

Statement of Corporate Intent

2017-18



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Contents

Chairman's introduction	4
Our strategic intent	5
About us	6
Delivering on our Purpose	8
Our measures	13
Notes: Financial accounts	14

Chairman's introduction



The Board is pleased to put forward its Statement of Corporate Intent (SCI) for the Water Corporation (Corporation).

This SCI represents the agreement between the Board, Corporation and the Minister for Water on our expected level of performance for the 2017-18 financial year. It meets the requirements of the *Water Corporations Act 1995*.

This document outlines the key objectives we are pursuing in order to deliver on our Purpose: "To provide sustainable management of water services to make WA a great place to live and invest."

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

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

In addition, we recognise our operating environment is constantly evolving with the impact of climate change on our water source mix, shifting customer expectations, emerging technologies and a greater need to collaborate. Our strategic efforts in the next year aim to ensure the organisation is nimble, resilient and has the foresight to proactively manage change.

This will see us focus on driving customer value by delivering outcomes that are liveable, resilient, sustainable and productive. As a Board we continue to support Perth's ongoing journey to become a more water sensitive city - enabling us to achieve our purpose of providing sustainable management of water services for the people of WA.

As a Board we are excited about the work ahead, guiding the Water Corporation executive team to deliver on our strategy.

Mr Michael Hollett
Chairman

Our strategic intent



As a Government owned organisation, the Minister for Water is our shareholder and we endeavour to support the State Government in delivering its strategic objectives. We also recognise the importance of partnering with other agencies and the community to ensure we deliver outcomes that meet the broader public's expectations of a water service provider.

Under the *Water Corporations Act 1995*, we are required to act on commercial principles. Trends in the global water industry and private sector indicate that these principles are evolving.

To be commercially sustainable requires an organisational commitment to corporate social responsibility. To do this we recognise that our long-term financial outcomes depend on our ability to address customer needs and other social, environmental and technological factors such as climate change, advances in information technology, local employment, transparent decision making and genuine collaborative partnerships.

Our strategic focus for the next five years will support our purpose of ensuring WA is a great place to live and invest, by driving measurable progress in the following priority areas:

Focus on what customers and community value

We exist to provide water services to our customers, so it is fitting that we listen to our customers to understand what they most value and incorporate these insights into decision making. This could involve adapting the way we deliver services and deploy infrastructure.

We are currently undertaking a research program, 'Tap In', to build a body of customer insights. Following delivery of the research findings we will focus on determining how best to implement our customers' preferences across the business. We aim to have the research program completed by March 2018.

Shaping water sensitive cities

As our water resources come under pressure it is vital that cities embrace water sensitive thinking to create places that are liveable, resilient, sustainable and productive.

Our efforts to date have been focused on delivering water sensitive outcomes within the current scope of planned business activities.

We will continue to support Perth's ongoing journey to become a more water sensitive city—enabling us to achieve our purpose of providing sustainable management of water services for the people of WA.

We are planning the next phase of this journey, which will see us actively adapt our business and work in partnership with industry to holistically embrace water sensitive city outcomes.

Develop leading edge thinking and the right tools, skills and information

The digital era presents new opportunities to make our business smarter and more efficient. This will require us to adapt our processes, people and systems to ensure we consistently leverage new information technologies and practices.

To capture these opportunities we have established a Digital Transformation Group that brings together core information and technology functions and skills from across the business to plan and implement a long-term course of action. This will ensure we deliver smart plans and investment based on quality data, confidence in our asset performance and ensure we have the right people in the right place at the right time, using the right tools.

Strengthen and align our core business

Our owner and our customers entrust us to manage water supply and demand, and other essential water services so that WA can continue to have water forever.

Changes to the way we operate, be it customer needs, digital platforms or new planning paradigms like water sensitive cities, will modify the way we operate as a business.

We are dedicated to continuing to deliver core business activities in a sustainable and flexible way, while establishing the foundations for the success of improvement initiatives. This will require ongoing efforts to be leaner and more nimble, adaptive, and focused on our strategic direction and to continue to pursue operational excellence.

About us



Our Purpose

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

Our Act

We were established on 1 January 1996 as a statutory corporation by the *Water Corporation Act 1995* which was revised in 2012, and is now known as the *Water Corporations Act 1995*. As a body corporate with perpetual succession, proceedings may be taken by us or against us. We are referred to as a Corporatised Entity.

This status and our Act require us to act commercially and, as we are not an agent of the Crown, we explicitly do not have the status, immunities and privileges of the Crown. The Act also states that we are not a part of the Public Service.

Our Owner

We are owned by the State Government and accountable to the Minister for Water for delivery of our services in accordance with our Act.

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

Our Regulators

We deliver our services within the conditions required by all relevant regulatory bodies. Of mention include the Departments of Water and Environmental Regulation; Health; Planning, Lands and Heritage; the Environmental Protection Authority; WorkSafe and the Economic Regulation Authority (ERA).

We work closely with the Department of Water and Environmental Regulation who is the lead regulator for water resource management and water services regulation.

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

Our Vision

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

- **Water Forever:** Provide water services for the long-term.
- **Great Place:** Contribute to a positive quality of life and lifestyle for all Western Australians and organisations based in WA as well as building a corporation that is a great place to work.
- **Zero Footprint:** Mitigate the impact our services could have on the degradation of the environment.

Our Board of Directors

Our Board of Directors are:

- Mr Michael Hollett (Chairman);
- Mr David Lock (Deputy Chairman);
- Ms Sue Murphy (Chief Executive Officer);
- Dr Jemma Green;
- Mr Ross Holt;
- Ms Nicole Lockwood; and
- Mr David Rowe.

Our Executive Team

Our Executive team is as follows:

- Ms Sue Murphy, Chief Executive Officer;
- Mr Michael Andrews, General Manager Operations;
- Dr Steve Capewell, General Manager Operations Services;
- Ms Catherine Ferrari, General Manager Customer and Community;
- Mr Ross Hughes, Chief Financial Officer;
- Mr Don Johnston, General Manager Strategy and Stakeholders;
- Mr Mark Leathersich, General Manager Assets Delivery;
- Ms Deanne McDonald, General Manager Digital Transformation; and
- Mr Ashley Vincent, General Manager Assets Planning.

About us



Our functions

We will continue to be the principal supplier of water, wastewater, drainage and bulk irrigation services in WA.

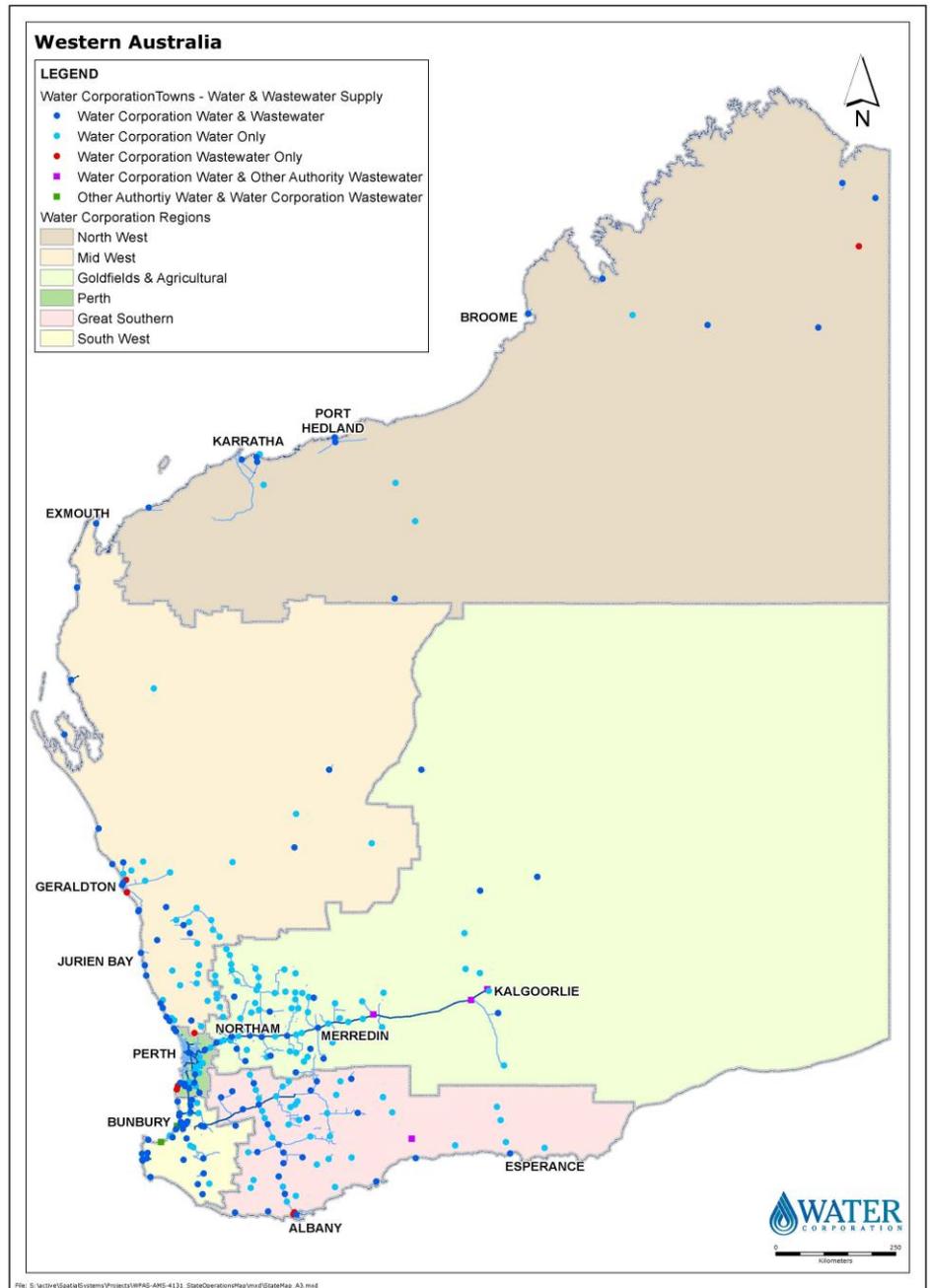
We will deliver these services to customers throughout WA, for households, communities and industry. Understanding and adapting to our customer's preferences will be a focus for 2017-2018. This will continue to see our services meet the growing needs of WA communities.

To service our customers we own an asset base currently worth \$35 billion (replacement value as at 1 January 2016). These assets extend across the value chain from source, distribution, treatment, disposal and retail infrastructure.

We contract with the private sector to construct our infrastructure.

In addition to this, we manage and operate our assets through a combination of private sector alliances and in-house management and operations.

We aim to work with other industry participants where appropriate, to deliver the best value for the people of WA over many generations.



Delivering on our Purpose



The next five years will be characterised by the delivery of core business in balance with the need to adapt to external trends such as climate change, new technologies and changing community expectations.

By balancing these objectives, we will deliver on our Purpose:

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

Community Objectives

Focus on what customers and community value

Beyond the delivery of our standard obligations under our Operating Licence, it is important to us that we listen to our customers and understand what the community expects from us as the primary water service provider in the State, and that we adapt to those expectations to drive product and service improvements.

Our new research program ‘Tap In’ will actively engage our customers from all segments throughout the State to identify their needs and expectations in order to drive overall product and service improvements and guide the Corporation’s strategic direction. This will be achieved by a mixture of customer engagement mechanisms including focus groups, quantitative surveys and choice modelling to be completed by March 2018, after which point we will incorporate our findings into the business. ‘Tap In’ is one of many ways we are engaging and interacting with our customers and community. We want all our interactions to guide key decisions across all areas of our business.

Our ultimate goal is to: understand what customers value, what issues are the most important to them, how we can adapt our products and services to meet customer expectations, understand what customers are prepared to pay for and what the service trade-offs might be.

We aim to ensure that the services we deliver are aligned with customer preferences, and place customers and community at the heart of our planning decisions.

Shape water sensitive cities

As a large water service provider with involvement across the whole water cycle, we have an important role in driving water sensitive city outcomes beyond the provision of essential water and wastewater services. As our water resources come under pressure, it is vital that cities embrace water sensitive thinking to create cities that are liveable, resilient, sustainable and productive.

Our efforts to date have been in pursuing water sensitive outcomes within the current scope of planned business activities.

We will continue to support Perth’s ongoing journey to become a more water sensitive city – enabling us to achieve our purpose of providing sustainable management of water services for the people of WA.

We are planning the next phase of this journey, which will see us actively adapt our business and work in partnership with industry to holistically embrace water sensitive city outcomes.

Work already underway includes increased green spaces, social participation and local economic development projects. We have already delivered a number of initiatives including a ‘pop-up’ park in a drainage area in collaboration with the City of Bayswater and the Department of Water and Environmental Regulation. We are also leasing land and supplying recycled water to the Mamabulanjin Aboriginal Corporation in Broome to grow native fruits, which is having social and economic benefits to the region’s Aboriginal people.

Innovation Objectives

Develop leading edge thinking and the right tools, skills and information

We need to bring innovative and leading edge thinking into every aspect of our business and be open to incorporating these innovations whenever possible. Our focus is about making sure we have the right tools, skills and information to deliver what our customers need today and create a strong platform for the future.

Delivering on our Purpose



We recognise the digital era presents new opportunities to make our business smarter and more efficient. This will see us adapt our processes, people and systems to ensure we consistently leverage new information technologies, practices and skills.

To capture the opportunities available from the digital economy we have established a Digital Transformation Group. This Group has brought together core information and technology functions and skills from across the business to plan and implement a long-term course of action.

This will deliver smarter plans and investment based on quality data, increase confidence in our asset performance and ensure we operate using the right people in the right place at the right time, using the right tools.

Optimising our assets by using the right technology will help place downward pressure on our capital and operating expenditure.

Our success as a business will depend on managing the volume and impact of these changes, and ensuring it does not interfere with our ability to continue to deliver core business.

Operational Objectives

Strengthen and align our core business

Our core business is delivering safe, reliable and sustainable water services to the people of WA. We must continue to deliver and strengthen these elements of the business to meet customer expectations and prepare for the incoming changes.

Water services

South Western Australia is recognised as one of the three global areas most affected by climate change, along with South West Africa and South West America. In practical terms, this means we have to monitor and adapt to reduced rainfall, particularly in Perth and the South West of WA.

Climate change has significantly impacted dam inflows and will likely continue to constrain groundwater availability, requiring us to carefully plan water services to ensure we can meet the future needs of our customers.

Over the next five years, our focus will be on securing the water supply for customers of the Integrated Water Supply Scheme (IWSS) by delivering the Groundwater Replenishment Scheme in Craigie (28 billion litres (GL) by 2020), optimising production from both desalination plants, the replacement of cast iron mains in the Perth CBD and optimising our pipe network across Perth.

Our planning ensures that we will be able to accelerate IWSS source development when required, by having three potential sources 'delivery ready':

- Perth Seawater Desalination Plant expansion (25GL);
- Alkimos Seawater Desalination Plant (25GL); and
- Eglington Groundwater Scheme (6.6GL).

Work is progressing to ensure these projects can be activated as soon as forecast production does not meet demand from either lower inflows or reduced groundwater allocations.

It is not expected that we will require significant investment in an additional new source within the next five years, but a source option can be added if required subject to capital availability.

In regional areas, the emphasis will be on increasing source capacity to meet projected growth, especially in the South West, and undertaking renewals work on older mains as required. One of the larger programs of investment will improve water supply services in the farmlands areas of the Goldfields and Agricultural regions, reducing the rate of leaks and breaks on 7,800 kilometres of the supply network.

In the South West, Harris Dam will also be connected to the IWSS, ensuring security of supply for customers of the Great Southern Towns Water Supply Scheme.

We are also addressing the reality of climate change by delivering on our commitment to increase water recycling, and waterwise initiatives that encourage our customers to keep up their water saving efforts. Additional water restrictions in the next five years are unlikely, however they remain an option that the Government can call upon if needed.

Delivering on our Purpose



Ensuring the supply of safe drinking water to our customers is also part of our core business. We comply with national guidelines and have rigorous processes and monitoring programs in place which will ensure we can maintain our excellent record.

Although our services are compliant with the Department of Health's regulatory requirements, we will be investigating innovative options for improving drinking water quality specifically in the Mid West of the State, by addressing nitrate and aesthetic water quality concerns.

Wastewater services

Our objective is to continue to provide high quality wastewater services and pursue opportunities for increasing wastewater recycling, so we can continue to provide sustainable, customer-driven services into the future.

Regional and metropolitan wastewater flows are expected to increase by 20-25% over the next ten years. The ongoing implementation of urban infill development means that wastewater volumes will increase at a higher rate than water services growth, resulting in further emphasis on increasing wastewater recycling opportunities.

Regardless of the projected increase in wastewater flows, the delivery of the 28GL Groundwater Replenishment Scheme places us on target to recycling 30% of all treated wastewater in WA by 2030.

The focus for the next five years will be catering for growth in wastewater volumes, although investment in the renewal of pipeline networks, and bio-solid disposal and odour control improvements are also planned. Major wastewater projects in the metropolitan area include: upgrades at the Woodman Point, Subiaco, East Rockingham, and Beenyup Wastewater Treatment Plants (WWTP).

Investment in the regions is distributed across a large number of smaller assets in regional towns. Areas projecting more growth, like the South West of WA, will receive more investment for capacity upgrades than those facing lower growth, like the North West. Improving health and environmental outcomes in regional wastewater schemes will also receive significant attention in the next five years.

Drainage services

We are working in collaboration with the Department of Water and Environmental Regulation to achieve better social and environmental amenity of our drains for the community.

As a provider of main drains in the metropolitan, South West and Great Southern regions, our focus for the next five years will be assessing bridge condition and establishing a risk based investment program.

Irrigation services

Agricultural production in irrigation districts is a significant contributor to WA's economy. We support the Government's agricultural development policy by supplying bulk water services to four irrigation districts across the State.

In the Carnarvon irrigation district, we have committed to investing in a dual pipeline to separate the town water and irrigation supplies to deliver more secure, tailored water services to customers.

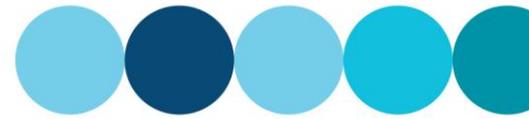
Environment

Our ability to draw water from the environment, and return drainage water, treated wastewater and its by-products to the environment is dependent on the successful discharge of our environmental responsibilities.

We maintain environmental compliance licences across the State, and consistently look for ways to improve our environmental performance and protect the natural environment for future generations of Western Australians.

A key pillar of our environmental program is the expansion of the Groundwater Replenishment Scheme, which will reduce reliance on ocean outfalls for treated wastewater disposal and reduce our long-term reliance on scarce groundwater resources.

Delivering on our Purpose



In addition to the focus on wastewater recycling, we have other strategies for reducing our environmental footprint:

- 100% recycling of Perth's WWTP bio-solids for agriculture purposes;
- further opportunities to offset traditional energy use;
- increasing the number of solar powered bores and use of renewable energy; and
- increased energy efficiency.

Safety

The safety of our people, contractors and the community is very important to us. Our objective is to achieve Zero Harm, where no injury is considered acceptable and all activities are undertaken without compromising health or safety.

We are striving for a 'Think Safe, Act Safe' culture that encourages people to step back from a task and question whether it is safe and whether the risks can be better managed.

We will achieve this by building a workforce capable and empowered to manage safety issues on a daily basis, headed by strong leadership.

Our primary objective is to build a workforce and a leadership cohort capable of identifying and managing high risk work. Initiatives are underway to support this outcome, including:

- identifying critical controls for all high risk activities;
- a field-based competency verification program; and
- the introduction of mobile data and information platforms that ensure field staff have timely access to the information they need to undertake work safely.

We demand the same level of commitment to safety from our partners and alliances.

People

We cannot deliver our core business without our people. We have recently launched a five year strategy to help us deliver a connected, safe and

efficient, and customer-centric workforce of the future.

We will focus on three key pillars going forward: great leaders, effective employees and an inclusive environment.

Our focus on inclusivity is supported by five year targets that we have set for ourselves. Our aim is to ensure we are building a diverse workforce that reflects the diversity of the community in which we operate.

To this end:

- we have set ourselves a stretch target to achieve 6% Aboriginal Australian employment by 2021;
- we have been working to develop a pipeline of women leaders who can step up for future management roles;
- we have also set targets for women in management and Aboriginal Australian employment at Group levels to give our senior managers and leaders more accountability at the local level; and
- we are developing strategies to support a renewed focus on enabling employment of people with disabilities and young people (15-24 year olds).

Financial Objectives

In delivering our operating objectives, our Act requires the Corporation to perform its functions in accordance with prudent commercial principles. This underpins our continued focus on operating efficiently and is reflected in the financial forecasts.

This prudent commercial practice is an important part of providing a value for money service that the Government and community expects of us. It extends to our capital and operating expenditure objectives and our pricing policies.

Operating Expenditure

The Corporation's operating expenditure forecasts are summarised in Table 2. It is our intention to deliver services as efficiently as possible, within the budget parameters agreed with Government.

Delivering on our Purpose



Delivering our services efficiently is the goal that drives our cycle of continuous improvement; internal processes which continually challenge managers to find efficiencies within their business units coupled with corporate wide initiatives targeting particular performance outcomes.

Capital Investment

As a Government owned organisation, our Asset Investment Program (AIP) is underpinned by our Strategic Asset Plan (SAP), developed in accordance with Department of Treasury parameters.

Our SAP outlines asset management objectives to ensure the delivery of safe, reliable and cost effective water services to our customers. Performance outcomes are subject to external review through a highly regulated environment, including national benchmarking. At the same time we meet the State Government's expectations for financial returns, social and environment amenity and long-term stewardship of our asset base.

Our asset investment planning aligns with State growth forecasts and land planning projections. Most recently we have seen a reduction in growth driven investment as a reflection of the broader economic outlook for Western Australia.

At the same time, we are continuing to adapt to the changing climate and its impact on our supply balance in Perth and the South West land division. An ongoing, successful water efficiency program is an essential and cost effective component of the investment strategy to address this risk. Other investment pressures include increased regulatory standards and an ageing asset base with a growing need to invest in asset renewals.

This asset investment framework will continue to be revised and improved to support both long-term strategic and near-term practical planning.

Our five year proposed AIP totals \$3,790 million*, allocated as follows:

- \$1,080 million (29%) of the total budget for metropolitan water services;
- \$700 million (18%) of the budget for regional water services;

- \$800 million (21%) of the budget for metropolitan wastewater services;
- \$420 million (11%) of the budget for regional wastewater services;
- \$190 million (5%) of the budget for irrigation and drainage services;
- \$450 million (12%) for centralised support;
- \$60 million (2%) for regionalised support; and
- \$90 million (2%) for capitalised interest.

*Dollar figures are rounded to the nearest \$10 million. Percentages are not rounded.

Our measures



Table 1: Business Targets

	2017-18 Target*
Community Targets	
Customer Performance Index	7.07
Water supplied per capita for Perth metro (kL)	126 kL per capita
Safety Index (%)	90
Total cost per property(\$) ¹	1,973

Table 2: Financial Outcomes (\$m)

	2016-17 Projected	2017-18 Projected
Operating revenue	2,348	2,537
Direct operating expenses	886	939
Depreciation / amortisation	489	493
Earnings before interest, tax & developer contributions (EBIT)	973	1,105
Net interest expense	254	260
Developers' contribution	202	227
Operating surplus before income tax	921	1,072
Income tax expense	276	321
Operating surplus after income tax	645	751
Capital expenditure (including Capitalised Interest)	806	765
Borrowings taken (repaid)	200	270
Accruals to Government		
Indirect tax equivalents	6	6
Income tax equivalents	292	328
Dividends provided	483	589
Total	782	924
Payments from Government		
Operating subsidies		
Non-commercial country services	316	319
Revenue concessions	146	147
Metropolitan operations	3	3
Total operating subsidies	464	469
Net Accrual to Government	317	455

Table 3: Financial Performance Indicators

	2016-17 Projected	2017-18 Projected
Return on equity (%)	6.2%	7.1%
Return on assets (%)	5.8%	6.5%
Debt to total assets ratio (%)	34.3%	35.0%

* Targets as at 2 August 2017.

¹ Total cost per property represents total cost (operating costs, depreciation and a return on assets) divided by number of water properties connected.



a) Reporting to the Minister

Reports which monitor performance against the targets outlined under the SCI are provided to the Minister quarterly.

In addition, the Board and Chief Executive Officer advise the Minister of any significant variations in our performance. Reporting of operational performance to Authorities and Departments of Government occurs in addition to this reporting to the Minister. An Annual Report is provided to the Minister within the timeframe specified by the *Water Corporations Act 1995*.

Copies of our major public documents, including the Annual Report, Quarterly Performance Reports and Statement of Corporate Intent, can be accessed through our website at: watercorporation.com.au

b) Accounting policies

Details of our significant accounting policies can be found in the notes accompanying the Financial Report in our Annual Report.

Our annual financial report is a General Purpose Financial Report which has been prepared in accordance with AASB Australian Accounting Standards (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the *Water Corporations Act 1995*.

The financial report is prepared on the accrual accounting basis and in accordance with the historical cost convention, except for certain financial assets and liabilities which are stated at their fair value.

c) Borrowings

Our Capital Investment Program is funded from operational cash flows, borrowings and a financial arrangement under a Public Private Partnership for the Mundaring Water Treatment Plant.

d) Dividend policy

85% of after-tax surplus (excluding developers' hand-over assets, State Government grants and grants received from Government for Capital Expenditure purposes) is distributed to the State Government as a dividend and is dependent on continued access borrowings.

e) Approvals

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

f) Supply assumption

This SCI has been prepared based on the assumption of adequate surface water storage at the end of the 2017 winter. Should storage be below this it may have a material impact on our ability to supply water in 2018 as projected.

g) Operating subsidies

Operating subsidies are payments for services that are not otherwise commercially viable. They reflect the State Government's commitment to meet the community's broader economic, environmental and social needs.

Remoteness, diseconomies of scale, topographical considerations and in some instances, harsh climatic conditions all contribute to the high cost of providing water and wastewater services in the country regions.

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

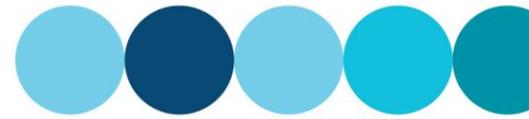
The operating subsidies provided are:

- Non-commercial country services - losses we incur in providing services to customers in non-profitable country schemes;
- Revenue concessions - concessions to pensioners, seniors and other customers, provided at the request of the State Government; and
- Metropolitan Operations – subsidy for Woodman Point Reveal facility.

h) Efficiency dividends

The 2011-12 State Budget sought Efficiency Dividends from Government Trading Enterprises. These continue to be delivered over the course of this SCI.

Notes: Financial accounts



i) Assumptions

These assumptions have been used to determine Our Measures.

	2016-17 Projected	2017-18 Projected
Growth in services (%)	1.8	1.7
Operating efficiency (%)	2.6	2.2
CPI annual change (%)	1.0	2.25
Dividend payout rate (%)	85.0	85.0