfield customers connected to recycled water.
5.6	We'll continue to run education and behaviour change campaigns to build community knowledge about water efficiency, resources and security, and to help Melburnians save water.	• Implemented digital meter behaviour change trials and delivered a digital meter onboarding pilot, improving the experience for our customers. • Paused the next iteration of the *Make Every Drop Count* campaign to focus on development of a new framework and plan to support objectives of *GMUWSS*, *SWS* and *Target 150*.
5.7	We'll identify opportunities to enhance liveable cities, through partnering and maximising the value we create on major projects through our capital delivery models.	• Our board endorsed recommendations for the Integrated Planning and Delivery model with new industry partners selected following tender, and final terms agreed upon.

See chapters:

- **'Adapting to climate change'**- from page 45
- '**Caring for Country'** - from page 26
- '**Thriving and liveable communities'** – from page 30.

Alignment to our obligations

- **Water for Victoria**

Climate change / Customer and community outcomes / Water for Aboriginal culture, spiritual and economic values / Resilient and liveable cities and towns

- **UN Sustainability Development Goals**

  6, 11, 13, 17, 2, 8, 7, 14, 15

- **UN Principles**

  7, 8, 9

Financial overview

Five-year financial summary

Table 1. Financial results for year ended 30 June 2023 (extract)

	2019 ($ million)	2020 ($ million)	2021 ($ million)	2022 ($ million)	2023 ($ million)
Total revenue	1,043.5	1,046.6	1,055.4	1,054.5	1,060.1
EBIT	230.4	206.5	208.9	189.2	185.0
Financial costs	83.6	83.8	80.9	78.0	89.2
Net profit before tax	146.7	122.8	128.0	111.2	95.8
Tax expense	43.1	35.7	37.6	32.8	29.4
Net profit after tax	103.6	87.1	90.4	78.4	66.4

Table 2. Financial position as at 30 June 2023 (extract)

	2019 ($ million)	2020 ($ million)	2021 ($ million)	2022 ($ million)	2023 ($ million)
Total assets	4,439.6	4,630.9	4,767.3	4,855.9	5,192.5
Payables and provisions	701.8	710.5	657.6	629.9	697.7
Borrowings	1,712.3	1,958.0	2,116.5	2,302.8	2,476.2
Net assets	1,982.5	2,025.5	1,962.3	1,993.3	2,018.6

Table 3. Cash flows for year ended 30 June 2023 (extract)

	2019 ($ million)	2020 ($ million)	2021 ($ million)	2022 ($ million)	2023 ($ million)
Operating	129.8	132.4	134.0	102.3	158.5
Investing	(174.9)	(233.3)	(244,3)	(149.0)	(227.7)
Financing	45.1	101.5	110.3	46.3	157.9

Current year financial review

We recorded a net profit after tax of $66.4 million in 2022–23, a decrease of $12.0 million from the previous year and $8.5 million lower than budget.

The unfavourable result against budget was primarily the result of the following:

- Lower consumption due to the wetter and cooler climate conditions experienced through the year offset by higher revenue from developers due to a combination of higher-than-expected developer activities and higher asset values donated.
- Higher than budgeted operational and maintenance expenses related to our transition to the new maintenance model and higher labour costs, which were offset by operating expenditure savings in consultancy, information technology, and transportation costs.
- Higher finance charges due to higher borrowings and higher interest rates experienced in the market.

Our financial position remains sound, with gearing at 54.2% and funds from operations net interest cover at 2.8 times. Total assets have increased by $336.6 million, driven by the growth in our infrastructure network and our infrastructure valuation. Total liabilities increased by $241.2 million, due largely to additional borrowings of $173.4 million during the year. We used this to fund capital investments for our infrastructure network, as well as payments back to the Victorian Government. Shareholder returns for the year include a total of $15.1 million in dividend payments.

Capital projects

Capital expenditure of $217.1 million was driven largely by population growth and the renewal and upgrade to our water and sewerage infrastructure network, bringing a number of long-term benefits to our customers and reducing the risk of asset failure. Major construction upgrades continued during the year to support infill development with an upgrade to the Hanna Street and Wells Street sewer catchments to cater for future property growth.

We also continued to invest in our water and sewer network reliability with further investment in our renewals program to reduce the risk of bursts and spills and maintain water quality standards. We continue to enhance our digital capabilities through our digital utility program as well as considered investments in our IT infrastructure to optimise our operations and drive efficiencies.

For more information on our other recent capital projects, and those of the broader Victorian public sector, please refer to the most recent Budget Paper No.4 State Capital Program (BP4) available on the Department of Treasury and Finance's website (**dtf.vic.gov.au**). This publication also contains information on Victorian Government departments and their related portfolio agencies' asset investment programs.

Subsequent events

On 26 July 2023, South East Water awarded our Integrated Planning and Delivery (IPD) contract to 2 new industry partners; Abergeldie, BMD and KBR (ABK), and BecaHunterH20, Fulton Hogan and Interflow (BFHI). The IPD model provides the way South East Water will plan and deliver future capital works for a 10-year period and replaces our Pipes and Structures, and Renewals contracts.

There were no other events occurring after the balance date which may significantly affect South East Water's operations in subsequent reporting periods.

1.

Delivering for our customers

Delivering for our customers

In 2022–23 we:

- Provided 8,966 customers experiencing payment difficulties with financial support or assistance (out of a total of 12,589 in our customer payment support program).
- Enabled a further 49,500 customers to track and take control of their daily water usage by installing digital meters. These customers were also provided access to our Leak Alert program which provides early notification of potential hidden leaks on their property.
- Were named as one of the top presentations and papers at this year's Ozwater conference for our cumulative research on customer behaviour research programs. Based on research spanning 7 years in collaboration with the University of Melbourne, the studies aimed to find out what types of information or incentives motivate customers to change their water usage behaviours.
- Increased digital and social media interactions, as customers demonstrate an increasing preference for choice in how they interact with us.
- Improving protections for customers experiencing family violence (see page 101).

Engaging with our customers

Improving our services

- 71% of customers perceive we provide value for money (down 1%)
- 82% of customers are satisfied with our service (no change)

Source: *Brandtracker*

Transactions and self-service

- 3.5 million views across all digital platforms
    - 1,765,707 visits to South East Water (up 25%)
    - 1,018,062 visits to mySouthEastWater (up 10.4%) with new registrations at 54,798 for the year (down 7.2%)
    - 89,418 visits to South East Water LIVE outage map (up 6.4%)
- 413,262 customer calls (all phone channels and calls offered)
- 121,169 email contacts
- 7,473 live chat contacts
- 3,994 new social media followers and over 5 million views (organic or total impressions)
- 61% of customers opted to receive eBills (up 3%)

Delivering the basics

- Delivered 143 billion litres of water (includes drinking and recycled water).
- Collected and treated more than 152 billion litres of wastewater at our 8 water recycling plants and at Melbourne Water's Eastern and Western Treatment plants.
- Serviced 57,269 residential and 501 non-residential customers with recycled water.
- Restored water in 98% of unplanned disruptions within 5 hours.
- Installed 49,500 additional digital meters across our service area (90,000 installed in total).
- Installed 25,000 (approximately) additional *Sotto* vibration sensors which detect and locate network leaks at scale and reduces water losses.
- Connected 382 customer properties to pressure sewer as part of our Peninsula ECO project, including 74 newly built properties.

Tailoring support for customers in need

With increasing financial pressures, we worked with our customers to tailor our support to best meet their individual needs, including:

- Payment plans to spread the cost of bills into manageable instalments.
- More time to pay – providing extensions to when a bill needs to be paid.
- Consideration of debt waivers.
- Deducting regular bill payments from Centrelink benefits as agreed by customers.
- Providing access to concessions and government grants.
- Matching of government grants to further reduce debts over a certain amount.
- Incentive payments and hardship grants and relief.
- Providing water audits and plumbing support.

Table 4: Delivering our community service obligations

Community service obligations	2020–21 ($)	2021–22 ($)	2022–23 ($)
Provision of water and sewerage concessions	44,822,494	50,077,990	45,825,218
Rebates paid to not-for-profit organisations under the water and sewerage rebate scheme	949,348	943,430	978,646
Utility relief grant scheme payments	1,603,539	1,858,112	1,733,184
Water concession on life support machines	19,312	24,093	24,708
Hardship relief grant scheme (sewerage and water connection scheme)	157,306	343,601	1,952,226

1. Customers holding a Pension Concession Card, Gold Repatriation Health Care Card for All Conditions or a Health Care Card are entitled to pay a concessionary amount, the difference is billed to and paid by Services Australia.
2. Not-for-profit entities are entitled to pay a concessionary amount with the difference billed to and paid by the State Revenue Office.
3. Provides assistance for customers unable to pay their utility accounts due to a temporary financial crisis. Customers need to demonstrate unexpected hardship has left them in a position that they cannot pay their utility account without assistance.
4. The Victorian Government provides a rebate for customers required to use a dialysis/life support machine at home, to compensate for water use and sewage disposal charges relating to its use. The amount is determined by Services Australia, based on the estimated annual water usage of a dialysis machine (168kL).
5. We offer customers a range of support and payment options to provide some extra help managing their bills. Our approach is based on proactive prevention and early identification strategies. By intervening earlier, we can help customers meet their financial commitments sooner and prevent them from entering into further debt.

Customer and Community Advisory Council update

Our 15-member Council is drawn together from across community and represent outside voices in areas from environment and affordability to agriculture and property development. It provides unique and diverse input, perspectives and direction into the way we plan for and respond to our customers and communities. The Council met 4 times this year, twice online and twice in-person.

Report from the Council

Over the past year, our Council has reviewed a range of topics and provided us with a customer and community perspective on our price submission development and a range of other strategies, actions and responses. Highlights include:

- A sub-committee of the Council observed and provided critical-friend advice to the price submission team about their engagement approach and activities.
- We met with the sub-committee regularly, providing members with oversight of the engagement program and the opportunity to provide feedback throughout the process.
- Meetings with all Council members were held each quarter to provide feedback and keep them updated across the customer engagement program and other customer matters, including entering the domestic and family violence Enforceable Undertaking (see page 88).
- The Council provided perspectives on our net zero carbon emissions strategy, water saving initiatives at the Aquarevo Estate, stakeholder engagement and data integrity.
- We welcomed the Council's observations and feedback, which informed further engagement and supported greater reliability of the customer engagement findings.

"The Council members have provided South East Water with important customer and community perspectives on a range of matters this year. I'd like to recognise the commitment and dedication of members to provide feedback and guidance to South East Water to support the development of the price submission.

"It's great that members express diverse views openly. We appreciate South East Water's transparency and honesty when sharing thoughts, plans, initiatives and information. This enables us to provide timely, relevant feedback."

– Council Chair, David Heeps

Council members

David Heeps (independent Chair), Jennifer (Jenny) McGowan, Aishwarya Pokkuluri, Dr Sundram Sivamalai, Professor Liam Smith, Kevin Shinners, Gidja Walker, Alicia Darvall, Deborah Corrigan, Dr Rohan Henry (South East Water Board Member), Lara Olsen, South East Water Managing Director), Karen Lau (South East Water General Manager Strategy and Stakeholder), Rebecca McKenzie (resigned December 2022), and Max Shifman (resigned February 2023) and Jon Onley (resigned March 2023).

Stories that matter

Digital meters and sensors helping customers save money and water while delivering a better customer experience

Since May 2020 we've expanded our network of digital meters and evolved our leak alert notification program to save water that's lost through hidden leaks, and save our customers money.

Through our Leak Alert Program we've supported customers to save over 800 million litres of water and over $3 million off their next bills, compared to if these leaks went unnoticed.

We now have 90,000 digital meters installed across our network and our program is available for all customers with a digital meter, and we're making continuous improvements and expansions to the program. Over the next 6 years we expect this program will be available for over one million meters.

Our team was proud to take home the Customer Experience Award for this program at the 2023 Australian Water Awards.

2.

Caring for Country

Caring for Country

We're committed to walking with Traditional Owners. We recognise their deep connection to land and water.

By collaborating with Traditional Owners, we can gain a deeper understanding of their cultural values and perspectives on sustainable land use and management.

Partnerships we make can help to build trust and mutual respect, allowing us to work towards shared goals of protecting and preserving our water resources for future generations.

We're also committed to building capacity within Aboriginal/Torres Strait Islander organisations to create meaningful and long-lasting partnerships that benefit both parties and the broader community.

This will help deepen our working relationships with Traditional Owners and Aboriginal/Torres Strait Island-focussed organisations, building on the progress we've made in the past few years, including through our first Reconciliation Action Plan (RAP) 2020–22.

Supporting Aboriginal self-determination

We spent $102,544 with Aboriginal businesses and associations (a total of 8 entities). This equates to 0.9% of our total spend.

Partnering with Traditional Owners

We thank the Bunurong community for engaging with us, meeting us On Country, and for sharing stories and knowledge. This engagement has helped to grow our knowledge of Bunurong culture and Country, which stretches across most of our service area, and to better know the Traditional Owners of this land as we look to build our partnership into the future.

Creating a more inclusive culture and culturally safe organisation

In 2022, we engaged the services of Aboriginal consultancy Career Steer to provide guidance on how we could improve how we recruit and retain Aboriginal and Torres Strait Islander employees and best engage with Aboriginal and Torres Strait Islander communities.

Actions we took during 2022–23

- Appointed a new Senior Aboriginal Cultural Advisor to manage Traditional Owner relationships and to provide strategic advice and direction to the organisation.
- Created and appointed a new Aboriginal Community Partnerships Advisor to improve engagement with local Aboriginal organisations and gathering places.
- Made culture more visible by embedding a 'Welcome to Country' by Traditional Owners and a native food-inspired lunch by our local Frankston gathering place (Nairm Marr Djambana) in our induction program for all new employees. We also

established a ‘yarning circle’ in our WatersEdge auditorium, complete with Aboriginal artwork and tools on display, providing a safe place to communicate and collaborate.

- Acknowledged and celebrated significant Aboriginal and Torres Strait Islander dates, providing opportunities for all employees to touch, feel and taste Aboriginal culture, while also promoting the benefits of Aboriginal and Torres Strait Islander social procurement.

Working with Aboriginal and Torres Strait Islander community

- Provided sponsorship for NAIDOC Week events for 3 gathering places and supported 3 large community events by providing our hydration station.
- Engaged with community as part of our Aboriginal employment and engagement review. This provided valuable feedback to inform our engagement approach to ensure a self-determining and culturally safe way of working.
- Started a consultation process for the development of our Aboriginal Engagement Strategy, discussing ways of collaboration and ongoing support with a strength-based approach that celebrates and supports Aboriginal culture.
- Procured catering from Nairm Marr Djambana for events and plants from Willum Warrain for caring for Country activities.
- Continued to attend Local Aboriginal Network (LAN) meetings, including hosting and contributing to costs to support the continuity of the group.
- Employees attended a volunteer day at Shoreham Campground, at the invitation of Melbourne Water. Multiple stakeholders, such as Trust for Nature and Shoreham Campground Committee came together to learn about a scar tree from Bunurong Land Council and to learn from Kaptify consultancy, who gave a talk about the history of the local area including flora and fauna and to help with caring for Country by planting trees and weeding.

Stories that matter

Supporting Derrimut Weelam Gathering Place through our Community Grants Program

Each year we help make community projects happen through our annual Community Grants Program. In 2022 we awarded grants to 16 community groups across our service region, and we loved seeing their projects come to life throughout 2022–23.

2022 grant recipient Derrimut Weelam Gathering Place partnered with Mordialloc Lifesaving Club to deliver a series of free water safety programs for young Aboriginal and Torres Strait Islander people in the summer months.

Our bays and waterways play an important part in the lives of our customers and communities and having access to information on safety around our favourite water spots is key for healthy, safe and liveable communities.

We're proud to be making water education programs more accessible for Aboriginal community and working in collaboration with community to support projects like these.

3.

Thriving and liveable communities

Thriving and liveable communities

Integrated water management (IWM)

In 2022–23 we:

- Continued to be an active participant and leader in IWM forums for the Dandenong, Westernport and Yarra catchments. That includes working with our IWM partners to deliver on long-term catchment plans and targets and unlock new opportunities across our service region.
- Investigated the feasibility of large-scale alternative water networks so that recycled water and stormwater from the south-east growth corridor can be used for irrigation and other uses, both within the corridor and more widely. That includes work on design of the Westernport irrigation network.
- Released our Stormwater Plan 2022, an industry first for a retail water corporation. Reflecting our customers', stakeholders' and ministerial expectations for our use of treated stormwater, our plan outlines our stormwater vision and commitments, providing an action plan and guidance for the next 5 years.
- Progressed major capital projects that, on completion, will deliver Class A recycled water to businesses, residential and agricultural customers, easing pressure on precious drinking water supplies.
    - See 'Stories that matter': *Monterey and Dingley recycled water schemes help secure supplies* – page 32.

Other recycled water projects

Briars Recycled Water Scheme

Completed design and planning so we can begin construction of a 1.6 km pipeline to progressively deliver up to 80ML of recycled water each year to irrigate open space and agriculture.

South-eastern growth corridor

78% of all residential properties were connected to recycled water.

Fishermans Bend water recycling plant and network

Planning is underway for its water recycling plant and recycled water network, part of the Fishermans Bend *Water Sensitive City Strategy*.

Stories that matter

Monterey and Dingley recycled water schemes help secure supplies

To help support Melbourne’s growing population, we’re increasing the availability of recycled water across our network through our Monterey and Dingley recycled water schemes.

In Frankston, we’re building a new 2.3 km pipeline that will deliver 73ML of recycled water each year to 3 public sites, including football/cricket and soccer grounds and The National Golf Course – Long Island. There are also opportunities in the future to support local schools and additional community spaces and sporting facilities.

In Dingley, we’ve started work on a $72 million project to build a 42 km pipeline that will unlock 1.8 million litres of recycled water to supply 46 public and private sites across Oakleigh South, Sandringham and Cheltenham.

Investment in sustainable sources of recycled water will keep green spaces healthy to support the liveability of a growing population while saving our precious drinking water for where it’s really needed.

Circular economy

- We've continued our research and development work on using and re-using water and wastewater resources to create circular economy systems within our network.
- We're collaborating with both local and international universities to advance our knowledge in this space, share our learnings with others and make significant changes to our operations through these projects.
- We're reducing our waste, reducing our reliance on grid energy, reducing our impact on the environment and creating blueprints for others in our industry to follow.

Creating efficiencies in trade waste

Working in collaboration with industrial food production customer Lesaffre, we've supported the build of a new molasses extract plant, which takes the nutrient-rich waste products from yeast production and turn it into a food-grade fertiliser and other agri-business applications.

Reducing risks of biosolids

Innovative research and development with local and global researchers found a cost-effective and environmentally friendly way to remove heavy metals from biosolids, which improves the process of turning biosolids into biochar to make sure biochar is safe to use as a fertiliser.

Water efficiency campaigns and community outreach

We've continued to spread the 'water-wise' message and empower more in our community to save tap water and money.

Helping community housing tenants save water

Through the Community Housing Retrofit Program and supported by DEECA, **we conducted 45 plumbing audits of not-for-profit community housing properties and retrofitted 42**, repairing leaks, replacing old fittings and helping contribute to more than 18 million litres of water saved each year.

Helping schools detect leaks

Through the Schools Water Efficiency Program (SWEP), participating schools **saved 128.6 million litres and $624,000 on their water bills**. Since the scheme started, schools have saved 2 billion litres of water at an avoided estimated cost of $8.4 million.

Encouraging our community to Choose Tap®

We installed 4 Choose Tap® water stations **(since 2019, that makes 24 in total).**
We have another 12 planned for 2023–24.

Supporting thirsty eventgoers

We attended 42 events and distributed 16,189L of water, saving the equivalent of 30,185 plastic bottles from landfill, as part of our hydration station program.

Top 3 events (by water consumption):
1. Frankston Waterfront Festival
2. St Kilda Festival and First People Day
3. Midsumma Carnival

30,185

plastic bottles saved from landfill through our hydration stations

Community programs

Community Grants Program

66 groups supported to date

- Awarded grants to 16 community groups to help make their projects possible through our fourth annual Community Grants Program.
- Funded local projects that supported vulnerable community members; made our environment healthier; helped people be more active and connected; and built knowledge about water and how to use it in the best way possible.
- Two independent panels of employee judges from every team and level of our organisation shortlisted and assessed the applications.
- This program has so far supported 66 community groups in our service region with over $320,000 of funding.

Ways 2022 recipients used their grant funding

Kananook Creek Association

Bought a new boat, used to help clean the creek and reduce the amount of litter that will flow into Port Phillip Bay and onto Frankston Beach.

Mount Martha Community Garden

Funded an irrigation system to make watering safe, efficient and timely for volunteers.

Nourish DBC

Upgraded kitchen facilities for their cooking club for migrants and asylum seekers, community meals, and meals for multicultural youth programs within City of Greater Dandenong.

Improving our grants program

183% increase in grant applications from areas with high CALD populations

- Before launching our 2023 program, we incorporated feedback to make it more accessible.
- A simpler application form resulted in it being 25% easier to apply for a grant and a reduction in time taken to complete the form. It also improved accessibility for Culturally and Linguistically Diverse (CALD) communities, those with low English literacy and those with a disability.
- Targeted social media resulted in a 183% increase in applications from the top 15 postcodes with high CALD populations.

Fostering a community culture

Employees raised **$25,081** through events and fundraising drives for organisations that supported customers in the areas of affordability and health and liveability.

- $11,985 donated through our Annual Employee Christmas Giving Appeal, to support Mums Supporting Families in Need, Food for Change, and Purple House.
- Created Christmas hampers to the value of around $2,000 for families experiencing vulnerability.
- $8,886 raised through Water Aid Australia's Walk for Water initiative to help deliver safe drinking water and sanitation services for communities beyond our borders, with 79 employees signing up to participate.

$25,081

Raised by employees for our community, with support from South East Water

Supporting community experiencing vulnerability

Single access point for those who need help

This year we joined the One Stop One Story Hub pilot, an initiative of the Thriving Communities Partnership, of which we're a founding member. The hub means that customers experiencing vulnerability only have to tell their story once, to one service provider. It's then recorded through a single access point for multiple service providers. **During 2022–23, we created 199 referrals for the service and received 24.**

Providing shower facilities for those at risk

We continued our now 7-year sponsorship of the One Voice shower truck.

One shower truck, supported by a van for a 3-month period, provided **3,277** showers for community members throughout 2022–23, **a 60% increase from 2021–22.** The shower trucks were taken to locations in 5 suburbs across our service area to support community by 7 lead service providers.

"We are meeting people from all walks of life, people that have never been in their current situations until now, sleeping in cars because they cannot afford rent or losing their job due to business closure.

"Our shower service is not only accessed by people experiencing homelessness, but also people that are sharing accommodation with others just to have a roof over their head. Most of these are women who feel unsafe showering at the place they reside.

"We value the support of South East Water to help keep our shower services on the streets for vulnerable people in the communities, without this support what we do would not be possible."

– Josh Wilkins, Founder, One Voice

Improving protections for customers experiencing family violence

Following breaches in our obligations against family violence standards, we entered into an Enforceable Undertaking with the Essential Services Commission to improve our support and protection of customers affected by domestic and family violence.

We started a comprehensive program of work to make our policies, systems and processes more responsive to the needs of customers affected by family violence and to prevent perpetrators from accessing sensitive and confidential information. This program of work extends into 2023–24 and includes a comprehensive review of our policies and processes, both internally and with an expert partner in addressing family violence. It includes training for our leaders and for our customer-facing teams. It also includes quality assurance and monitoring of customer interactions and reporting on our progress under the Enforceable Undertaking. For more information, see page 88.

Water consumption and drought preparedness

Drought response

The metropolitan water retailers have prepared common Drought Preparedness plans (incorporating a Drought Response Plan). Plans are based around an adaptive framework to manage water shortages and potential use of four levels of water restrictions to control the use of drinking water outdoors.

As part of the development of the *GMUWSS*, we've worked with Greater Western Water, Yarra Valley Water, and Melbourne Water to update the Drought Preparedness Plan, Drought Response Plan and adaptive framework to reflect current demand forecasts and projected inflows.

During 2022–23 there was no requirement for drought preparedness measures. We continue to encourage the community to use water efficiently and increase the readiness of the Greater Melbourne water corporations to respond to a changing water security position.

Permanent Water Use Rules continued to apply throughout 2022–23.

Water consumption

Table 5. Water consumption report residential and non-residential customers

	Residential customers				Non-residential customers			
District	**Number**	**Potable water (ML)**	**Recycled water (ML)**	**Recycle stormwater (ML)**	**Number**	**Potable water (ML)**	**Recycled water (ML)**	**Recycled stormwater (ML)**
South East Water	761,533	104,130	1,296	0	62,564	33,476	4,692	0

Preliminary estimated per capita is 159 litres of potable water per person per day for 2022–23.

Disclaimer: This figure is preliminary only and based on an estimate for Q4 (April–June 2023) as actuals were not yet available at the time of preparing this report. We bill customers 3 months in arrears and therefore Q4 customer usage isn't known until early October. The proportional allocation of consumption between residential and non-residential customers following the coronavirus (COVID-19) pandemic continues to add some uncertainty to the Q4 estimates.

The bill based on average residential consumption of 150kL was $966.94 (and $1,555.90 on 300kL consumption).

Table 6. Total of customers, volumes and consumptions

District	Total number of customers	Total potable water volume (ML)	Total recycled water volume (ML)	Total consumption (ML)	Average annual consumption (ML)	Total water all sources (ML)
South East Water	824,097	137,606	5,987	143,593	144,113	166,554

Table 7. Non-revenue water

District	Leakage (ML)	Firefighting (ML)	Other (ML)	Total non-revenue water (ML)
South East Water	15,606	0	7,355	22,961

Table 8. Corporate water consumption report

Location	Average full- time equivalent employees and contractors	Office space (m^2)	Potable water consumption (kL)	Rainwater Consumption (kL)	Average water use per employee (kL per employee)
101 Wells St, Frankston	694	11,580	1,240	1	2

Data in Table 8 is for our headquarters in Frankston only and excludes water consumption by employees based at water recycling plants and storage sites. Our headquarters also uses rainwater for toilet flushing and garden irrigation.

Major non-residential water users

We supply water to 24 non-residential customers that use more than 100 megalitres per year for uses other than farming, irrigation or domestic purposes.

- Alfred Health
- Australian Foods Pakenham Pty Ltd
- Australian Meat Group Pty Ltd
- Bega Cheese Ltd (Chelsea Heights)
- Bega Cheese Ltd (Port Melbourne)
- Bluescope Steel Ltd
- Chobani Pty Ltd
- Coca-Cola Amatil (Aust) Pty Ltd
- Corval Ingham Pty Ltd
- Crown Melbourne Limited
- Defence Corp Support South Vic
- Esso Australia Pty Ltd
- Fountain Gate Trust
- Harvest Choice Australia Pty Ltd
- Lesaffre Australia Pacific Pty Ltd
- Melbourne Port Lessor Pty Ltd
- Mondelez Australia Pty Ltd
- Pakenham Land Co Pty Ltd
- Parmalat Australia Ltd
- Saurin Investments Pty Ltd
- Southern Health Care Network (Dandenong and District Hospital)
- Southern Health Care Network (Monash Medical Centre Clayton)
- Vicinity Centres PM Pty Ltd
- Visy Packaging Pty Ltd

Table 9. Major non-residential customers by volume range

Volumetric range – ML per year	Number of customers
Equal to or greater than 100ML and less than 200ML	14
Equal to or greater than 200ML and less than 300ML	4
Equal to or greater than 300ML and less than 400ML	3
Equal to or greater than 400ML and less than 500ML	1
Equal to or greater than 500ML and less than 750ML	2
Equal to or greater than 750ML and less than 1000ML	-
Greater than 1000ML	-
TOTAL no. customers	24

Participation in water efficiency programs

We've had positive feedback from trials with several larger business customers on smart algorithms that can detect irregular and unusual water usage patterns, and we continue to investigate their potential scale up so more customers can benefit.

We've also started to install data loggers on large customer analogue meters. Designed by us and made locally, this technology allows customers to monitor leaks and abnormal usage, helping to drive water efficiency.

For more information on our data logger program, visit: southeastwater.com.au/residential/upgrades-and-projects/projects/digital-water-meters/multix-data-loggers/

Trade waste

- **11,289** customers contributed to a combined volume of more than **6,517** megalitres of trade waste, consisting of **5,565** megalitres to Melbourne Water's Eastern Treatment Plant at Carrum and **493** megalitres to the Western Treatment Plant at Werribee.
- We also treated a combined volume in excess of 459 megalitres of trade waste received at our local water recycling facilities.
- A total 14.5 megalitres of septic waste was discharged at the Boneo Water Recycling Plant (10.3 megalitres) and Upwey receival facility (4.2 megalitres).

Collaboration

Supporting liveability in Cardinia Shire

We sat on the steering committee for Cardinia Shire's Municipal Public Health and Wellbeing Plan, providing a focus on healthy eating and active living.

As part of this, we gifted 5 new Choose Tap® fountains for future installation in public locations across the shire – see more about Choose Tap® (page 34).

Reducing impacts of capital works

Through our proactive and ongoing engagement with City of Stonnington, local traders' associations and the Department of Transport, we were able to reduce impacts of the upgrade project to replace 100-year-old water pipes on both sides of busy Chapel Street, South Yarra. These new assets will support safe and reliable water services for the community, now and into the future.

Reducing disruption from incidents

We worked with regulators, government departments, Members of Parliament, 11 councils, 26 community groups, business customers and other water sector stakeholders to help limit the impact on our communities. This included supporting community impacted by extreme wet weather events and spills on the Mornington Peninsula between September and November 2022.

Commercial ventures and partnership activities

In accordance with the *Water Act 1989* we undertook the following activities:

- A partner in Monash University's Water Sensitive Cities Australia: *research of interdisciplinary responses to water problems, synthesise diverse research outputs into practical water sensitive cities (WSC) solutions and influence policy and regulation to promote adoption of WSC practices.*
- A participant in the Australian Research Council's (ARC) Training Centre in Optimisation Technologies, Integrated Methodologies and Applications (OPTIMA): *undertaking research in advanced prediction and optimisation tools to improve our operations.*
- A participant in the Australian Research Council's (ARC) Training Centre in Transforming Biosolids: *undertaking research and training to ensure effective management and reuse of our biosolids produced from treatment plants.*
- A participant in the Australian Research Council's (ARC) Training Centre in Nutrients in the Circular Economy (NiCE): *undertaking research and training in nutrient recovery from wastewater and its conversion on products of value to the circular economy.*
- A participant in the Cooperative Research Centre for High Performance Soils (Soil CRC): *collaborative research projects to investigate the use of biosolids and biochar as a soil improver and nutrient in agriculture.*
- A member of Water Research Australia (Water RA): *collaboration with research organisations and other members to undertake research projects to help us meet critical business requirements and customer needs, in areas such as water quality, innovative treatment process, water asset management and catchment protection.*

Meeting our obligations and planning for the future

Major water strategies: *GMUWSS* and *SWS*

- Collaborated with other water corporations to launch long-term strategies in 2022–23, the Greater Melbourne Urban Water System Strategy (*GMUWSS)* and the Central and Gippsland Region Sustainable Water Strategy (*SWS)*.

- These strategies highlight the importance of water efficiency, balancing the needs to provide water for social, economic, environmental and cultural uses, and making a transition towards increasing reliance on manufactured water.

Regional Catchment Strategy

- Underpinning the Port Phillip and Westernport Regional Catchment strategy, we continued to support the Living Links catchment program, of which we are a founding stakeholder.

- Coordinated by Melbourne Water on behalf of its government and community partners, it's a large-scale collaborative environmental program to create a network of green spaces in Melbourne's south-east.

Waterway health

We maintain strong relationships with those who have a responsibility to manage stormwater, rivers and creeks, including Melbourne Water and local councils, particularly to address incidents that may impact waterways. That includes:

- Engaging on specific environmental improvement programs, including collaboration with universities, other water organisations and community groups, to assess the impacts of our operations on waterways and improve environmental monitoring.
- Continuing to invest in maintaining and upgrading our sewer network, to reduce spills and ensure it has the capacity to handle population growth.
- Through our ongoing backlog program (switching properties from septic tanks to mains sewer) and by actively supporting councils to improve septic tank management.
- Regularly monitoring waterway health in key creeks and rivers and sharing this information with councils to improve the health of local waterways.
- Through a Memorandum of Understanding with Mornington Peninsula Shire Council we continue to fund a wastewater officer to assist the council with better monitoring of the performance and maintenance of septic tank systems.

Victorian Biodiversity Strategy

- Started developing biodiversity principles to better define our approach to enhancing biodiversity.
- Funded waterway rehabilitation and habitat works at Bald Hill Farm and Mount Martha as a grant recipient under Melbourne Water's Stream Frontage program.
- Completed native vegetation planting around the sewer pump station at 2 Reserve Road, Beaumaris – 257 plants as part of a land utilisation project to enhance biodiversity. The location is within the mapped Living Links Port Phillip Bay Foreshore Corridor and the plants were sourced from a local nursery, run by Bayside City Council.

Victorian water efficiency strategy

- Transitioned our public communications from T155 to T150 to encourage residential customers to target their water use to 150 litres per person per day.
- Researched water efficiency initiatives, in particular how we can make these more effective through our use of digital tools.
- Conducted 49,500 digital exchanges across Melbourne's south-east, helping customers find leaks they didn't know they had and reducing water wastage.

Planning and Environment Act 1987

Used a DEECA Utility Exemption under the act for Mile Creek Sewer Compliance Stage 1 – SP483675, 12 April 2023. The project was redesigned and therefore no vegetation was removed and no offsets were required.

Stories that matter

Environmental sensitivity mapping innovation helping us protect our environment

We're dedicated to protecting the environments we work in. That's why we've developed an environmental sensitivity map that locates key environmental habitats for endangered species and critical vegetation and helps determine the vulnerability of local waterways and wetlands.

First developed as part of our incident response for issues such as sewer spills to local waterways and the potential impacts, we've expanded the use of this tool. That's seen the map now helping us with environmental assessments and planning for our capital works projects as well.

By typing in an address, we're able to view insights for 26 sensitivity categories across local waterways, terrestrial and marine environments, so we can identify high-risk areas during an incident or ahead of decision making for our capital projects.

Where an incident like a sewer spill has a critical impact on the environment, we work with the EPA and specialist ecologists to rehabilitate the area where we can and track the health of the local waterways and native species.

4.

Adapting to climate change

Adapting to climate change

Emissions reduction

We're on track towards achieving our emissions reduction targets, having achieved a reduction of 33% (based on current estimates) in 2022–23 compared to our 2011–16 baseline.

By 2025, we've pledged to reduce our carbon emissions by 45% below the average annual emissions for the 2011–16 period. We've also committed to achieving net zero emissions by 2030.

Scope 1 emissions

We're continually seeking opportunities to reduce our direct (Scope 1) emissions, with a focus on our water recycling plants, including future upgrades.

- We started preparing a Scope 1 emissions monitoring program for our plants.
- Initial investigations and design are in progress into the equipment and methods that will enable us to directly measure methane and nitrous oxide, 2 potent greenhouse gases, at trial sites.
- We know more is required to meet our targets, particularly in the near term. We've started a process which will enable us to buy high-quality carbon offsets in the form of Australian Carbon Credit Units (ACCU). Although we haven't purchased or retired any of these offsets this year, we'll need these offsets to meet our net zero emissions target by 2030.

Scope 2 emissions

Many of our actions to reduce emissions from electricity use (Scope 2) have focussed on improving operational efficiency and generating our own renewable electricity.

- To further reduce our Scope 2 emissions, we've invested in renewable electricity projects across Victoria and each year we surrender some of the renewable energy certificates (RECs) generated by these projects.
- We're committed to sourcing 100% renewable energy by 2025.

Scope 3 emissions

Scope 3 emissions aren't owned or controlled by us but are produced as a result of our activities. This includes emissions associated with the goods and services that we buy and use. To reduce these emissions, we're partnering with our suppliers and service providers. We're also establishing processes and collecting data so that we can start quantifying our Scope 3 emissions.

Table 10: Total emissions reporting

Service delivery category	Emissions (tonnes CO_2 equivalent)				Variance between previous and current year
	2021–22 emissions	2022–23 emissions			
		Scope 1 emissions	Scope 2 emissions	Total emissions	
Water treatment and supply	5,110	0	4,636	4,636	-10%
Sewage collection, treatment, and recycling	31,693	10,046	18,874	28,920	-10%
Transport	1,044	1,518	0	1,518	31%
Other	1,164	12	1,159	1,171	1%
Total emissions	39,012	11,577	24,669	36,246	-8%
Carbon offsets (self-generated) retired	-10,560	0	-13,600	-13,600	
Net emissions	28,452	11,577	11,069	22,646	-26%

* Note: The Clean Energy Regulator has recently advised that some emissions associated with sewage treatment are considered to be Scope 3 emissions under the National Greenhouse and Energy Reporting Scheme (NGERS). We're continuing to report these emissions as Scope 1 emissions in Table 10 because they're included in our 2011–2016 baseline and our emission reduction commitments.

** Emissions in Table 10 are an early estimate of the 2022–23 net total emissions. Scope 1 emissions usually fluctuate year-to-year due to the nature of sludge management practices, including holding times, holding capacity and weather conditions.

Figure 1. Progress towards 2025 emissions target

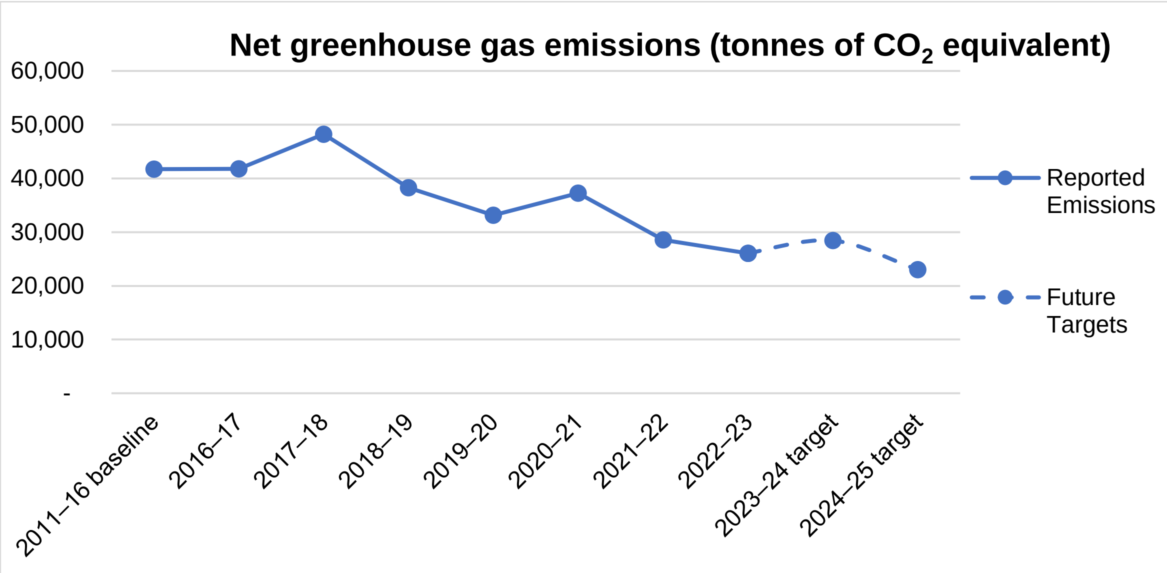


Table 11. Full breakdown of Scope 1 and 2 emissions by each greenhouse gas

Service delivery category	Scope 1 and 2 emissions by greenhouse gas							
	Carbon Dioxide		**Methane**		**Nitrous Oxide**		**Other**	
	Tonnes	T CO_2-e	Tonnes	TCo_2-e	Tonnes	TCo_2-e	Tonnes	TCo_2-e
Water treatment and supply		4,636						
Sewage collection, treatment and recycling		18,874	289	8,096	6	1,670		281
Transport								1,518
Other								1,171

Table 12. Reporting Scope 3 emissions

Scope 3 emissions source	Scope 3 emissions in t CO2 -e	Commentary (incl. calculations and methodology)
Commercial air travel	120	Calculated using DEECA FRD24 environmental data reporting tool and total kilometres travelled
Waste disposal (office)	11	Emissions calculated in waste audit conducted in June 2023.
Waste disposal (operational)	300	Calculated using DEECA FRD24 environmental data reporting tool.
Any other scope 3 sources assessed (categorise)		We're establishing processes and collecting data so that we can start quantifying all of our Scope 3 emissions in future years.
Total reported Scope 3 emissions	**431**	**Excludes other scope 3 sources**

** Note: Scope 3 emissions associated with the use of biosolids have been included in Scope 1 emissions to align with prior practice.

Electricity consumption

Reducing our energy consumption will help us meet our emissions reduction targets.

During 2022–23:

- We slightly reduced our use of electricity from the grid.
- While 2 (out of our 8) water recycling plants generate biogas for renewable energy production, neither were operating to their full functionality.

We're continually looking for new ways to reduce our consumption. In 2022–23, improvements we progressed include:

- Upgrades to the aeration system at our Mount Martha Water Recycling Plant to improve the energy efficiency of this major power-consuming part of the plant.
- Feasibility studies and designs for new solar energy facilities at sites, including Mount Martha.

Table 13. Electricity consumption reporting by service delivery

Service delivery category	2021–22 total electricity consumption (MWh)	2022–23 total electricity consumption (MWh)	Commentary
Water treatment and supply	5,421.6	5,457.2	Figures in table include consumption of electricity purchased from the grid and from self-generation behind the meter. Consumption was consistent with the previous years.
Sewage collection, treatment and recycling	23,911.5	23,461.1	
Other (offices, depots, etc)	1,334.6	1,246.0	
Total	30,667.7	30,164.3	Overall, a small reduction for our electricity consumption from previous year.

Table 14: Electricity consumption reporting by source

Service delivery category	2021–22 total electricity consumption (MWh)	2022–23 total electricity consumption (MWh)	Commentary
Purchased directly through an electricity supplier	28,812.5	25,587.1	Slight reduction in grid electricity consumption.
Not directly purchased but sourced from outside the organisation	-	-	
Corporation led/self-sourced activities and initiatives	1,855.2	2,577.2	These numbers are from the physical renewable energy generated onsite. Excludes LGCs procured. More renewable energy generation in 2022–23.
Total	**30,667.7**	**30,164.3**	

Table 15: Total electricity reporting (renewable)

Renewable electricity consumption categories	2021–22 renewable energy consumption (MWh)	2022–23 renewable energy consumption (MWh)	2022–23 renewable energy consumption (% of total consumption)	Variance between current and previous year	Commentary
Total renewable electricity consumption from grid-sourced electricity we reported because of the Commonwealth Government's LRET					
Total grid sourced:	5,402.6	5,186.4	17.2%	-4.0%	We have a small reduction in grid electricity consumption.
Total renewable electricity consumption from corporation led/self-sourced activities and initiatives					
Biogas	371.0	219.3	0.7%	-40.9%	Two plants generate biogas: 1. Mount Martha (under construction and commissioning) 2. Boneo (as per the stage 4 upgrade, our plant is transitioning from conventional treatment to nitrite shunt. Lower gas production is expected during transition).
Hydroelectric	-	1,193.0	4.0%	N/A	LGCs from Hallam Hydro.
Solar	7,105.6	7,846.2	26.1%	10.7%	Combination of onsite solar and LGCs procured and surrendered from Kiamal Solar Farm.
Wind	4,729.0	8,101.0	26.9%	71.3%	LGCs procured and surrendered from Cherry Tree Wind Farm.
Other renewable	-	-			

Total corporation led/self-sourced	12,205.6	17,377.6	57.6%	42.4%	• A combination of LGCs procured, surrendered and renewable energy generation. • Increase from last year.
Total renewable energy consumption	**17,608.2**	**22,811.7**	**74.8%**	**28.1%**	

Table 16: Total electricity generation capacity and generation reporting (renewable)

Renewable electricity source	2022–23 total onsite renewable electricity generation capacity (MW)	2022–23 total onsite renewable electricity generated (MWh)						
		Renewable large-scale system			Renewable small-scale system			2022–23 total by source
		Consumed onsite	Exported	Other	Consumed onsite	Exported	Other	
Biogas	1.0	219.3						219.3
Hydroelectric	0.3					1,199.7		1,199.7
Solar	0.9				1,041.2	117.0		1,158.2
Wind								
Other renewable								
Total (renewable)	**2.2**							**2,577.2**

Table 17: Total other (non-renewable) electricity generation capacity and generation reporting

Renewable electricity source	2022–23 Total onsite renewable electricity generation capacity (MW)	2022–23 Total on-site electricity generated (MWh)				Commentary
		Consumed onsite	Exported	Other	2022–23 total by source	
Non-renewable sources (please categorise as appropriate)						
Diesel	11.0	41.0	0.9		41.9	Diesel generation for water and sewer networks
Natural gas	N/A	4,657.2			4,657.2	The natural gas generation capacity doesn’t apply as the gas is consumed from a gas pipeline. Consumption is from both Boneo and Mount Martha.

Table 18: Total energy storage system reporting (power capacity and total storage capacity)

Energy storage system	2022–23 total energy storage system power capacity (MW)	2022–23 total energy storage system storage capacity (MW)	Commentary
Total: energy storage systems (please list each energy storage system on its own row)	0	0	Garfield pump station has a battery, but it wasn’t operational in 2022–23.

Table 19: Total REC retirement reporting

REC retirement method	RECs retired: 22-23 (1 REC = 1 MWh renewable electricity	Commentary
Voluntarily retired by South East Water	16,000	Planned voluntary surrender 16,000 for 2022–23 based on current estimates.
GreenPower	-	
Certified carbon neutral electricity purchased	-	
Voluntarily retired on South East water's behalf	-	
Total voluntarily retired	16,000	
Mandatorily retired	-	
Total RECs retired	16,000	

Adaptation to climate change and variability

Climate Adaptation Action Plan

Through our [2022–27 Climate Adaptation Action Plan] (CAAP), we take a risk-based approach to consider various potential future scenarios and assess the best ways to manage each risk, their likelihood, and potential consequences.

Our CAAP outlines our approach to considering climate change across our governance, strategy, risk management, and sets metrics and targets.

This includes 5 goals (and relevant metrics) we've committed to delivering by 2027.

Table 20: How we're tracking against our climate adaptation goals

Climate adaptation goal	Taskforce on Climate-related Financial Disclosures (TCFD) metric	Current rating
Goal 1: Minimise the number of risks rated extreme in 2030 through active control measures.	Metric 1: Number of risks rated extreme for 2030.	Four risks are currently rated 'extreme' for 2030.
Goal 2: 100% of risks rated high or extreme in 2030 have controls endorsed by executive.	Metric 2: Proportion of risks rated high with control plans endorsed by Executive (%).	Control plans are currently being updated.
Goal 3: All critical assets have a climate risk assessment as part of our standard risk management processes.	Metric 4: Percentage of critical assets with a climate risk assessment conducted within the last 5 years (%).	100% of critical assets have had climate risk assessments.
Goal 4: All controls implemented are effective.	Metric 3: Proportion of controls evaluated as effective in the Environment Management System (EMS) (%).	84% of existing controls have been evaluated as either 'effective' (44%) or 'partially effective' (40%), and we're exploring options to strengthen these ratings.
Goal 5: Climate risk assessments and controls are based on relevant and current data and science.	Metric 5: Proportion of relevant risks and controls re-assessed within 24 months of new information becoming available (% relevance based on hazard and/or impact type).	100%; no new information has been identified since the completion of the Climate Adapt risk assessments in 2021.

Climate change risk assessment

Our interactive [climate change risk assessment] tool provides a visual summary of potential risks posed by climate variables to our assets under different emissions scenarios for near-term, medium-term, and long-term timeframes.

Our approach for identifying and assessing climate change risks is aligned with the Guidelines for Assessing the Impact of Climate Change on Water Supplies in Victoria (DELWP 2020).

We completed our assessments before the Guidelines for the Adaptive Management of Wastewater Systems Under Climate Change in Victoria (DELWP 2022) were developed and issued, but we identified many of the same risks.

Targeting sewage spills

With our changing climate, we're experiencing more frequent and intense storms that can result in sewage spills, posing risks to our environment. To address these risks, we're using smart technology to keep an eye on our network. This includes:

- Monitoring for blockages across our network around the clock using IoT-enabled sensors.
- Trialling low-cost, IoT-enabled sensors in waterways to detect and measure the extent and duration of spills as they occur. To support this, we're trialling mobile and handheld devices for rapid analysis of samples to help our crews quickly assess water quality in a range of environments.

Reporting of additional environmental data

The tables below contain additional environmental data related to our operations, referencing specific reporting indicators from Financial Reporting Directive 24 (FRD 24).

Stationary fuel use

Table 21. Stationary fuel use in 2022–23

Indicator	Description	2022–23 LPG	2022–23 natural gas	2022–23 diesel	Totals
F1	Total fuels used in buildings (MJ)	907	1,433,041	123,520	**1,557,468**
	Total fuels used in machinery (MJ) including at water treatment plants	776,423	16,766,000	679,360	**18,221,783**
F2	Greenhouse gas emissions from stationary fuel consumption (t CO2 -e)	47.1	937.8	56.4	**1,041.3**

Data in Table 21 (Total fuels used in buildings) is for our headquarters in Frankston only and excludes fuel consumption by employees based at water recycling plant offices and storage site offices.

As this is the first time we've included a breakdown of stationary fuel use (office and operational) in our annual report, a comparison with prior year's usage is not available.

Transportation

- We operate a fleet of vehicles for field and maintenance operations, and salary packaged vehicles for senior employees. Consideration is given to fuel efficiency and related emissions.
- Our fleet numbers have grown over the last 12 months due to new appointments within our organisation.
- Previously, we've reported on road vehicles, however this year we've also included non-road vehicles.
- Commercial air travel has increased in 2022–23 as the world opens up post coronavirus (COVID-19).

Table 22: Total energy used in transportation and greenhouse gas emissions from transportation within South East Water

	Indicator	Road			Non-road			Totals
		Petrol	Diesel	LPG	Petrol	Diesel	LPG	
2022–23	Total energy used in transportation (MJ)	10,337,733	10,888,639	0	0	15,440	61,662	**21,303,474**
	Total greenhouse gas emissions from vehicle fleet (tCO2–e)	699	767	0	0	1	4	**1,471**
2021–22	Total energy used in transportation (MJ)	7,025,706	7,889,068	Not reported	Not reported	Not reported	Not reported	**14,914,774**
	Total greenhouse gas emissions from vehicle fleet (tCO2–e)	490	556	Not reported	Not reported	Not reported	Not reported	**1,046**

Table 23: Number and proportion of South East Water vehicles segmented by vehicle category and engine/fuel type (Number and %)

	Petrol	Diesel	LPG	PHEV	EV
Road vehicles	202 (59.41%)	132 (38.82%)	0	1 (0.29%)	1 (0.29%)
Non-road vehicles	0	2 (0.59%)	1 (0.29%)	0	1 (0.29%)

Table 23 incorporates one plug-in hybrid vehicle, one battery electric vehicle and 51 petrol hybrid vehicles.

Air travel

- Total distance travelled by commercial air travel (passenger km): 453,759 kms

Total energy use

- We use energy (fuels and electricity) throughout our operations. It’s used to power our offices, drive vehicles, transport water and treat sewage.
- We’re working hard to improve our energy efficiency and to increase the portion of renewable sources.

Our energy use

- Total energy usage from fuels (MJ): 41,082,685
- Total energy used from electricity (MJ): 111,912,120
- Total energy used segmented into renewable and non-renewable sources (MJ): 152,994,805
    - Renewable – 84,851,410
    - Non-renewable – 68,143,395
- Units of energy used by normalised FTE: 220,454

Sustainable buildings and infrastructure

- South East Water did not own or occupy any new builds or newly leased premises in 2022–23.
- Our WatersEdge office has the following sustainable building ratings:
    - **NABERS Energy:** 4.5 Stars
    - **NABERS Water:** 6 Stars
    - **GreenStar Office Design (v3) [legacy tool]:** 5 Stars
- Average percentage of office-based employees working remotely in 2022–23: **53%** (based off 626 valid responses from March 2023 '*Have your say', 2023* staff survey)

Waste and recycling

Table 24: Waste and recycling

Indicator	Location	2022–23					2021–22				
		Landfill	Co-mingled recycling	Organic recycling	Printer and toner cartridge recycling	Secure document	Landfill	Co-mingled recycling	Organic recycling	Printer and toner cartridge recycling	Secure document
WR1: Total units of waste disposed (kg and %)	Office	7,195.0 (71.5%)	1897.5 (18.9%)	0.0 (0.0%)	10.6 (0.1%)	959.2 (9.5%)	5,237.5 (55.9%)	1,447.5 (15.6%)	862.5 (9.2%)	Not reported	1,809.0 (19.3%)
	Operational	230,900 (100%)	N/A				Not reported prior to 2022–23				
WR3: Units of waste disposed per FTE (kg/FTE)	Office	10.4	2.7	0.0	0.0	1.3	7.4	2.0	1.2	N/A	2.5
WR4: Recycling rate (% of total waste)	Office	28.5%					44.0%				
Greenhouse gas emissions associated with waste disposal (t CO2 -e)	Office	11.21					7.81				

WR2: Our WatersEdge office has dedicated collection services for the following additional waste streams: printer cartridges, batteries, and e-waste.

Actions undertaken

Results this year were recorded in June 2023, with higher numbers of employees working at WatersEdge.

Stories that matter

Climate action takes top priority on our new climate change site

We launched our new climate change website providing information on how we're prioritising activities to reduce or eliminate our greenhouse gas emissions.

The information is transparent yet optimistic, outlining our commitment to addressing climate change. It also provides an educational overview of how global rising temperatures could impact the water industry, our customers and community if people don't act now.

As an essential service provider we know we have some energy-intensive operations so we have a big role to play in reducing our consumption and wherever possible, eliminating emissions.

Through this site we'll be transparent about our progress but also focus on customer education about the growing impacts of climate change on water consumers and our network.

The site comes as an extension of our Climate Adaptation Action Plan, which outlines our risk-based approach to addressing climate change and explores how climate change might impact the safety, standard and affordability of water and sewerage services.

5.

Empowering our people

Empowering our people

Behind the scenes we have the full-time equivalent of 791 employees working as engineers, scientists, analysts, technicians, information technology and customer support people.

We also work with key industry partners who help us to keep providing our services to the community through their support 24 hours a day, 365 days a year.

From keeping our water flowing to building additional infrastructure to support our growing population, without their skills and expertise we wouldn't be able to continue providing the high level of services our customers expect.

How we're empowering our people

Snapshot from our *Have your say* survey, 2023

Employee engagement – 74%

Up by 6% from 2022

I believe the wellbeing of our people is a priority at South East Water – 85%

Up by 7% from 2022, aligning us with the top 25% of Australian companies

We are genuinely supported if we choose to make use of flexible working arrangements – 91%

Aligns us with the top 25% of Australian companies

I feel I belong at South East Water – 80%

Up by 4% from 2022

People from all backgrounds have equal opportunities to succeed at South East Water – 81%

An inclusive and diverse workforce

We continue to build a workforce that reflects the diversity of our customers and community and provide an inclusive workplace culture that enables everyone to thrive.

An inclusive and diverse culture is central to our vision: *Innovate with purpose. Act with care*. Valuing diversity means we show respect to each other and our customers. We listen to others, collaborate, innovate and deliver or exceed our customers' expectations.

- With a tight external talent market, we focused on proactive talent sourcing. This includes supporting our internal pipeline of talent, which while supporting our people, also enables us to maintain our leadership gender diversity.
- Our strong employee engagement results showed our inclusion and diversity initiatives continued to support our progress to develop a psychologically safe workplace. This ensures our employees can bring their authentic and best selves to work every day, have a sense of belonging and know that their viewpoints are valued.
- Our employee-led social connection groups help us celebrate culturally significant events and build connection across our diverse workforce.

Putting health, safety and wellbeing first

Health and safety

- We've significantly improved results in hazards identification and management commitment, when compared to the past 2 years, indicating our ongoing commitment to continuous improvement in health and safety.
- We've also introduced better technology and safer ways of working to effectively manage some high-risk activities, such as those around hazardous atmospheres, unexpected energy release from plant or equipment and risks of falls from heights.
- In terms of our Total Recordable Injury Frequency Rate (TRIFR), on which we report to our board:
  1. Employee injuries have reduced.
  2. Total recordable injuries of our industry partners have increased, increasing our overall TRIFR.
- To lower recordable injuries, we're addressing gaps in our risk management identified by external audit findings.
- That includes further embracing the benefits of digitisation in occupational health and safety, enabling systems, processes and data for our people (including industry partners). We'll use this improved data to make more-informed decisions, addressing gaps in risk management, as well as in high-risk operational work and psychological hazards.

Wellbeing

Strong wellbeing results in this year's *Have your Say* survey demonstrates our ongoing commitment to investing in the wellbeing of our people. Examples of initiatives we rolled out this year:

- **Annual skin checks.** The 4-day onsite skin check sessions had a high uptake (150 people) and were continually booked out.
- **Fitness passport program**. At 30 June, we had 151 members registered with the fitness passport, a discounted workplace health and wellbeing programme targeted at motivating our people and their family members to participate in exercise, removing the barriers of cost and limitation of choice.

Table 25. Performance against our OHS indicators (based on employee data only)

Measure	KPI	2020–21	2021–22	2022–23
Incidents*	Number of reported incidents	11	9	6
	Rate for 100 FTE	1.61	1.19	0.72
Hazards**	Number of reported hazards	32	12	115
	Rate for 100 FTE	4.68	1.59	13.83
Claims (WorkCover)	Number of standard claims	9	5	8
	Number of lost time claims	4	2	6
	Rate per 100 FTE	0.59	0.27	0.72
Fatalities	Fatality claims	nil	nil	nil
Claim costs	Average cost per standard claim	$11,729	$24,430	$27,513
Management commitment	Management participation in planned safety observations	175	168	323
Consultation and participation	OHS committee meetings including employee elected and management representatives	6	12	8
Risk management	Safety management system audit actions closed	100%	100%	100%
Training	Safety compliance training completed within 10 days of commencement	95%	90%	95%

Note:

* Incidents include the sum of lost time injury (LTI), medical treatment injury (MTI) and restricted work injury (RWI) for the year for our employee data only.

**South East Water employee data only.

Leadership, culture and capability-building

Our increase in investment in the development of our people has seen:

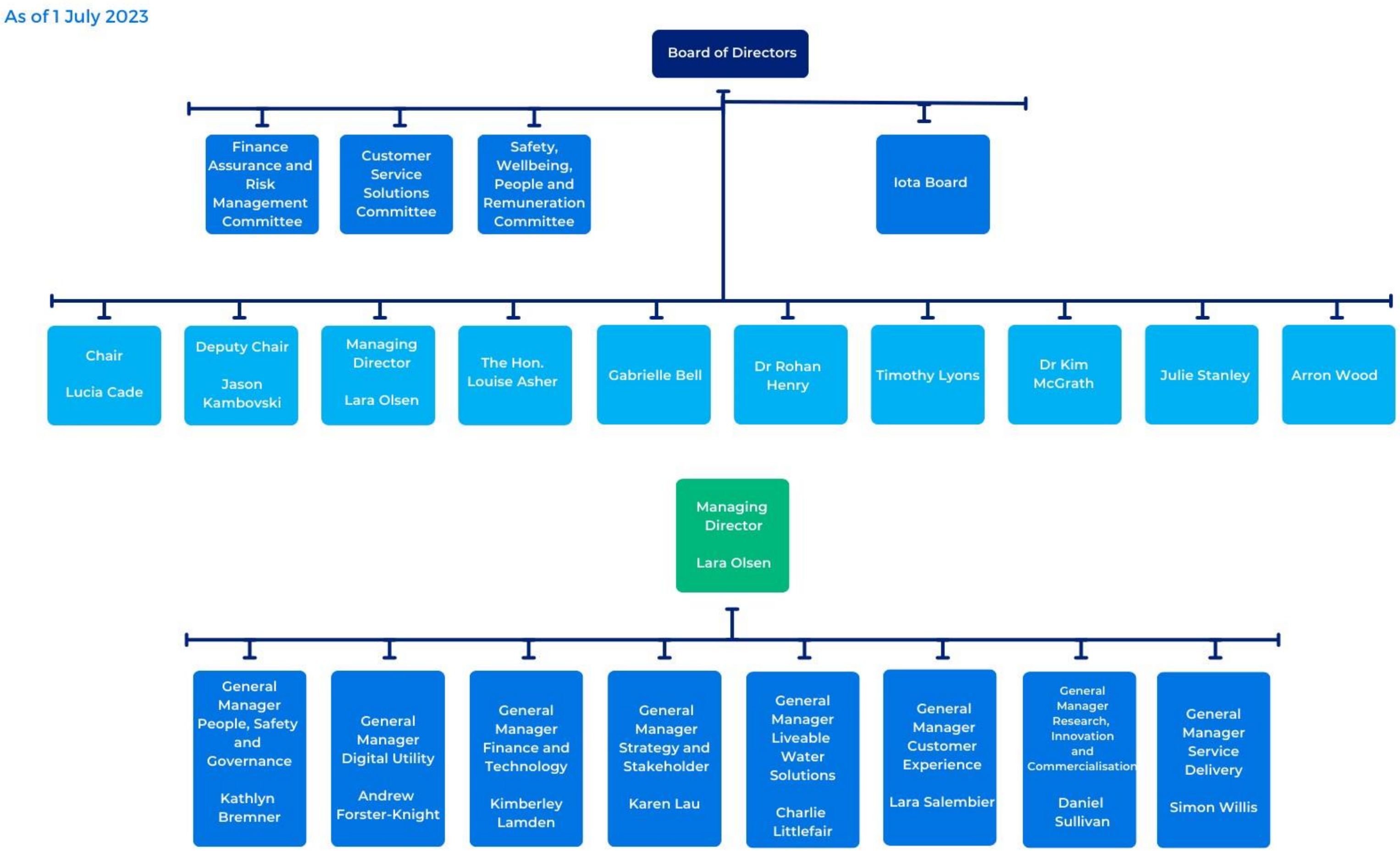
- over 130 successfully appointed into secondments and/or higher duties
- over 100 participated in leadership development programs (50% female representation) or RMIT future skills courses
- the launch of a self-service online eLearning hub, providing access to our employees thousands of courses from 200 providers
- a contribution towards a 12% increase in “I have access to the learning and development I need to do my job well” - *Have your say* survey, 2023.

During the year we also continued to demonstrate we ‘act with care’, through our participation in employee-led fundraising and community-minded initiatives – find out more in ‘A community culture’ on page 35.

Improving how we work

- With our investment in data analytics ramping up, our people are increasingly finding efficiencies from using data generated by digital meters. This includes starting to allow the reengineering of processes to reduce manual steps and the ability to diagnose customer issues without site visits. Once the Acumen platform is fully rolled out, it will generate more benefits.
- The need to use data to improve how we work is supported by results from a data analytics leadership survey conducted in May 2023, where a significant majority of respondents agreed that *data driven decisions are critical for themselves and their teams to effectively perform operational activities*.
- We expect more ‘data-driven’ decisions to be made as we continue to develop the capabilities of our employees.

Organisation and governance chart



Our Board of Directors

We have 9 non-executive directors (including the Chair), and a Managing Director on our board at 30 June 2023. They represent a diverse mix of skills, experience, and backgrounds. The Minister for Water appoints the Board of Directors in consultation with the Treasurer. The board's main role is to preside over all significant strategic, commercial, regulatory, financial, and risk-focused business decisions as well as safety, people and customer matters.

The board conducts an annual assessment of its performance and effectiveness as required under the *Water of Act 1989 (Vic).* The board and each of its directors recognise the importance of the annual review and are committed to it being a continuous improvement mechanism to ensure we deliver best practice governance and supports us in developing and achieving our corporate objectives.

Lucia Cade

- Chair

Lara Olsen

- Managing Director

Jason Kambovski

- Deputy Chair (from 24 October)
- Chair – Finance Assurance and Risk Management Committee.

Louise Asher

Gabrielle Bell

Dr Rohan Henry

Timothy Lyons

- Chair - Safety, Wellbeing, People and Remuneration Committee (until 23 October).

Dr Kim McGrath

- Deputy Chair (until 23 October)
- Chair - Safety, Wellbeing, People and Remuneration Committee (from 24 October).

Julie Stanley

- Chair - Customer Service Solutions Committee (from 24 October).

Arron Wood

- Chair - Customer Service Solutions Committee (until 23 October).

To read directors' biographies and find out about board roles, responsibilities and committees, visit southeastwater.com.au/about-us/corporate-information/our-board/

For board meeting attendance, see page 72.

Iota Board

Iota, a wholly-owned subsidiary of South East Water, has a board to fulfil its functions effectively and to ensure it complies with its governance framework. Iota is accountable to the South East Water Managing Director and South East Water Board.

Gabrielle Bell

- Chair

Lucia Cade

Jason Kambovski

Dr Kim McGrath

Lara Olsen

Andrew Forster-Knight

Iota

Our wholly-owned subsidiary, Iota incubates, productises and commercialises a portfolio of technologies and intellectual property that have been developed and proven within our network. Iota works with water organisations and partners globally to support trialling and adoption of fit-for-water solutions. This not only helps other water organisations around the world realise positive environmental, customer and economic impact, but delivers economic and social benefits for our organisation, our customers, and Victoria.

In the wastewater space, Iota has built upon the success of OneBox® in Australia and New Zealand and as far as Ireland. Deployments within existing water organisations continue to grow with additional organisations now realising the benefits of monitoring and controlling low-pressure sewer networks.

Iota's involvement in the RISE Program through OneBox® serves communities living in informal settlements in Fiji and Indonesia. A leading partner with Monash University, this important program contributes to the UN Sustainable Development Goals, namely number 6 'Clean water and sanitation for all' and number 3 'Good health and wellbeing' by providing access to sanitation.

Directly working with Iota or through its partners, there are now several water organisations across Australia and New Zealand trialling and deploying digital utility technologies proven at South East Water. Technologies such as Cura™ digital meter, Sotto® network leak detection sensor, Lentic® enterprise IoT platform, and Footprint® commercial metering platform.

Iota, as part of a consortium, is deploying a 68,000 digital meter program including Lentic® for Toowoomba Regional Council, following a successful trial.

Included within the Iota portfolio is the management of our Priority Plumbing business, offering commercial and residential plumbing services throughout Melbourne's south-east.

For more information visit **iotaservices.com.au** or **priorityplumbing.net.au**.

Board meeting attendance

Table 26. Board attendance at meetings in 2022–23

	South East Water Board		Finance Assurance & Risk Management		Customer Service Solution (CSS)		Safety, Wellbeing, People & Remuneration		Iota Board	
	Eligible attendance	**Attended**	**Eligible attendance**	**Attended**	**Eligible attendance**	**Attended**	**Eligible attendance**	**Attended**	**Eligible attendance**	**Attended**
Lucia Cade	8	8	4	2	4	3	4	3	5	5
Timothy Lyons	8	8	4	4	N/A	N/A	4	3	N/A	N/A
Gabrielle Bell	8	8	1	1	3	3	N/A	N/A	5	5
Dr Kim McGrath	8	8	N/A	N/A	N/A	N/A	4	4	5	4
Arron Wood	8	8	N/A	N/A	4	4	4	3	N/A	N/A
The Hon. Louise Asher	8	7	N/A	N/A	4	4	4	4	N/A	N/A
Jason Kambovski	8	7	4	4	N/A	N/A	N/A	N/A	5	4
Dr Rohan Henry	8	8	4	4	4	4	N/A	N/A	N/A	N/A
Julie Stanley	8	7	4	4	4	4	N/A	N/A	N/A	N/A
Andrew Forster-Knight	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	5	5
Lara Olsen	8	8	N/A	N/A	N/A	N/A	N/A	N/A	5	3

Gabrielle Bell ceased being a Financial Assurance & Risk Management Committee member and became a member of the CSS Committee as of 24 October 2022.
Jason Kambovski was appointed Deputy Board Chair on 24 October 2022.

Our Executive team

Lara Olsen

Managing Director

Andrew Forster-Knight

General Manager Digital Utility

Kimberley Lamden

General Manager Finance and Technology

Chief Financial Officer

Charlie Littlefair

General Manager Liveable Water Solutions

Kathy Bremner

General Manager People, Safety and Governance

Daniel Sullivan

General Manager Research, Innovation and Commercialisation

Simon Willis

General Manager Service Delivery

Lara Salembier

General Manager Customer Experience

Karen Lau

General Manager Strategy and Stakeholder

To read our Executive team's biographies, visit southeastwater.com.au/about-us/corporate-information/our-executive-team/

Workforce data

Application of employment conduct principles

We have a comprehensive employment and conduct policy framework. It provides our employees with clear expectations about their conduct at work and operates in alignment with public sector values.

We ensure all employees are familiar with the policy framework and that their application is met by ensuring policies are read and understood during onboarding and providing refresher sessions as required.

We review each employment policy periodically in collaboration and consultation with relevant employee groups and other key stakeholders, to ensure best practice.

Legislation including the *Public Administration Act 2004* guides our policy framework. This ensures compliance and alignment with the public sector.

The policy framework ensures equal employment opportunity for all employees.

***Table 27: Full time equivalents (FTE), including ongoing, fixed term and casual employees* 2018–23**

Year	2023	2022	2021	2020	2019	2018
FTE	791.0	710.5	683.5	656.0	645.7	571.4

Table 28: Employment levels in June for 2018–23

Year	Ongoing employees				Fixed-term and casual
	Total	Full-time	Part-time	FTE	FTE
June 2023	791.0	649	98	720.0	71.0
June 2022	710.5	585	101	658.4	52.1
June 2021	683.5	565	95	633.0	50.5
June 2020	656.0	558	96	618.8	37.2
June 2019	645.7	541	112	620.2	25.5
June 2018	571.8	474	111	550.8	21.0

Gender parity

Employees contributed to the development of strategies and measures in our Gender Equality Action Plan, which focuses on taking positive action towards achieving workplace gender equality.

We've continued to increase the inclusion of women in senior leadership positions and are actively working towards achieving gender balance in all leadership positions.

Table 29: ***Gender distribution in management positions June 2019–23***

Classification	Total	Female	Male	Self-described	Female %	Male %
June 2023						
Executive	9	5	4	0	55.6%	44.4%
Senior Officers	250	86	164	0	34.4%	65.6%
June 2022						
Executive	7	3	4	0	42.9%	57.1%
Senior Officers	212	71	141	0	33.5%	66.5%
June 2021						
Executive	9	4	5	0	44.4%	55.6
Senior Officers	198	63	135	0	31.8%	68.2
June 2020						
Executive	9	4	5	0	44.4%	55.6
Senior Officers	187	51	136	0	27.3%	72.7
June 2019						
Executive	9	5	4	0	55.6	44.4
Group Managers	16	4	12	0	25.0	75.0
Senior Officers	152	38	114	0	25.0	75.0

Table 30: Details of employment levels at 30 June 2023

	All employees		Ongoing			Fixed-term and casual	
Gender	**Number**	**FTE**	**Full-time**	**Part-time**	**FTE**	**Number**	**FTE**
Female	387	356.0	252	87	314.1	48	42.0
Male	436	433.0	396	11	404.9	29	28.0
Self-described	2	2.0	1		1.0	1	1.0
Age							
15-24	19	18.0	9		9.0	10	9.0
25-34	172	166.6	128	11	136.1	33	30.5
35-44	252	235.9	192	46	223.6	14	12.3
45-54	230	220.9	182	31	205.4	17	15.5
55-64	133	130.8	122	9	129.1	2	1.7
65+	19	18.8	16	1	16.8	2	2.0
Classification							
Executive	9	9.0	9		9.0		0.0
Senior Officers	250	244.7	211	24	229.7	15	15.0
Officers	566	537.3	429	74	481.3	63	56.0
TOTAL	**825**	**791.0**	**649**	**98**	**720.0**	**78**	**71.0**

Executive officer disclosure

Annualised total salary, by $20,000 bands, for executives and other senior non-executive employees who have a total salary of $159,999 or more.

Table 31. Executive and Senior Officer salaries

Income band (salary)	Executives	Senior Officers (non-executive)
<$160,000		111
$160,000–179,999		71
$180,000–199,999		31
$200,000–219,999		18
$220,000–239,999		16
$240,000–259,999		3
$260,000–279,999	2	
$280,000–299,999	3	
$300,000–319,999		
$320,000–339,999	2	
$340,000–359,999	1	
$360,000–379,999		
$380,000–399,999		
$400,000–419,999		
$420,000–429,999		
$430,000–449,999	1	
$450,000–469,999		
Total	9	250

The numbers reported above are based on headcount, and the salary brackets based on full-time total remuneration package (inclusive of superannuation), adjusted for purchase leave arrangements.

* Eight individuals were on purchase leave arrangements

^ 25 individuals were employed on a part-time basis

6.
Performance and financial sustainability

Performance and financial sustainability

Financial performance indicators

Table 32. Financial performance indicators and variances

Key performance indicator	2022–23 Result	2021–22 Result	Variance to prior year	2022–23 Target	Variance to target
Cash Interest Cover Net operating cash flows before net interest and tax / net interest payments	3.3 times	2.8 times	17.9% (1)	3.1 times	6.5%
Gearing Ratio Total debt (including finance leases) / total assets	47.7%	47.4%	0.6%	50.7%	-5.9%
Internal Financing Ratio Net operating cash flow less dividends / net capital expenditure	63.0%	40.4%	55.9% (2)	32.9%	91.5% (3)
Current Ratio Current assets / current liabilities (excluding long-term employee provisions and revenue in advance)	189.5%	102.7%	86.2% (4)	93.9%	111.1% (4)
Return on Assets Earnings before net interest and tax / average assets	3.7%	3.9%	-5.1%	3.7%	0.0%
Return on Equity Net profit after tax / average total equity	3.4%	4.0%	-15.0% (5)	3.7%	-8.1%
EBITDA Margin Earnings before interest, tax, depreciation and amortisation / total revenue	29.1%	29.6%	-1.7%	30.7%	-5.2%

Notes

1. The **cash interest cover** was favourable compared to the prior year due to higher net operating cash flows during the year, despite an increase in interest payments driven by interest rate rises across the last 12 months. The Group's higher net operating cash flows was largely attributable to increased payments received from customers during the year as a result of the 2023 quarter 4 billings that were brought forward a month (occurred predominately in April and May) when compared to (May and June) 2022. This resulted in a higher number of quarter 4 issued bills paid prior to the end of June 2023. Further contributing to the result, the Group's 2022–23 quarter 4 environmental levy which was not due for payment until July 2023, with the previous year's quarter 4 environmental levy paid prior to balance date in 2021–22.
2. The **internal financing ratio** was favourable compared to prior year, as a greater amount of the Group's net capital expenditure was financed through the Group's net operating cash flows. This was due to higher net operating cash flows, as noted above, as well as less dividends paid in 2022–23 compared to prior year. If the dividend declared had been paid in 2022–23, the internal financing ratio result for 2022–23 would have been 60.1%.
3. The **internal financing ratio** was favourable against target as capital expenditure was $80.6 million lower than budget due to the deferral of a land acquisition to 2023–24, developer reimbursements reaching acceptance of works later than planned, and approval delays relating to the water and sewer growth projects. Furthermore, South East Water's interim dividend payment which was originally expected in June 2023, was deferred to July 2023. This enabled higher than expected cash flows from operations to fund the Group's capital expenditure in 2022–23.
4. The **current ratio** was favourable compared to both prior year and target largely due to the Group holding cash at bank of $91.6 million, alongside repaying all short term borrowings at balance date to fund its anticipated capital repatriation payment of $97.2 million back to State Government in July 2023. If the Group paid the capital repatriation and interim dividend in 2022–23 with cash at bank, the current ratio would have been 132.5%.
5. The **return on equity** was unfavourable compared to the prior year due to the increase in the average total equity during the year which was mainly driven by the valuation gain arising from the infrastructure asset revaluation, due to increased planned capital spend arising from the Group's 2023–28 Price Submission.

Operational performance indicators

Table 33. Operational performance indicators and variances

Key performance indicator	2022–23 Result	2021–22 Result	Variance to prior year	2022–23 Target	Variance to target
Water and Sewerage Network Reliability					
# Water service – minutes off supply (planned and unplanned) Minutes on average a customer was without water supply during a year	21.3 minutes	19.2 minutes	10.9% (6)	18.5 minutes	15.1% (6)
Unplanned water supply interruptions Percentage of customers receiving 6 or more unplanned interruptions in the year	0.013%	0.000%	100.0% (7)	0.066%	-80.3% (7)
*** Sewerage service – sewer blockages** Number of sewer blockages reported per 100 kilometres of sewer main	14.3	16.1	-11.2% (8)	18.5	-22.7% (8)
# Sewerage service – sewer spills Number of sewer spills reported per 100 kilometres of sewer main	6.3	7.8	-19.2% (9)	9.7	-35.1% (9)
# Sewerage service – containment of sewer spills Percentage of sewer spills from reticulation and branch sewers contained within 5 hours	99.1%	99.7%	-0.6%	100.0%	-0.9%
Customer Responsiveness					
*** Water bills – average household use (150 kL)** Typical household bill (based on average use above) in real 2022–23 dollars, owner occupiers	$960.90	$962.60	0.2% (10)	N/A	N/A
Typical household bill (based on average use above) in real 2022–23 dollars, tenants	$509.50	$505.0	-0.9% (11)	N/A	N/A
*** Water bills – customers on flexible payments plans** Number of customers with instalment plans	35,406	35,619	-0.6%	N/A	N/A
*** Water bills – customers awarded hardship grants** Number of customers awarded hardship grants	3,399	2,534	34.1% (12)	N/A	N/A
# Customer responsiveness – water quality complaints Number of complaints per 100 customers	0.29	0.25	16.0% (13)	0.18	61.1% (14)
# Customer responsiveness – number of payment issue complaints Number of complaints per 100 customers	0.16	0.12	33.3% (15)	0.65	-75.4% (16)
*** Customer responsiveness – total complaints** Number of complaints per 100 customers	0.65	0.57	14.0% (17)	1.00	-35.0% (18)
Water Re-use					
# Recycled water – effluent treatment and reuse Proportion of water recycled as a percentage of effluent produced	20.2%	26.0%	-22.3% (19)	24.0%	-15.8% (19)

# denotes existing 2021–22 performance KPIs but have had definitions amended in 2022–23 to bring in line with Essential Services Commission definitions.

* denotes new performance KPIs based on existing ESC definitions.

The following KPIs have been removed from the 2022–23 Performance Report to better align water corporations with ESC reporting indicators:

- Total net CO2 emissions (information available in Ministerial Reporting Direction 01 Climate Change);
- Sewer spills interruptions; and
- Restoration of unplanned water supply interruption.

Notes:

Water and Sewerage Network Reliability

6. The **number of minutes of customers without water supply** was unfavourable compared to both the prior year and target as a result of the transition to our new maintenance industry partners due to resourcing challenges in quarter 2 and 3 of the financial year. The result has also been influenced by a number of repairs taking longer than expected due to unfavourable weather conditions and repair complications. We are continuing to work with our maintenance industry partners to minimise the duration of water service interruptions.
7. The **percentage of customers receiving 6 or more unplanned interruptions** was unfavourable compared to the prior year as a result of a number of failures to a critical asset. The section of the critical pipeline that failed will be replaced shortly as an emergency renewal. The result remains favourable compared to the target.
8. The **number of sewer blockages** was favourable against both target and prior year due to strategic placement of digital blokaids, monitoring catchments that historically had high blockages along with continued investment in proactive sewer cleaning and inspection programs.
9. The **number of sewer spills** was favourable against both target and prior year due to improved work practices involving immediate review and management of assets following blockage or spill events to avoid repeat occurrence and increased investment in trenchless sewer patch repair programs following CCTV investigations.

Customer Responsiveness

10. A decrease in customer bills for a **typical household bill for owner occupiers** has been interpreted to be a favourable variance, as this indicator is based on customer focus rather than financial factors and reflects Essential Service Commission price determination position and water corporation's commitment to keep bills affordable for customers.
11. An increase in customer bills for a **typical household bill for tenants** has been interpreted to be an unfavourable variance, as this indicator is based on customer focus rather than financial factors and reflects Essential Service Commission price determination position and water corporation's commitment to keep bills affordable for customers.
12. The **number of customers awarded hardship grants** was greater than prior year, which can be attributed to the current economic and financial challenges posing significant pressure on customers propensity to pay their bills. As a result, there has been a higher than expected number of customers seeking long term hardship support from South East Water. As noted above, South East Water is continuously monitoring customer affordability issues and offering various support options for customers to manage their water bills.

    An increase in customers provided with hardship assistance in these indicators has been interpreted to be a favourable variance, as this indicator is based on customer focus rather than financial factors and reflects the position that customers consistently support greater help for vulnerable customers, including those in hardship. This is also consistent with government policy.
13. The **number of customer complaints in relation to water quality** was unfavourable against prior year, due to more significant bursts and unplanned emergency works that have resulted in more discoloured water events. Whilst the numbers of unplanned events can fluctuate from year to year along with the associated discoloured water complaints, protocols to reduce the more widespread complaints continue to be monitored, and South East Water are continuing to work with our contractors to keep these events to a minimum.
14. The **number of customer complaints in relation to water quality** was unfavourable against target due to improvements made in capturing complaint volumes across the business, which has enabled us to gain greater insights. The target of 0.18 per 100 complaints includes customer complaints only as opposed to the actual result of 0.29 which includes customer complaints and customer enquiries on water quality. Should the actual result include complaints only, the actual result would be favourable at 0.15 per 100 customers.

15. The **total number of payment issue complaints** was unfavourable compared to prior year. The increase in affordability concerns raised by our customers which are recorded as payment issues complaints have contributed to the result. One of the main factors, other than external economic conditions, includes customers receiving high read bills following an unknown leak. South East Water's transition to digital meters will support customers with close to real time notifications advising them of a potential leak, which can reduce the number of high read bill enquiries.
16. The **total number of payment issue complaints** was favourable against target as South East Water enhanced customer service training whereby a greater emphasis was placed on capturing complaints, and thus had anticipated an increase in the number of complaints, which did not eventuate.
17. The **total number of customer complaints** was unfavourable compared to prior year was due to the increased complaints in billing, payment and affordability concerns., as well as complaints about water quality noted above.
18. The **total number of customer complaints** was favourable against target was largely due to lower than expected number of payment issue complaints as South East Water enhanced customer service training, and anticipating an increase in the number of complaints, which did not eventuate.

Water Re-use

19. The **percentage of effluent produced for re-use** was unfavourable against both prior year and target. There were a number of contributing factors including climatic conditions with the La Nina weather pattern increasing inflows into the treatment plants and reducing the demand for reuse water (such as irrigation purposes). Three local water recycling plants also had periods of shutdown as a result of ultrafiltration membrane supply issues. The Boneo Water Recycling Plant was also impacted by a flow balance issue which will be actioned as part of the defects liability period of the plant. The issues experienced in 2022–23 which reduced the re-use percentage are not expected to impact 2023–24.

Certification of performance report for 2022–23

We certify that the accompanying Performance Report for South East Water Corporation and its controlled entity (the Group) in respect of the 2022–23 financial year is presented fairly in accordance with the *Financial Management Act 1994.*

The Performance Report outlines the relevant performance indicators for the financial year as determined by the responsible Minister and as set out in the 2022–23 Corporate Plan, the actual and comparative results achieved for the financial year against predetermined performance targets and these indicators, and an explanation of any significant variance between the actual results and performance targets and/or between the actual results in the current year and the previous year.

As at the date of signing, we are not aware of any circumstances which would render any particulars in the Performance Report to be misleading or inaccurate.

Dated this 28th of August 2023.

Lucia Cade Chair	**Lara Olsen** Managing Director	**Kimberley Lamden** Chief Financial Officer

Independent auditor's report

VAGO
Victorian Auditor-General's Office

Independent Auditor's Report

To the Board of the South East Water Corporation

Opinion	I have audited the accompanying performance report of the South East Water Corporation (the corporation) for the year ended 30 June 2023, which comprises the: • financial performance indicators • water and sewerage network reliability performance indicators • customer responsiveness performance indicators • water re-use performance indicator • certification of performance report. In my opinion, the performance report of the South East Water Corporation for the year ended 30 June 2023 presents fairly, in all material respects, in accordance with the performance reporting requirements of Part 7 of the *Financial Management Act 1994*.
Basis for Opinion	I have conducted my audit in accordance with the *Audit Act 1994* which incorporates the Australian Standards on Assurance Engagements. I further describe my responsibilities under that Act and those standards in the *Auditor's Responsibilities for the Audit of the performance report* section of my report. My independence is established by the *Constitution Act 1975*. My staff and I are independent of the corporation in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the performance report in Victoria and have also fulfilled our other ethical responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.
Board's responsibilities for the performance report	The Board is responsible for the preparation and fair presentation of the performance report in accordance with the performance reporting requirements of the *Financial Management Act 1994*, and for such internal control as the Board determines is necessary to enable the preparation and fair presentation of the performance report that is free from material misstatement, whether due to fraud or error.

Level 31 / 35 Collins Street, Melbourne Vic 3000
T 03 8601 7000 enquiries@audit.vic.gov.au www.audit.vic.gov.au

Independent auditor's report

Auditor's responsibilities for the audit of the performance report

As required by the *Audit Act 1994*, my responsibility is to express an opinion on the performance report based on the audit. My objectives for the audit are to obtain reasonable assurance about whether the performance report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the Australian Standards on Assurance Engagements will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of this performance report.

As part of an audit in accordance with the Australian Standards on Assurance Engagements, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the performance report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the corporation's internal control
- evaluate the overall presentation, structure and content of the performance report, including the disclosures, and whether the performance report represents the underlying events and results in a manner that achieves fair presentation.

I communicate with the Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

MELBOURNE
31 August 2023

Paul Martin
as delegate for the Auditor-General of Victoria

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Expenditure disclosures

Consultancy expenditure

We've outlined details of individual consultancies on our website **southeastwater.com.au**

Details of consultancies (valued at $10,000 or greater).

- Engaged consultants for 20 projects where the total fee payable was $10,000 or greater (GST exclusive).
- Total expenditure incurred during the reporting period in relation to these consultants was $0.83 million (GST exclusive).

Details of consultancies (valued at less than $10,000)

- Engaged 7 consultants for projects where the total fees payable were less than $10,000 (GST exclusive).
- Total expenditure incurred for these consultants was $0.04 million (GST exclusive).

Government advertising expenditure

We didn't participate in any government advertising campaigns with a total media spend of $100,000 or greater (exclusive of GST) during 2022–23.

Information Communication Technology (ICT) expenditure

ICT refers to our costs in providing business-enabling ICT services. It comprises business as usual (BAU) ICT expenditure and non-business as usual (non-BAU) ICT expenditure. Non-BAU ICT expenditure relates to extending and enhancing our current ICT capabilities.

BAU ICT expenditure is all remaining ICT expenditure which primarily relates to ongoing activities to operate and maintain the current ICT capability. We had a total ICT expenditure of $40.8 million, with details shown below.

Table 34: ICT Expenditure 2022–23

($'000s)			
BAU ICT expenditure (Total)	Non-BAU ICT expenditure (Total = Operational expenditure and Capital expenditure)	Non-BAU ICT expenditure	
25,026	15,783	Operational expenditure	Capital expenditure
		0	15,783

Disclosure of major contracts

We've disclosed, in accordance with the requirements of government policy and accompanying guidelines, all contracts greater than $10 million in value entered into during the financial year ended 30 June 2023.

Water and sewer maintenance services ($527,512,000)

- Service Stream Maintenance Pty Ltd
- Downer Utilities Australia Pty Ltd
- Programmed Facility Management Pty Ltd

We've disclosed details of contracts in the Victorian Government Contracts Publishing System at tenders.vic.gov.au.

7.
Compliance

Compliance

Customer requirements

Improving protections for customers experiencing family violence

Our customers count on us to get the basis right, always. That includes protecting their privacy and security.

We're working closely with the Essential Services Commission to make critical improvements we've committed to through entering into an Enforceable Undertaking.

This includes evolving the way we work and looking at things in a whole new light, to move beyond compliance to consider the ways we can better support our customers and community. In doing this, we're determined to go further to set a new standard in privacy protection.

Actions we're taking include:

- Launching a project with several workstreams to help us to better protect the data, privacy and confidentiality of all customers, particularly those who are experiencing family violence. Across the workstreams we'll review our policies, processes, support availability, implement a monitoring program, and provide our teams specialised training.
- Connecting with specialist family violence organisations to create best practice approaches for our customers.
- Partnering with the industry to share what we're learning.

Find out more about our Enforceable Undertaking at: **southeastwater.com.au/about-us/corporate-information/water-regulation/enforceable_undertaking/**

Compliance with Acts

Application and operation of *Freedom of Information Act 1982*

The *Freedom of Information Act 1982* allows the public a right to request access to documents that we hold.

In 2022–23, South East Water received 31 requests to access documents.

- We finalised 23 requests, and granted access to documents in each of these.
- There were no requests where no documents were found.
- 100% of requests were finalised within the statutory timeframe.
- In addition, no applications were made to VCAT.

If an applicant isn't satisfied by a decision made by South East Water, they have the right to seek a review by the Victorian Information Commissioner. Further information regarding the Freedom of Information process can be found at the Office of the Victorian Commissioner's (OVIC) website: **ovic.vic.gov.au.**

Requests for access to our documents under the *Freedom of Information Act 1982* must be made in writing to:

Freedom of Information Officer
South East Water
PO Box 2268, Seaford, 3198

Each application must be accompanied by a $31.80 application fee and clearly identify the documents sought.

Compliance with Public Interest Disclosures Act 2012

The *Public Interest Disclosure Act 2012* (the PID Act) enables people to make disclosures about improper or corrupt conduct by public officers and public bodies. It aims to ensure openness and accountability by encouraging people to make disclosures and protecting them from reprisals when they do.

Improper or corrupt conduct by a public officer or public body includes:

- taking or offering bribes, or
- dishonestly using influence, or
- a substantial risk to the health or safety of a person or the environment.

Making a 'public interest disclosure'

Anyone can make a public interest disclosure about our organisation, our board members, officers or employees by contacting the Independent Broad-based Anti-corruption Commission on the contact details provided below.

While South East Water is a 'public body' for the purposes of the PID Act, we're not able to receive public interest disclosures. Instead, our Public Interest Disclosures Policy explains how a public interest disclosure can be made and what we'll do.

Accessing our policy and procedure for the protection of persons from detrimental action

Our policy also explains that we'll take all reasonable steps to protect those who have made public interest disclosures from any detrimental action in reprisal for making the disclosure about our organisation or our employees.

You can access our Policy on our website **southeastwater.com.au**

Contact

Independent Broad-based Anti-corruption Commission (IBAC) Victoria

IBAC
GPO Box 24234, Melbourne Victoria 3001
ibac.vic.gov.au

Compliance with the *Building Act 1993*

We own our headquarters in Frankston (WatersEdge). We also own and operate warehousing facilities in Heatherton and Lynbrook and buildings associated with water recycling plants at Blind Blight, Boneo, Koo Wee Rup, Lang Lang, Longwarry, Mount Martha, Somers and Pakenham.

We comply with the *Building Act 1993*, the Building Regulations 2006 and associated statutory requirements and amendments. We maintain internal control systems to ensure compliance with our Certificate of Occupancy and engage the expertise of qualified service providers to conduct regular and annual building inspection routines to make sure the buildings' assets are efficiently maintained and the workplace is safe for our people. We also closely monitor service providers for compliance, inspections and maintenance reports and regular service provider meetings.

During 2022–23, we completed 2 new major projects across our headquarters and treatment plants at a sum greater than $50,000.

1. Stage 1 upgrade to the administration office at Pakenham, at a cost of $520,000, the first major upgrade to the office in more than 10 years. This included a complete refit of the office, meeting room, kitchen, shower, change room, toilets, replacement of all external windows and internal and external painting. During 2023–24, we plan to deliver stage 2 to cover additional space to house a first aid room, all-abilities toilets /change room, fit out of the storage room and cover over the back door for wet weather access.
2. Conversion of 2 meeting rooms into a research and design laboratory at WatersEdge, at a value of $97,000.

There were 4 building permits issued: 2 for demolition purposes and 2 for construction purposes.

Competitive neutrality policy

The objective of the competitive neutrality policy in Victoria is to ensure significant Government business activities compete fairly in markets with private businesses. We therefore continue to observe and apply the principles of the competitive neutrality policy in our business undertakings.

Local Jobs First Policy (LJFP)

The *Local Jobs First Act 2003* introduced in August 2018 brings together the Victorian Industry Participation Policy (VIPP) and Major Project Skills Guarantee (MPSG) which were previously administered separately.

Departments and public sector bodies are required to apply the Local Jobs First Policy in all projects valued at $3 million or more in metropolitan Melbourne or for state-wide projects, or $1 million or more for projects in regional Victoria.

MPSG applies to all construction projects valued at $20 million or more.

Projects started – Local Jobs First Standard

For 2022–23, we started 2 Local Jobs First Standard projects totalling $458 million. The MPSG doesn't apply for any of these projects.

1. Transition to our maintenance services agreements, valued at $455 million. Outcomes expected are:

- an average of 95% of local content commitment
- a total of 58 Annualised Employee Equivalent (AEE) jobs were committed, including the creation of 2 new apprenticeships and traineeships, and the retention of 90 existing jobs (AEE).

2. Enterprise Resource Planning Solutions, valued at $3.8 million. Outcomes expected are:

- an average of 68% of local content commitment
- a total of 3.54 Annualised Employee Equivalent (AEE) retained jobs were committed.

Social procurement

Our main areas of procurement are construction (34%), maintenance, repairs and operations (33%), and other goods and services (33%). Across our diverse spend profile we continuously assess social and environmental risks and opportunities. We're mindful of how we can impact our local community and our region from a social, environmental, and sustainable procurement perspective.

As a social procurement champion with the Frankston Social Enterprise Hub, our focus is on how we can generate positive sustainable social change in the south-east, that will directly impact our customers, supply chain and environment.

Social procurement outcomes

For 2022–23 we spent a total of $1.1 million with 20 social benefit suppliers and organisations, an increase in spend of 3%.

- $102,544 was with Aboriginal businesses and associations (total of 8 entities).
- $726,156 was spent across 4 disability enterprises, with the remainder of spend with other social benefit suppliers.

Disclosure of emergency procurement

No emergency procurement of goods or services within the scope of Victorian Government Purchasing Board procurement framework was undertaken during 2022–23.

Additional information available on request

In compliance with the requirements of the Standing Directions of the Minister for Finance, details in respect of the items listed below have been retained by our organisation and are available (in full) on request, subject to the provisions of the *Freedom of Information Act 1982*:

- A statement of completion of declarations of pecuniary interests by relevant officers.
- Details of shares held by a senior officer as nominee or held beneficially in a statutory authority or subsidiary.
- Details of publications produced by South East Water about itself, and how these can be obtained.

- Details of changes in prices, fees, charges, rates and levies charged by South East Water.
- Details of any major external reviews carried out on South East Water.
- Details of major research and development activities undertaken by South East Water.
- Details of overseas visits undertaken, including a summary of the objectives and outcomes of each visit.
- Details of major promotional, public relations and marketing activities undertaken by South East Water to develop community awareness of the entity and its services.
- Details of assessments and measures undertaken to improve the occupational health and safety of employees.
- A general statement on industrial relations and time lost through industrial accidents within South East Water.
- A list of South East Water's major committees; the purposes of each committee; and the extent to which the purposes have been achieved.
- Details of all consultancies and contractors, including:
  - consultants/contractors engaged
  - services provided
  - expenditure committed for each engagement.

This information is available on request from us and requests can be made in writing to the Freedom of Information Officer, PO Box 2268, Seaford 3198.

Governance and assurance

We maintain a comprehensive framework of governance practices that are embedded into our organisation. They support what we do to manage performance, processes and activities, to ensure we consistently and safely deliver our products and services at a high standard and comply with any regulatory or statutory requirements.

These systems, frameworks and standards are subject to independent audit and certification, including:

- ISO 9001 (Quality Management System)
- ISO 14001 (Environment Management System)
- ISO 45001 (Occupational Health and Safety)
- ISO 22000 (Food Safety Management) for sewage quality management
- ISO 55001 (Asset Management)

Hazard Analysis and Critical Control Point (HACCP) for drinking water and recycled water management.

We also apply ISO 31000 (Risk Management), ISO 37301 (Compliance Management System) and ISO 27001 (Information Security Management including Victorian Protective Data Security Standards) to our operations.

Managing risk

Managing risk is central to our ability to remain a reliable and successful essential services provider for our customers, today and tomorrow. Our risk framework incorporates risk appetite in line with our strategy to provide boundaries for better decision making and ensure appropriate governance.

We maintain an enterprise risk management framework consistent with the Australian/New Zealand Risk Management Standard (AS/NZS 31000) and the requirements of the Victorian Government Risk Management Framework.

Our framework provides for a consistent, forward-looking approach to identifying and assessing risk that may positively or negatively impact our ability to achieve our purpose and ambition. Our framework reflects the following key elements:

- A board-approved risk management policy, framework and appetite statements.
- Active management and review of the key strategic risks that may impact the achievement of our objectives through our board and committees.
- An internal attestation over the management of our material risks at both board and executive level to ensure an appropriate level of risk governance. Continuity and emergency resilience management plans to guide our business in case of disruption or to manage incidents and emergencies when they occur.
- Assurance over key controls through a risk-based audit plan.
- A comprehensive insurance program.

Table 35 below describes, at a whole of entity level, our material risk areas and how we seek to manage them. Details on how we manage various financial risks are explained within the 'Financials' section.

Table 35. Managing material risk areas

Risk area	Description	Plans to manage
Safety and wellbeing	To reduce serious workplace injury which may be physical, mental, health or wellbeing related.	We believe safety and wellbeing are not just important, but essential. We're always improving our certified safety management system and have a comprehensive program that focuses on workplace health, safety and wellbeing. We also work with our industry partners to continually strengthen safety practices.
Water quality	To provide safe drinking water that meets expectations of customers and complies with regulatory obligations.	Our vision is to provide healthy water for life. This underpins everything we do so our focus in this area is strong, comprising product quality management systems and standards the organisation abides by and that are subject to stringent audits.

Customers and communities	To better understand the customers and the communities we serve (and for them to better understand our services) and to provide them with a positive experience that meets their expectations.	Our customer engagement program informs our strategy on how to improve services in areas that matter most to our customers. Several key programs strive to deliver value for money and enhance outcomes for our entire customer base. Ensuring we communicate with our customers around disruption at the right time and in their preferred method is important. We're managing this exposure by ensuring we have up-to-date customer contact details (across different channels), exploring different forms of communication as well as managing disruption.
People	To attract, recruit and retain the right people for the right role to take our business forward and help achieve our strategic goals.	As the needs of our business evolves, we've committed to initiatives that continually improve our culture, capability and diversity and inclusion practices so that we develop our people and attract high calibre talent.
IT/OT and data security	To effectively manage the information technology and operational technology (IT/OT) assets that underpin business operations and to protect customer and corporate data in line with regulatory and customer expectations.	We manage IT/OT infrastructure aligned to asset management plans to ensure the stability and reliability of all our platforms. We align our data security to the Victorian Protective Data Security Standards and have mandatory data security awareness training and network controls in place to protect the data we store.
Asset management	To plan, build, operate, maintain and dispose assets reliably and efficiently to meet the service expectations of customers.	We have comprehensive asset management plans in place and constantly monitor asset condition. We're now certified to ISO 55001 Asset Management.
Regulatory environment and stakeholder management	To respond and influence the regulatory and policy environment to outcomes aligned to strategic goals, with the proactive and consistent engagement of key stakeholders.	We've fostered and continue to develop strong relationships with key stakeholders, built on a platform of transparency and trust. Our underlying approach is to engage in a constructive and collaborative manner to achieve positive solutions for our customers. We also take compliance seriously and manage our compliance obligations in line with ISO 37301 Compliance management system.

Climate change	To understand and plan for the impacts of a changing climate on assets and effectively transition to a carbon free future.	Climate change is real and we've refined our climate adapt plans for our assets and business operations. We're also committed to reducing our greenhouse gas emissions and formalised our pledge of net zero emissions by 2030 (scope 1 and 2).
Disruption and non-traditional markets	To be able to adapt our business and positively respond to major changes in industry composition, technology or consumer behaviours.	We have a long and proud history of innovation and continue to monitor shifts inside (and outside of) the industry and trial emerging technologies. We see innovation and our investment in becoming increasingly digital as a key platform to deliver greater benefits to our customers.
Organisational resilience	To effectively withstand and adapt to planned and unplanned disruptions and allow us to restore and resume operations so as not to impact core services provided to customers.	We've implemented a robust resilience framework encompassing business continuity plans and incident and emergency management responses. This framework aims to prevent service interruptions and to respond and recover if they do occur.

Bulk water entitlements

We hold bulk entitlements to the water resources of the Greater Yarra System – Thomson River pool, Victorian Desalination Project and in the River Murray and Goulburn System.

Table 36: South East Water's bulk entitlements reporting requirements

Our reporting requirements	Greater Yarra System – Thomson River Pool[1,2]	Desalinated water[7,8]	Goulburn System[13, 14]	Goulburn System[19]	Murray River[22,23]	Murray River[27]
The annual volume of water taken	Clause 16.1 (a) 160,567.0 ML	Clause 13.1 (a) 0 ML	N/A	N/A	N/A	N/A
The water allocation volume made available	Clause 16.1 (b) 285,834.5 ML[3]	Clause 13.1 (a) 1,473.9 ML[9]	Clause 14.1(c) 6,482.4 ML [15]	Clause 13.1(c) 10,959.0 ML	Clause 11.1(a) 4,918.6 ML [24]	Clause 10.1(a) 19,529.9 ML
The volume of carry over	Clause 16.1 (b) 184,919.1 ML	Clause 13.1 (a) 1,473.9 ML	0 ML[16]	4,006.7 ML[20]	0 ML[25]	6,252.0 ML[28]
Compliance with the entitlement volume	Clause 16.1 (c) Yes [4]	Clause 13.1(e) Yes [10]	N/A	N/A	N/A	N/A
Any temporary assignment or permanent transfer of all or part of entitlement	Clause 16.1(d) 10.03 ML[11, 30]	Clause 13.1(b) -10.03 ML[11]	Clause 14.1(d) -11,605.4 ML[29] Clause 14.1(e) 0 ML	Clause 13.1(d) -6,741.4 ML[29] Clause 13.1(e) 0 ML	Clause 11.1(b) -8684.8 ML[29] Clause 11.1(c) 0 ML	Clause 10.1(b) -12,948.8 ML[29] Clause 10.1(c) 0 ML
The approval, amendment and implementation of the metering program	Clause 16.1 (e) Continuing [5]	N/A	N/A	N/A	N/A	N/A
Any amendment to this entitlement	Clause 16.1 (f) Yes[6]	Clause 13.1(c) Yes[12]	Clause 14.1(f) Yes[17]	Clause 13.1(f) No	Clause 11.1(d) Yes[26]	Clause 10.1(d) No

Any new entitlement of water granted	Clause 16.1(g) Nil	Clause 13.1(d) Nil	N/A	N/A	N/A	N/A
Any failure to comply with any provision of this entitlement and any remedial action taken or proposed	Clause 16.1(h) None	Clause 13.1(f) None	Clause 14.1(g) None	Clause 13.1(g) None	Clause 11.1(e) None	Clause 10.1(e) None
Any difficulties experienced or anticipated in complying with this entitlement and any remedial action taken or proposed	Clause 16.1(i) None	Clause 13.1(g) None	Clause 14.1(h) None	Clause 13.1(h) None	Clause 11.1(f) None	Clause 10.1(f) None
Daily amount of water taken from the waterway	N/A	N/A	N/A	N/A	N/A	N/A
Annual amount of water taken from the waterway	N/A	N/A	Clause 14.1(b) 0 ML [18]	Clause 13.1(b) 0 ML [21]	N/A	N/A

Notes for compliance with bulk entitlements

Greater Yarra System - Thomson River Pool

1. South East Water holds Bulk Entitlement (Greater Yarra System-Thomson River Pool - South East Water) Order 2014 – WSE000077.
2. South East Water is a primary entitlement holder with a delivery bulk entitlement to 206,281.0 ML.
3. The Resource Manager – Melbourne Water makes seasonal allocations monthly.
4. Compliance with the entitlement volume is measured by compliance with the overall Cap within the source entitlements for the Thomson and Yarra systems (held by Melbourne Water). The caps were complied with. Further, South East Water understands that Melbourne Water has met all minimum environmental flow obligations contained in its source entitlements.
5. Metering programs for this bulk entitlement are continually maintained and reviewed via the Bulk Water Supply Agreement between South East Water and Melbourne Water and System Management Rules established by Melbourne Water.
6. The responsibility for making seasonal determinations for the Greater Yarra System – Thomson River Pool Bulk Entitlement changed in September 2022 from Melbourne Water as Resource Manager to Melbourne Water as Storage Manager, following the Minister for

Water's appointment of Melbourne Water as Storage Manager and revocation of Melbourne Water's Resource Manager appointment. On 15 September 2022, the Minister for Water amended South East Water's Greater Yarra System – Thomson River Pool Bulk Entitlement to reflect this.

Victorian Desalination Project

7. South East Water holds Bulk Entitlement (Desalinated Water – South East Water) Order 2014 – WSE000053.
8. South East Water may take an average annual volume of up to 53,454 ML of desalinated water over any period of 5 consecutive years that is delivered to a delivery point to the Melbourne headworks system.
9. The Hon Lisa Neville MP, Minister for Water announced a 15 GL desalinated water order for the 2022–23 year. On 22 September 2022 the Hon Harriet Shing, Minister for Water, accepted advice from Melbourne Water recommending the Victorian Government cease the remainder of the 2022–23 desalination order. A total of 4,136 ML of desalinated water was delivered during 2022–23 of which South East Water's share was 1,473.9 ML.
10. Compliance with the entitlement volumes is measured with respect to whether the annual volume taken exceeds the entitlement. This did not occur this year.
11. In 2021–22, South East Water undertook reciprocal trades with South Gippsland Water and Westernport Water of 10.006 ML and 0.025 ML of water allocation respectively. This is part of an ongoing administrative process to enable South Gippsland Water and Westernport Water to continue to access, by substitution, its entitlement in the Greater Yarra System – Thomson River Pool via their offtakes on the desalination transfer pipeline while the transfer pipeline is pumping desalinated water from the Victorian Desalination Project to Cardinia Reservoir. South East Water trades the required volume of desalinated water allocation to South Gippsland Water / Westernport Water and South Gippsland Water / Westernport Water trades the same volume from its Greater Yarra System – Thomson River pool bulk entitlement back to South East Water resulting in a net 0 ML trade. This is required because South Gippsland Water and Westernport Water do not hold an entitlement to desalinated water. This ongoing administrative process was agreed between South East Water, South Gippsland Water, Melbourne Water, Westernport Water and DEECA.
12. The responsibility for making seasonal determinations for the Desalinated Water Bulk Entitlement changed in September 2022 from Melbourne Water as Resource Manager to Melbourne Water as Storage Manager, following the Minister for Water's appointment of Melbourne Water as Storage Manager and revocation of Melbourne Water's Resource Manager appointment. On 15 September 2022, the Minister for Water amended South East Water's Desalinated Water Bulk Entitlement to reflect this.

Goulburn System

13. South East Water holds Bulk Entitlement (Goulburn System – South East Water) Conversation Order 2012 – WSE000009.
14. South East Water is entitled to a water entitlement in the Goulburn System equal to one-ninth of the total Phase 4 water savings achieved in the Goulburn component of the Goulburn Murray Irrigation District (GMID) from Goulburn Murray Water Connections Project Stage 1 as verified in the latest audit.
15. South East Water's annual water allocation in a given year from the Goulburn System is equal to one-ninth of the total Phase 3 water savings achieved in the previous year of the Goulburn component of the GMID from the Goulburn Murray Water Connections Project Stage 1 as verified in the latest audit.

16. South East Water's commencement volume on 1 July 2022 was 5,123.0 ML. At 30 June 2023, South East Water held 0 ML.
17. Bulk Entitlement (Goulburn System – South East Water) Order 2012 was amended on 1 July 2022 to reflect the integration of City West Water and Western Water and to ensure consistency with the newly created Bulk Entitlement (Goulburn System – South East Water) Order 2022 to South East Water. The amendment also revoked the Bulk Entitlement (Goulburn System – South East Water) Order 2012 as at 20 June 2023 following the final issue of phase 3 allocation to this entitlement.
18. Compliance with the combined annual diversion limit of 75,000ML for the holders of Bulk Entitlement (Goulburn System – Greater Western Water) Order 2012, Bulk Entitlement (Goulburn System – South East Water) Order 2012 and Bulk Entitlement (Goulburn System – Yarra Valley Water) Order 2012 is assessed using the actual measured annual diversion. Diversions are subject to clause 6.1 of South East Water's Statement of Obligations (System Management).
19. South East Water holds Bulk Entitlement (Goulburn System – South East Water) Order 2022 - WSE020020.
20. South East Water's commencement volume on 1 July 2022 was 0 ML. At 30 June 2023, South East Water held 4,006.7 ML (3,313.2 ML in Zone 1a and 693.5 ML in Zone 1b).
21. Compliance with the combined annual diversion limit of 75,000ML for the holders of Bulk Entitlement (Goulburn System – Greater Western Water) Order 2022, Bulk Entitlement (Goulburn System – South East Water) Order 2022 and Bulk Entitlement (Goulburn System – Yarra Valley Water) Order 2022 is assessed using the actual measured annual diversion. Diversions are subject to clause 6.1 of South East Water's Statement of Obligations (System Management).

Murray River

22. South East Water holds Bulk Entitlement (Murray River – South East Water) Conversion Order 2012 – WSE000133.
23. South East Water is entitled to a water entitlement volume in the River Murray System (Zone 7 and Zone 6) equal to one-ninth of the total Phase 4 water savings achieved in these parts of the GMID from Goulburn Murray Water Connections Project Stage 1 as verified in the latest audit.
24. South East Water's annual water allocation in a given year from the River Murray is equal to one-ninth of the total Phase 3 water savings achieved in the previous year of the Murray component of the GMID from the Goulburn Murray Water Connections Project Stage 1 as verified in the latest audit.
25. South East Water's commencement volume on 1 July 2022 was 3,766.2 ML (2,125.4 ML in Zone 6 and 1,640.8 ML in Zone 7). At 30 June 2023, South East Water held 0 ML.
26. Bulk Entitlement (River Murray – South East Water) Order 2012 was amended on 1 July 2022 to reflect the integration of City West Water and Western Water and to ensure consistency with the newly created Bulk Entitlement (River Murray – South East Water) Order 2022 to South East Water. The amendment also revoked the Bulk Entitlement (River Murray – South East Water) Order 2012 as at 20 June 2023 following the final issue of phase 3 allocation to this entitlement.
27. South East Water holds Bulk Entitlement (Murray River – South East Water) Order 2022 – WSE020021.

28. South East Water's commencement volume on 1 July 2022 was 0 ML. At 30 June 2023, South East Water held 6,252.0 ML (3,156.4 ML in Zone 6 and 3,095.7 ML in Zone 7).

General

29. South East Water has in place water management strategies to manage water allocations holdings in the Murray River and Goulburn System to maximise the value of the resources held to our customers and minimise risk of spilling water allocation. These strategies include the transfer of allocations between bulk entitlement allocation accounts and trading water allocations.

30. The metropolitan water organisations make water available in Tarago Reservoir to Gippsland Water under a Bulk Water Supply Agreement (BWSA). This is used by Gippsland Water to supplement their Tarago Bulk Entitlement during periods of high demand. South East Water provided 139.6 ML under the BWSA in 2022–23.

8.

Financials

Financials

Statutory certification

We certify that, in our opinion, the attached consolidated financial statements for South East Water Corporation and its controlled entity (the Group) have been prepared in accordance with Direction 5.2 of the Standing Directions of the Assistant Treasurer issued under the *Financial Management Act 1994*, applicable Financial Reporting Directions, Australian Accounting Standards including Interpretations and other mandatory professional reporting requirements.

We further state that, in our opinion, the information set out in the consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement and notes to and forming part of the financial statements, presents fairly the financial transactions during the year ended 30 June 2023 and the financial position of the Group as at 30 June 2023.

At the time of signing, we are not aware of any circumstances which would render any particulars included in the consolidated financial statements to be misleading or inaccurate.

We authorise the attached financial statements for issue on this 28th day of August 2023.

Lucia Cade	**Lara Olsen**	**Kimberley Lamden**
Chair	Managing Director	Chief Financial Officer

Independent auditor's report

Independent Auditor's Report

Victorian Auditor-General's Office

To the Board of South East Water Corporation

Opinion	I have audited the consolidated financial report of South East Water Corporation (the corporation) and its controlled entity (together the consolidated entity), which comprises the: • consolidated entity and corporation balance sheet as at 30 June 2023 • consolidated entity and corporation comprehensive operating statement for the year then ended • consolidated entity and corporation statement of changes in equity for the year then ended • consolidated entity and corporation cash flow statement for the year then ended • notes to the financial statements, including significant accounting policies • statutory certification. In my opinion, the consolidated financial report presents fairly, in all material respects, the financial position of the consolidated entity and the corporation as at 30 June 2023 and their financial performance and cash flows for the year then ended in accordance with the financial reporting requirements of Part 7 of the *Financial Management Act 1994* and applicable Australian Accounting Standards.
Basis for Opinion	I have conducted my audit in accordance with the *Audit Act 1994* which incorporates the Australian Auditing Standards. I further describe my responsibilities under that Act and those standards in the Auditor's Responsibilities for the Audit of the Financial Report section of my report. My independence is established by the *Constitution Act 1975*. My staff and I are independent of the corporation in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to my audit of the financial report in Victoria. My staff and I have also fulfilled our other ethical responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.
Key audit matters	Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the consolidated financial report of the current period. These matters were addressed in the context of my audit of the consolidated financial report as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

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Key audit matter	How I addressed the matter
Revenue from service and usage charges *Note 2.1 – Revenue from contracts with customers*	
Revenue from service and usage charges: $886 million I considered this to be a key audit matter because: • revenue is financially significant • the corporation's IT billing system and business rules are complex, and inputs to the system are derived from multiple sources • external service providers conduct meter readings of customer water consumption data • there is a high degree of estimation uncertainty in the revenue accrual for unbilled water and sewerage services at year end • the applicable accounting standard AASB 15 *Revenue from Contracts with Customers* requires detailed and complex financial report disclosures.	My key procedures included: • testing the operating effectiveness of key controls in the billing system and billing process • assessing management's model, key assumptions and inputs for estimating accrued revenue at 30 June 2023 • performing substantive analytical procedures by developing an expectation of usage and service charges revenue for the period based on water volumes, number of serviced properties and approved prices, compared against the revenue recorded by the corporation • assessing the adequacy of revenue recognition and measurement policies • assessing the adequacy of financial statement disclosures against AASB 15 *Revenue from Contracts with Customers*.
The fair value estimate of infrastructure assets *Note 4.1 – Infrastructure, property, plant and equipment*	

Fair value estimate of infrastructure assets: $4.184 billion
I considered this to be a key audit matter because:
• infrastructure assets are financially significant
• the fair value estimate is derived from an income-based valuation approach that uses a discounted cashflow (DCF) model
• management engage an external valuation expert to prepare the fair value estimate
• the DCF model is highly complex and involves significant judgements and assumptions
• small changes in key assumptions used in the DCF model can materially affect the fair value
• the DCF model's forecast period is long, and includes a terminal value, which increases the difficulty in accurately estimating the fair value
• the applicable accounting standard AASB 13 *Fair Value Measurement* (AASB 13) requires extensive financial report disclosures.
	My key procedures included:
	• obtaining an understanding of the approach to estimating the fair value of infrastructure
	• assessing the competence, objectivity and capability of management's expert engaged to assist with the valuation process
	• engaging a subject matter expert to assist us in obtaining sufficient appropriate audit evidence, including:
	  ○ the appropriateness of using an income-based valuation approach
	  ○ the identification and assessment of the reasonableness of any changes to the DCF model and/or assumptions
	  ○ the reasonableness and consistency of all the assumptions used in the DCF model
	  ○ the reasonableness of all inputs used in the model, with specific reference to underlying data and supporting documentation
	  ○ the DCF model's computational accuracy
	• evaluating our subject matter expert's workings and concluding the work was adequate for the purposes of our audit
	• assessing the completeness and adequacy of the financial report disclosures with regard to AASB 13, including the significant observable and unobservable inputs utilised in the model and the sensitivity analysis.

Independent auditor's report

Board's responsibilities for the financial report	The Board of the corporation is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the *Financial Management Act 1994*, and for such internal control as the Board determines is necessary to enable the preparation and fair presentation of a financial report that is free from material misstatement, whether due to fraud or error. In preparing the consolidated financial report, the Board is responsible for assessing the corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is inappropriate to do so.
Auditor's responsibilities for the audit of the financial report	As required by the *Audit Act 1994*, my responsibility is to express an opinion on the consolidated financial report based on the audit. My objectives for the audit are to obtain reasonable assurance about whether the consolidated financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this consolidated financial report. As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also: • identify and assess the risks of material misstatement of the consolidated financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. • obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the corporation's and the consolidated entity's internal control • evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board • conclude on the appropriateness of the Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the corporation's and the consolidated entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the corporation and the consolidated entity to cease to continue as a going concern. • evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the consolidated financial report represents the underlying transactions and events in a manner that achieves fair presentation.

Independent auditor's report

Auditor's responsibilities for the audit of the financial report (continued)	I communicate with the Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit. From the matters communicated with the Board, I determine those matters that were of most significance in the audit of the consolidated financial report of the current period and are therefore key audit matters. I describe these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

MELBOURNE
31 August 2023

Paul Martin
as delegate for the Auditor-General of Victoria

Consolidated statement of comprehensive income

For the year ended 30 June 2023

Consolidated entity	Note	2023 $'000	2022 $'000
Revenue from contracts with customers	2.1	1,057,970	1,052,608
Other income	2.2	2,106	1,937
Total revenue and income		**1,060,076**	**1,054,545**
Operating expenses	3.1	(638,432)	(639,341)
Employee benefits	3.2.1	(69,514)	(59,624)
Depreciation and amortisation	4.2, 4.3, 5.5	(123,684)	(122,917)
Finance costs	6.2	(89,177)	(77,986)
Environmental contribution	7.3	(43,461)	(43,461)
Total expenses		**(964,268)**	**(943,329)**
Net profit before income tax		**95,808**	**111,216**
Income tax expense	7.1	(29,363)	(32,847)
Net profit after income tax		**66,445**	**78,369**
Other comprehensive income			
Items that will not be reclassified to net profit			
Change in asset revaluation surplus - infrastructure assets	4.2	68,872	(96,018)
Change in asset revaluation surplus - land & buildings assets	4.2	-	53,290
Actuarial gains/(losses) on defined benefit fund	9.3	3,531	11,042
Deferred income tax relating to other comprehensive income	7.1	(21,719)	22,490
Other comprehensive income		**50,684**	**(9,196)**
Total comprehensive income		**117,129**	**69,173**

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated balance sheet

As at 30 June 2023

Consolidated entity	Note	2023 $'000	2022 $'000
CURRENT ASSETS			
Cash		91,141	2,409
Receivables	5.1	84,585	101,735
Contract assets	5.3	77,797	75,367
Other assets	5.6	12,140	9,650
Total current assets		**265,663**	**189,161**
NON-CURRENT ASSETS			
Infrastructure, property, plant and equipment	4.1	4,751,780	4,493,121
Intangible assets	4.3	153,833	153,347
Right-of-use assets	5.5	7,806	8,680
Other financial assets	5.7	15	1,062
Defined benefit superannuation asset	9.3	13,443	10,484
Total non-current assets		**4,926,877**	**4,666,694**
TOTAL ASSETS		**5,192,540**	**4,855,855**
CURRENT LIABILITIES			
Payables	5.2	126,724	100,818
Interest bearing liabilities	5.5, 6.1	894	56,745
Employee benefits provision	3.2.2	23,775	21,733
Income tax payable	7.1	2,575	9,392
Contract liabilities	5.3	40,069	26,258
Deposits and advances	5.4	27,173	13,418
Other provisions		48	163
Total current liabilities		**221,258**	**228,527**
NON-CURRENT LIABILITIES			
Interest bearing liabilities	5.5, 6.1	2,475,338	2,246,102
Deferred tax liabilities	7.1	472,492	454,950
Employee benefits provision	3.2.2	3,113	3,118
Other financial liabilities	5.7	1,759	-
Total non-current liabilities		**2,952,702**	**2,704,170**
TOTAL LIABILITIES		**3,173,960**	**2,932,697**
NET ASSETS		**2,018,580**	**1,923,158**
EQUITY			
Contributed equity		288,967	288,967
Reserves		890,027	841,816
Retained profits		839,586	792,375
TOTAL EQUITY		**2,018,580**	**1,923,158**

Contingent assets and contingent liabilities – Note 8.3
Commitments – Notes 2.3, 3.3, 4.4, 7.3

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

For the year ended 30 June 2023

Consolidated entity	Note	Contributed equity $'000	Asset revaluation surplus: Land and buildings $'000	Asset revaluation surplus: Infrastructure assets $'000	Retained profits $'000	Total equity $'000
Balance at 1 July 2021		**386,147**	**292,629**	**566,112**	**748,393**	**1,993,281**
Total comprehensive income for the year						
Net profit after income tax		-	-	-	78,369	**78,369**
Other comprehensive income		-	50,288	(67,213)	7,729	**(9,196)**
Total comprehensive income		**-**	**50,288**	**(67,213)**	**86,098**	**69,173**
Total transactions with the State in its capacity as owner						
Dividends paid	7.2	-	-	-	(42,116)	**(42,116)**
Return of capital to owners	7.2	(97,180)	-	-	-	**(97,180)**
Total transactions with the State in its capacity as owner		**(97,180)**	**-**	**-**	**(42,116)**	**(139,296)**
Balance at 30 June 2022		**288,967**	**342,917**	**498,899**	**792,375**	**1,923,158**
Balance as at 1 July 2022		**288,967**	**342,917**	**498,899**	**792,375**	**1,923,158**
Total comprehensive income for the year						
Net profit after income tax		-	-	-	66,445	**66,445**
Other comprehensive income		-	-	48,210	2,474	**50,684**
Total comprehensive income		**-**	**-**	**48,210**	**68,919**	**117,129**
Total transactions with the State in its capacity as owner						
Dividends paid/payable	7.2	-	-	-	(21,707)	**(21,707)**
Return of capital to owners	7.2	-	-	-	-	**-**
Total transactions with the State in its capacity as owner		**-**	**-**	**-**	**(21,707)**	**(21,707)**
Balance at 30 June 2023		**288,967**	**342,917**	**547,109**	**839,587**	**2,018,580**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated cash flow statement

For the year ended 30 June 2023

Consolidated entity	Note	2023	2022
		$'000	$'000
Cash flows from operating activities			
Receipts from customers		982,591	950,187
Interest received		117	62
GST refunded from the ATO [a]		27,024	20,512
Payments to suppliers and employees		(724,482)	(745,283)
Interest and other costs of finance paid		(86,401)	(79,151)
Income tax paid		(40,357)	(44,034)
Net cash inflow from operating activities	6.3.1	**158,492**	**102,293**
Cash flows from investing activities			
Proceeds from sale of infrastructure, property, plant and equipment		1,368	1,791
Payments for infrastructure, property, plant and equipment, and intangibles		(228,757)	(168,833)
Net proceeds from joint operations		(266)	18,006
Net cash (outflow) from investing activities		**(227,655)**	**(149,036)**
Cash flows from financing activities			
Proceeds from borrowings [b]		372,600	363,300
Repayment of borrowings [c]		(198,500)	(176,650)
Payment of principal element of lease liabilities		(1,097)	(1,029)
Capital repatriation		-	(97,180)
Dividends paid		(15,108)	(42,116)
Net cash inflow from financing activities		**157,895**	**46,325**
Net increase/(decrease) in cash held		**88,732**	**(418)**
Cash at the beginning of the financial year		2,409	2,827
Cash at the end of the financial year		**91,141**	**2,409**

[a] GST refunded from the Australian Taxation Office (ATO) is presented on a net basis.
[b] Proceeds from borrowings includes the borrowings that are new and refinanced during the year.
[c] Repayment of borrowings represents borrowings that were paid down and refinanced during the financial year.

The above consolidated cash flow statement should be read in conjunction with the accompanying notes.

Notes to the financial statements

1. About this report

The consolidated financial report is a general purpose financial report that consists of a consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement, statutory certification and notes accompanying these statements for the year ending 30 June 2023. These are the consolidated financial statements for South East Water Corporation and its controlled entity, Iota Services Pty Ltd, collectively referred to as the Group. South East Water Corporation is a state government owned corporation which has been classified as a for-profit entity for the purposes of financial reporting.

This general purpose financial report has been prepared in accordance with the requirements of Australian Accounting Standards (including Australian Interpretations) and the *Financial Management Act 1994* and other mandatory professional reporting requirements.

The consolidated financial report has been prepared on an accrual and going concern basis and under the historical cost convention, except for infrastructure, property, plant and equipment, derivative financial instruments and the defined benefit obligation, which have been measured at fair value. The consolidated financial report is presented in Australian dollars and all amounts have been rounded to the nearest $1,000 unless otherwise stated.

The consolidated financial report of South East Water Corporation (the Group) for the year ended 30 June 2023 was authorised for issue in accordance with a resolution of the directors on 28th August 2023.

Principles of consolidation

The Group consists of South East Water Corporation (Parent entity) and its controlled entity, Iota Services Pty Ltd. Information relating to the parent entity is disclosed in Note 9.6. In preparing the consolidated financial statements, all intercompany balances and profit and losses resulting from intra-group transactions have been eliminated. Refer to Note 9.6 for information relating to the parent entity and details of the controlled entity.

Significant accounting judgements, estimates and assumptions

In the application of Australian Accounting Standards, management is required to make judgements, estimates and assumptions about the financial information presented. Estimates and associated assumptions are based on professional judgements derived from historical knowledge and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Areas involving a high degree of judgements, estimates and assumptions that can materially impact the financial statements include:

- Note 2.1 – revenue from contracts with customers
- Note 3.2.2 – employee benefits provision
- Notes 4.1 and 8.2.2 – fair value of infrastructure, property, plant and equipment
- Note 4.1 – estimated useful lives of assets and impairment of non-financial assets
- Note 4.3 – recognition and measurement of Software-as-a-Service (SaaS) arrangements
- Note 5.1.1 – impairment of contractual receivables
- Note 5.3 – accrued revenue
- Note 5.5.2 – lease liabilities
- Note 7.1 – income tax and deferred tax recognition
- Note 5.7, 8.2 – estimated fair value of derivative financial instrument
- Note 8.3 – contingent assets and liabilities
- Note 9.3 – actuarial assumptions on defined benefit superannuation

Changes in accounting policies

All accounting policies applied are consistent with those of the prior year, unless otherwise stated.

2. Funding delivery of our services

Introduction:

This section provides information on revenue and income generated by the Group and accounting policies, key estimates and judgements relevant to the understanding of the items recognised in the financial statements.

Structure:

2.1 Revenue from contracts with customers

The Group derives revenue from the transfer of goods and/or services over time and at a point in time in the following revenue streams.

Revenue is recognised when, or as, the performance obligations to the customer are satisfied. Consideration received in advance of recognising the associated revenue from the customer is recorded as a contract liability (refer Note 5.3). Where the performance obligations are satisfied but not yet billed, a contract asset is recorded (refer Note 5.3).

Summary of revenue from contracts with customers

Consolidated entity	**Note**	**2023**	**2022**
		$'000	**$'000**
Revenue from service and usage charges	2.1.1	885,667	890,938
Revenue from developer contributions	2.1.2	123,905	107,214
Other revenue	2.1.3	48,398	54,456
Total revenue from contracts with customers		**1,057,970**	**1,052,608**

2.1.1 Revenue from service and usage charges

Consolidated entity	**Service charges**		**Usage charges**		**Total**	
	2023	**2022**	**2023**	**2022**	**2023**	**2022**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Major services						
Water	65,651	72,372	399,957	413,378	**465,608**	**485,750**
Sewerage	284,117	277,283	98,783	93,754	**382,900**	**371,037**
Trade waste	6,760	6,321	23,943	21,601	**30,703**	**27,922**
Recycled water	1,030	1,009	5,426	5,220	**6,456**	**6,229**
Total	**357,558**	**356,985**	**528,109**	**533,953**	**885,667**	**890,938**

The Group has an ongoing obligation to provide a continuous supply of the major services to our customers in our service region, and so customers simultaneously receive and consume the benefit in line with the group performing its obligations. Service and usage charges are recognised over time.

Service charges are billed quarterly based on a fixed fee and revenue is recognised evenly throughout the financial year to reflect continuous services being provided to customers. Where payments are made in advance by customers to unbilled accounts at reporting date, these payments are classified as contract liabilities as the Group has yet to provide the service (refer Note 5.3). The charges are payable within 14 days.

Water usage and sewerage disposal charges are billed quarterly in arrears and revenue is recognised when water is consumed by customers and sewage waste is disposed by customers. Meter reading is undertaken progressively during the year. An estimation of usage and disposal charges is made at the end of each reporting period for connection where meters were not read at balance date. This is calculated by determining the level of billable service provided multiplied by the cost of each service. The charges are payable within 14 days.

At balance date, the charges for fully satisfied performance obligations that are not yet billed are estimated and classified as contract assets (refer Note 5.3). Where payments are made in advance by customers to unbilled accounts at reporting date, these payments are classified as contract liabilities as the Group has yet to provide the service (refer Note 5.3).

Revenue from ***trade waste disposal charges*** are recognised at a point in time as the service is provided based on the volume of waste disposed by customers.

Revenue from ***recycled water charges*** are recognised over time as the performance obligation is satisfied. The Group measures these charges based on the regulated prices and the volume of water consumed by customers.

2.1.2 Revenue from developer contributions

Consolidated entity	**2023**	**2022**
	$'000	**$'000**
Developer contributed assets	91,715	74,788
New customer contributions	32,190	32,426
Total developer contributions	**123,905**	**107,214**

Developer contributed assets arise when developers pay for the cost of construction of new infrastructure assets and subsequently gift these assets to the Group to maintain in perpetuity.

Revenue from developer contributed assets is recognised at a point in time when the Group has satisfied its performance obligation. Depending on the type of developer application, this can result in the performance obligation being satisfied:

- when the Statement of Compliance is issued to the customer, or
- when the customer is connected to the Group's infrastructure network for the provision of water and sewerage services when no Statement of Compliance is required to be issued.

Revenue is recognised at the fair value of the gifted assets by assessing the value of the works using schedule of rates.

New customer contributions represents non-refundable upfront charges applicable when customers request to build or develop a property and connect to the Group's water supply and sewerage infrastructure network. The charges contribute towards the cost of augmenting the Group's water supply distribution systems and sewerage disposal systems.

Revenue from new customer contributions is recognised at a point in time when the Group has satisfied its performance obligation. The point in time when the Group satisfies its performance obligation will vary depending on the type of application submitted by the customer. As a result, a performance obligation could be satisfied when:

- the Statement of Compliance is issued to the customer, or
- the customer is connected to the Group's infrastructure network for the provision of water and sewerage services when no Statement of Compliance is required to be issued, or
- the customer receives consent from the Group to proceed with their application.

The rates applied to calculate the new customer contributions are regulated by the Essential Services Commission.

2.1.3 Other revenue

Consolidated entity	2023	2022
	$'000	$'000
Sale of goods and services - Iota	10,449	6,916
Other services rendered	26,510	30,657
Net gain on sale of non-current physical assets	548	693
Net gain arising from derivatives for ZEW transactions	-	2,093
Reversal of land revaluation decrements	-	535
Miscellaneous revenue	10,891	13,562
Total other revenue	**48,398**	**54,456**

Sale of goods and services (Iota) relate to the sale of Iota's products, such as OneBox® products, digital meters, and the provision of services, such as plumbing solutions, field services and subscription services. Revenue from sale of goods is recognised at a point in time, where the performance obligation is satisfied when the customer receives the goods purchased and has the ability to direct use of the goods. Revenue from the provision of services (excluding subscription services) is recognised at a point in time, where the performance obligation is satisfied when the services are completed. These services are billed at the completion of the service. Revenue from subscription services are recognised over time, using the output method. The output method is based on the number of products subscribed. Revenue is recognised in the amount to which the Group has a right to invoice as the right to consideration from the customer is the amount that corresponds directly to the number of products subscribed.

Revenue from **other services rendered** is recognised following completion of services being performed and certified, relating to various plumbing services, application, recycled water inspection and meter installation fees. Revenue associated with other services rendered is recognised at a point in time when the Group satisfies its performance obligation for the specified service requested by the customer.

A **net gain on sale of non-current physical assets** is recognised at a point in time when the asset is disposed and transferred to the customer, therefore the performance obligation is satisfied. It is measured as revenue from the sale of an asset less the asset's book value and costs of disposal.

A **net gain arising from derivatives for ZEW transactions** relates to the Group's investment in Zero Emissions Water Limited (ZEW). Refer Note 5.7 for further details on the arrangement.

The Group pays or receives the difference between the floating electricity price and the fixed price set under the agreement for the units of energy supplied into the National Electricity Market by the solar farm. The future settlements of Contract for Difference (CfD) are classified as derivative financial instruments. Upon expiration or exercise of the cash flow derivative, the Group will receive income depending on the position of the cash flow derivative.

The net gain represents the movement in the fair value of the financial instrument compared to the carrying value of the derivative. Any gain is recognised in net result. Refer to Note 8.2 for more information about the judgements and assumptions used in measuring fair value determination of derivative financial instruments.

Miscellaneous income mainly consists of charges for services to third parties such as administration fees for the collection of drainage and parks rates on behalf of Melbourne Water and the Department of Energy, Environment and Climate Action (DEECA). The Group acts as an agent to the third parties. Revenue is recognised over time as and when the collection of drainage and parks rates occurs.

Revenue from contracts with customers

Consolidated entity	2023	2022
	$'000	$'000
Total revenue recognised over-time [(a)]	893,810	899,272
Total revenue recognised at a point in time	164,160	153,336
Total revenue from contracts with customers	**1,057,970**	**1,052,608**

[(a)] Revenue is recognised over a period of time (over-time) when an entity transfers control of a good or service and therefore satisfies the performance obligation, otherwise revenue will be recognised at a point in time.

2.2 Other income

Consolidated entity	2023	2022
	$'000	$'000
Rent income	1,989	1,875
Interest income	117	62
Total other income	**2,106**	**1,937**

Rent income is recognised in accordance with AASB 16 *Leases* on a straight line basis across the term of the rental lease agreement.

Interest income is recognised using the effective interest rate method, in the period in which it is earned.

2.3 Commitments from lease receivables

Revenue from operating leases, where substantially all the risks and benefits remain with the lessor, are recognised as revenue in the periods in which they are incurred. These commitments recorded below are at their nominal value and inclusive of GST. These commitments primarily represent mobile telephone tower rental income on the Group's land and infrastructure, sublease of the depot office area and leases for shop space at Frankston office.

The following table represents non-cancellable operating leases, contracted for at balance date but not recognised in the financial statements as receivables:

Consolidated entity	2023	2022
	$'000	$'000
Not later than 1 year	1,790	1,798
Later than 1 year and not later than 5 years	5,592	5,720
Later than 5 years	5,913	6,412
Total lease receivables (inclusive of GST)	**13,295**	**13,930**
Less GST payable to Australian Taxation Office	(1,209)	(1,266)
Total lease receivables (exclusive of GST)	**12,086**	**12,664**

3. Cost of delivering our services

Introduction:

This section provides information on the expenses incurred by the Group in delivering its services and generating income. It also includes accounting policies, key estimates and judgements that are relevant for an understanding of how these items are recognised in the financial statements.

Structure:

3.1 Operating expenses

Consolidated entity	2023	2022
	$'000	$'000
Bulk water and sewerage charges	499,023	510,366
Operating contracts	86,419	84,957
Taxes, fees and charges	6,025	4,390
Bad debts and expected credit losses	5,376	4,272
Asset write-offs	1,205	1,159
Net loss arising from derivatives for ZEW transactions	2,624	-
Net loss on sale of asset classified as held for sale	-	562
Other expenses	37,760	33,635
Total operating expenses	**638,432**	**639,341**

Bulk water and sewerage charges, comprising of fixed and variable charges, are levied by Melbourne Water for the cost of water the Group purchases, and for sewage treated at Melbourne Water's eastern and western treatment plants. Fixed charges are levied once a month and are recognised on receipt of an invoice from Melbourne Water. Variable charges are levied in arrears and recognised as an expense upon receipt of an invoice. Any variable charges that remain outstanding at period end are accrued.

Operating contracts mainly relate to costs incurred for maintenance services, chemicals, electricity costs are expensed in the reporting period in which they are incurred.

Taxes, fees and charges are made up of land tax, fringe benefits tax, council valuation charges and commercial expenses. They are expensed in the period in which they are incurred.

A **net loss arising from derivatives for ZEW transactions** relates to the Group's investment in Zero Emissions Water Limited (ZEW). Refer Note 5.7 for further details on the arrangement.

The Group pays or receives the difference between the floating electricity price and the fixed price set under the agreement for the units of energy supplied into the National Electricity Market by the solar farm. The future settlements of Contract for Difference (CfD) are classified as derivative financial instruments. Upon expiration or exercise of the cash flow derivative, the Group will receive income depending on the position of the cash flow derivative.

The net loss represents the movement in the fair value of the financial instrument compared to the carrying value of the derivative. Any gain or loss is recognised in net result. Refer to Note 8.2 for more information about the judgements and assumptions used in measuring fair value determination of derivative financial instruments.

Other expenses comprise of materials, insurance and IT costs, which are all recognised as an expense in the reporting period in which they are incurred.

3.2 Our people

3.2.1 Employee benefits cost

Consolidated entity	2023 $'000	2022 $'000
Salaries and wages, annual leave and long service leave	59,452	50,380
Defined benefit superannuation expense	723	1,240
Defined contribution superannuation expense	9,339	8,004
Total employee benefits cost	**69,514**	**59,624**

Salaries and wages, annual leave and long service leave
Employee expenses include all costs related to employment including salaries and wages, fringe benefits tax, leave entitlements, termination payments and WorkCover premiums.

Directly attributable costs for bringing an asset to the location and condition necessary for operation, such as costs of employee benefits arising directly from the construction or acquisition of the item of infrastructure, property, plant and equipment are capitalised.

Superannuation expenses
The amount charged to the consolidated statement of comprehensive income in respect of superannuation represents the contributions made by the Group to superannuation funds for the current service of current staff. Contributions to superannuation plans are charged to the consolidated statement of comprehensive income as the contributions are paid or become payable. The Group's defined benefit superannuation is further disclosed in Note 9.3.

3.2.2 Employee benefits provision

Provision is made for benefits accruing to employees in respect of salaries and wages, annual leave and long service leave for services rendered to the reporting date and recorded as an expense during the period the services are delivered.

Consolidated entity	2023 $'000	2022 $'000
Current		
Annual leave:		
Unconditional and expected to settle within 12 months	5,499	4,950
Unconditional and expected to settle after 12 months	1,269	1,202
Long service leave:		
Unconditional and expected to settle within 12 months	1,447	1,299
Unconditional and expected to settle after 12 months	11,439	10,530
Provisions for on-costs:		
Unconditional and expected to settle within 12 months	1,473	1,377
Unconditional and expected to settle after 12 months	2,648	2,375
Total current employee benefits provision	**23,775**	**21,733**
Non-current		
Long service leave - conditional	2,577	2,599
On-costs	536	519
Total non-current employee benefits provision	**3,113**	**3,118**
Total employee benefits provision	**26,888**	**24,851**

Salaries and wages, annual leave and sick leave
Liabilities for salaries and wages (including non-monetary benefits, annual leave and on-costs) are recognised as part of the employee benefits provision as current liabilities because the Group does not have an unconditional right to defer settlements of these liabilities. The liabilities are measured using remuneration rates which are current at the reporting date.

Depending on the expectation of the timing of settlement, liabilities for salaries and annual leave are measured at:

- undiscounted value – if the Group expects to wholly settle within 12 months; or
- present value – if the Group does not expect to wholly settle within 12 months

No provision has been made for sick leave as all sick leave is a non-vesting benefit and is not expected to exceed current and future sick leave entitlements. As sick leave is non-vesting, an expense is recognised in the consolidated statement of comprehensive income as it is taken.

On-costs including payroll tax, workers' compensation premiums and superannuation are disclosed separately as a component of provision for employee benefits, when the employment to which they relate has occurred.

Long service leave (LSL)
Unconditional long service leave is disclosed as a current liability even where the Group does not expect to settle the liability within 12 months because it will not have the unconditional right to defer the settlement of the entitlement should an employee take leave within 12 months.

The components of this current LSL liability are measured at:

- undiscounted value – if the Group expects to wholly settle within 12 months; or
- present value – if the Group does not expect to wholly settle within 12 months

Conditional long service leave is disclosed as a non-current liability and measured at present value. In this case there is an unconditional right to defer the settlement of the entitlement until the employee has completed the requisite years of service.

Any gain or loss following revaluation of the present value of the non-current liability is recognised as an income or expense. Discount rates, probability factors and wage/salary growth assumptions are provided by Victoria's Department of Treasury and Finance as part of its long service leave financial model.

3.3 Commitments for operating expenditure

Commitments for operating expenditure arise from contracts entered into prior to balance date. These commitments disclosed below are at their nominal value and inclusive of GST.

These future expenditures cease to be disclosed as commitments once the related liabilities are recognised on the consolidated balance sheet.

Consolidated entity	**2023 $'000**	**2022 $'000**
Not later than one year	30,421	23,573
Later than 1 year and not later than 5 years	65,187	68,570
Later than 5 years	12,057	18,646
Total expenditure (inclusive of GST)	**107,665**	**110,789**
Less GST recoverable from Australian Taxation Office	(9,788)	(10,072)
Total expenditure (exclusive of GST)	**97,877**	**100,717**

Refer Note 4.4 and Note 7.3 for details on capital and environmental commitments, respectively.

4. Key assets available to support delivery of our services

Introduction:

This section provides information on infrastructure, property, plant and equipment, and intangible assets that are controlled by the Group and used to deliver its services. It includes relevant accounting policies, key estimates and judgements.

Where the assets included in this section are carried at fair value, additional information is disclosed in Note 8.2 in connection with how those fair values were determined.

Structure:

4.1 Infrastructure, property, plant and equipment
4.2 Reconciliation of movements in carrying values of infrastructure, property, plant and equipment
4.3 Intangible assets
4.4 Capital commitments

4.1 Infrastructure, property, plant and equipment

Consolidated entity	Gross carrying amount		Accumulated depreciation		Net carrying amount	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000	2023 $'000	2022 $'000
Infrastructure assets at fair value	4,183,999	3,929,844	-	-	**4,183,999**	**3,929,844**
Land at fair value	324,522	315,396	-	-	**324,522**	**315,396**
Buildings at fair value	95,712	95,669	(5,552)	(2,774)	**90,160**	**92,895**
Plant and equipment at fair value	82,099	77,120	(48,191)	(47,889)	**33,908**	**29,231**
Leasehold improvements at fair value	2,188	2,188	(2,132)	(2,114)	**56**	**74**
Capital works in progress at cost	119,135	125,681	-	-	**119,135**	**125,681**
Total	**4,807,655**	**4,545,898**	**(55,875)**	**(52,777)**	**4,751,780**	**4,493,121**

Initial recognition
Items of infrastructure, property, plant and equipment are recognised initially at cost. Where an asset is acquired for no or nominal cost, the cost is its fair value at the date of acquisition, being the actual or estimated cost of construction. The Group has a capitalisation threshold of greater than $100 exclusive of GST and the asset must be used for more than twelve months.

The cost of constructed non-financial physical assets includes the cost of all materials used in construction, direct labour on the project and an appropriate proportion of variable and fixed overheads.

The cost of leasehold improvements is capitalised and depreciated over the shorter of the remaining term of the lease or their estimated useful lives.

In accordance with the Group's land development policy, the Group will reimburse developers, subject to the nature of additional works involved, for all or part of their costs incurred in constructing water, sewerage and/or recycling assets. Reimbursements are generally paid on completion of the works, however, in cases where reimbursements are to be paid at an agreed date in the future, a contingent liability is recognised (refer Note 8.3). Developer reimbursements are capitalised with the asset recognised as infrastructure, property, plant and equipment in the consolidated balance sheet.

The accounting policy relating to Right-of-Use assets have been disclosed in Note 5.5.

Subsequent measurement
Infrastructure, property, plant and equipment are subsequently revalued at fair value less accumulated depreciation and impairment. Fair value is determined with regard to the asset’s highest and best use (considering legal or physical restrictions imposed on the asset, public announcements or commitments made in relation to the intended use of the asset).

Revaluations
Revaluations are performed annually for infrastructure assets and for all other assets on a cyclical basis in accordance with Financial Reporting Direction 103 *Non-financial physical assets* such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of the reporting period. A full revaluation normally occurs every five years, but may occur more frequently if fair value assessments indicate material changes in values. Independent valuers are used to conduct these scheduled revaluations.

Revaluation increases or decreases arise from difference between an asset's carrying value and fair value. Revaluation increments are credited directly to equity in the revaluation surplus, except to the extent that an increment reverses a revaluation decrement in respect of the same asset previously recognised as an expense in the net result, the increment is then recognised as revenue in determining the net result. Revaluation decrements are recognised immediately as expenses in the net result, except that, to the extent that a credit balance exists in the revaluation surplus in respect of the same asset then they are debited to the asset revaluation surplus.

The Group's assets relating to land and building were independently valued by the Valuer-General Victoria (VGV) as at 30 June 2021. As at 30 June 2023, the fair value of land and buildings were assessed using indices. No adjustment was made to their carrying values, as it was not considered material. The construction market is being impacted by the uncertainty caused by high inflation, rising interest rates and increased costs of construction due to continued supply chain issues. As at the date of the valuation of buildings, the valuer considers that there are market uncertainties resulting in significant valuation uncertainties. The value assessed at valuation date may therefore change over a relatively short time period.

If land and buildings were measured at historical cost, the carrying amount would be $94.6 million. The carrying amount for infrastructure assets would be $3,603 million if measured using the cost model.

Refer Note 8.2.2 for additional information on fair value determination of infrastructure, property, plant and equipment.

Derecognition and disposal
The carrying amount of an item of infrastructure, property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use.

Gains or losses on the sale of infrastructure, property, plant and equipment are calculated in accordance with AASB 116 *Property, Plant and Equipment*. This is the gross sale proceeds less the book value of the asset less selling expenses (refer Note 2.1.3). Losses are written off as an expense and gains are recognised as revenue in the consolidated statement of comprehensive income. When significant revalued assets are sold, amounts included in the asset revaluation surplus relating to that asset are transferred to retained earnings.

Depreciation
The depreciable amount of all non-current physical assets, excluding land, is depreciated over their useful lives, commencing from the time the asset is held ready for use.

Depreciation rates are reviewed annually and adjustments made where appropriate.

Items of infrastructure, property, plant and equipment are depreciated over their expected useful lives to the Group on the following basis:

Description	**Depreciation method**	**Useful life**
Buildings	Straight line	20 – 50 years
Leasehold improvements	Straight line	2 – 10 years
Infrastructure assets	Straight line	2 – 99 years
Plant and equipment	Reducing balance	4 – 25 years
Plant and equipment (Iota)	Straight line	3 – 20 years

Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount does not exceed its recoverable amount. For the purposes of assessing for impairment, assets are grouped at a whole of business level which is considered to be the lowest level for which there are separately identifiable cash flows (cash generating unit).

The assets concerned are tested as to whether their carrying value exceeds their recoverable amount. Where an asset's carrying value exceeds its recoverable amount, the difference is written off as an 'other economic flow', except to the extent that it can be debited to an asset revaluation surplus amount applicable to that class of asset.

If there is an indication that there has been a reversal in impairment, the carrying amount shall be increased to its recoverable amount. However, this reversal shall not increase the asset's carrying amount above what would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised in prior years.

The recoverable amount for infrastructure assets held primarily to generate net cash inflows is measured at the higher of the value in use and fair value less costs to sell. The recoverable amount for the remaining assets is measured at the higher of current replacement cost and fair value less costs to sell.

Exposure to climate-related matters could be an indicator that an asset (or a group of assets) is impaired. The potential risks and related opportunities from climate-related change are considered as part of the Group's asset impairment review methodology and processes. As at 30 June 2023, there are no climate-related matters that have materially impacted the current carrying value of the Group's assets.

4.2 Reconciliation of movements in carrying values of infrastructure, property, plant and equipment

2023 Consolidated entity	Infrastructure assets $'000	Land $'000	Buildings $'000	Plant and equipment $'000	Leasehold improvements $'000	Capital works in progress $'000	Total $'000
Balance at 1 July	3,929,844	315,396	92,895	29,231	74	125,681	**4,493,121**
Additions	-	9,126	71	14,050	-	270,810	**294,057**
Fair value of assets received from developers	90,708	-	-	-	-	(90,708)	**-**
Transfers between asset classes	186,648	-	-	-	-	(186,648)	**-**
Disposals	(691)	-	(28)	(910)	-	-	**(1,629)**
Gain / (loss) on revaluation	68,872	-	-	-	-	-	**68,872**
Depreciation expense	(91,382)	-	(2,778)	(8,463)	(18)	-	**(102,641)**
Balance at 30 June	**4,183,999**	**324,522**	**90,160**	**33,908**	**56**	**119,135**	**4,751,780**

2022 Consolidated entity	Infrastructure assets $'000	Land $'000	Buildings $'000	Plant and equipment $'000	Leasehold improvements $'000	Capital works in progress $'000	Total $'000
Balance at 1 July	3,756,200	261,806	94,928	30,055	119	259,202	**4,402,310**
Additions	-	1,165	741	10,437	-	222,980	**235,323**
Fair value of assets received from developers	66,436	-	-	-	-	(66,436)	**-**
Transfers between asset classes	291,871	-	-	(1,806)	-	(290,065)	**-**
Disposals	(874)	(1,400)	-	(994)	-	-	**(3,268)**
Gain / (loss) on revaluation	(96,018)	53,825	-	-	-	-	**(42,193)**
Depreciation expense	(87,771)	-	(2,774)	(8,461)	(45)	-	**(99,051)**
Balance at 30 June	**3,929,844**	**315,396**	**92,895**	**29,231**	**74**	**125,681**	**4,493,121**

4.3 Intangible assets

2023 Consolidated entity	IT software	Works in progress	Water entitlements	Large-scale generation certificates	Patents and trademarks	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Gross carrying amount						
Balance at 1 July	193,690	8,410	96,916	223	856	**300,095**
Additions	416	20,268	-	217	-	**20,901**
Transfers between asset classes	6,528	(6,683)	-	-	155	**-**
Disposals	(229)	-	-	(143)	-	**(372)**
Balance at 30 June	**200,405**	**21,995**	**96,916**	**297**	**1,011**	**320,624**
Accumulated amortisation						
Balance at 1 July	(146,696)	-	-	-	(52)	**(146,748)**
Amortisation	(19,976)	-	-	-	(67)	**(20,043)**
Balance at 30 June	**(166,672)**	**-**	**-**	**-**	**(119)**	**(166,791)**
Net book value at 30 June	**33,733**	**21,995**	**96,916**	**297**	**892**	**153,833**

2022 Consolidated entity	IT software	Works in progress	Water entitlements	Large-scale generation certificates	Patents and trademarks	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Gross carrying amount						
Balance at 1 July	174,636	13,930	96,916	72	555	**286,109**
Additions	-	14,051	-	311	-	**14,362**
Transfers between asset classes	19,270	(19,571)	-	-	301	**-**
Disposals	(216)	-	-	(160)	-	**(376)**
Balance at 30 June	**193,690**	**8,410**	**96,916**	**223**	**856**	**300,095**
Accumulated amortisation						
Balance at 1 July	(123,902)	-	-	-	-	**(123,902)**
Amortisation	(22,794)	-	-	-	(52)	**(22,846)**
Balance at 30 June	**(146,696)**	**-**	**-**	**-**	**(52)**	**(146,748)**
Net book value at 30 June	**46,994**	**8,410**	**96,916**	**223**	**804**	**153,347**

Intangible assets represent identifiable non-monetary assets without physical substance, comprising of IT software, works in progress, patents and trademarks, Large-scale Generation Certificates (LGCs) and water entitlements.

Internally generated intangible assets primarily include the development costs of information management systems. These costs are capitalised only if they satisfy the criteria as defined by AASB 138 *Intangible assets*.

Intangible assets acquired separately are initially recognised at cost.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. Costs incurred subsequent to initial acquisition are capitalised when it is expected that additional future economic benefits will flow to the Group.

Intangible assets with finite useful lives are amortised as an expense, commencing from the time the asset is available for use, on the following basis:

Description	Amortisation method	Useful life
IT software	Reducing balance	2 – 5 years
Patents and trademarks	Straight line	8 – 20 years

The amortisation periods are reviewed and adjusted if appropriate at each balance date.

Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses. Water entitlements and LGCs have an indefinite useful life as they are held in perpetuity. As such they are not amortised.

Software costs
Costs incurred for the development of software code that enhances or modifies, or creates additional capability to, existing on-premise systems and meets the definition of and recognition criteria for an intangible asset are recognised as intangible software assets.

Software-as-a-Service (SaaS) arrangements
SaaS arrangements are service contracts where the Group has a right to access a cloud provider's application software over a contract period. However, the Group does not control the underlying software used in the arrangement.

Implementation costs, including costs to configure or customise the cloud provider's application software, are recognised as operating expenses when the services are received.

Where the SaaS arrangement supplier provides both configuration and customisation services, judgement has been applied to determine whether these services are distinct from the underlying use of the application software. Distinct configuration and customisation costs are expensed as incurred as the software is configured or customised, whilst non-distinct configuration and customisation costs are expensed over the SaaS contract term.

Where the Group has developed software code that either enhances, modifies or creates additional capability to the existing owned software to connect with the SaaS arrangement cloud-based application, judgement has been applied in determining whether the changes to the owned software meets the definition of and recognition criteria for an intangible asset in accordance with AASB 138.

Large-scale Generation Certificates
LGCs are recognised as intangible assets on the consolidated balance sheet at cost (in accordance with AASB 138 and Financial Reporting Direction 109 *Intangible Assets*), and are not subject to amortisation as the LGCs have an indefinite life.

Water Entitlements
As at 30 June 2022, the Group held water entitlements arising from its investment in Stage 1 of the Goulburn-Murray Water Connections Project, under the *Bulk Entitlement (Goulburn System – South East Water) Order 2012.* Following completion of the Connections Project in October 2020, the Minister for Water granted new bulk water entitlements under the new *Bulk Entitlement (Goulburn System – South East Water) Order 2022*, as all water committed through the Connections Project for irrigators, the environment and Melbourne retail water corporations can now be delivered, with Traditional Owners also to benefit.

These entitlements came into effect on 1 July 2022 and are based on a fixed entitlement and seasonal allocation. The previous water entitlements held were calculated based on anticipated savings from the Group's investment towards the Stage 1 of the Connections Project. On average, each year the Group expects the new entitlements to represent the same allocation of water from the Murray-Darling Basin as the existing water entitlements.

The new bulk entitlements were issued as a result of the agreement for participating in the Connections Project and as such, the value of the previous entitlements as at 30 June 2022 (cost paid to participate in Connections Project less any disposals) were transferred to the new bulk entitlements as at 1 July 2022.

These entitlements are recognised as an intangible asset and recorded at cost (in accordance with AASB 138 and Financial Reporting Direction 109 *Intangible Assets)* with an indefinite useful life. These entitlements are tested for impairment annually.

Impairment of intangible assets
Intangible assets with indefinite useful lives (and intangible assets not yet available for use) are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Intangible assets with finite useful lives are tested for impairment whenever an indication of impairment is identified.

4.4 Capital commitments

Capital commitments arise from contracts for costs associated with growth and renewal works for water and sewer assets. These commitments are recorded at their nominal value and inclusive of GST.

Total capital expenditure, contracted for at balance date but not provided in the financial statements, payable:

Consolidated Entity	**2023** **$'000**	**2022** **$'000**
Not later than one year	47,774	79,901
Later than 1 year and not later than 5 years	5,658	19,941
Later than 5 years	579	579
Total capital expenditure (inclusive of GST)	**54,011**	**100,421**
Less GST recoverable from the Australian Taxation Office	(4,910)	(9,129)
Total capital expenditure (exclusive of GST)	**49,101**	**91,292**

5. Other assets and liabilities

Introduction:

This section provides information on other assets and liabilities utilised and controlled by the Group in its operations.

Structure:

5.1 Receivables

Consolidated entity	2023 $'000	2022 $'000
Contractual		
Trade debtors (service and usage charges)	85,947	102,083
Allowance for expected credit losses	(8,519)	(7,000)
Total contractual receivables	**77,428**	**95,083**
Statutory		
GST input tax credits receivable	7,157	6,652
Total statutory receivables	**7,157**	**6,652**
Total receivables	**84,585**	**101,735**

Contractual receivables, such as trade debtors in relation to goods and services, are classified as financial assets at amortised cost. They are initially recognised at fair value plus any directly attributable transaction cost. The Group holds the contractual receivables with the objective to collect the contractual cash flows and therefore subsequently measures them at amortised cost using the effective interest method, less any impairment.

Trade debtors are normally required to be settled within 14 days. Any overdue balances are assessed for impairment, refer to Note 5.1.1.

Statutory receivables, such as Goods and Services Tax (GST) input tax credit recoverable are not classified as financial instruments as they don't arise from contracts. They are recognised and measured similar to contractual receivables (except for impairment).

5.1.1 Impairment of contractual receivables

The Group applies the simplified approach to calculate expected credit losses which uses a lifetime expected loss allowance for contractual receivables based on historical credit loss experiences adjusted for forward looking forecast assumptions about risk of default and expected loss rates. The assessment is completed at the end of each reporting period.

To measure the expected credit losses, trade receivables have been grouped on shared customer profile characteristics and the days past due. The expected loss rates are based on the bad debts profiles over a period of three years and adjusted to reflected current and forward looking information affecting the ability of customers to pay their receivables, such as macroeconomic market conditions, consumer and business confidence metrics, customer growth rates within South East Water's service region, as well as hardship arrangements, payment plans and paused debt collection activities in support for customers. We have also considered impacts from specific management actions and our engagement with our customer base. This is evident in the continued growth of our trade debtors as at reporting date with an increasing number of customers with debt more than 90 days past due, and an increase in customers who are utilising hardship provision arrangements and payment plans to gradually reduce their debt.

Consolidated entity	**Current**	**More than 30 days past due**	**More than 90 days past due**	**Total**
1 July 2023	**$'000**	**$'000**	**$'000**	**$'000**
Expected loss rate	1.81%	12.98%	14.73%	
Gross carrying amount - trade debtors	30,304	12,970	42,673	**85,947**
Loss allowance	**548**	**1,684**	**6,287**	**8,519**

Consolidated entity	**Current**	**More than 30 days past due**	**More than 90 days past due**	**Total**
1 July 2022	**$'000**	**$'000**	**$'000**	**$'000**
Expected loss rate	1.50%	14.74%	13.39%	
Gross carrying amount - trade debtors	57,146	9,560	35,377	**102,083**
Loss allowance	**855**	**1,409**	**4,736**	**7,000**

Contractual receivables are written off when there is no reasonable expectation of recovery and impairment losses are classified under other operating expenses. Indicators of non-recovery include, but not limited to, the failure of a debtor to engage in a repayment plan and failure to make contractual payments for a period of greater than 90 days past due. Subsequent recoveries of amounts previously written off are credited against the same line item.

There are no material financial assets that are individually determined to be impaired.

The closing allowance for expected credit losses for trade receivables reconciles to the opening loss allowances as follows:

Consolidated entity	**2023**	**2022**
	$'000	**$'000**
Balance at 1 July	**(7,000)**	**(4,758)**
(Increase)/decrease in provision recognised in the net result	(5,795)	(4,321)
Receivables written off during the year as uncollectible	4,290	2,109
Reversal of unused provision recognised in the net result	(14)	(30)
Balance at 30 June	**(8,519)**	**(7,000)**

No loss allowance is recognised for statutory receivables because there is minimal risk of default.

5.2 Payables

Consolidated entity	2023	2022
	$'000	$'000
Contractual		
Trade creditors	4,872	1,706
Accrued expenses	101,631	97,703
Total contractual payables	**106,503**	**99,409**
Statutory		
Taxes payable	2,757	1,409
Other payables	17,464	-
Total statutory payables	**20,221**	**1,409**
Total payables	**126,724**	**100,818**

Payables consists of:

- **contractual payables**, classified as financial instruments and measured at amortised cost. Trade creditors and accrued expenses represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid.
- **statutory payables**, that are recognised and measured similarly to contractual payables, but are not classified as financial instruments, because they do not arise from a contract.

Payables for supplies and services normally have an average credit period of 10 business days, with all payables due and payable within 12 months.

5.3 Contract assets and contract liabilities

Consolidated entity	2023	2022
	$'000	$'000
Accrued revenue – water and sewerage services	75,019	72,553
Developer contributed assets	2,165	2,186
Other income	613	628
Total contract assets	**77,797**	**75,367**
Developer contributed assets	5,098	2,100
New customer contributions	27,565	19,961
Other income	7,406	4,197
Total contract liabilities	**40,069**	**26,258**

Accrued revenue is recognised to account for water and sewage services that have been provided to customers at balance date but not yet billed.

Accrued revenue takes into account the total volume of water purchased from Melbourne Water less the estimated non-revenue water to determine the volume of water available for consumption. Non-revenue water relates to water that is unmetered for, leak adjustments in the water distribution network before reaching customers or authorised unmetered consumption (such as usage for firefighting and other fire service activities). The accrued revenue is then calculated by taking the difference between what has been billed during the year and the volume of water available for consumption multiplied by the price approved by the Essential Services Commission (ESC).

Contract assets primarily relate to the Group's rights to consideration for work completed but not billed at the reporting date on developer contributions and other income. The contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the Group issues an invoice to the customer.

Contract liabilities represent consideration received in advance of the Group performing its contract obligations and will be recognised as revenue when the services are performed (refer Note 2.1 for further details of the performance obligation).

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities.

2023 **Consolidated entity**	**Developer contributed assets**	**New customer contributions**	**Other income**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
Balance at 1 July	**2,100**	**19,961**	**4,197**	**26,258**
Less: Revenue recognised in the reporting period for the completion of a performance obligation	(1,776)	(13,930)	(2,722)	**(18,428)**
Add: Receipts or consideration for performance obligations yet to be complete(during the period	4,774	21,534	5,931	**32,239**
Balance at 30 June	**5,098**	**27,565**	**7,406**	**40,069**

2022 **Consolidated entity**	**Developer contributed assets**	**New customer contributions**	**Other income**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
Balance at 1 July	**3,029**	**9,091**	**6,313**	**18,433**
Less: Revenue recognised in the reporting period for the completion of a performance obligation	(2,729)	(5,624)	(6,032)	**(14,385)**
Add: Receipts or consideration for performance obligations yet to be completed during the period	1,800	16,494	3,916	**22,210**
Balance at 30 June	**2,100**	**19,961**	**4,197**	**26,258**

5.4 Deposits and advances

Consolidated entity	**2023**	**2022**
	$'000	**$'000**
Advances	12,755	12,615
Unearned income	785	803
Deferred government grant income	13,633	-
Total deposits and advances	**27,173**	**13,418**

Advances consists mainly of monies held by the Group as security deposits from developers for capital works.

Unearned income represents rental income received in advance.

Deferred government grant income represents consideration received from Government agencies in advance, where conditions attached to the grant remain unfulfilled at balance date.

5.5 Right-of-use assets and leases liabilities

5.5.1 Right-of-use assets

2023 Consolidated entity	Land	Buildings	Equipment	Total
	$'000	$'000	$'000	$'000
Balance at 1 July	**888**	**7,601**	**191**	**8,680**
Modification adjustments	-	126	-	**126**
Depreciation expense	(67)	(837)	(96)	**(1,000)**
Balance at 30 June	**821**	**6,890**	**95**	**7,806**

2022 Consolidated entity	Land	Buildings	Equipment	Total
	$'000	$'000	$'000	$'000
Balance at 1 July	**765**	**8,237**	**223**	**9,225**
Additions	213	-	157	**370**
Modification adjustments	(9)	105	9	**105**
Depreciation expense	(81)	(741)	(198)	**(1,020)**
Balance at 30 June	**888**	**7,601**	**191**	**8,680**

The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets, except for short-term leases and leases of low value assets. The right-of-use asset and corresponding liability are initially measured at the present value of the future lease payments.

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are initially measured at cost comprising the amount of lease liabilities initially recognised, initial direct costs incurred, and lease payments made at or before the lease commencement date less any lease incentives received. The net present value of the remaining lease payments is often an appropriate proxy for the fair value of relevant right-of-use assets at the time of initial recognition.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Description	Depreciation method	Useful life
Buildings	Straight line	2 – 15 years
Land	Straight line	2 – 25 years
Equipment	Straight line	2 – 5 years

Where the Group obtains ownership of the underlying leased assets or if the cost of the right-of-use asset reflects that the entity will exercise a purchase option, the entity depreciates the right-of-use asset over its useful life.

Subsequently, the right-of-use assets are measured under a fair value model. The Group applies the revaluation model in AASB 16 to right-of-use assets that relate to a class of property, plant and equipment. The revaluation model is applied to all of the right-of-use assets that relate to that class of property, plant and equipment. Under this valuation method, the right-of-use assets were assessed against market rental indicators and other relevant observations (such as size and location), where comparable, to determine any material movements in fair value. There were no material movements in fair value at 30 June 2023.

5.5.2 Lease liabilities

The following table represents the movement of lease liabilities:

Consolidated entity	2023 $'000	2022 $'000
Opening Balance	9,397	9,697
Additions	-	369
Modification adjustments	127	62
Interest expense	255	298
Payment of principal element of lease liabilities	(1,097)	(1,029)
Total lease liabilities	**8,682**	**9,397**

The following amounts were recognised in the consolidated statement of comprehensive income for the year ending 30 June 2023 in respect of leases where the Group is the lessee:

Consolidated entity	2023 $'000	2022 $'000
Interest expense	255	298
Expenses relating to short term leases [a]	101	102
Expenses relating to leases of low-value assets[a]	29	55
Income from sub leasing right-of-use assets	(57)	(147)
Depreciation expense of right of use asset	1,000	1,020
Total amounts recognised in consolidated statement of comprehensive income	**1,328**	**1,328**

[a] These expenses are recognised in other expenses in Note 3.1.

The Group leases various properties (buildings, car parks and land) and equipment. Lease agreements are typically made for fixed periods of 2 to 20 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term.

Lease payments include:

- fixed payments less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- lease extensions where there is an option to extend the term of the lease; and
- the exercise price of purchase options reasonably certain to be exercised by the Group.

The lease payments are discounted using the lessee's incremental borrowing rate, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Subsequent to initial measurement, the lease liabilities will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group's lease liabilities are included in interest bearing liabilities (refer Note 6.1).

Lease extensions and termination options

Some land and building leases contain extension options exercisable by the Group. In determining the lease term, the Group considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. The Group assesses at the commencement date of the lease whether it is reasonably certain to exercise the extension options. In addition, the Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or changes in circumstances within its control.

Short-term leases and leases of low-value assets
Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the consolidated statement of comprehensive income. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise land, IT equipment and photocopiers with individual values less than $10,000 when new.

At 30 June 2023 the Group was committed to short term and/or low value leases and total commitment at that date was $0.1 million (2021–22: $0.2 million).

5.6 Other assets

Consolidated entity	2023	2022
	$'000	$'000
Inventories	5,169	4,776
Prepayments	6,971	4,874
Total other assets	**12,140**	**9,650**

Inventories consists of a variety of items on hand including stock, stores and materials for operational and maintenance purposes. These items are measured at the lower of weighted average cost and net realisable value.

Prepayments represents payments in advance of receipt of goods and services or that part of expenditure made in one accounting period covering beyond that period.

5.7 Other financial assets and liabilities

Consolidated entity	2023	2022
	$'000	$'000
Other financial assets		
Derivative financial instrument	-	1,047
Investment in ZEW	15	15
Total other financial assets	**15**	**1,062**
Other financial liabilities		
Derivative financial instrument	1,759	-
Total other financial liabilities	**1,759**	**-**

ZEW transactions and balances
South East Water Corporation is one of 12 water corporation Members of Zero Emissions Water Limited (ZEW), a public company limited by guarantee. ZEW's substantial objective is to acquire electricity, contracts for difference and other derivative products in relation to electricity, and/or green products from an energy and emissions reduction facility in Victoria and in turn supply these products to its Members. This vehicle provides the opportunity for water corporation members to collaboratively promote energy and emissions reduction initiatives in Victoria and to reduce emissions.

On 30 October 2018, a Members' Agreement was entered into between the water corporations and ZEW in order to regulate their rights and obligations as members of ZEW and as participants in the project. The Members' Agreement established the operating activities of ZEW and the decision-making responsibilities of the ZEW Directors.

Under the Members' Agreement, South East Water Corporation's liability as a member is limited to $10 in the event of a wind up. As required by Australian Accounting Standards, management has assessed the nature of its relationship with ZEW, and has concluded that it does not have control, joint control or significant influence over ZEW. South East Water Corporation will account for its investment in ZEW as a financial instrument within the scope of AASB 9 *Financial Instruments.* ZEW is a related party of South East Water Corporation.

The Members' Agreement specifies that ZEW may call on the South East Water Corporation to make a loan available to ZEW amounting to $233,000. The loan, if requested by ZEW, would meet the definition of a financial asset as it gives rise to a contractual right for us to receive cash from ZEW at the end of the loan term. In 2020–21, ZEW requested and received a loan payment of $14,500. As this loan is concessional, it has been treated as an investment in ZEW and measured at amortised cost.

On 30 October 2018, ZEW also entered into an 11-year Power Purchasing Agreement (PPA) with a solar farm energy generator whereby ZEW acts as a central intermediary between the energy generator and the water corporations. The PPA contains a contract for difference (CfD) payment mechanism in respect of electricity generated by the facility and the sale and supply of large-scale generation certificates (LGCs) from the facility.

On 22 January 2021, the conditions precedent in the PPA was completed and the CfD derivative was recognised as a financial liability measured at its fair value. Subsequent changes in the derivative's fair value have been recognised in profit and loss. Refer to Note 8.2 for more information about the judgements and assumptions used in measuring fair value determination of derivative financial instruments.

South East Water Corporation now has an obligation to purchase its percentage of energy allocation under the Members' Agreement via the CfD derivative. South East Water Corporation's allocation is based on approximately 40% of ZEW's electricity consumption. The financial impact of the Members' Agreement with ZEW has resulted in increased revenue and expenses, and the recognition of a derivative financial instruments and LGCs as intangible assets.

6. Financing our operations

Introduction:

This section provides information on the sources of finance utilised by the Group during its operations, along with interest expenses (the cost of interest bearing liabilities) and other information related to financing activities of the Group.

Structure:

6.1 Interest bearing liabilities

Consolidated entity	2023 $'000	2022 $'000
Current		
Borrowings	-	55,900
Lease liabilities	894	845
Total current interest bearing liabilities	**894**	**56,745**
Non-current		
Borrowings	2,467,550	2,237,550
Lease liabilities	7,788	8,552
Total non-current interest bearing liabilities	**2,475,338**	**2,246,102**
Total interest bearing liabilities	**2,476,232**	**2,302,847**

Borrowings are sourced from the Treasury Corporation of Victoria and secured by the Treasurer in the form of a government guarantee.

Borrowings are classified as financial instruments. All interest bearing borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. The measurement basis subsequent to initial recognition is based on the classification of interest bearing liabilities as financial liabilities at 'amortised cost'. This classification is determined at initial recognition.

The Group has classified borrowings which mature within 12 months as non-current liabilities on the basis that the entity will, and has the discretion to, refinance or rollover these loans with the Treasury Corporation of Victoria, pursuant to section 8 of the *Borrowings and Investment Powers Act 1987*. Borrowings known as 11am debt are classified as current borrowings at floating interest rate.

During the current and prior year, there were no defaults and breaches of any of the borrowings.

Lease liabilities are determined in accordance with AASB 16 (refer Note 5.5).

6.1.1 Maturity analysis of interest bearing liabilities

Consolidated entity	Less than 1 year $'000	1 to 5 years $'000	More than 5 years $'000	Total $'000
30 June 2023				
Borrowings – floating interest rate	-	-	-	**-**
Borrowings – fixed interest rate	233,730	988,620	1,245,200	**2,467,550**
Lease liabilities	894	3,904	3,884	**8,682**
Total interest bearing liabilities	**234,624**	**992,524**	**1,249,084**	**2,476,232**
30 June 2022				
Borrowings – floating interest rate	30,900	-	-	**30,900**
Borrowings – fixed interest rate	25,000	896,125	1,341,425	**2,262,550**
Lease liabilities	845	3,890	4,662	**9,397**
Total interest bearing liabilities	**56,745**	**900,015**	**1,346,087**	**2,302,847**

6.2 Finance costs

Consolidated entity	2023 $'000	2022 $'000
Interest expense from financial liabilities at amortised cost	63,907	53,911
Financial accommodation levy	24,992	23,756
Interest expense from lease liabilities	255	298
Bank charges	23	21
Total finance costs	**89,177**	**77,986**

Finance costs consists of interest and other costs incurred in connection with the borrowing of funds and are recognised as expenses in the period in which they are incurred. All qualifying assets (being assets that necessarily take a substantial period of time to get ready for their intended use or sale) are measured at fair value. Therefore any finance costs directly attributable to the acquisition, construction or production of these qualifying assets are not required to be capitalised and will continue to be expensed in the period in which they are incurred.

Financial accommodation levy is a levy applied to the Group to remove the market advantage that government entities may experience in borrowings as a result of being guaranteed by the State of Victoria. The financial accommodation levy is a commercial rate charged for new borrowings based on the Groups underlying credit rating and is paid into the State's Consolidated Fund in accordance with section 40N of the *Financial Management Act 1994* in respect of financial accommodation provided to the Group by the State Government of Victoria.

6.3 Cash flow information

For the purposes of the consolidated cash flow statement, cash includes cash at bank and on hand.

6.3.1 Reconciliation of net result to cash flow from operating activities

Consolidated entity	2023 $'000	2022 $'000
Net result after income tax	**66,445**	**78,369**
Depreciation and amortisation	123,676	122,917
Write-off of non-current assets	1,205	1,159
Net (profit) / loss on sales of assets	(157)	(131)
Developer contributed assets (received free of charge)	(91,715)	(74,788)
Defined benefit (income) / expenses	572	1,240
Net (gain) / loss on financial instruments	9,500	6,513
Other non-cash movements lease related	255	298
Changes in operating assets and liabilities		
(Increase) / decrease in receivables	10,274	(34,738)
(Increase) / decrease in contract assets	(2,430)	2,979
(Increase) / decrease in other assets	(2,490)	753
Increase / (decrease) in payables	19,538	7,692
Increase / (decrease) in contract liabilities	13,811	7,824
Increase / (decrease) in income tax payable	(6,817)	(4,167)
Increase / (decrease) in net deferred tax liabilities	(4,178)	(7,019)
Increase / (decrease) in provisions	1,920	(2,606)
Increase / (decrease) in deposits and advances	13,756	(396)
Increase / (decrease) in derivative financial instrument	2,806	(2,143)
Increase / (decrease) in accrued interest payable	2,521	(1,463)
Net cash inflow from operating activities	**158,492**	**102,293**

7. Statutory obligations

Introduction:

This section provides information on the statutory financial obligations of the Group.

Structure:

7.1 Income tax
7.2 Dividends and capital repatriation
7.3 Environmental contribution levy

7.1 Income tax

Consolidated entity	2023 $'000	2022 $'000
(a) Income tax expense		
The major components of income tax expense are:		
Current tax	33,540	39,866
Deferred tax expense / (income) relating to timing differences	(4,177)	(7,019)
	29,363	**32,847**
(b) Deferred income tax recognised in other comprehensive income		
Gain / (loss) on revaluation of infrastructure assets	20,660	(28,806)
Gain / (loss) on revaluation of land and buildings	-	3,003
Gain / (loss) on defined benefit superannuation plan actuarial	1,059	3,313
	21,719	**(22,490)**
(c) Reconciliation of income tax expense to prima facie tax payable		
Accounting profit before tax	**95,808**	**111,216**
Income tax calculated @ 30%	28,742	33,365
Add		
Non-assessable gain from the sale of pre-CGT land	-	169
Non-deductible expenses	72	66
Other adjustments	549	(753)
	29,363	**32,847**
(d) Income tax position		
Current tax payable	**2,575**	**9,392**
(e) Deferred tax items		
Deferred tax liabilities		
Defined benefit superannuation asset	4,033	3,145
Contract assets	833	845
Land and buildings	17,743	17,793
Infrastructure assets [a]	478,088	456,808
Total deferred tax liabilities	**500,697**	**478,591**
Recognised directly in equity	316,572	294,851
Recognised directly in net profit	184,125	183,740
Total deferred tax liabilities	**500,697**	**478,591**

[a] The majority of South East Water's deferred tax liability relates to infrastructure assets and the deferred tax payment will only be required if and when the Group is sold.

Consolidated entity	2023 $'000	2022 $'000
Deferred tax assets		
Provisions	(2,558)	(2,143)
Contract liability	(10,091)	(7,510)
Employee benefits	(8,066)	(7,456)
Property, plant and equipment	(6,229)	(6,196)
Leasehold improvements future deductible amounts	(309)	(318)
Other	(952)	(18)
Total deferred tax assets	**(28,205)**	**(23,641)**
Recognised directly in net profit	(28,205)	(23,641)
Total deferred tax assets	**(28,205)**	**(23,641)**
Net deferred tax liabilities	**472,492**	**454,950**

The Group is subject to the National Tax Equivalent Regime (NTER), pursuant to section 88(1) of the *State Owned Enterprises Act 1992,* which is administered by the Australian Taxation Office (ATO). The difference between the NTER and the Commonwealth legislation is that the tax liability is paid to the Victorian State Government rather than the Commonwealth Government.

Income tax on the consolidated statement of comprehensive income for the year comprises current and deferred tax. Income tax is recognised in the consolidated statement of comprehensive income except to the extent that it relates to items recognised directly in equity.

Current tax is the expected tax payable on the taxable income for the year, based on the national corporate income tax rate of 30%, adjusted by changes in deferred tax assets and liabilities and any adjustment to tax payable in respect of previous years.

Deferred tax is providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes at balance date.

Deferred tax assets and liabilities are recognised at the tax rates expected to apply when the assets are recovered or liabilities are settled based on those tax rates which are enacted or substantially enacted at balance date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax liabilities are reported net of any deferred tax assets.

The Group has formed an income tax consolidated group consisting of South East Water Corporation and Iota Services Pty Ltd. South East Water Corporation is the head entity of the tax consolidated group.

7.2 Dividends and capital repatriation

7.2.1 Dividends

Consolidated entity	**2023** **$'000**	**2022** **$'000**
Final dividend paid during 2021–22 in respect of 2020–21	-	24,800
Interim dividend paid during 2021–22 in respect of 2021–22	-	17,316
Final dividend paid during 2022–23 in respect of 2021–22	15,108	-
Interim dividend paid/payable during 2022–23 in respect of 2022–23	6,599	-
Total dividends	**21,707**	**42,116**

Under the *Water Act 1989,* the Group is required to pay a dividend to the State of Victoria in accordance with a determination by the Treasurer of Victoria. An obligation to pay a dividend only arises after a formal determination is made by the Treasurer following consultation between the Board, the relevant portfolio Minister and the Treasurer.

7.2.2 Capital repatriation

Consolidated entity	**2023** **$'000**	**2022** **$'000**
Capital repatriation	-	97,180
Total capital repatriation	**-**	**97,180**

Pursuant to Financial Reporting Direction 119 *Transfers through Contributed Capital* under the *Financial Management Act 1994*, the Minister for Water designated the Group to repatriate capital back to the state.

On 29 June 2023, the Treasurer for the State of Victoria determined a capital repatriation payment of $97.2 million for the Group, payable on 31 July 2023. Under FRD 119 *Transfers through contributed capital*, this transfer is deemed to occur on the effective date, which is the date the capital repatriation is paid. Therefore, a capital repatriation payable has not been recognised for the Group's financial statements as at 30 June 2023.

7.3 Environmental contribution levy

Consolidated entity	**2023** **$'000**	**2022** **$'000**
Environmental contribution levy	43,461	43,461
Total environmental contribution levy	**43,461**	**43,461**

The *Water Industry (Environmental Contributions) Act 2004* (the Act) amended the *Water Industry Act 1994* to make provision for environmental contributions to be paid by water authorities. The Act establishes an obligation for authorities to pay annual contributions into a consolidated fund in accordance with the pre-established schedule of levy payments, which sets out the amounts payable by water authority. The levy payments commenced on 1 October 2004 and has since been extended until 30 June 2024.

The purpose of the environmental contribution levy is set out in the Act and the funding may be used for financing initiatives that seek to promote the sustainable management of water or address water-related initiatives. The Group has a statutory obligation to pay the environmental contribution levy to the Department of Energy, Environment and Climate Action. This contribution is recognised as an expense during the reporting period incurred.

Environmental contribution levy commitment

The environmental contribution levy at balance date, committed to in the future:

Consolidated entity	**2023 $'000**	**2022 $'000**
Not later than one year	43,461	43,461
Later than 1 year and not later than 5 years	-	43,461
Total environmental contribution levy commitment	**43,461**	**86,922**

8. Risk, valuation judgements and contingencies

Introduction:

The Group is exposed to financial risk from its activities and outside factors. In addition, it is often necessary to make judgements and estimates associated with recognition and measurement of items in the financial statements.

This section sets out financial instrument specific information (including exposures to financial risks), as well as those items that are contingent in nature or require a higher level of judgement to be applied, which for the Group related mainly to fair value determination.

Structure:

8.1 Financial instruments specific disclosures

Financial instruments arise out of contractual arrangements that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Due to the nature of the Group's activities, certain financial assets and financial liabilities arise under statute rather than a contract (for example taxes, fines and penalties) – these assets and liabilities are not considered financial instruments.

Categories of financial instruments

Financial assets at amortised cost

Financial assets are measured at amortised costs if both of the following criteria are met:

- the asset is held within a business model whose objective is to collect the contractual cash flows
- the contractual terms give rise to cash flows that are solely payments of principal and interest.

Initial recognition
These assets are initially recognised at fair value plus any directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method less any impairment. The Group recognises the following assets in this category:

- cash
- receivables (excluding statutory receivables)
- investment in ZEW

Derecognition of financial assets: A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired, or
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement, or
- the Group has transferred its rights to receive cash flows from the asset and either:
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has neither transferred nor retained substantially all the risks and rewards or transferred control, the asset is recognised to the extent of the Group's continuing involvement in the asset.

Impairment of financial assets: At the end of each reporting period, the Group assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. Climate-related matters may be relevant in the calculation of expected credit losses if, for example, they impact the range of potential future economic scenarios or assessment of significant increases in credit risk. All financial instrument assets, except those measured at fair value through profit or loss, are subject to annual review for impairment.

The Group has been recognising an allowance for expected credit losses for the relevant financial instruments (refer Note 5.1.1).

Financial liabilities at amortised cost

Financial liabilities at amortised cost are initially recognised on the date they are originated. They are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial instruments are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the liability, using the effective interest rate method where applicable. The Group recognises the following liabilities in this category:

- payables (excluding statutory payables)
- deposits and advances
- interest bearing liabilities

Derecognition of financial liabilities: A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of comprehensive income.

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss are categorised at fair value through profit or loss at trade date, or if they are classified as held for trading or designated as such upon initial recognition.

Derivative financial instruments are classified as held for trading financial assets and liabilities. They are initially recognised at fair value on the date on which all contractual obligations under Conditions Precedent are met and on subsequent measurement. The initial expense recognised represents the fair value of the expected future settlements at initial recognition (refer Note 3.1).

Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Any gains or losses arising from changes in fair value of derivatives after initial recognition are recognised in the consolidated statement of comprehensive income (refer Note 2.1.3).

Financial risk management objectives and policies

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and interest rate risk. The board reviews and endorses policies for managing these risks. The Group uses different methods to measure and manage the different risks to which it is exposed. Primary responsibility for the identification and management of financial risks rests with the Group's Finance, Assurance and Risk Management committee.

As a whole, the Group's financial risk management program seeks to manage these risks and the associated volatility of its financial performance. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement, and the basis on which income and expenses are recognised, are disclosed in the financial asset and financial liability categories above.

The main purpose in holding financial instruments is to prudentially manage the Group's financial risks within the policy parameters adopted by the board.

Financial instruments: Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's exposure to credit risk is influenced by the individual characteristics of each customer.

Financial asset impairment under AASB 9
The Group has a broad customer base dispersed across the Group's service area. Receivable balances are monitored on an ongoing basis and as such the Group is not exposed to significant bad debts. The Group applies the AASB 9 simplified approach to measuring expected credit losses using a lifetime expected loss allowance for all receivables. The Group is continuously monitoring and

assessing its credit risk profile due to the current economic impacts affecting customers. As a result, the Group has adjusted the credit risk profile in assessing the expected loss allowance in 2022–23 (refer Note 5.1.1).

Derivative

The Group's other credit risk arises from in-the-money receipts due from the Contracts for Difference derivative under the ZEW PPA. The Group determines its maximum exposure to credit risk relating to the derivative financial instrument at reporting date as the sum of the nominal values of all forecasted net cash receipts where the floating price due by the proponent exceeds the fixed price payable by the Group over the remaining PPA term.

At 30 June 2023, the Group has no other significant credit risk. There has been no material change to the Group's credit risk profile in 2022–23.

Financial instruments: Liquidity risk

Liquidity risk refers to the risk of not being able to meet short-term working capital needs and the financing of new and maturing debt as they fall due.

The Group is exposed to liquidity risk mainly through the financial liabilities as disclosed in the face of the consolidated balance sheet and the amounts related to financial guarantees. The Group manages liquidity risk by maintaining and conducting efficient banking practices and account structures, sound cash management practices and regular monitoring of the maturity profile of assets and liabilities, together with anticipated cash flows.

The Group obtains annual approval from the Treasurer of Victoria for new borrowings, borrowings to refinance maturing and non-maturing loans and temporary purpose borrowing facilities.

The Group has adopted a long-term capital structure that targets a gearing ratio of less than 60% and funds from operations (FFO) net interest coverage of 2.0 to 3.0 times. These targets are used to ensure the Group is financially sustainable in the medium to long term. The gearing and interest coverage ratios for the years ended 30 June 2023 and 30 June 2022 are:

	2023	**2022**
Gearing - Net Debt/(Net Debt + Equity)	54.2%	54.5%
FFO net interest cover (times)	2.8	2.3

The Group's exposure to liquidity risk is deemed insignificant based on prior periods' data and current assessment of risk. The carrying amounts of contractual financial liabilities recorded in the financial statements represents the Group's maximum exposure to liquidity risk.

Financial instruments: Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of adverse movements in interest rates relates primarily to its debt obligations with terms to maturity or next interest rate reset of less than one year.

The Group minimises its exposure to interest rate changes by holding a mix of fixed and floating rate debt. Debt is sourced from Treasury Corporation Victoria and is managed within a range of Board approved limits with debt levels and interest rates being monitored regularly.

The carrying amounts of financial assets and financial liabilities that are exposed to interest rates are set out in the following table.

2023	Weighted average interest rate	Carrying amount $'000	Fixed interest rate $'000	Variable interest rate $'000	Non-interest bearing $'000
Financial assets					
Cash	2.99%	91,141	-	91,141	-
Receivables		77,428	-	-	77,428
Investment in ZEW		15	-	-	15
Total financial assets		**168,584**	**-**	**91,141**	**77,443**
Financial Liabilities					
Payables		(106,503)	-	-	(106,503)
Deposits and advances		(27,173)	-	-	(27,173)
Derivative financial instrument		(1,759)	-	-	(1,759)
Borrowings - fixed interest rate	2.52%	(2,467,550)	(2,467,550)	-	-
Lease liabilities	2.85%	(8,682)	(8,682)	-	-
Total financial liabilities		**(2,611,667)**	**(2,476,232)**	**-**	**(135,435)**

2022	Weighted average interest rate	Carrying amount $'000	Fixed interest rate $'000	Variable interest rate $'000	Non-interest bearing $'000
Financial assets					
Cash	0.28%	2,409	-	2,409	-
Receivables		95,083	-	-	95,083
Derivative financial instrument		1,047	-	-	1,047
Investment in ZEW		15	-	-	15
Total financial assets		**98,554**	**-**	**2,409**	**96,145**
Financial Liabilities					
Payables		(99,409)	-	-	(99,409)
Deposits and advances		(13,418)	-	-	(13,418)
Borrowings - floating interest rate	0.30%	(30,900)	-	(30,900)	-
Borrowings - fixed interest rate	2.40%	(2,262,550)	(2,262,550)	-	-
Lease liabilities	2.84%	(9,397)	(9,397)	-	-
Total financial liabilities		**(2,415,674)**	**(2,271,947)**	**(30,900)**	**(112,827)**

Interest rate risk sensitivity

As at 30 June 2023, if interest rates changed by +/- 100 basis points from the year end rates with all other variables held constant, post-tax profit would have been $1.928 million lower / higher (2021–22: $1.586 million at +/- 100 basis points) as a result of higher / lower interest expense from variable interest rate borrowings.

Financial instruments: price risk

The Group uses the Contract for Difference derivative financial instrument to manage energy related commodities purchased in the normal course of business, and therefore entered into this PPA to minimise a portion of the price risk to the Group. The Group's sensitivity to price risk is set out in Note 8.2.1.

Other risks – Climate related risk

Climate change is a risk to the Group and includes the physical risk which can cause direct damage to operations, assets, or property as a result of rising global temperatures, as well as transition risks which arise from the transition to low-carbon economy. At present, the Group is primarily exposed to climate change risk through extreme weather events such as fires, storms, high winds, floods and drought. These extreme weather events may affect our capability to supply water to our customers and may increase the cost of operations. Changes in global climate conditions may intensify one or more of these events.

This risk is managed and monitored through the Climate Adaptation Action Plan, which outlines our climate risks and governance framework for managing these risks, as well as outlining key stakeholders, goals, and metrics across the Group. The Climate Adaptation Action Plan embeds climate resilience in the way we design and operate assets, deliver our services, and continue adapting and mitigating to climate change by implementing controls to manage key risks. In addition, the Group’s risk management framework provides for emissions reduction targets, and plans to address climate change.

Physical risks arising from fires, storms, high winds, floods and drought are subject to risk transfer and thereby within the cover of the Group’s property and business interruption insurance programs. However, should the frequency and severity of these events increase because of climate change, the cost of coverage may increase.

8.2 Fair value determination

Fair value determination requires judgement and the use of assumptions. This section discloses the most significant assumptions used in determining fair values. Changes to assumptions could have a material impact on the results and financial position of the Group.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Group determines the policies and procedures for determining fair values for both financial and non-financial assets and liabilities as required.

8.2.1 Fair value determination of financial assets and liabilities

The fair values and net fair values of financial instrument assets and liabilities are determined as follows:

Level 1: the fair value of financial instrument with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market prices

Level 2: the fair value is determined using inputs other than quoted prices that are observable for the financial asset or liability, either directly or indirectly

Level 3: the fair value is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using unobservable market inputs.

The Group considers that the carrying amount of financial instrument assets and liabilities recorded in the financial statements to be a fair approximation of their fair values, because of the short-term nature of the financial instruments and the expectation that they will be paid in full.

The Group's principal financial instruments are loans sourced from the Treasury Corporation of Victoria. The loans include overnight borrowings and fixed rate loans which are used to meet working capital requirements and fund capital expenditure programs.

Where the fair value of the financial instruments is different from the carrying amounts, the following table shows the carrying amounts and fair values of financial assets and financial liabilities, including levels within the fair value hierarchy.

	30 June 2023		30 June 2022	
	Carrying amount	Fair value	Carrying amount	Fair value
	$'000	$'000	$'000	$'000
Financial liabilities				
Borrowings	2,467,550	2,306,138	2,293,450	2,154,069

There have been no transfers between levels during the period.

Borrowings
In the absence of an active market, the fair value of the Group's borrowings are valued using observable inputs such as recently executed transaction prices in securities of the issuer or comparable issuers and yield curves. Adjustments are made to the valuations when necessary to recognise differences in the instrument's terms. To the extent that the significant inputs are observable, the Group categorises these borrowings as Level 2 within the fair value hierarchy.

Derivative financial instruments
The fair value of derivative instruments is based on the discounted cash flow technique. The selection of variables requires significant judgement and assumptions in estimating the fair value of derivatives. In the absence of an active market, the fair value of the Group's CfD derivative is valued using unobservable inputs such as future wholesale electricity prices provided by DEECA's independent advisor and comparable risk free rates of zero coupon government bonds obtained from the Reserve Bank of Australia. The assumptions underpinning the estimate of future wholesale electricity prices included factors influencing supply and demand fluctuations, and the current economic climate. In addition, assumptions are applied to forecast the renewable energy generation volumes over the life of the derivative instrument.

To the extent that the significant inputs are unobservable, the Group categories these derivatives as Level 3 within the fair value hierarchy.

Reconciliation of Level 3 fair value

Consolidated entity	**Financial asset / (liability) at fair value through profit or loss**	
	2023	**2022**
	$'000	**$'000**
Balance at 1 July	**1,047**	**(1,096)**
Gains/(losses) recognised in profit or loss	(2,728)	2,093
Net cash settlements (paid)/received	77	50
Balance at 30 June	**(1,604)**	**1,047**

Description of significant unobservable inputs to Level 3 valuations for 2023 and 2022

Consolidated entity	Valuation technique	Significant unobservable inputs	2023 range (weighted average)	2022 range (weighted average)	Sensitivity of fair value measurement to changes in significant unobservable inputs
Derivative financial instruments	Income approach (discounted cash flow)	Wholesale electricity price forecasts	$13.16/MWh to $60.09/MWh ($29.69/MWh)	$34.05/MWh to $130.95/MWh ($58.97/MWh)	An increase/ (decrease) in the wholesale electricity price forecasts of 10% would result in an increase/ (decrease) fair value by $0.2 million.
		Discount rate – risk free rates of zero coupon government bonds	3.9520% to 4.3678% (4.0534%)	0.8500% to 4.3781% (3.1035%)	An increase/ (decrease) in the discount rate of 1% would result in an increase/ (decrease) fair value by $0.05 million.
		Credit value adjustment – Australian Corporate Bond Spreads and Yields FNFSBBB10M	223.6	322.8	An increase/ (decrease) in the credit value adjustment of 1% would result in an increase/ (decrease) fair value by $0.05 million.

8.2.2 Fair value determination of non-financial physical assets

In accordance with AASB 13 *Fair Value Measurement*, the Group determines the policies and procedures for both recurring fair value measurements such as infrastructure, property, plant and equipment and for non-recurring fair value measurements such as assets held for sale.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1: quoted prices (unadjusted) in active markets for identical assets.

Level 2: valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3: valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The Group's non-financial assets have been categorised into the three levels of the fair value hierarchy:

Fair value measurement hierarchy

2023	Carrying amount at 30 June 2023	Fair value measurement at end of reporting period using:		
Consolidated entity		**Level 1**	**Level 2**	**Level 3**
	$'000	**$'000**	**$'000**	**$'000**
Infrastructure assets	4,183,999	-	-	4,183,999
Specialised land	300,307	-	-	300,307
Non-specialised land	24,215	-	24,215	-
Specialised buildings	90,160	-	-	90,160
Plant and equipment	33,908	-	-	33,908
Leasehold improvements	56	-	-	56
Total	**4,632,645**	**-**	**24,215**	**4,608,430**

2022 Consolidated entity	Carrying amount at 30 June 2022 $'000	Fair value measurement at end of reporting period using: Level 1 $'000	Level 2 $'000	Level 3 $'000
Infrastructure assets	3,929,844	-	-	3,929,844
Specialised land	300,307	-	-	300,307
Non-specialised land	15,090	-	15,090	-
Specialised buildings	92,895	-	-	92,895
Plant and equipment	29,231	-	-	29,231
Leasehold improvements	74	-	-	74
Total	**4,367,441**	**-**	**15,090**	**4,352,351**

Infrastructure assets are measured using the income approach (i.e. discounted cash flows). The ‘income approach’ can be used to determine the fair value of property, plant and equipment in circumstances where there is no market-based evidence of ‘fair value’ because of the specialised nature of the asset(s). As the Group is classified as a for-profit entity for financial reporting purposes, the future economic benefits of the business’s infrastructure assets are primarily dependent on their ability to generate net cash inflows. Accordingly, valuing infrastructure assets based on ‘discounted cash flows’ reflects their economic value.

The valuation model includes:

- calculating the forecast cash flows to debt and equity investors over a 10-year forecast period. Cash flows to debt and equity investors are those cash flows available after all operating expenses (including taxes) have been paid and necessary investments in working and fixed capital have been made.
- calculating the free cash flows to the firm by utilising management’s forecast cash flow statements. Cash flows from operations have been used, with interest payments added back, less the tax shield on those payments to arrive at an adjusted unlevered cash flows from operations. Cash flows from investing have also been used to include capital expenditure. The adjusted cash flow from operations less the cash flow from investing represents the forecast yearly free cash flows to the firm.
- calculating a terminal value at the end of the 10-year forecast period. The terminal value is calculated by applying an exit multiple to the terminal year regulated asset base (RAB).
- any taxation amortisation benefit (TAB) available to subsequent market participants has been implicitly included through the selection of the terminal value exit multiple.
- discounting the cash flows and terminal value to the valuation date using selected high and low weighted average cost of capital (WACC) estimates.
- deducting non-infrastructure related assets and liabilities to derive the implied water infrastructure assets valuation.

The discounted cash flow methodology had been amended in the previous year to reduce the sensitivity of the model to small changes in inputs, whilst adopting market-based evidence such as a RAB multiple methodology for determining a terminal value for regulated assets, consistent with market-participant practice.

The valuation resulted in an increment of $68.8 million (2021–22: $96.0 million decrement). The effective date of the valuation is 30 June 2023.

The Group engaged KPMG to independently perform both the 30 June 2023 and 2022 infrastructure asset valuations. As the assumptions used to determine the value of infrastructure assets are considered significant unobservable inputs, infrastructure assets are classified as Level 3 fair value measurements.

Land and buildings were independently valued by the Valuer-General Victoria at 30 June 2021. At 30 June 2022, the fair value of the land and buildings were assessed against indices provided by the Valuer-General Victoria, resulting in a valuation increment of $53.8 million. A further assessment against indices performed by the Valuer-General Victoria as at 30 June 2023 showed that there was no material movement in the fair value of land and buildings since 30 June 2022.

Specialised land is also valued using the market approach, adjusted for community service obligation (CSO) to reflect the specialised nature of the land being valued. The CSO adjustment is a reflection of the valuer's assessment of the impact of restrictions associated with an asset to the extent that is also equally applicable to market participants. This approach is in light of the highest and best use consideration required for fair value measurement, and takes into account the use of the asset that is physically possible, legally permissible, and financially feasible. As adjustments for CSOs are considered as significant unobservable inputs, specialised land is classified as Level 3 assets.

Non-specialised land is valued using the market approach, being market value based on highest and best use permitted by relevant land planning provisions. Under this valuation method, the assets are compared to recent comparable sales or sales of comparable assets which are considered to have nominal or no added improvement value. The valuation of the assets was determined by analysing comparable sales and allowing for share, size, topography, location and other relevant factors specific to the asset being valued. From the sales analysed, an appropriate rate per square metre has been applied to the subject asset.

To the extent that non-specialised land do not contain significant, unobservable adjustments, these assets are classified as Level 2 assets.

Specialised buildings are measured using the current replacement cost method using the best available evidence from recognised building cost indicators, adjusting for the associated depreciations. As depreciation adjustments are considered as significant unobservable inputs, these assets are classified as Level 3 assets.

Plant and equipment are held at fair value. As there is little evidence of a reliable market-based fair value for plant and equipment (or any such evidence does not indicate a fair value significantly different from depreciated cost), current replacement cost is used to calculate the fair value for these types of assets. To the extent that the fair value estimate of plant and equipment is based on significant unobservable inputs, these assets are classified as Level 3 assets.

Leasehold improvements are held at fair value. As there is no evidence of a reliable market-based fair value (or other relevant fair value indicators) for leasehold improvements (or any such evidence does not indicate a fair value significantly different from depreciated cost), current replacement cost is the fair value for these types of assets. To the extent that leasehold improvements is based on significant unobservable inputs, these assets are classified as Level 3 assets.

Climate change factors are market participants' views of potential climate-related matters, including legislation, which may affect the fair value measurement of assets and liabilities in the financial statements. Where relevant, climate-related matters may also affect the disclosure of fair value measurements, particularly those categorised within Level 3 of the fair value hierarchy. AASB 13 requires disclosure of unobservable inputs used in fair value measurements. Those inputs should reflect the assumptions that market participants would use, including assumptions about climate related risk.

There were no other changes in valuation techniques throughout the period to 30 June 2023.

For all assets measured at fair value, their current use is considered to be their highest and best use.

Reconciliation of Level 3 fair value

Reconciliations of the carrying amounts of each class of infrastructure, property, plant and equipment between the beginning and the end of the current financial year are set out in the following table.

2023 Consolidated entity	Infrastructure assets	Specialised land	Specialised buildings	Plant and equipment	Leasehold improvements	Total
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Balance at 1 July	3,929,844	300,307	92,895	29,231	74	**4,352,351**
Transfers from work in progress	277,359	-	71	14,050	-	**291,477**
Disposals	(691)	-	(28)	(910)	-	**(1,629)**
Depreciation	(91,382)	-	(2,778)	(8,463)	(19)	**(102,641)**
Sub total	**4,115,127**	**300,307**	**90,160**	**33,908**	**55**	**4,539,558**
Gain / (loss) on revaluation	68,872	-	-	-	-	**68,872**
Sub total	**68,872**	**-**	**-**	**-**	**-**	**68,872**
Balance at 30 June	**4,183,999**	**300,307**	**90,160**	**33,908**	**55**	**4,608,430**

2022 Consolidated entity	Infrastructure assets	Specialised land	Specialised buildings	Plant and equipment	Leasehold improvements	Total
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Balance at 1 July	3,756,200	248,281	94,928	30,055	119	**4,129,583**
Transfers from work in progress	358,307	-	741	8,631	-	**367,679**
Disposals	(875)	-	-	(994)	-	**(1,869)**
Depreciation	(87,771)	-	(2,774)	(8,461)	(45)	**(99,051)**
Sub total	**4,025,861**	**248,281**	**92,895**	**29,231**	**74**	**4,396,342**
Gain / (loss) on revaluation	(96,017)	52,026	-	-	-	**(43,991)**
Sub total	**(96,017)**	**52,026**	**-**	**-**	**-**	**(43,991)**
Balance at 30 June	**3,929,844**	**300,307**	**92,895**	**29,231**	**74**	**4,352,351**

Description of significant unobservable inputs to Level 3 valuations for 2023 and 2022

Consolidated entity	Valuation technique	Significant unobservable inputs	2023 range (weighted average)	2022 range (weighted average)	Sensitivity of fair value measurement to changes in significant unobservable inputs
Infrastructure assets	Income approach (discounted cash flow)	Discount rates (WACC)	5.5% to 5.9% (5.7%)	4.9% to 5.3% (5.1%)	An increase / (decrease) of 25 bps in the discount rate would result in a decrease of ($98.0) million or an increase of $150.7 million to the fair value.
		Terminal value exit RAB	1.15 x to 1.25 x (1.20 x)	1.15 x to 1.25 x (1.20 x)	An increase / (decrease) of 0.05 bps in the terminal value exit RAB would result in an increase of $243.6 million increase / (decrease) to the fair value.
Specialised land	Market approach	Community service obligation adjustment	0% – 30% (20%)	0% – 30% (20%)	The range of the unobservable input ranges between 0% to 30% (10% to 40% in 2020-21). A significant increase/ (decrease) in the community service obligation adjustment would result in a significantly lower (higher) fair value.
Non-specialised buildings	Current replacement cost (deemed fair value)	Cost per unit	$3,025 – $49,385,325 ($4,293,355)	$3,192 – $50,414,185 ($4,644,746)	A significant increase/ (decrease) in cost per unit would result in a significantly higher or lower fair value.
		Useful life of plant and equipment	20 – 50 years (40 years)	20 - 50 years (30 years)	A significant increase/ (decrease) in the estimated useful life would result in a significantly higher or lower valuation.
Leasehold improvements	Current replacement cost (deemed fair value)	Cost per unit	$2,028 – $23,611 ($7,848)	$2,626 – $33,541 ($10,467)	A significant increase/ (decrease) in cost per unit would result in a significantly higher or lower fair value.
		Useful life of leasehold improvements (lease term)	4 – 10 years (9 years)	3 – 11 years (8 years)	A significant increase/ (decrease) in the lease term would result in a significantly higher or lower valuation.
Plant and equipment	Current replacement cost (deemed fair value)	Cost per unit	$1 – $5,266,894 ($10,572)	$1 – $6,178,281 ($9,449)	A significant increase/ (decrease) in cost per unit would result in a significantly higher or lower fair value.
		Useful life of plant and equipment	3 – 25 years (10 years)	4 – 25 years (5 years)	A significant increase/ (decrease) in the estimated useful life would result in a significantly higher or lower valuation.

8.3 Contingent assets and contingent liabilities

Contingent assets and contingent liabilities are not recognised on the consolidated balance sheet but are disclosed and, if quantifiable are measured at nominal value. Contingent assets and contingent liabilities are disclosed inclusive of GST receivable or payable respectively.

Contingent assets

In the ordinary course of business, developers often provide a commitment to the Group to construct water and sewerage assets. The assets are constructed within an agreed timeframe, generally 12 months, and upon completion are transferred to the Group at no cost.

As at 30 June 2023, various developers have agreed to construct water and sewerage infrastructure assets to the value of $141.1 million (2021–22 $147.9 million). This value relates to $93.5 million of assets which are under construction (2021–22 $97.2 million) and $47.6 million of assets which have not commenced construction (2021–22 $50.8 million).

Contingent liabilities

Contingent on the construction of assets, the Group is liable to reimburse developers a total amount of $30.6 million (2021–22 $27.7 million) for additional works constructed at the Group's request. This reimbursement together with future investment for urban growth by the Group or developers will be recovered through a combination of new customer contributions, plus service and usage charges from all customers. This is consistent with the Essential Services Commission's final determination for water and sewerage prices in June 2018 (for the 2022–23 year).

In June 2023, a sewer spill at the Boneo Water Recycling Plant breached the onsite containment system. The Group are performing investigations alongside John Holland SUEZ Beca to assess the impacts of the spill and establish the cause of the event. The Group is unable to quantify the impact of the event, or potential future liabilities, at this stage.

The Group also has contingent assets and liabilities arising from disputes in the ordinary course of business and considered immaterial.

9. Other disclosures

Introduction:

This section provides information on other disclosures as required by Australian Accounting Standards or Victorian Government Financial Reporting Directions.

Structure:

9.1 Responsible persons and executive officer disclosures

9.1.1 Responsible persons

The relevant Minister and directors of the Group are deemed to be the responsible persons by ministerial direction pursuant to the provisions of the *Financial Management Act 1994*.

The responsible Minister during the 2022–23 reporting period was The Hon Harriet Shing, Minister for Water. Remuneration paid to the responsible Minister is shown in the State's Annual Financial Report.

The names of persons who were directors of South East Water at any time during the financial year are as follows:

Ms L Cade	1/07/2022 – 30/06/2023	Chair
Ms G Bell	1/07/2022 – 30/06/2023	Director
Mr T Lyons	1/07/2022 – 30/06/2023	Director
Dr K McGrath	1/07/2022 – 30/06/2023	Director
Mr A Wood	1/07/2022 – 30/06/2023	Director
Hon L Asher	1/07/2022 – 30/06/2023	Director
Mr J Kambovski	1/07/2022 – 30/06/2023	Director
Dr R Henry	1/07/2022 – 30/06/2023	Director
Ms J Stanley	1/07/2022 – 30/06/2023	Director
Ms L Olsen	1/07/2022 – 30/06/2023	Managing Director and Accountable Officer

The number of directors who received remuneration from the Group within the specified bands as follows:

			2023	2022
			No	**No**
$10,000	–	$19,999	-	1
$40,000	–	$49,999	-	2
$50,000	–	$59,999	8	6
$100,000	–	$109,999	1	1
$450,000	–	$459,999	-	1
$460,000	–	$469,999	1	-
Total			**10**	**11**

9.1.2 Executive officers

The number of executive officers, other than directors and accountable officers, and their total remuneration during the reporting period are shown in the table below. Total annualised employee equivalents provide a measure of full time equivalent executive officers over the reporting period.

Remuneration comprises employee benefits in all forms of consideration paid, payable or provided by the Group, or on behalf of the Group, in exchange for services rendered, and is disclosed in the following categories.

Short-term employee benefits include amounts such as wages, salaries, annual leave or sick leave that are usually paid or payable on a regular basis, as well as non-monetary benefits such as allowances and free or subsidised goods or services.

Post-employment benefits include pensions and other retirement benefits paid or payable on a discrete basis when employment has ceased.

Other long-term benefits include long service leave, other long service benefits or deferred compensation.

Termination benefits include termination of employment payments, such as severance packages.

	2023	2022
	$'000	**$'000**
Short-term employee benefits	1,995	2,098
Post-employment benefits	196	198
Other long-term benefits	43	42
Termination benefits	41	-
Total remuneration	**2,275**	**2,338**
Total number of executives	**10**	**12**
Total annualised employee equivalents [(a)]	**8.3**	**7.7**

[(a)] Annualised employee equivalent is based on the time fraction worked over the reporting period.

9.2 Related parties

The Group is a wholly owned and controlled entity of the State of Victoria.

Related parties of the Group include:

- all key management personnel and their close family members and personal business interests (controlled entities, joint ventures and entities they have significant influence over)
- all cabinet ministers and their close family members
- all departments and public sector entities that are controlled and consolidated into the whole of state consolidated financial statements.

All of the Group's related party transactions have been entered into on an arm's length basis.

9.2.1 Key management personnel

Key management personnel (as defined in AASB 124 *Related Party Disclosures*) includes the responsible Minister, the Managing Director and all other directors listed under responsible persons in Note 9.1.1 who have the authority and responsibility for planning, directing and controlling the activities of the Group directly or indirectly, during the financial year.

The compensation detailed below excludes the salaries and benefits the responsible Minister receives. The Minister's remuneration and allowances is set by the *Parliamentary Salaries and Superannuation Act 1968* and is reported within the State of Victoria's Annual financial report.

	2023	2022
	$'000	$'000
Short-term employee benefits	924	894
Post-employment benefits	77	71
Other long-term benefits	10	10
Total remuneration [a]	**1,011**	**975**

[a] There are two executive officers who are deemed KMPs of Iota Services Pty Ltd, subsidiary of South East Water Corporation. Their remuneration is disclosed under Note 9.1.2 in discharging their responsibility as executive officers of the Group.

9.2.2 Significant transactions and balances with key management personnel and other related parties

Outside of normal citizen type transactions (such as water bills), there were no material related party transactions that involved key management personnel, their close family members and their personal business interests during the reporting period other than remuneration for employment. In this context, transactions are only disclosed when they are considered necessary to draw attention to the possibility that our Consolidated Statement of Comprehensive Income and Consolidated Balance Sheet may have been affected by the existence of related parties, and by transactions and outstanding balances. Further, no provision has been required, nor any expense recognised, for impairment of receivables from related parties.

9.2.3 Significant transactions and balances with government-related parties

Department of Energy, Environment and Climate Action

The Department of Energy, Environment and Climate Action (DEECA) leads and directs the Group for implementing the framework for achieving the Victorian Government's responsibilities for sustainability of the natural and built environment.

The Group, under a normal commercial agency agreement, bills and collects charges relating to Parks Victoria services on behalf of DEECA. Due to the nature of the agency/principal relationship the

Group does not recognise these amounts in its accounts. The Group recognises administration fees for the collection of Parks Victoria charges as revenue. In addition, the environment contribution levy is paid to DEECA on a quarterly basis.

The Group also receives and makes various other payments to and from DEECA which are recognised as revenue and expenses.

Consolidated entity	**2023**	**2022**
	$'000	**$'000**
Payments		
Parks charge collected on behalf of DEECA	71,585	69,556
Environmental contribution levy	32,596	43,461
Receipts		
Administration fees for collection of Parks Victoria charges	2,270	2,859
Payable at 30 June		
Parks charge collected on behalf of DEECA	30	21
Environmental contribution levy payable	10,865	-
Receivable at 30 June		
Administration fees for collection of Parks Victoria charges	74	202

Department of Treasury and Finance

The Department of Treasury and Finance (DTF) administers the *Water Act 1989* and the *Financial Management Act 1994* with which the Group is required to comply. The Group is required to pay income taxes, the financial accommodation levy and dividends to DTF.

Consolidated entity	**2023**	**2022**
	$'000	**$'000**
Payments		
Dividend payments	15,108	42,116
Taxes and levies	65,679	68,890
Payable at 30 June		
Dividend	6,599	-
Taxes and levies	9,632	18,941

Melbourne Water Corporation

Melbourne Water Corporation has the same controlling entities as the Group, and is therefore considered to be a related party. The Group transacts solely with Melbourne Water Corporation for the purchase of potable water and disposal of sewage.

The Group, under a normal commercial agency agreement, bills and collects drainage rates on behalf of Melbourne Water Corporation. Due to the nature of the agency/principal relationship the Group does not recognise these amounts in its accounts. The Group recognises administration fees for the collection of Melbourne Water Corporation's charges as revenue.

Consolidated entity	**2023**	**2022**
	$'000	**$'000**
Payments		
Bulk water and sewage charges	498,127	510,397
Drainage charges collected on behalf of Melbourne Water	104,177	96,252
Receipts		
Administration fees for collection of drainage and other charges	5,701	5,786
Payable at 30 June		
Bulk water and sewage charges and drainage charges	4,101	1,918

Treasury Corporation of Victoria

The Group borrows from, and invests with, the Treasury Corporation of Victoria (TCV) with transactions based on market interest rates. TCV also provides advisory and administrative services under normal commercial terms (these services are included in the interest rate).

Consolidated entity	**2023**	**2022**
	$'000	**$'000**
Payments		
Finance and interest costs	48,121	40,166
Receipts		
Proceeds from borrowings	174,100	186,650
Payable at 30 June		
Total borrowings and accrued interest expense	2,483,336	2,307,195

Department of Families, Fairness and Housing

The Department of Families, Fairness and Housing (DFFH) provides a number of services to the community including the provision of rebates and grants to concession holders. The Group receives various payments from and makes various payments to DFFH which are recognised as revenue and expenses.

Consolidated entity	**2023**	**2022**
	$'000	**$'000**
Receipts		
Customer rebate reimbursements	49,614	48,339
Administration expenses	282	278
Receivable at 30 June		
Customer rebate reimbursements	1,304	9,033

Iota Services Pty Ltd

Iota Services Pty Ltd is a wholly-owned subsidiary of South East Water Corporation. During the financial year ended 30 June 2023, South East Water Corporation purchased goods and services and provided accounting and administrative assistance to Iota Services Pty Ltd. Since its formation in January 2015, Iota Services Pty Ltd provides indemnity for its directors as specified under its constitution.

Iota Services Pty Ltd has a financial accommodation facility to borrow up to a maximum of $5.0 million from South East Water. At 30 June 2023, Iota Services Pty Ltd is not using this facility.

Where loans are entered into, they are unsecured and the interest rate on the loan is based on the prevailing Treasury Corporation of Victoria’s floating interest rate applied to South East Water Corporation, which is directly on passed to Iota Services Pty Ltd. All financial transactions between South East Water Corporation and Iota Services Pty Ltd are eliminated upon consolidation.

In 2022–23, South East Water engaged Iota Services Pty Ltd to perform maintenance, enhancement and future development works to a copy of its Lentic Internet of Things (IoT) platform. A copy of the IoT platform was provided to Iota Services Pty Ltd for nil consideration. In return, Iota charges a fee for services provided to South East Water. All transactions related to the Lentic Platform between South East Water and Iota Services Pty Ltd are eliminated upon consolidation. South East Water retains all ownership of the intellectual property.

Zero Emissions Water – Power Purchase Agreement
ZEW is a related party of The Group. Below is a summary of transactions and holdings with ZEW:

Consolidated entity	**2023**	**2022**
	$'000	**$'000**
Payments	230	91
Receipts	151	239
Investment in ZEW	15	15

Water and sewerage services
Water and sewerage services were provided to related parties for properties within the Group's boundary on the same terms and conditions that apply to all other customers.

Other transactions
All other transactions with Victorian Government related party entities were made on normal commercial terms and conditions.

No provision for doubtful debts has been raised in relation to any of the above outstanding balances, and no expense has been recognised in respect of bad and doubtful debts due from related parties.

Guarantees given/received
The State Government of Victoria has provided a guarantee on loans sourced from the Treasury Corporation of Victoria (*Borrowing and Investment Powers Act 1987*). There were no other guarantees given to or received from any related parties.

9.3 Defined benefit superannuation

Defined benefit members receive lump sum benefits on retirement, death, disablement and withdrawal. Some defined benefit members are also eligible for pension benefits in certain circumstances. The defined benefit section of the Equipsuper Plan is closed to new members. All new members receive accumulation only benefits.

A liability or asset in respect of defined benefits superannuation is recognised and measured as the difference between the present value of employees' accrued benefits at reporting date and the net market value of the superannuation plan's assets at that date.

Actuarial gains and losses arising from the Group's defined benefit superannuation scheme are recognised immediately in Other Comprehensive Income in the Consolidated Statement of Comprehensive Income in the year in which they occur.

The Superannuation Industry (Supervision) (SIS) legislation governs the superannuation industry and provides the framework within which superannuation plans operate. The SIS Regulations require an actuarial valuation to be performed for each defined benefit superannuation plan every three years, or every year if the plan pays defined benefit pensions unless an exemption has been obtained.

The Plan's Trustee is responsible for the governance of the Plan. The Trustee has a legal obligation to act solely in the best interests of Plan beneficiaries. The Trustee has the following roles:

- administration of the Plan and payment to beneficiaries from Plan assets when required in accordance with the Plan rules;
- management and investment of the Plan assets; and
- compliance with superannuation law and other applicable regulations.

The prudential regulator, the Australian Prudential Regulation Authority (APRA), licenses and supervises regulated superannuation plans.

There are a number of risks to which the Plan exposes the Group. The more significant risks relating to the defined benefits are:

- **investment risk** – The risk that investment returns will be lower than assumed and the Group will need to increase contributions to offset this shortfall.
- **salary growth risk** – The risk that wages or salaries (on which future benefit amounts will be based) will rise more rapidly than assumed, increasing defined benefit amounts and thereby requiring additional employer contributions.
- **legislative risk** – The risk is that legislative changes could be made which increase the cost of providing the defined benefits.
- **pension risks** – The risk is firstly that pensioner mortality will be lighter than expected, resulting in pensions being paid for a longer period. Secondly, that a greater proportion of eligible members will elect to take a pension benefit, which is generally more valuable than the corresponding lump sum benefit.
- **inflation risk** – The risk that inflation is higher than anticipated, increasing pension payments, and thereby requiring additional employer contributions.

The defined benefit assets are invested in the Equipsuper Defined Benefit and Cash investment options. The assets are diversified within these investment options and therefore the Plan has no significant concentration of investment risk.

Description of significant events

There were no plan amendments affecting the defined benefits payable, curtailments or settlements during the year.

Movement reconciliation

2023	Fair value of plan assets $'000	Defined benefit obligation $'000	Net defined benefit asset/ (liability) $'000
Balance at 1 July	**59,319**	**48,835**	**10,484**
Current service cost	-	1,116	(1,116)
Interest income	2,431	-	2,431
Interest expense	-	2,038	(2,038)
Actual return on plan assets less interest income	1,899	-	1,899
Employer contributions	151	-	151
Contributions by plan participants	339	339	-
Actuarial gains/(losses) arising from changes in demographic assumptions	-	236	(236)
Actuarial gains/(losses) arising from changes in financial assumptions	-	(2,847)	2,847
Actuarial gains/(losses) arising from liability experience	-	979	(979)
Benefits paid	(4,279)	(4,279)	-
Taxes, premiums and expenses paid	(309)	(309)	-
Balance at 30 June	**59,551**	**46,108**	**13,443**

2022	Fair value of plan assets $'000	Defined benefit obligation $'000	Net defined benefit asset/ (liability) $'000
Balance at 1 July	**64,487**	**63,805**	**682**
Current service cost	-	1,253	(1,253)
Interest income	1,032	-	1,032
Interest expense	-	1,019	(1,019)
Actual return on plan assets less interest income	(2,509)	-	(2,509)
Contributions by plan participants	374	374	-
Actuarial gains/(losses) arising from changes in financial assumptions	-	(14,140)	14,140
Actuarial gains/(losses) arising from liability experience	-	589	(589)
Benefits paid	(3,672)	(3,672)	-
Taxes, premiums and expenses paid	(393)	(393)	-
Balance at 30 June	**59,319**	**48,835**	**10,484**

The asset ceiling has no impact on the net defined benefit liability/(asset).

Fair value of plan assets	Total	Quoted prices in active markets for identical assets - Level 1	Significant observable inputs - Level 2	Unobservable inputs - Level 3
30 June 2023	**$'000**	**$'000**	**$'000**	**$'000**
Asset category				
Investment funds	59,551	-	59,551	-
Total	**59,551**	**-**	**59,551**	**-**

The percentage invested in each asset class at the reporting date is:

As at	30 June 2023	30 June 2022
Australian equity	16%	15%
International equity	20%	17%
Fixed income	15%	9%
Property	6%	6%
Growth alternatives	19%	18%
Defensive alternatives	13%	18%
Cash	11%	17%

The fair value of Plan assets includes no amounts relating to:

- any of the Group's own financial instruments
- any property occupied by, or other assets used by, the Group.

Significant actuarial assumptions at reporting date

	Assumptions to determine defined benefit cost for the year ending:		Assumptions to determine defined benefit obligation as at:	
	30 June 2023	30 June 2022	30 June 2023	30 June 2022
Discount rate	4.4%	1.7%	5.6%	4.4%[(a)]
Expected salary increase rate	2.0%	2.0%	3.0%	2.0%
Expected pension increase rate	2.5%	2.0%	2.5%	2.5%

(a) This includes a change in assumption within the discount rate from the government bond rate to the corporate bond rate.

Use of corporate bond rates to discount defined benefit superannuation

AASB 119 *Employee Benefits* requires the Group to use high quality corporate bonds to discount its post-employment benefit obligations, where there is a deep market in such bonds. Otherwise, the government bond is applied.

The Group has applied corporate bond rates to discount its defined benefits obligation for the year ended 30 June 2023. This reduces the defined benefit obligation as at 30 June 2023.

Sensitivity analysis

The defined benefit obligation as at 30 June 2023 under several scenarios is presented below.
Scenario A: 0.5% p.a. lower discount rate assumption
Scenario B: 0.5% p.a. higher discount rate assumption
Scenario C: 0.5% p.a. lower salary increase rate assumption
Scenario D: 0.5% p.a. higher salary increase rate assumption
Scenario E: 0.5% p.a. lower pension increase rate assumption
Scenario F: 0.5% p.a. higher pension increase rate assumption

	Base case	**Scenario A**	**Scenario B**	**Scenario C**	**Scenario D**	**Scenario E**	**Scenario F**
		-0.5%p.a. discount rate	**+0.5%p.a. discount rate**	**-0.5%p.a. salary increase rate**	**+0.5%p.a. salary increase rate**	**-0.5%p.a. pension increase rate**	**+0.5%p.a. pension increase rate**
Discount rate	5.6%	5.1%	6.1%	5.6%	5.6%	5.6%	5.6%
Salary increase rate	3.0%	3.0%	3.0%	2.5%	3.5%	3.0%	3.0%
Pension increase rate	2.5%	2.5%	2.5%	2.5%	2.5%	2.0%	3.0%
Defined benefit obligation[(a)] ($'000)	46,108	48,276	44,107	45,245	47,000	44,965	47,350

[(a)] includes contributions tax provision

The defined benefit obligation has been recalculated by changing the assumptions as outlined above, whilst retaining all other assumptions.

No asset and liability matching strategies have been adopted by the Plan.

Funding arrangements

The Equipsuper Contribution and Funding Policy provides for a review of the financial position of the Plan each six months, as at 30 June and 31 December, with the Group's contribution rate comprising a long-term contribution rate and an adjustment to meet the financing objective of a target funding ratio of 104 %.

The target funding ratio reflects the proportion of salary related benefits and the allocation to "growth" assets for each EBA. The funding ratio is the ratio of assets to accrued liabilities, being the greater of vested benefits and the present value of past membership benefits.

Where the funding ratio is greater than 100% the financing objective is to achieve the target funding ratio over five years. Where the funding ratio is less than 100% the primary financing objective is to achieve 100% over 3 years and the target funding ratio over 5 years.

In the most recent review of the financial position as at 31 December 2022, the actuary recommended a Group contribution rate of 105%.

The Group continues to contribute salary sacrifice contributions and at the required rates for accumulation members.

The expected employer contributions for the financial year ending 30 June 2023 is 0.535 million.

Maturity profile of defined benefit obligation

The weighted average duration of the defined benefit obligation as at 30 June 2023 is nine years (2021–22: eleven years).

Expected benefit payments for the financial year ending on:	**$'000**
30 June 2024	4,536
30 June 2025	4,917
30 June 2026	5,151
30 June 2027	4,651
30 June 2028	4,758
Following 5 years	21,925

9.4 Ex-gratia expenses

Consolidated entity	2023	2022
	$'000	$'000
Forgiveness or waiver of debt [(a)]	462	130
Termination payments [(b)]	52	73
Closing balance	**514**	**203**

[(a)] Forgiveness or waiver of customer debt due to financial hardship or not economical to pursue. These ex-gratia expenses are recognised as part of bad and doubtful debts in the consolidated statement of comprehensive income, refer to Note 3.1 and Note 5.1.1.

[(b)] Termination payments relate to additional amounts provided in excess of the employees' entitlements. These ex-gratia expenses are recognised as part of employee benefit costs in Note 3.2.1.

Ex-gratia expenses greater than or equal to $5,000 or those considered material in nature are disclosed above.

9.5 Auditor remuneration

Consolidated entity	2023	2022
	$'000	$'000
Victorian Auditor-General's Office - audit of the Group's financial statements	287	274

9.6 Controlled entities

The consolidated financial statements at 30 June 2023 include the following controlled entity. The financial year of the controlled entity is the same as that of the parent entity.

Controlled entity	Place of incorporation	Book value of parent entity's investment		Percentage of shares held		Contribution to the results in $'000	
		2023	2022	2023	2022	2023	2022
Iota Services Pty Ltd	Australia	$1	$1	100	100	379	407

Prior to 1 January 2015 Iota operated as an unregulated business division of South East Water Corporation. The relevant activities of Iota Services Pty Ltd include plumbing services, digital meters, low pressure sewer solutions and the sale of OneBox® products.

There are no restrictions (statutory, contractual or regulatory) that can affect South East Water Corporation's ability to access or use the assets and settle the liabilities of the group.

South East Water is not contractually required to provide any other financial support to Iota Services Pty Ltd. Iota Services Pty Ltd has a financial accommodation facility to borrow up to a maximum of $5.0 million from South East Water. At 30 June 2023, Iota Services Pty Ltd is not using this facility.

9.6.1 Parent entity information – South East Water Corporation

Information relating to South East Water Corporation	**2023**	**2022**
	$'000	**$'000**
Current assets	262,433	186,525
Non-current assets	4,930,664	4,669,416
Total assets	**5,193,097**	**4,855,941**
Current liabilities	220,956	230,150
Non-current liabilities	2,952,702	2,704,170
Total liabilities	**3,173,658**	**2,934,320**
Contributed equity	288,968	288,968
Reserves	890,027	841,816
Retained earnings	840,444	790,837
Total equity	**2,109,439**	**1,921,621**
Net profit after tax of parent entity	68,844	78,774
Total comprehensive income	119,528	69,578

9.7 Changes in accounting policies

No change in accounting policies impacting the group for the year ending 30 June 2023.

9.8 Events occurring after balance date

On 26 July 2023, the Group awarded our Integrated Planning and Delivery (IPD) contract to two new industry partners Abergeldie, BMD & KBR (ABK), and BecaHunterH20, Fulton Hogan & Interflow (BFHI). The IPD model provides the way the Group will plan and deliver future capital works for a ten-year period and replaces the Group's Pipes and Structures, and Renewals contracts.

There are no other matters or circumstances that have occurred after reporting date that may significantly impact the Group's operations.

9.9 Australian Accounting Standards issued that are not yet effective

The following Australian Accounting Standards and interpretations have been issued but are not yet effective and therefore have not been adopted for the annual reporting period ending 30 June 2023.

Standard / Interpretation	Summary	Effective date	Estimated impact
AASB 2021-2 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates	Amendments to existing accounting standards. particularly in relation to: AASB 7- to clarify that information about measurement bases for financial instruments is expected to be material to an entity's financial statements; AASB 101 - to require entities to disclose their material accounting policy information rather than their significant accounting policies; AASB 108 - to clarify how entities should distinguish changes in accounting policies and changes in accounting estimates; AASB 134 - to identify material accounting policy information as a component of a complete set of financial statements; and AASB Practice Statement 2 - to provide guidance on how to apply the concept of materiality to accounting policy disclosures.	1 January 2023	The standard is not expected to have a significant impact on the Group.
AASB 2021-5 Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction	AASB 2021-5 Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction clarifies that the exemption does not apply to transactions for which entities recognise both an asset and a liability and that give rise to equal taxable and deductible temporary differences. This may be the case for transactions such as leases and decommissioning, restoration and similar obligations. Entities are required to recognise deferred tax on such transactions.	1 January 2023	The standard is not expected to have a significant impact on the Group.
AASB 2021-6 *Amendments to Australian Accounting Standards – Disclosure of Accounting Policies: Tier 2 and Other Australian Accounting Standards*	Amendments to existing accounting standards. particularly in relation to: AASB 1049 – to require entities to disclose their material accounting policy information rather than their significant accounting policies AASB 1054 - to reflect the updated accounting policy terminology used in AASB 101 Presentation of Financial Statements AASB 1060 - to require entities to disclose their material accounting po9licy information rather than their significant accounting policies and to clarify that information about measurement bases for financial instruments is expected to be material to an entity's financial statements.	1 January 2023	The standard is not expected to have a significant impact on the Group.
AASB 2022-6 *Non-current Liabilities with Covenants*	This Standard requires a liability to be classified as a non-current liability if at the end of the reporting period the entity has a right to defer settlement of the liability for at least twelve months after the reporting period.	1 January 2024	The standard is not expected to have a significant impact on the Group.

End of audited financial report

South East Water Corporation financial management compliance attestation statement

I, Lucia Cade, on behalf of the South East Water board, certify that South East Water Corporation has no material compliance deficiencies with respect to the applicable Standing Directions under the *Financial Management Act 1994* and Instructions.

Lucia Cade

Chair, South East Water Corporation

28 August 2023

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Supporting the United Nations Global Compact

We're a member of the United Nations Global Compact (UNGC), the world's largest corporate sustainability initiative. The initiative has established a path to help end extreme poverty, fight inequality and injustice and protect our planet by 2030.

Communications on progress

As a member of the Compact, we've committed to working to achieve the 10 principles that align to responsible business practice and also support the broader 17 United Nations Sustainable Development Goals. Each of the 10 principles fall under one of 4 key banners of human rights, labour, environment and anti-corruption.

Our Communication on Progress to the United Nations Global Compact is cross referenced below and describes our policies, procedures and actions that align with the 10 principles of the Global Compact and the outcomes that we've achieved.

Principle	Reference	Page
Human rights	• Caring for Country • Empowering our people	27 65
Labour	• Empowering our people	65
Environment	• Thriving and liveable communities	31
Anti-corruption	• Compliance	89

Sustainable Development Goals

As a member of the Compact, we've also committed to supporting the principles that align to responsible business practice and to also support the broader 17 United Nations Sustainable Development Goals (SDGs).

Five SDGs align most closely to our organisation:

- **SDG 6:** Ensure availability and sustainable management of water and sanitation for all.

- **SDG 9:** Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation.
- **SDG 11:** Make cities and human settlements inclusive, safe, resilient and sustainable.
- **SDG 13:** Take urgent action to combat climate change.
- **SDG 17:** Revitalise the global partnership for sustainable development.

Our work also supports:

- **SDG 1:** No Poverty – economic growth must be inclusive to provide sustainable jobs and promote equality.
- **SDG 7:** Affordable and Clean Energy – energy is central to nearly every major challenge and opportunity.

Throughout this report, we've highlighted how our performance aligns with the SDGs after each of our customer outcomes. We're actively working to recognise all 17 goals across the organisation and embed them into our projects and values.

Key projects demonstrating our work towards obtaining a better future are highlighted throughout the report.

Our customer commitments

- Get the basics right, always
- Make my experience better
- Warn me, inform me
- Fair and affordable for all
- Support my community, protect our environment

Stories that matter

- Climate action takes top priority on our new climate change site
- Digital meters and sensors helping customers save money and water while delivering a better customer experience
- Supporting Derrimut Weelam Gathering Place through our Community Grants program
- Monterey and Dingley recycled water schemes help secure supplies
- Environmental sensitivity mapping innovation helping us protect our environment

Healthy Water.
For Life.

How to get in touch

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