Acquittal Report Annex D: *Water Entities*

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This report consists of five parts:
Acquittal Report: Results of the 2009–10 Audits
Annex A: Portfolio Departments and Associated Entities
Annex B: Local Government
Annex C: Public Hospitals
Annex D: Water Entities

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Acquittal Report Annex D:

Water Entities

Contents

Audit summary

This annex sets out the results of the 2009–10 audits of 20 entities, comprising 19 water entities and one controlled entity. An assessment is also made of the financial sustainability of the 19 water entities.

Results of audits

The 20 entities are required to prepare an annual financial report, with 15 of the 20 also required to prepare a performance report.

Independent audit opinions add credibility to the financial reports and performance reports by providing assurance that the information is reliable.

A clear audit opinion confirms that the report has been prepared according to the requirements of relevant legislation and accounting standards.

Parliament can have confidence in the financial reporting by the water entities because clear audit opinions were issued on all 20 financial reports and on the 15 performance reports for the year ended 30 June 2010.

Quality of financial and performance reporting

The quality of reporting can be measured by the timeliness and accuracy of the preparation and finalisation of the financial and performance reports.

The reporting processes at water entities were generally adequate. However, further improvement is needed in preparing shell financial and performance reports, materiality assessments, rigorous analytical reviews on the financial report and quality assurance of the performance report.

Where financial reporting plans were prepared, they generally did not include the requirements for preparing the performance report. As a result, performance reports were not subject to the same level of internal quality assurance as financial reports.

With respect to timeliness, the average time taken to finalise the financial reports improved substantially with the water corporations requiring 7.4 weeks in 2009–10 compared to 10.2 weeks in 2008–09. The four companies continue to average eight weeks to finalise their financial report.

Given the improved time frames achieved in 2009–10, water corporations should maintain this momentum of earlier reporting.

Financial sustainability

Financial sustainability analysis has been provided for the 19 water entities.

To be financially sustainable, water entities should have the capacity to meet current and future expenditure as it falls due. They should also be able to absorb foreseeable changes and risks materialising, without significantly changing their revenue and expenditure policies.

Insight into the financial sustainability of the water entities is obtained from an analysis of six financial sustainability indicators. Four core financial sustainability indicators are assessed being underlying result, liquidity, self-financing and capital replacement. Two additional are included for water entities to assess interest coverage and debt-to-equity ratios. As water entities have a high reliance on debt, these additional indicators assess their ability to meet commitments to interest and repayment of debt.

The results of the indicators should be considered in the context of the regulatory and commercial environment in which water entities operate. Pricing arrangements are regulated by the Essential Services Commission so that water entities have a sustainable revenue stream, and all borrowings are obtained from the Treasury Corporation of Victoria, which reduces the re-financing and liquidity risks in the short-term.

A summary of the sustainability assessments by water entity category is in Figure A.

Figure A
2009–10 financial sustainability risk assessment by category

Category	High	Medium	Low
Water Entities			
Metropolitan	4	–	–
Regional urban	5	–	8
Rural	1	–	1
Total	**10**	**–**	**9**

Source: Victorian Auditor-General's Office.

Overall, our financial sustainability assessment is that 53 per cent of water entities have a high-risk rating. This was mainly because of underlying deficits and/or a poor liquidity position. Generally, these entities have approval to refinance their maturing debt and in recent years have refinanced the debt for a new term rather than repay the debt.

The four metropolitan entities have been assessed overall as a high risk due to tight liquidity. However, the four entities have a strong interest cover position, indicating an ability to service their debt as they generate profits and positive cash flows from operating activities.

Five of the 13 regional urban entities have been assessed overall as high risk due to the magnitude of the operating losses and/or liquidity situation.

One rural entity has been assessed overall as a high risk due to the magnitude of its operating losses.

The liquidity of the sector is deteriorating with 73 per cent of water entities receiving a high-risk assessment for liquidity in 2009–10. The deterioration is due to increased debt taken on to fund large scale infrastructure projects.

Recommendations

Number	Recommendation	Page
1.	Water entities who prepare a performance report should integrate the preparation and approval of this report into their year-end financial reporting plan and processes.	7
2.	Water entities should adopt the shortened annual reporting time frames achieved for the 2009–10 reporting cycle as the standard for future reporting cycles.	9

Submissions and comments received

In addition to progressive engagement during the course of the audit, in accordance with section 16(3) of the *Audit Act 1994* a copy of this report, or relevant extracts from the report, was provided to the Department of Sustainability and Environment, the Department of Treasury and Finance and all named agencies with a request for submissions or comments.

Agency views have been considered in reaching our audit conclusions and are represented to the extent relevant and warranted in preparing this report.

No submissions or comments were received.

1 Results of audits

At a glance

Background

This annex covers 20 entities comprising 19 water entities and one controlled entity. It includes the audits of 16 water corporations and four companies.

All 20 entities are required to prepare an annual financial report, with the 13 regional urban and the two rural water corporations also required to prepare a performance report.

Finding

All financial and performance reports received clear opinions.

1.1 Scope

This annex of the report deals with the results of the audits of 19 water entities and one controlled entity, with 30 June 2010 balance dates.

Figure 1A lists the 19 water entities and the controlled entity, classified by sector, with both the legal name and trading name specified.

Figure 1A
Water entities and the controlled entity

Entity	Trading name
Metropolitan sector	
Wholesaler	
Melbourne Water Corporation	Melbourne Water
Retail distribution companies	
City West Water Limited	City West Water
South East Water Limited	South East Water
Yarra Valley Water Limited	Yarra Valley Water
Regional urban sector	
Barwon Region Water Corporation	Barwon Water
Central Gippsland Region Water Corporation	Gippsland Water
Central Highlands Region Water Corporation	Central Highlands Water
Coliban Region Water Corporation	Coliban Water
East Gippsland Region Water Corporation	East Gippsland Water
Goulburn Valley Region Water Corporation	Goulburn Valley Water
Grampians Wimmera Mallee Water Corporation	GWMWater
Lower Murray Urban and Rural Water Corporation	Lower Murray Water
North East Region Water Corporation	North East Water
South Gippsland Region Water Corporation	South Gippsland Water
Wannon Region Water Corporation	Wannon Water
Western Region Water Corporation	Western Water
Westernport Region Water Corporation	Westernport Water
Rural sector	
Gippsland and Southern Rural Water Corporation	Southern Rural Water
Goulburn-Murray Rural Water Corporation	Goulburn-Murray Water
• Watermove Pty Ltd	• Watermove

Source: Victorian Auditor-General's Office.

The number of entities increased by one in 2009–10. Watermove Pty Ltd, a controlled entity of Goulburn-Murray Water, commenced operations on 1 November 2009 to facilitate water trading in Victoria and southern New South Wales.

1.2 Reporting framework

All 20 entities are required to prepare an annual financial report, with 15 of the 20 also required to prepare a performance report.

1.2.1 Financial report

The 16 water corporations prepare financial reports in accordance with the *Financial Management Act 1994* (FMA). The three metropolitan retail distribution companies and the one controlled entity prepare financial reports in accordance with the *Corporations Act 2001*.

The FMA requires annual reports to be submitted to the relevant minister. These reports should be tabled in Parliament within four months of the end of the financial year, and include reports for the entity and any controlled entities, which are required to be prepared and audited within 12 weeks.

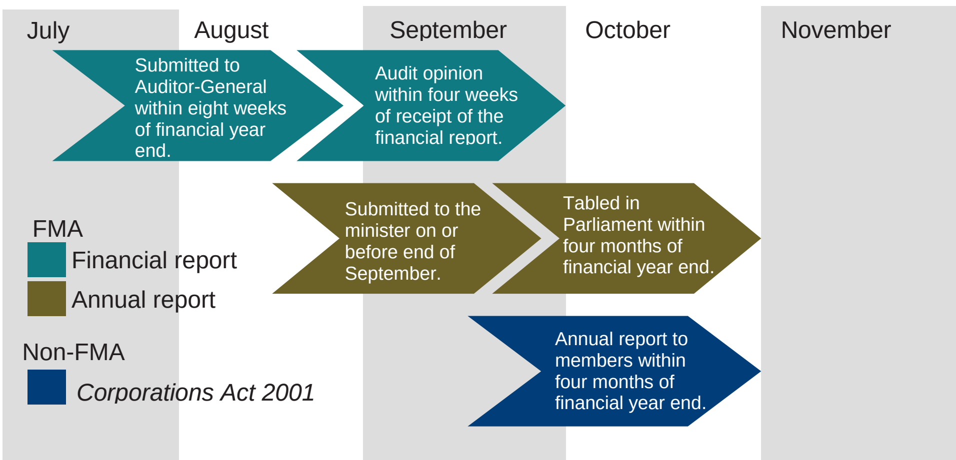
The four entities reporting under the *Corporations Act 2001* are required to report to their members within four months of the end of the financial year.

Financial reports are required to be prepared in accordance with Australian accounting standards, including Australian accounting interpretations.

Under the FMA the Minister for Finance has the authority to issue directions in relation to finance administration and reporting issues.

Figure 1B outlines the legislated reporting time frames.

Figure 1B
Legislated financial reporting time frames



Source: Victorian Auditor-General's Office.

1.2.2 Performance report

Financial Reporting Direction 27A *Presentation and Reporting of Performance Information* requires the 13 regional urban water corporations and the two rural water corporations to prepare and submit for audit a performance report.

The Minister for Water, under Section 51 of the FMA, specifies the form and content of the performance report and requires the report to be included in the annual report tabled in Parliament within four months of the end of the financial year.

1.3 Audit opinions issued

1.3.1 Financial report

Clear audit opinions were issued on the financial reports of all 20 entities in the water sector.

Independent audit opinions add credibility to financial reports by providing assurance that the information is reliable.

A clear audit opinion confirms that the financial report has been prepared according to the requirements of relevant accounting standards and legislation.

1.3.2 Performance report

Clear audit opinions were issued on the performance reports of the 13 regional urban and two rural water entities who are required to prepare them.

2 Quality of financial and performance reporting

At a glance

Background

The timeliness and accuracy of the preparation and finalisation of financial and performance reports underpins their quality. To achieve efficient and cost effective practice, reporting entities need to have well planned and managed financial and performance report preparation processes.

Findings

- Overall, the financial reporting processes at water entities were generally adequate. However, further improvement is needed with respect to:
    - materiality assessments
    - preparation of shell financial reports
    - rigorous analytical reviews of the financial report.
- Performance reports were not subject to the same level of internal quality assurance as financial reports.
- The timeliness of financial reporting by water corporations improved significantly with the average time taken to finalise their financial reports of 7.4 weeks in 2009–10, compared to 10.2 weeks in 2008–09. This momentum of earlier reporting should be maintained.

Recommendations

- Water entities who prepare a performance report should integrate the preparation and approval of this report into their year-end financial reporting plan and processes.
- Water entities should adopt the shortened annual reporting time frames achieved for the 2009–10 reporting cycle as the standard for future reporting cycles.

2.1 Introduction

The timeliness and accuracy of the preparation and finalisation of the financial and performance reports underpins their quality. Water entities need to plan for, and allocate sufficient and appropriate resources to, financial and performance report preparation. This will allow them to produce complete, accurate and compliant financial and performance reports within the legislative time frame.

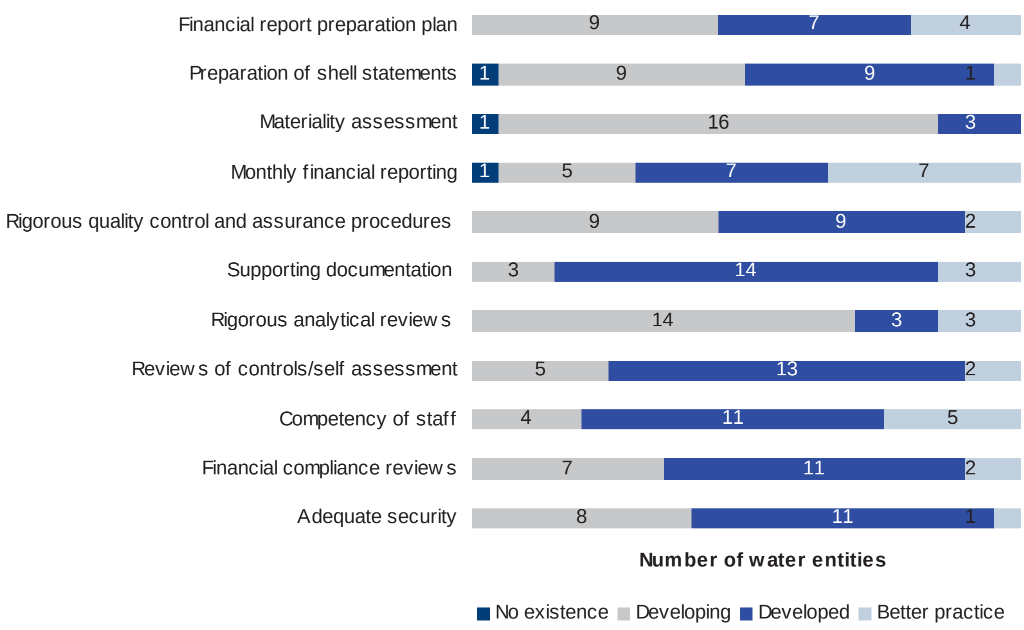
2.2 Preparation of financial and performance reports

2.2.1 Financial report

The achievement of better practice financial reporting requires water entities to plan and manage the preparation of the financial report. Water entities should exhibit the specific practices detailed in Appendix D of the Acquittal Report.

An assessment of the 19 water entities and controlled entity's performance against better practice was based on criteria also outlined in Appendix D of the Acquittal Report. The results of our assessments are summarised in Figure 2A.

Figure 2A
Better practice results for water entities report preparation processes



Source: Victorian Auditor-General's Office.

The areas where better practice is commonly shared by water entities include:

- financial compliance reviews
- monthly financial reporting
- competency of staff.

However, further improvement is needed with respect to:

- materiality assessments
- preparation of shell reports
- rigorous analytical reviews on the financial report.

Improving these areas will assist in more timely preparation of quality financial reports, improved resource allocation planning and quality assurance procedures, and the earlier detection and correction of errors.

2.2.2 Performance report

Where an entity is required to prepare a performance report, the financial reporting plan should consolidate the key requirements associated with the preparation of the financial and performance reports.

The performance report should be subject to the same level of internal quality assurance review as the financial report. However, our review of the performance reports indicates that this is not the case as:

- shell performance reports are not prepared
- rigorous quality assurance procedures were lacking for performance reports submitted to audit by 8 of 15 water entities, mostly regional urban water entities. These did not comply with the requirements of the Ministerial directive, namely:
  - format and presentation discrepancies
  - exclusion of explanations for significant variations between actual performance outcomes compared with targets and prior years performance
  - minimal assessment of materiality when drafting explanations for significant variances.

Recommendation

1. Water entities who prepare a performance report should integrate the preparation and approval of this report into their year-end financial reporting plan and processes.

2.3 Timeliness

Recognising the accountability role in relation to the use of public monies that financial reports serve, entities should prepare and publish timely financial information. The later the reports are produced and published after year end, the less useful they are.

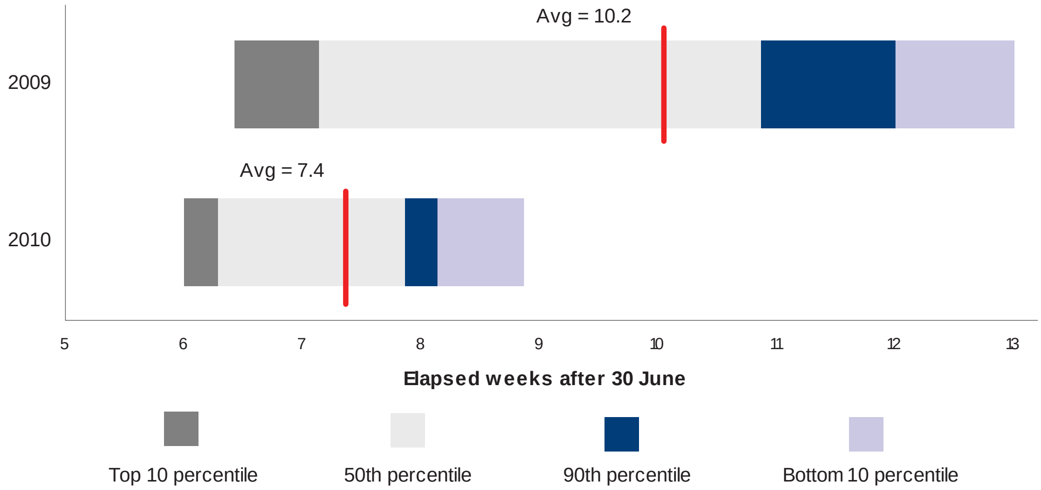
2.3.1 Water corporations

The legislated time frame for the 16 water corporations to finalise their audited financial reports is within 12 weeks of the end of the financial year. This is an improvement on 2008–09 when two water corporations did not achieve the 12-week time frame.

Due to the state election in November 2010, entities reporting under the *Financial Management Act 1994* (FMA) were required to table their annual reports in Parliament on or before 16 September 2010. This shortened the time frame for entities to finalise their financial statements. As a result, the average time taken to finalise financial reports of the water corporations reduced significantly from 10.2 weeks in 2008–09 to 7.4 weeks in 2009–10.

Figure 2B summarises, in percentile bands, the time taken after 30 June for the 16 water corporations to finalise their audited financial reports. It shows improvement since last year.

Figure 2B
Time taken for water corporations to finalise their financial reports



Source: Victorian Auditor-General's Office.

Given the improved time frames achieved in 2009–10, water corporations should maintain this momentum of earlier reporting.

2.3.2 Companies

The three metropolitan retail distribution companies and one controlled water entity are required under the *Corporations Act 2001* to have their financial reports finalised within four months of the end of the financial year. However, as controlled entities of the state, and to facilitate the preparation of the annual financial report of the State of Victoria, the reporting provisions of the FMA are applied and the financial report is targeted to be finalised within 12 weeks. All of these entities met the FMA requirements in 2009–10, the same as last year. The average time taken to finalise their financial reports remained unchanged from the prior year, that being eight weeks.

Recommendation

2. Water entities should adopt the shortened annual reporting time frames achieved for the 2009–10 reporting cycle as the standard for future reporting cycles.

2.4 Accuracy

The frequency and size of errors in the draft financial reports requiring adjustment are direct measures of accuracy. Ideally, there should be no errors or adjustments.

When the auditor detects errors in the draft financial reports they are raised with management. Material errors need to be corrected before a clear audit opinion can be issued. The entity itself may also change its draft financial reports after submitting them to audit, if their quality assurance procedures disclose that reported information is incorrect or incomplete.

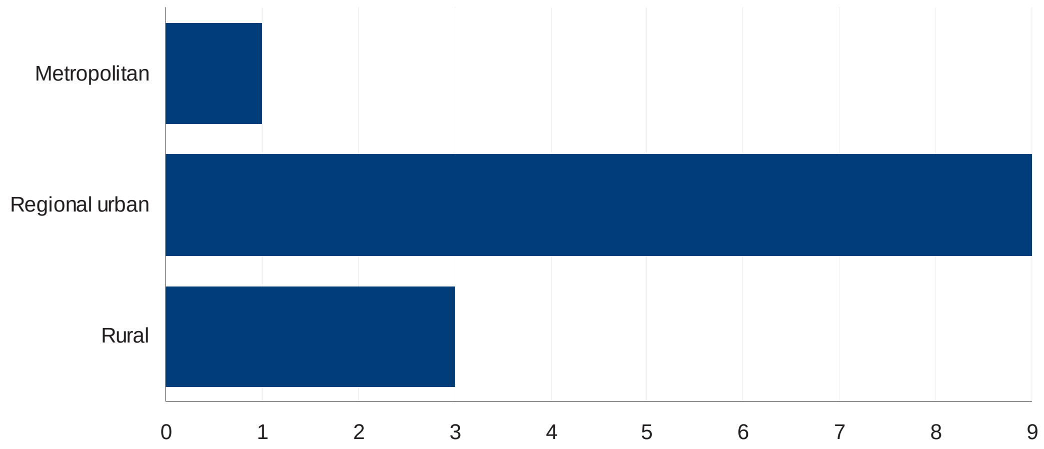
Overall, there are two types of adjustments:

- **financial balance adjustments**—changes to the balances being reported
- **disclosure adjustments**—changes to the commentary or financial note disclosure within the financial report.

In 2009–10, there were a total of 13 material financial balance adjustments to the net result, the net asset position, cash flow statement or statement of changes in equity reported in the draft financial reports across the 19 water entities.

Figure 2C shows the number of material financial balance adjustments by water category.

Figure 2C
2009–10 water entities—
number of material financial balance adjustments by water category



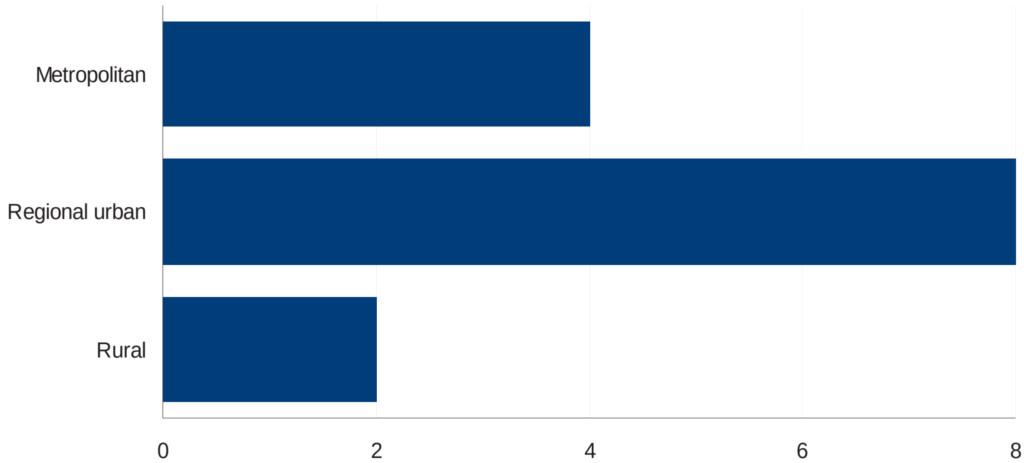
Source: Victorian Auditor-General's Office.

The total value of adjustments on the net asset position of the 19 water entities was $0.9 million, comprising adjustments to assets of $5.0 million and liabilities of $5.9 million. Whilst the net adjustment was $0.9 million, there were asset reclassifications of $21.5 million. The total value of adjustments on the net result was $1.7 million, comprising adjustments to revenue of $1.7 million and no adjustments to expenses.

As a result of a misclassification, $18.7 million adjustment was made to cash flows from operating activities in one instance.

In addition to the financial balance adjustments, there were a further 14 significant disclosure errors that required adjustment in the 2009–10 draft financial reports. Figure 2D shows the number of significant disclosure adjustments by water category.

Figure 2D
2009–10 water entities—
number of significant disclosure adjustments by water category



Source: Victorian Auditor-General's Office.

The significant disclosure adjustments were:

- **capital commitments**—the commitments figures were incomplete and understated as contracts identified from the contracts register had been excluded, and GST omitted from the total commitment figure. Other adjustments related to the timing of the commitment being incorrectly classified
- **other commitments**—commitments overstated where amounts included had no contractual or legislative obligation.

The number of adjustments to both financial balances and disclosures indicates the water entities can further improve their financial report preparation processes.

3 Financial sustainability

At a glance

Background

This chapter analyses the financial sustainability of the 19 water entities. The analysis is conducted using interrelated financial sustainability indicators which assess entity financial performance and position. The indicators analyse past results to identify trends.

To be financially sustainable, water entities should have the capacity to meet current and future expenditure as it falls due. They should also be able to absorb foreseeable changes and risks materialising, without significantly changing their revenue and expenditure policies.

Findings

- The financial performance of the water industry has improved in recent years, the increased profit linked to higher water prices under the current water plans. The profit before income tax was $417.3 million in 2009–10, an increase of $167.3 million (67 per cent) from the prior year.
- Of the 19 water entities, the overall financial sustainability assessment is that 10 have a high-risk rating. Eight of these entities were high risk due to insufficient liquidity, including the four metropolitan water entities. The remaining two were assessed as high risk due to operating losses.
- Seventy-three per cent of water entities were assessed as high liquidity risks with liquidity deteriorating year on year. The deterioration is due to increased debt taken on to fund large scale infrastructure projects.

3.1 Introduction

Financial sustainability indicators have been provided for the 19 water entities.

The indicators should be considered in the context of the regulatory and commercial environment in which these entities operate. Pricing arrangements are regulated by the Essential Services Commission (ESC) so that water entities have a sustainable revenue stream, and all borrowings are obtained from the Treasury Corporation of Victoria, which reduces the re-financing and liquidity risks in the short-term.

3.2 Financial performance

The objective for water entities should be to generate a sufficient surplus from operations to meet financial obligations, fund asset replacement and new asset acquisitions. The ability of water entities to achieve these objectives depends largely on their expenditure management and revenue maximisation practices. This is reflected in the composition and rate of change in their operating revenue and expenses.

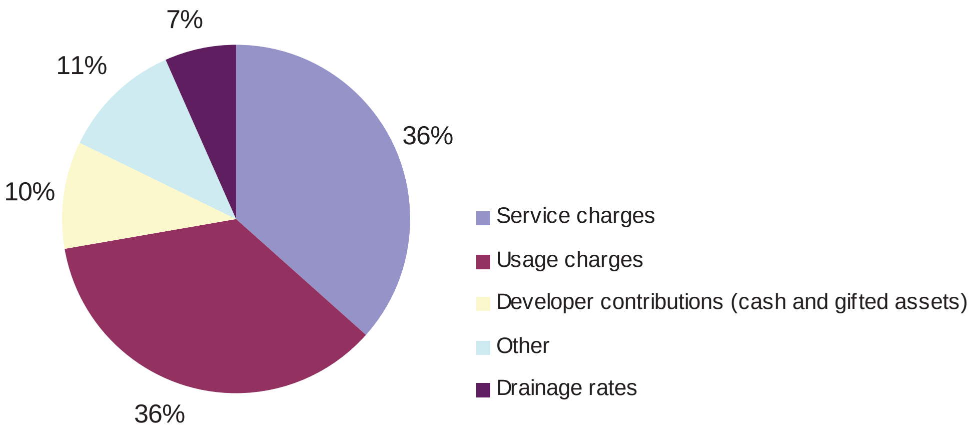
Financial performance is measured by the net result, which is the difference between operating revenue and operating expenditure for the reporting period.

3.2.1 Operating revenue

In 2009–10, the 19 water entities collectively generated $2 695 million in operating revenue. Operating revenue increased by $395 million, or 15 per cent from the prior year. Figure 3A shows the overall composition of operating revenue which remains comparable to 2008–09.

The largest source of revenue for water entities is from service and usage charges. Each accounted for 36 per cent of revenue in 2009–10. Service and usage charges have increased across the water sector to fund large capital projects being undertaken. Customer water prices will nearly double in nominal terms over the five-year period to 2012–13 to continue funding infrastructure projects, therefore revenue will continue to grow.

Figure 3A
Revenue composition



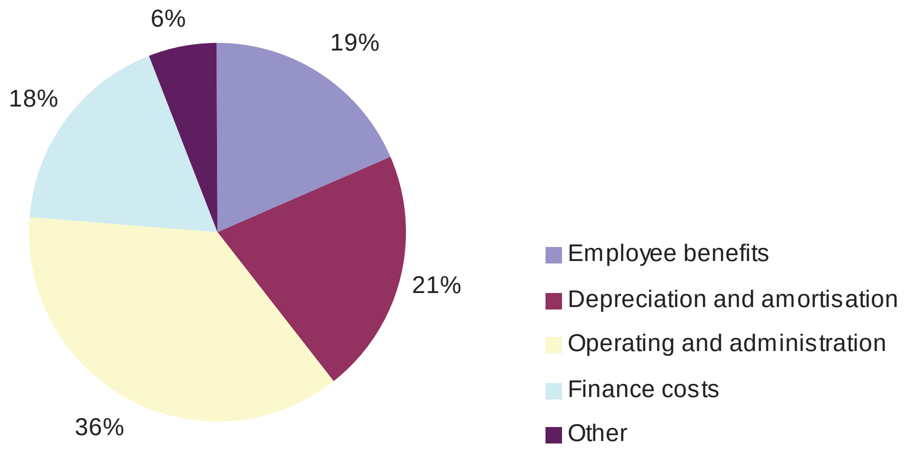
Source: Victorian Auditor-General's Office.

3.2.2 Operating expenditure

In 2009–10, the 19 water entities collectively incurred $2 278 million in operating expenses. Figure 3B provides an overview of the composition of operating expenses for these entities.

The largest components of expenditure are operating and administration expenses, depreciation and amortisation, employee benefits and finance costs. Finance costs increased in 2009–10 to represent 18 per cent of total expenditure (15 per cent in 2008–09). The increase is primarily attributed to increased borrowings used to fund the water entities significant capital works program.

Figure 3B
Expenditure composition



Source: Victorian Auditor-General's Office.

3.2.3 Net result

The water industry is subject to the National Tax Equivalent Regime, which is administered by the Australian Taxation Office. Accordingly, the net result before and after income tax is referenced in this report.

Net result before income tax

The water industry generated a net profit before income tax of $417.3 million for the year ended 30 June 2010. This represented an increase of $167.3 million or 67 per cent from the prior year.

The overall increase in the net profit before income tax is predominantly attributed to higher service and usage charges which have exceeded rises in operating expenses.

The strong net profit before income tax result was due to the four metropolitan water entities continuing to report profits and a significant reduction in the number of regional urban entities generating a loss. In contrast to this, the two rural water corporations continue to report a loss. Figure 3C summarises the net profit or loss before income tax by water category for the past two years.

Figure 3C
Net profit or loss before income tax by water category

Water category	2008–09 Net profit / (loss) before income tax ($mil)	2009–10 Net profit / (loss) before income tax ($mil)
Metropolitan	332.1	473.8
Regional Urban	(44.7)	7.2
Rural	(37.4)	(63.7)
Total	**250.0**	**417.3**

Source: Victorian Auditor-General's Office.

Net result after income tax

The water industry reported a net profit after income tax of $308 million in 2009–10, an increase of $163 million or 112 per cent from the prior year.

Dividends

The 19 water entities are required to pay a dividend in accordance with a determination of the Treasurer of Victoria under the *Public Authorities (Dividend) Act 1983*, based on a prescribed percentage of the previous year's adjusted net profit before tax. However, an obligation to pay a dividend only arises after consultation with the relevant minister and the Treasurer and a formal determination is made by the Treasurer.

In 2009–10, the four metropolitan water companies continued to pay dividends to government. The dividend payments were in the main financed by new borrowings with the four metropolitan businesses accessing funds from the Treasury Corporation of Victoria, based on the cash flow requirements of the business at the time of making the payment. Dividends of $176 million were paid during the year; this is an increase of $22 million or 14 per cent, compared with 2008–09. There were no dividends paid by the regional urban or rural water sector entities in either year.

3.3 Financial position

Financial position is measured by reference to net assets, which is the difference between total assets and total liabilities.

The water industry reported net assets of $16.7 billion at 30 June 2010, an increase of $3.8 billion or 29 per cent in comparison to the prior year.

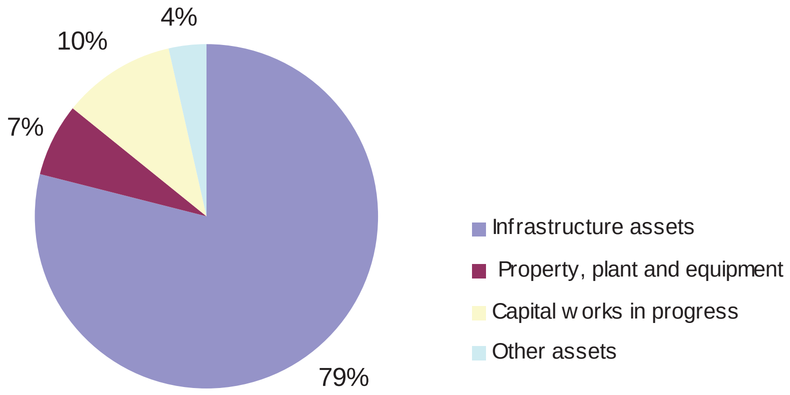
The $3.8 billion increment was caused by growth in assets of $6.7 billion in 2009–10 which was partially offset by new borrowings of $1.4 billion and increased deferred tax liabilities of $1.5 billion.

3.3.1 Assets

At 30 June 2010, the water industry had assets to the value of $27.8 billion. Figure 3D provides an overview of the composition of assets for these entities.

The largest component of assets is infrastructure assets, which has grown by $6.2 billion (39 per cent) in 2009–10 to represent 79 per cent of total assets (75 per cent in 2008–09). The increase is primarily attributed to the large number of capital projects that are currently being undertaken across the state and the impact of the revaluation of infrastructure assets to fair value for financial reporting purposes, for the first time, by the metropolitan water entities.

Figure 3D
Asset composition



Source: Victorian Auditor-General's Office.

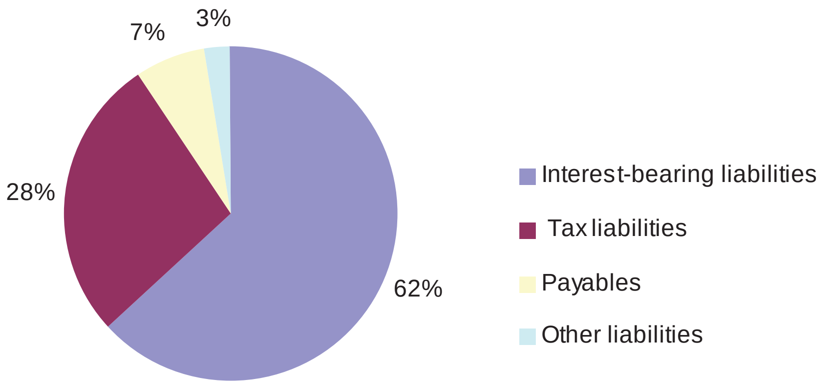
3.3.2 Liabilities

At 30 June 2010, the water industry had liabilities to the value of $11.1 billion. Figure 3E provides an overview of the composition of liabilities for these entities.

Interest-bearing liabilities have increased by $1.4 billion in 2009–10 (35 per cent). The increase is primarily attributed to the new borrowings financing the construction of new infrastructure assets and the payment of dividends to the government.

Deferred tax liabilities have increased by $1.5 billion in 2009–10 (97 per cent). The increase is primarily attributed to the tax effect of the revaluation of infrastructure assets by the metropolitan water entities.

Figure 3E
Liability composition



Source: Victorian Auditor-General's Office.

3.4 Financial sustainability

To be financially sustainable, water entities should have the capacity to meet current and future expenditure as it falls due. They should also be able to absorb foreseeable changes and risks materialising, without significantly changing their revenue and expenditure policies.

Insight into the financial sustainability of water entities is obtained from an analysis of six financial sustainability indicators over a five-year period. The six indicators used are underlying result, interest cover, liquidity, debt-to-equity, self-financing and capital replacement. These indicators reflect each entity's funding and expenditure policies, and indicate whether these policies are financially sustainable.

The interest cover indicator has been added as a new financial sustainability indicator for 2009–10. This indicator has been added because of the increase in interest-bearing liabilities across the sector and measures an entity's ability to meet ongoing interest payments and service debt.

Financial sustainability should be viewed from both a short- and long-term perspective. The shorter-term indicators involve the entity's ability to maintain a positive operating cash flow and adequate cash holdings, service debt levels and to generate an operating surplus over time. These are the underlying result, interest cover and liquidity indicators.

Longer-term indicators signify whether there is adequate funding available for spending on asset replacement to enable the entity to maintain the quality of service delivery and to help meet community expectations and the demand for these services. These are the debt-to-equity, self-financing and capital replacement indicators.

Appendix E to the Acquittal Report describes the sustainability indicators and risk assessment criteria we use in this annex.

3.4.1 Underlying result

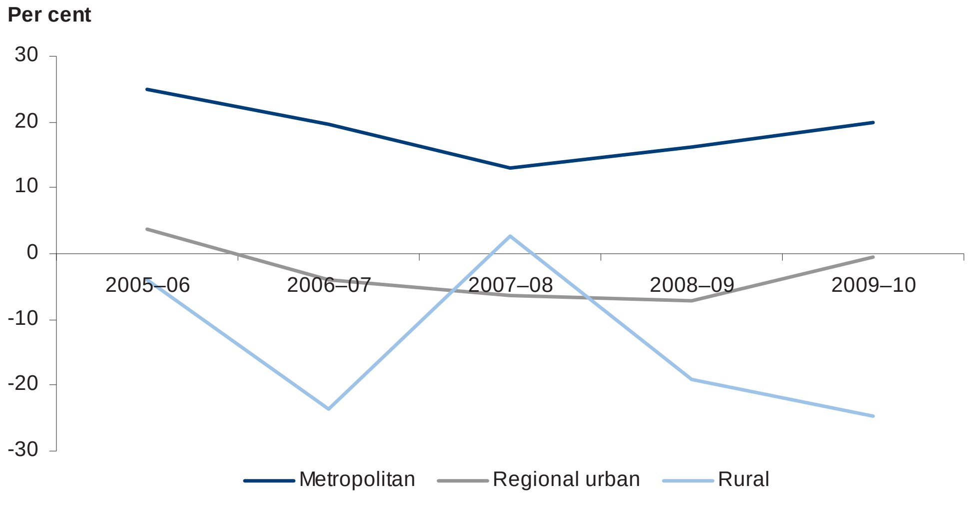
Figure 3F shows the average underlying result has fluctuated mainly for rural entities since 2005–06. While the metropolitan and regional urban sectors have improved their underlying result in 2009–10, the rural sector underlying result has deteriorated, spiking only in 2007–08 due to government grants received in that year for water saving initiatives, with the expenditure incurred in subsequent financial years.

The current approved water plans cover the regulatory period 2008–09 to 2012–13 and provide for significant increases in prices over the period of the plan to fund operations and significant capital works.

The ESC, in approving prices that a water business may charge, is required to provide the regulated entity with a sustainable revenue stream and allow for the recovery of operational, maintenance and administrative costs.

However, the water plans are based on assumptions and forecasts for expenditure and revenues. Variations between actual and forecast figures can adversely impact the financial performance of the entity. For example, should customer growth be lower than expected and the level of water restrictions more severe than planned, the revenue generated will be lower, which in turn impacts upon the reported net result.

Figure 3F
Average underlying result

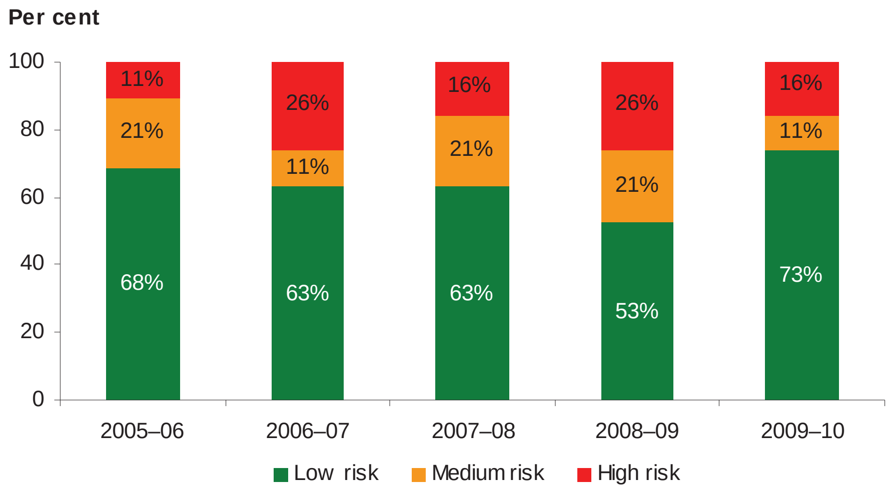


Source: Victorian Auditor-General's Office.

Figure 3G shows 27 per cent of water entities (5 of 19) generated an underlying deficit in 2009–10. Although this is an improvement on the prior year, Figure 3G shows that the number of entities assessed as high risk due to underlying deficits fluctuates year on year.

If operating deficits persist, cash reserves will be depleted and expenditure on capital programs risk being curtailed. In particular, expenditure that is perceived to be discretionary, especially for maintenance, may be deferred or abandoned should deficits persist.

Figure 3G
Underlying result risk assessment



Source: Victorian Auditor-General's Office.

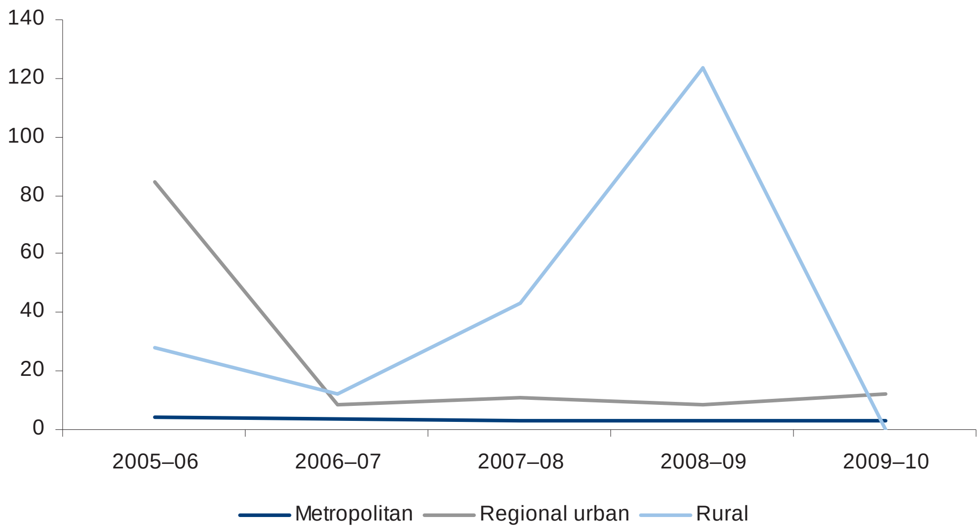
3.4.2 Interest cover

Figure 3H shows that the metropolitan water entities have maintained a consistent interest cover over the five-year period. The interest cover of regional urban and rural water entities has declined over the same period as the entities have increased their debt levels from a low base in 2005–06.

With the exception of the rural sector at 30 June 2010, an average interest cover position above two has been maintained over the five-year period, which indicates a low financial sustainability risk.

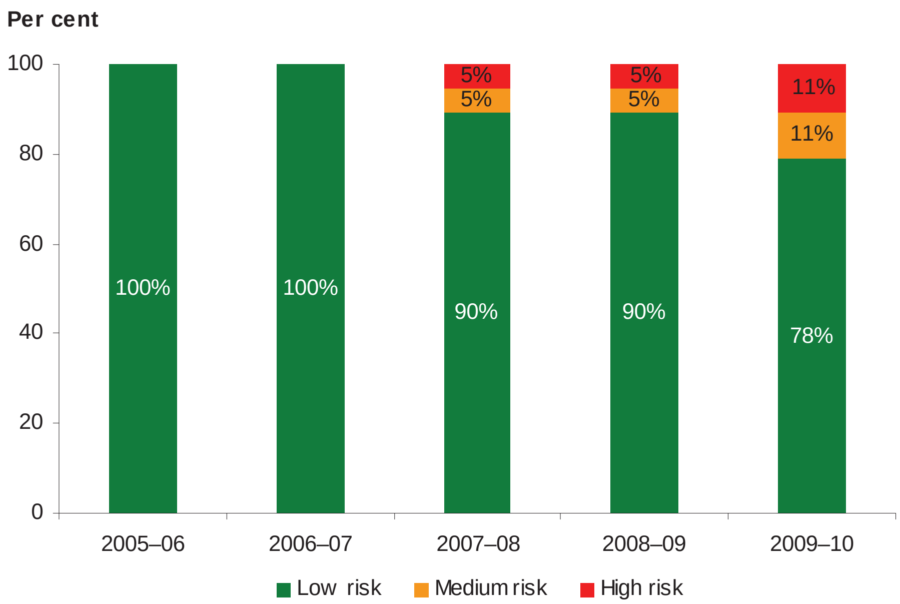
Notwithstanding the decline in the average interest cover position, Figure 3I shows that 11 per cent of water entities (2 of 19) had interest cover of below one at 30 June 2010. The entities interest cover is therefore insufficient to cover the ongoing finance charges.

Figure 3H
Interest cover indicator



Source: Victorian Auditor-General's Office.

Figure 3I
Interest cover risk assessment



Source: Victorian Auditor-General's Office.

3.4.3 Liquidity

Figure 3J shows that overall, the liquidity of the regional urban and rural water entities has deteriorated over the five-year period. The liquidity of the metropolitan water entities has remained low, being below 0.5 for the full five-year period.

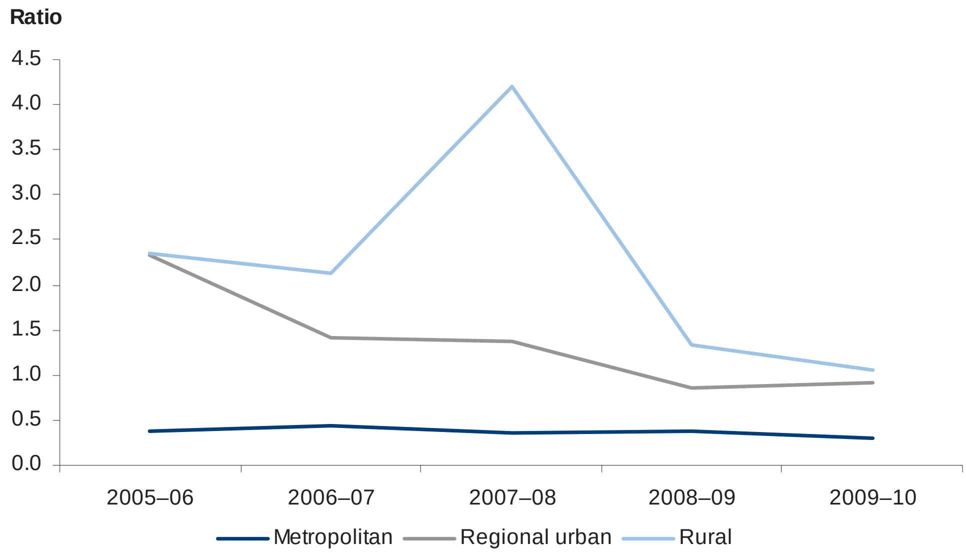
The decline is a consequence of increased borrowings and payables, which have been driven by the significant increase in capital works activity.

The 19 entities source all their borrowings from the Treasury Corporation of Victoria with debt maturing within the next 12 months classified as a current liability at balance date. Generally, the entities have approval to refinance the maturing debt and in recent years have tended to refinance the debt for a new term. The approval also provides for additional borrowings up to an agreed amount in the next financial year.

While entities generally refinance maturing debt, they need to generate sufficient cash flows from operations to:

- service the increasing interest charges as debt levels increase and the variable interest rates rise
- repay the growing debt in the long-term.

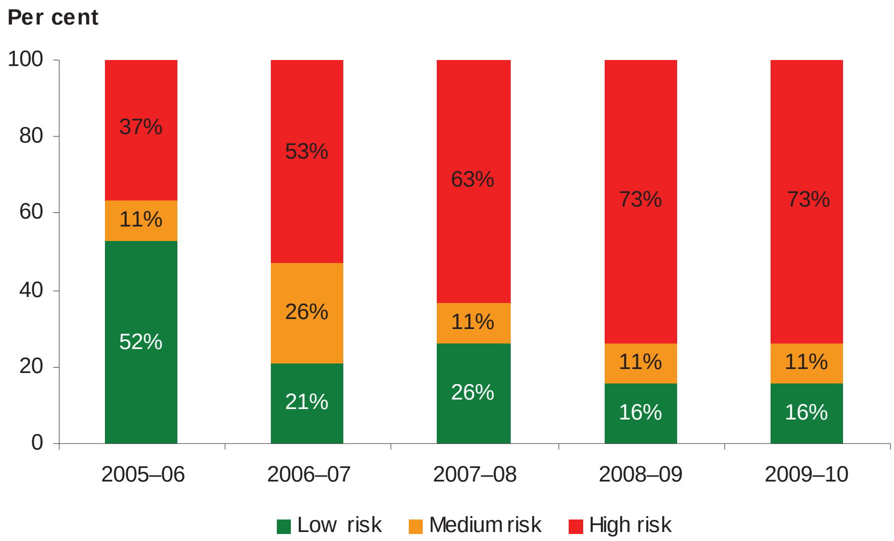
Figure 3J
Average liquidity ratio



Source: Victorian Auditor-General's Office.

Figure 3K shows that 73 per cent of water entities (14 of 19) had higher current liabilities than current assets at 30 June 2010, and also shows that liquidity has progressively deteriorated year on year.

Figure 3K
Liquidity risk assessment



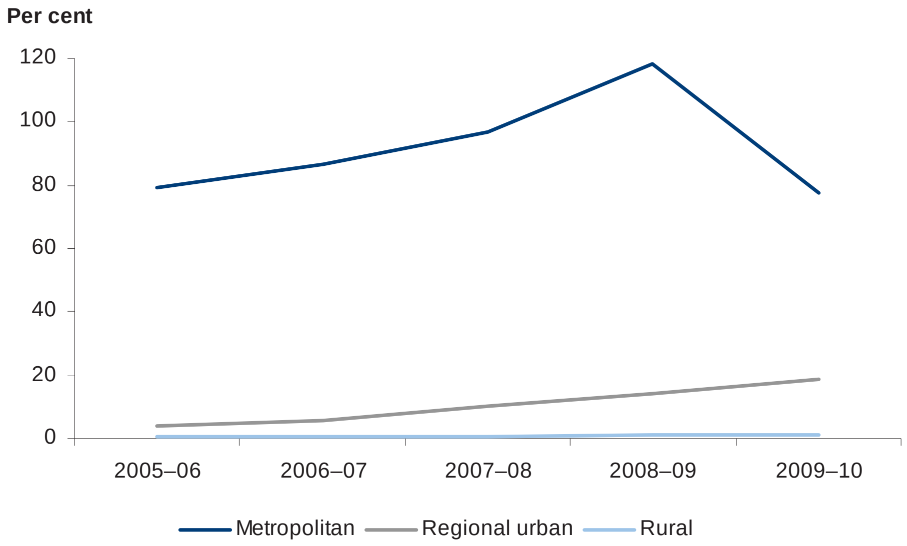
Source: Victorian Auditor-General's Office.

3.4.4 Debt-to-equity

Figure 3L shows that over the past five years, the average debt-to-equity ratio has increased across the regional urban sector indicating a greater reliance on debt to finance the capital structure of the sector.

The metropolitan sector's average debt-to-equity ratio increased significantly over 2007–08 and 2008–09 in line with increased borrowings to fund significant capital expenditure programs. However, the debt-to-equity ratio decreased sharply in 2009–10 due to the revaluation of infrastructure assets which increased equity.

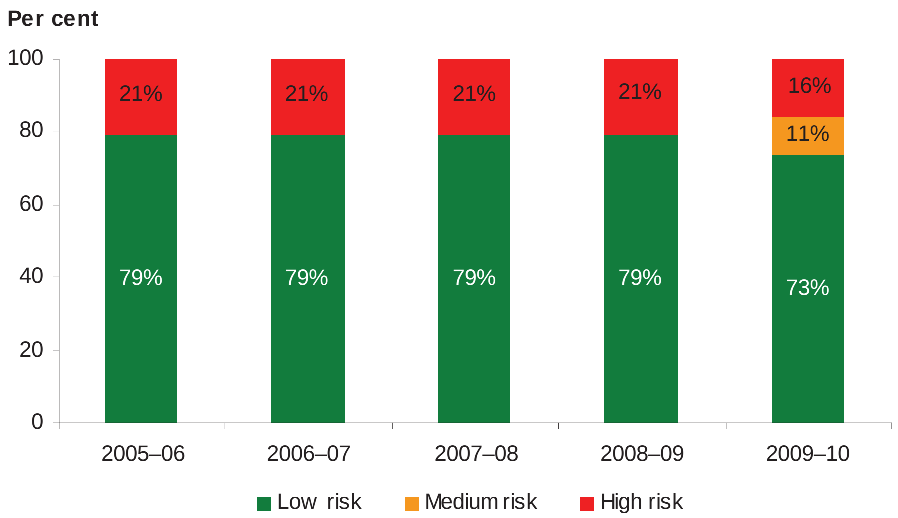
Figure 3L
Average debt-to-equity ratio



Source: Victorian Auditor-General's Office.

Figure 3M shows that in 2009–10, 16 per cent of entities (3 of 19) had debt-to-equity ratios above the maximum 60 per cent high-risk benchmark.

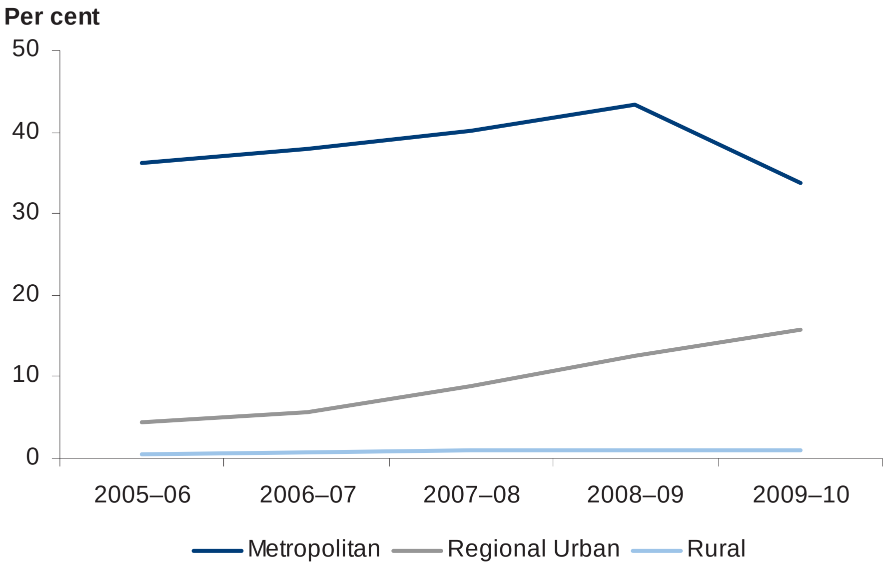
Figure 3M
Debt-to-equity risk assessment



Source: Victorian Auditor-General's Office.

The debt-to-assets ratio is the gearing ratio used by the Department of Treasury and Finance to monitor the financial health of the government trading enterprises. Figure 3N summarises the debt-to-assets results by category. The graph shows the level of financial leverage has increased over the past five years as the metropolitan and regional urban categories increased their level of borrowings. However, the metropolitan entities decreased significantly in 2009–10 due to the revaluation of that group's infrastructure assets to fair value. The regional urban and rural entities will revalue their infrastructure assets in 2010–11.

Figure 3N
Debt-to-asset ratio

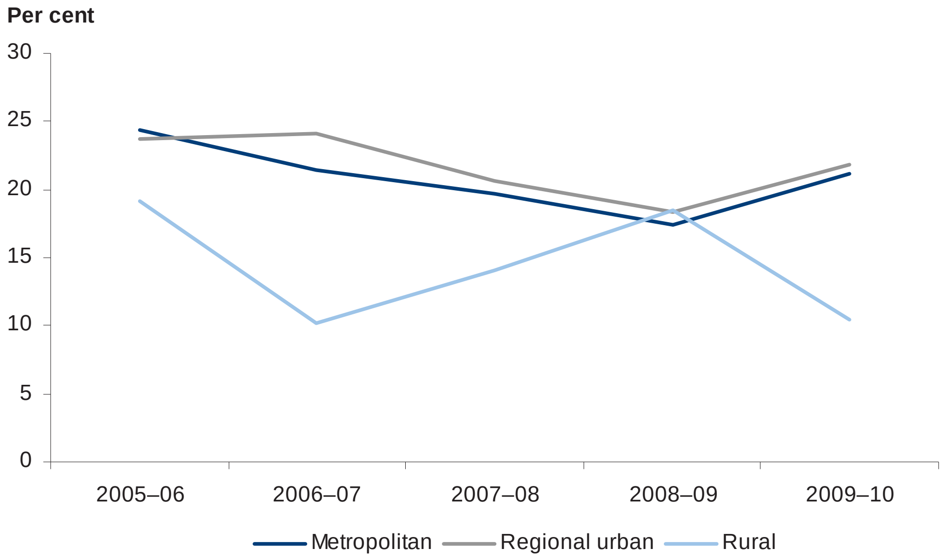


Source: Victorian Auditor-General's Office.

3.4.5 Self-financing

Figure 3O shows that the metropolitan and regional urban water entities self-financing indicator declined from 2005–06 to 2008–09 but has improved in 2009–10. This shows that the ability of these entities to fund new assets and/or replace existing assets using cash generated by operations was declining. The rural water entities self-financing indicators fluctuates year on year.

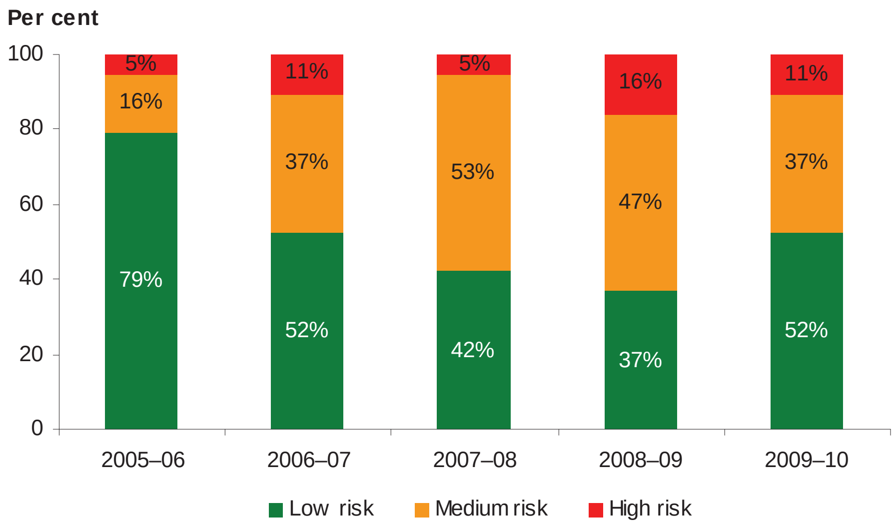
Figure 3O
Average self-financing indicator



Source: Victorian Auditor-General's Office.

Figure 3P shows that in 2009–10, 11 per cent of entities (2 of 19) had self-financing indicators less than the minimum 10 per cent high-risk benchmark, indicating these entities cannot effectively replace their assets using income generated by their operations. These entities must rely on new borrowings or funds generated in the future for asset renewal and replacement.

Figure 3P
Self-financing risk assessment



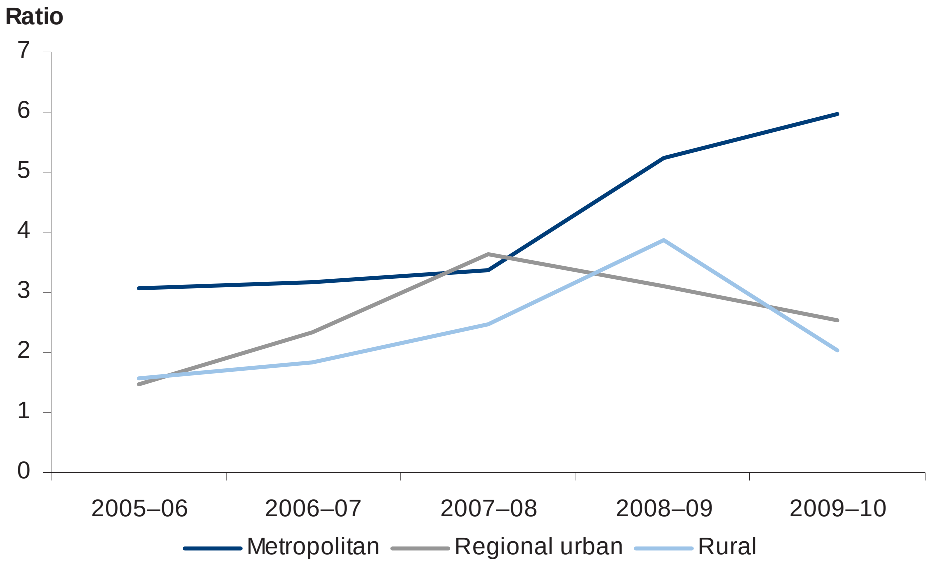
Source: Victorian Auditor-General's Office.

3.4.6 Capital replacement

Figure 3Q shows the capital replacement indicator for metropolitan water entities has increased significantly from 2007–08 to 2009–10 as a result of spending on large infrastructure projects and assets. The capital replacement indicator has decreased which shows that capital spending by regional urban and rural water entities has not kept pace with depreciation in 2007–08 and 2008–09. However, both water categories capital spending levels remain above one. Capital works spending is being financed predominantly by new borrowings.

Caution is required when interpreting these results as annual spending on assets includes new and expanded facilities, in addition to existing facilities.

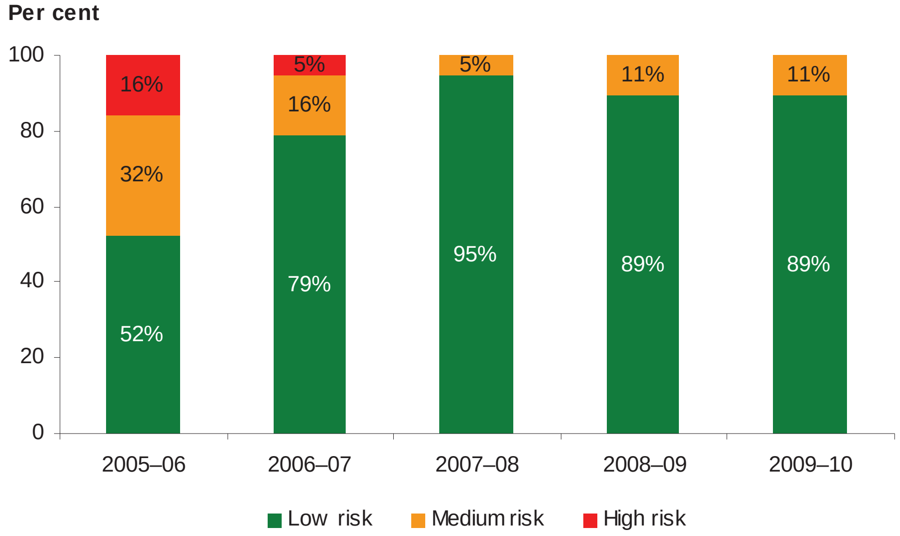
Figure 3Q
Average capital replacement indicator



Source: Victorian Auditor-General's Office.

Figure 3R shows no water entities had a high-risk capital replacement indicator of equal to, or less than, one in 2009–10.

Figure 3R
Capital replacement risk assessment



Source: Victorian Auditor-General's Office.

3.5 Financial sustainability risk assessment

A summary of the five-year average financial sustainability results for each category is provided in Figure 3S.

Figure 3S
2009–10 financial sustainability risk assessments—water entities

Category	High	Medium	Low
Water entities			
Metropolitan	4	–	–
Regional urban	5	–	8
Rural	1	–	1
Total	**10**	**–**	**9**

Source: Victorian Auditor-General's Office.

Overall, our financial sustainability assessment is that 53 per cent of water entities have a high-risk rating. This was mainly because of underlying deficits and/or a poor liquidity position. Generally, these entities have approval to refinance their maturing debt and in recent years have refinanced the debt for a new term rather than repay the debt.

The four metropolitan entities have been assessed overall as a high risk due to tight liquidity.

Five of the 13 regional urban entities have been assessed overall as high risk due to the magnitude of operating losses and/or insufficient liquidity.

One rural entity has been assessed overall as a high risk due to the magnitude of operating losses reported.

3.5.1 Metropolitan

The overall financial sustainability for the metropolitan water entities has been assessed as high risk due to the liquidity indicator in Figure 3T. However, the four entities have a strong interest cover position, indicating an ability to service their debt. They also continue to generate profits and their cash flows from operating activities are positive.

Figure 3T
Metropolitan water entities—five-year average financial sustainability indicator results 2006 to 2010

Metropolitan	Underlying result (%)	Interest cover	Liquidity	Debt-to-equity (%)	Self-financing (%)	Capital replacement	Sustainability assessment
Wholesaler							
Melbourne Water	27.14%	3.51	0.14	83.01%	35.17%	5.30	●
Retailers							
City West Water	20.56%	3.72	0.51	82.45%	15.47%	3.90	●
South East Water	18.27%	4.12	0.50	62.62%	17.62%	3.01	●
Yarra Valley Water	8.84%	2.14	0.33	139.23%	15.08%	4.43	●
Metropolitan average	**18.70%**	**3.37**	**0.37**	**91.83%**	**20.84%**	**4.16**	●
Metropolitan risk assessment	**Low**	**Low**	**High**	**High**	**Low**	**Low**	**High**

Source: Victorian Auditor-General's Office.

Melbourne Water’s liquidity has been adversely impacted by the need to borrow more compared to the retailers, to fund the significant capital works program which commenced in 2007–08 and is expected to peak in 2010–11.

Over the five-year period from 2008–09 to 2012–13, expenditure on infrastructure assets by Melbourne Water is forecast to amount to $3.6 billion, which will represent a doubling of the carrying value of infrastructure assets held at 30 June 2008. This excludes the impact of any fair value adjustments resulting from the transition to fair value for infrastructure assets at 30 June 2010.

The level of borrowings by Yarra Valley Water is comparatively higher than the other two retailers. As a consequence its operating result is impacted by much higher finance costs.

3.5.2 Regional urban

The overall financial sustainability risk for the regional urban water category has been assessed as low in Figure 3U.

Figure 3U
Regional urban water entities—five-year average financial sustainability indicator results 2006 to 2010

Regional urban	Underlying result (%)	Interest cover	Liquidity	Debt-to-equity (%)	Self-financing (%)	Capital replacement	Sustainability assessment
Barwon Water	10.05%	6.47	0.80	12.53%	26.37%	2.17	●
Central Highlands Water	-9.09%	3.11	1.75	12.81%	16.49%	4.58	●
Coliban Water	-44.14%	1.28	0.46	28.32%	-6.47%	2.82	●
East Gippsland Water	11.51%	6.79	1.18	8.53%	26.16%	2.88	●
Gippsland Water	7.55%	4.96	1.73	16.32%	31.73%	3.55	●
Goulburn Valley Water	3.15%	7.68	1.42	11.76%	23.35%	1.77	●
GWMWater	-47.45%	160.14	1.90	3.32%	21.85%	4.55	●
Lower Murray Water	1.40%	34.04	3.59	2.01%	29.94%	1.97	●
North East Water	1.39%	15.99	1.26	2.92%	23.89%	1.10	●
South Gippsland Water	1.03%	11.19	0.47	12.91%	21.57%	1.96	●
Wannon Water	-1.20%	5.23	1.39	9.56%	18.86%	2.54	●
Western Water	17.17%	7.04	0.69	13.51%	15.36%	2.60	●
Westernport Water	11.94%	75.77	1.26	2.73%	33.28%	1.47	●
Regional urban average	**-2.82%**	**26.13**	**1.38**	**10.56%**	**21.72%**	**2.61**	●
Regional urban risk assessment	**Medium**	**Low**	**Medium**	**Low**	**Low**	**Low**	**Low**

Source: Victorian Auditor-General's Office.

Five of the 13 entities have been assessed as high risk as their current liabilities exceed their current assets and/or sustained operating losses have been reported.

Coliban Water is identified as a high financial sustainability risk and continues to report:

- operating losses
- poor liquidity position
- insufficient cash flows from operations to fund new assets and/or replace its existing assets.

During 2009–10, Coliban Water obtained approval from the ESC to revise its water and sewerage prices for the remaining three years of its current water plan. Coliban Water expects that the price increases will result in positive net operating cash inflows from 2010–11. Unlike recent years, water storages are also nearing capacity following the recent rainfalls, which will facilitate the easing of water restrictions and negate the need to purchase water to guarantee supply.

Coliban Water is relying on new borrowings to pay operating costs over the next 12 months.

3.5.3 Rural

The overall financial sustainability risk for the rural water category has been assessed as high due to the underlying result indicator in Figure 3V.

Figure 3V
Rural water entities—five-year average financial sustainability risk assessment 2006 to 2010

Rural	Underlying result (%)	Interest cover	Liquidity	Debt-to-equity (%)	Self-financing (%)	Capital replacement	Sustainability assessment
Goulburn-Murray Water	-17.65%	41.27	2.14	0.94%	15.21%	2.80	●
Southern Rural Water	-9.93%	N/A	2.28	0.56%	13.68%	1.92	●
Rural average	**-13.79%**	**41.27**	**2.21**	**0.75%**	**14.44%**	**2.36**	●
Rural risk assessment	**High**	**Low**	**Low**	**Low**	**Medium**	**Low**	**High**

Source: Victorian Auditor-General's Office.

Goulburn-Murray Water and Southern Rural Water may continue to report operating losses if revenue is insufficient to recoup expenses under the current regulatory price setting framework.

Goulburn-Murray Water has generated operating losses over the five-year period due to the depreciation and capital charges associated with the entity's significant infrastructure asset base. In accordance with a determination made by the Minister for Water, assets of rural water authorities acquired or constructed prior to 1 July 2004, or funded by government since 1 July 2004 have been assigned a zero regulatory asset value, and therefore depreciation associated with those assets is not funded under the pricing principles established by the Water Industry Regulation Order. Accordingly, Goulburn-Murray Water expects to continue to report operating losses as revenue will continue to be insufficient to recoup expenses.

Appendix A.
Audit status

Metropolitan

Entity	Audit types		Financial report		Finalised within statutory time frame	
	FMA	Non-FMA	Clear opinion issued	Auditor-General's report signed	Within 12 weeks	More than 12 weeks
COMPLETED AUDITS WITH 30 JUNE 2010 BALANCE DATES						
Wholesaler						
Melbourne Water	●		✓	20 Aug 2010	●	
Retailers						
City West Water		C	✓	26 Aug 2010	●	
South East Water		C	✓	23 Aug 2010	●	
Yarra Valley Water		C	✓	25 Aug 2010	●	
2009–10 Total number of entities = 4	**1**	**3**			**4**	**0**
				Per cent	**100**	**0**
2008–09 Total number of entities = 4	**1**	**3**			**4**	**0**
				Per cent	**100**	**0**

Note: Non-FMA audit types: C – *Corporations Act 2001*.
Source: Victorian Auditor-General's Office.

Regional urban

	Audit types		Financial report		Finalised within statutory time frame	
Entity	**FMA**	**Non-FMA**	**Clear opinion issued**	**Auditor-General's report signed**	**Within 12 weeks**	**More than 12 weeks**
COMPLETED AUDITS WITH 30 JUNE 2010 BALANCE DATES						
Barwon Water	●		✓	11 Aug 2010	●	
Central Highlands Water	●		✓	26 Aug 2010	●	
Coliban Water	●		✓	26 Aug 2010	●	
East Gippsland Water	●		✓	25 Aug 2010	●	
Gippsland Water	●		✓	16 Aug 2010	●	
Goulburn Valley Water	●		✓	18 Aug 2010	●	
GWMWater	●		✓	27 Aug 2010	●	
Lower Murray Water	●		✓	31 Aug 2010	●	
North East Water	●		✓	11 Aug 2010	●	
South Gippsland Water	●		✓	26 Aug 2010	●	
Wannon Water	●		✓	13 Aug 2010	●	
Western Water	●		✓	23 Aug 2010	●	
Westernport Water	●		✓	24 Aug 2010	●	
2009–10 Total number of entities = 13	**13**	**0**			**13**	**0**
				Per cent	**100**	**0**
2008–09 Total number of entities = 13	**13**	**0**			**11**	**2**
				Per cent	**86**	**14**

Note: Performance reports were completed on the same date as the financial reports for all entities.

Source: Victorian Auditor-General's Office.

Rural

Entity	Audit types		Financial report		Finalised within statutory time frame	
	FMA	Non-FMA	Clear opinion issued	Auditor-General's report signed	Within 12 weeks	More than 12 weeks
COMPLETED AUDITS WITH 30 JUNE 2010 BALANCE DATES						
Goulburn-Murray Water	●		✓	11 Aug 2010	●	
Watermove Pty Ltd		C	✓	31 Aug 2010	●	
Southern Rural Water	●		✓	25 Aug 2010	●	
2009–10 Total number of entities = 3	**2**	**1**			**3**	**0**
				Per cent	**100**	**0**
2008–09 Total number of entities = 2	**2**	**0**			**2**	**0**
				Per cent	**100**	**0**

Note: Non-FMA audit types: C – *Corporations Act 2001.*
Note: Performance reports were completed on the same date as the financial reports for all entities, excluding the controlled entity.
Source: Victorian Auditor-General's Office.

Appendix B. Financial sustainability

Metropolitan

Figure B1
Underlying result (%) 2006 to 2010

	Underlying result (%)						
Metropolitan	**2006**	**2007**	**2008**	**2009**	**2010**	**Mean**	**Trend**
Wholesaler							
Melbourne Water	38.4%	30.2%	15.6%	23.7%	27.8%	27.1%	■
Retailers							
City West Water	24.4%	18.4%	16.4%	20.8%	22.8%	20.6%	■
South East Water	22.8%	21.6%	15.2%	13.9%	17.8%	18.3%	■
Yarra Valley Water	13.7%	8.6%	4.9%	6.2%	10.8%	8.8%	■
Metropolitan average	**24.8%**	**19.7%**	**13.0%**	**16.2%**	**19.8%**	**18.7%**	■

Source: Victorian Auditor-General's Office.

Figure B2
Interest cover 2006 to 2010

	Interest cover						
Metropolitan	**2006**	**2007**	**2008**	**2009**	**2010**	**Mean**	**Trend**
Wholesaler							
Melbourne Water	4.09	3.93	2.75	3.32	3.48	3.51	■
Retailers							
City West Water	5.14	3.48	3.49	3.10	3.41	3.72	■
South East Water	4.92	4.66	3.71	3.37	3.94	4.12	■
Yarra Valley Water	2.84	2.09	1.82	1.45	2.48	2.14	■
Metropolitan average	**4.25**	**3.54**	**2.94**	**2.81**	**3.33**	**3.37**	■

Source: Victorian Auditor-General's Office.

Figure B3
Liquidity 2006 to 2010

	Liquidity						
Metropolitan	**2006**	**2007**	**2008**	**2009**	**2010**	**Mean**	**Trend**
Wholesaler							
Melbourne Water	0.22	0.15	0.12	0.13	0.07	0.14	▼
Retailers							
City West Water	0.32	0.76	0.54	0.50	0.41	0.51	■
South East Water	0.61	0.53	0.44	0.47	0.46	0.50	■
Yarra Valley Water	0.35	0.31	0.34	0.42	0.25	0.33	■
Metropolitan average	**0.37**	**0.44**	**0.36**	**0.38**	**0.30**	**0.37**	■

Source: Victorian Auditor-General's Office.

Figure B4
Debt-to-equity 2006 to 2010

Metropolitan	Debt-to-equity (%) 2006	2007	2008	2009	2010	Mean	Trend
Wholesaler							
Melbourne Water	68.5%	70.4%	82.0%	117.8%	76.4%	83.0%	■
Retailers							
City West Water	67.4%	77.7%	83.4%	105.0%	78.8%	82.4%	■
South East Water	60.7%	60.1%	67.4%	77.0%	47.9%	62.6%	▼
Yarra Valley Water	120.9%	139.2%	155.4%	173.8%	106.9%	139.2%	■
Metropolitan average	**79.4%**	**86.8%**	**97.0%**	**118.4%**	**77.5%**	**91.8%**	■

Source: Victorian Auditor-General's Office.

Figure B5
Self-financing (%) 2006 to 2010

Metropolitan	Self-financing (%) 2006	2007	2008	2009	2010	Mean	Trend
Wholesaler							
Melbourne Water	36.7%	38.5%	27.3%	38.1%	35.3%	35.2%	■
Retailers							
City West Water	19.1%	13.7%	19.8%	11.8%	13.0%	15.5%	▼
South East Water	20.9%	19.1%	18.8%	13.2%	16.2%	17.6%	▼
Yarra Valley Water	21.1%	14.7%	12.9%	6.7%	19.9%	15.1%	■
Metropolitan average	**24.4%**	**21.5%**	**19.7%**	**17.5%**	**21.1%**	**20.8%**	■

Source: Victorian Auditor-General's Office.

Figure B6
Capital replacement 2006 to 2010

Metropolitan	Capital replacement 2006	2007	2008	2009	2010	Mean	Trend
Wholesaler							
Melbourne Water	2.8	2.8	4.2	8.9	7.8	5.3	▲
Retailers							
City West Water	3.2	3.1	2.7	4.4	6.1	3.9	▲
South East Water	2.1	2.6	2.8	3.4	4.2	3.0	▲
Yarra Valley Water	4.1	4.2	3.8	4.3	5.8	4.4	▲
Metropolitan average	**3.1**	**3.2**	**3.4**	**5.2**	**6.0**	**4.2**	▲

Source: Victorian Auditor-General's Office.

Regional urban

Figure B7
Underlying result (%) 2006 to 2010

	Underlying result (%)						
Regional urban	**2006**	**2007**	**2008**	**2009**	**2010**	**Mean**	**Trend**
Barwon Water	11.8%	8.5%	5.9%	11.2%	12.9%	10.1%	■
Central Highlands Water	-7.1%	-3.6%	-14.2%	-16.2%	-4.3%	-9.1%	■
Coliban Water	-24.7%	-35.1%	-58.7%	-51.1%	-51.2%	-44.1%	▼
East Gippsland Water	16.7%	17.0%	11.7%	10.5%	1.5%	11.5%	▼
Gippsland Water	11.6%	5.1%	-0.4%	1.6%	19.8%	7.6%	▲
Goulburn Valley Water	1.0%	4.9%	0.6%	4.3%	4.9%	3.1%	■
GWMWater	-20.9%	-56.2%	-52.1%	-69.9%	-38.1%	-47.4%	▼
Lower Murray Water	1.6%	1.7%	3.5%	-4.3%	4.5%	1.4%	■
North East Water	13.0%	-2.1%	-4.3%	-3.5%	3.7%	1.4%	▲
South Gippsland Water	9.2%	-15.5%	-2.5%	-1.0%	14.9%	1.0%	▲
Wannon Water	-6.7%	2.9%	0.2%	-3.4%	1.0%	-1.2%	▲
Western Water	31.4%	14.1%	19.2%	11.6%	9.4%	17.2%	▼
Westernport Water	9.6%	8.2%	9.0%	17.8%	15.2%	11.9%	▲
Regional urban average	**3.6%**	**-3.9%**	**-6.3%**	**-7.1%**	**-0.4%**	**-2.8%**	▼

Source: Victorian Auditor-General's Office.

Figure B8
Interest cover 2006 to 2010

	Interest cover						
Regional urban	**2006**	**2007**	**2008**	**2009**	**2010**	**Mean**	**Trend**
Barwon Water	8.87	7.90	5.30	5.78	4.49	6.47	▼
Central Highlands Water	N/A	6.01	2.46	2.06	1.93	3.11	▼
Coliban Water	N/A	4.28	0.00	0.28	0.54	1.28	▼
East Gippsland Water	N/A	N/A	8.92	7.83	3.61	6.79	▼
Gippsland Water	N/A	N/A	6.96	3.68	4.23	4.96	▼
Goulburn Valley Water	9.96	13.32	6.89	4.25	4.00	7.68	▼
GWMWater	318.38	N/A	N/A	N/A	1.90	160.14	▼
Lower Murray Water	N/A	N/A	N/A	N/A	34.04	34.04	■
North East Water	N/A	N/A	31.96	7.16	8.84	15.99	▼
South Gippsland Water	36.04	6.83	4.34	3.42	5.33	11.19	▼
Wannon Water	7.53	7.60	3.93	3.23	3.87	5.23	▼
Western Water	N/A	14.87	7.19	3.49	2.62	7.04	▼
Westernport Water	125.97	N/A	41.11	53.88	82.12	75.77	■
Regional urban average	**84.46**	**8.69**	**10.82**	**8.64**	**12.12**	**26.13**	▼

Note: N/A – Interest revenue is greater than interest expense.
Source: Victorian Auditor-General's Office.

Figure B9
Liquidity 2006 to 2010

	Liquidity						
Regional urban	**2006**	**2007**	**2008**	**2009**	**2010**	**Mean**	**Trend**
Barwon Water	0.65	0.75	1.13	0.96	0.53	0.80	■
Central Highlands Water	4.04	1.12	2.15	0.84	0.58	1.75	▼
Coliban Water	1.16	0.27	0.28	0.20	0.40	0.46	▼
East Gippsland Water	2.36	0.97	0.94	0.73	0.91	1.18	▼
Gippsland Water	4.15	2.56	0.70	0.67	0.56	1.73	▼
Goulburn Valley Water	2.23	0.88	1.41	1.16	1.41	1.42	■
GWMWater	2.00	2.06	4.51	0.40	0.53	1.90	▼
Lower Murray Water	5.48	5.07	3.50	2.20	1.71	3.59	▼
North East Water	1.91	1.16	0.76	0.57	1.90	1.26	■
South Gippsland Water	0.14	0.62	0.57	0.36	0.64	0.47	▲
Wannon Water	2.51	1.12	0.86	1.68	0.81	1.39	▼
Western Water	0.51	0.69	0.64	0.53	1.06	0.69	▲
Westernport Water	3.17	1.01	0.43	0.85	0.86	1.26	▼
Regional urban average	**2.33**	**1.41**	**1.38**	**0.86**	**0.91**	**1.38**	▼

Source: Victorian Auditor-General's Office.

Figure B10
Debt-to-equity 2006 to 2010

	Debt-to-equity (%)						
Regional urban	**2006**	**2007**	**2008**	**2009**	**2010**	**Mean**	**Trend**
Barwon Water	6.9%	8.0%	11.8%	16.0%	19.9%	12.5%	▲
Central Highlands Water	7.1%	9.0%	12.2%	15.5%	20.3%	12.8%	▲
Coliban Water	14.6%	17.5%	26.6%	38.1%	44.8%	28.3%	▲
East Gippsland Water	0.0%	2.0%	8.1%	12.6%	19.9%	8.5%	▲
Gippsland Water	2.6%	5.2%	15.6%	29.6%	28.6%	16.3%	▲
Goulburn Valley Water	6.4%	7.3%	11.6%	14.7%	18.8%	11.8%	▲
GWMWater	0.5%	0.6%	1.7%	3.9%	10.0%	3.3%	▲
Lower Murray Water	0.1%	0.1%	0.1%	0.8%	9.0%	2.0%	▲
North East Water	0.4%	0.3%	2.4%	5.3%	6.1%	2.9%	▲
South Gippsland Water	3.8%	11.5%	14.2%	15.4%	19.7%	12.9%	▲
Wannon Water	3.4%	4.0%	8.8%	13.9%	17.7%	9.6%	▲
Western Water	1.7%	5.9%	12.3%	19.5%	28.3%	13.5%	▲
Westernport Water	3.6%	2.9%	3.7%	2.3%	1.2%	2.7%	▼
Regional urban average	**3.9%**	**5.7%**	**9.9%**	**14.4%**	**18.8%**	**10.6%**	▲

Source: Victorian Auditor-General's Office.

Figure B11
Self-financing (%) 2006 to 2010

Regional urban	Self-financing (%)						
	2006	2007	2008	2009	2010	Mean	Trend
Barwon Water	30.3%	27.5%	21.8%	26.9%	25.4%	26.4%	▼
Central Highlands Water	22.3%	21.8%	13.9%	12.4%	12.0%	16.5%	▼
Coliban Water	4.9%	-5.3%	-10.2%	-12.6%	-9.1%	-6.5%	▼
East Gippsland Water	25.0%	35.2%	18.0%	32.8%	19.8%	26.2%	■
Gippsland Water	31.6%	42.6%	23.1%	26.7%	34.5%	31.7%	■
Goulburn Valley Water	21.4%	29.2%	23.7%	18.9%	23.6%	23.4%	■
GWMWater	27.3%	22.5%	24.3%	24.2%	11.0%	21.9%	▼
Lower Murray Water	23.4%	31.3%	43.1%	14.8%	37.1%	29.9%	▲
North East Water	24.0%	31.0%	19.6%	16.5%	28.4%	23.9%	■
South Gippsland Water	27.7%	18.8%	19.3%	15.2%	26.9%	21.6%	■
Wannon Water	21.4%	16.9%	12.8%	15.9%	27.3%	18.9%	▲
Western Water	16.4%	14.6%	20.2%	13.1%	12.5%	15.4%	▼
Westernport Water	31.9%	28.0%	38.7%	33.7%	34.1%	33.3%	■
Regional urban average	**23.7%**	**24.2%**	**20.6%**	**18.3%**	**21.8%**	**21.7%**	■

Source: Victorian Auditor-General's Office.

Figure B12
Capital replacement 2006 to 2010

Regional urban	Capital replacement						
	2006	2007	2008	2009	2010	Mean	Trend
Barwon Water	1.6	1.5	2.1	2.7	3.0	2.2	▲
Central Highlands Water	1.0	4.1	11.0	4.0	2.7	4.6	▲
Coliban Water	1.0	3.8	4.5	3.2	1.4	2.8	▲
East Gippsland Water	1.5	3.3	3.1	3.2	3.3	2.9	▲
Gippsland Water	2.5	3.7	5.3	4.4	1.8	3.5	■
Goulburn Valley Water	1.1	1.5	1.9	2.1	2.2	1.8	▲
GWMWater	0.8	3.7	6.9	8.1	3.2	4.6	▲
Lower Murray Water	1.0	0.9	2.1	2.0	3.8	2.0	▲
North East Water	0.7	1.0	1.2	1.4	1.2	1.1	■
South Gippsland Water	2.9	1.4	1.5	1.7	2.4	2.0	■
Wannon Water	1.6	1.6	2.6	2.8	4.0	2.5	▲
Western Water	2.4	1.7	2.7	3.4	2.7	2.6	■
Westernport Water	0.9	1.9	2.1	1.2	1.3	1.5	■
Regional urban average	**1.5**	**2.3**	**3.6**	**3.1**	**2.5**	**2.6**	▲

Source: Victorian Auditor-General's Office.

Rural

Figure B13
Underlying result (%) 2006 to 2010

	Underlying result (%)						
Rural	**2006**	**2007**	**2008**	**2009**	**2010**	**Mean**	**Trend**
Goulburn-Murray Water	-3.5%	-23.8%	10.5%	-27.2%	-44.2%	-17.7%	▼
Southern Rural Water	-4.4%	-23.6%	-5.0%	-11.2%	-5.4%	-9.9%	■
Rural average	**-4.0%**	**-23.7%**	**2.7%**	**-19.2%**	**-24.8%**	**-13.8%**	▼

Source: Victorian Auditor-General's Office.

Figure B14
Interest cover 2006 to 2010

	Interest cover						
Rural	**2006**	**2007**	**2008**	**2009**	**2010**	**Mean**	**Trend**
Goulburn-Murray Water	27.70	12.27	43.05	123.35	0.00	41.27	▼
Southern Rural Water	N/A	N/A	N/A	N/A	N/A	N/A	■
Rural average	**27.70**	**12.27**	**43.05**	**123.35**	**0.00**	**41.27**	▼

Note: N/A – Interest revenue is greater than interest expense.
Source: Victorian Auditor-General's Office.

Figure B15
Liquidity 2006 to 2010

	Liquidity						
Rural	**2006**	**2007**	**2008**	**2009**	**2010**	**Mean**	**Trend**
Goulburn-Murray Water	1.35	1.26	5.97	1.61	0.53	2.14	▼
Southern Rural Water	3.35	3.00	2.41	1.04	1.60	2.28	▼
Rural average	**2.35**	**2.13**	**4.19**	**1.33**	**1.06**	**2.21**	▼

Source: Victorian Auditor-General's Office.

Figure B16
Debt-to-equity 2006 to 2010

	Debt-to-equity (%)						
Rural	**2006**	**2007**	**2008**	**2009**	**2010**	**Mean**	**Trend**
Goulburn-Murray Water	0.7%	0.7%	1.1%	1.1%	1.0%	0.9%	■
Southern Rural Water	0.0%	0.0%	0.0%	1.4%	1.5%	0.6%	■
Rural average	**0.4%**	**0.4%**	**0.6%**	**1.2%**	**1.2%**	**0.8%**	■

Source: Victorian Auditor-General's Office.

Figure B17
Self-financing (%) 2006 to 2010

	Self-financing (%)						
Rural	**2006**	**2007**	**2008**	**2009**	**2010**	**Mean**	**Trend**
Goulburn-Murray Water	25.3%	10.6%	13.3%	28.0%	-1.1%	15.2%	▼
Southern Rural Water	12.8%	9.9%	14.8%	8.8%	22.0%	13.7%	▲
Rural average	**19.1%**	**10.2%**	**14.0%**	**18.4%**	**10.4%**	**14.4%**	▼

Source: Victorian Auditor-General's Office.

Figure B18
Capital replacement 2006 to 2010

	Capital replacement						
Rural	**2006**	**2007**	**2008**	**2009**	**2010**	**Mean**	**Trend**
Goulburn-Murray Water	1.8	1.5	2.5	5.4	2.8	2.8	▲
Southern Rural Water	1.3	2.2	2.5	2.3	1.3	1.9	■
Rural average	**1.6**	**1.8**	**2.5**	**3.9**	**2.0**	**2.4**	▲

Source: Victorian Auditor-General's Office.