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## 6 Water

### Key points

- The performances of 24 water government trading enterprises (GTEs) are presented in this report. Together they controlled assets valued at \$53.7 billion and generated \$7.3 billion of total income in 2006-07.
- Overall, the profit before tax of water GTEs decreased by 7.8 per cent in real terms to \$1.9 billion in 2006-07. Within the sector:
  - a single GTE (Water Corporation) accounted for 39.0 per cent of profit before tax in 2006-07
  - profit decreased (in real terms) for 16 GTEs
  - five GTEs recorded a loss before tax.
- Return on assets decreased marginally from 5.0 per cent to 4.9 per cent in 2006-07. Nineteen of the 24 monitored GTEs earned less than the risk-free rate of return.
- Debt to assets for the sector increased from 20.0 per cent to 21.9 per cent in 2006-07. Two water GTEs operated without debt.
- Fifteen water GTEs made dividend payments to owner-governments totalling \$981 million. The sector recorded an income tax-equivalent expense of \$571 million in 2006-07.
- Eighteen water GTEs received community service obligation (CSO) funding totalling \$745 million in 2006-07. CSO payments comprised 10.2 per cent of sector income.

The financial performances of 24 water sector government trading enterprises (GTEs) are reported in this chapter. Together they controlled \$53.7 billion in assets and generated around \$7.3 billion in income in 2006-07.

Financial performance summaries, including performance indicators for each water GTE monitored over the period 2004-05 to 2006-07 are presented after this introduction. Their financial performances are examined using the financial indicators defined in chapter 1.

There are some differences between measured performance for 2004-05 and 2005-06 in this and earlier reports because of changes in accounting standards, data sources and indicators (chapter 1). Further, the set of monitored GTEs can change over time because of restructuring and privatisation. Consequently, care should be

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exercised in making performance comparisons over longer time periods than that covered in this report.

In making comparisons between GTEs, consideration should be given to: differences in the nature and scale of the businesses; their individual market environments; a number of issues relating to the valuation of their assets; and the level of payments for community service obligations (CSOs).

## **6.1 Monitored GTEs**

The monitored water sector GTEs vary in size and the range of services they provide. Several carry out all the activities involved in the supply of water and the disposal of stormwater and sewage. Others provide only a limited range of these services. The nature of their activities and services also varies by whether they operate in urban, regional or rural areas.

The activities of the monitored water GTEs are shown in table 6.1. Some have interests in areas other than water. For example, ACTEW Corporation of the ACT has a joint venture interest with the private sector for the supply of gas and electricity.

The set of monitored water GTEs does not include local government service providers. In some cases the revenues generated by these providers can be substantial. For example, the Brisbane City Council and Gold Coast City Council recorded revenue of \$578 million and \$319 million respectively from their water operations in 2006-07 (BCC 2007; GCCC 2007).

This report includes State Water for the first time. All of the other water GTEs monitored in this chapter were included in the water chapter of previous reports in the series. Sector comparisons include all monitored water GTEs as they all operated for the whole of each financial year in the period 2004-05 to 2006-07.

Total assets in the water sector remained steady in real terms, totalling \$53.7 billion at the end of 2006-07 (figure 6.1).

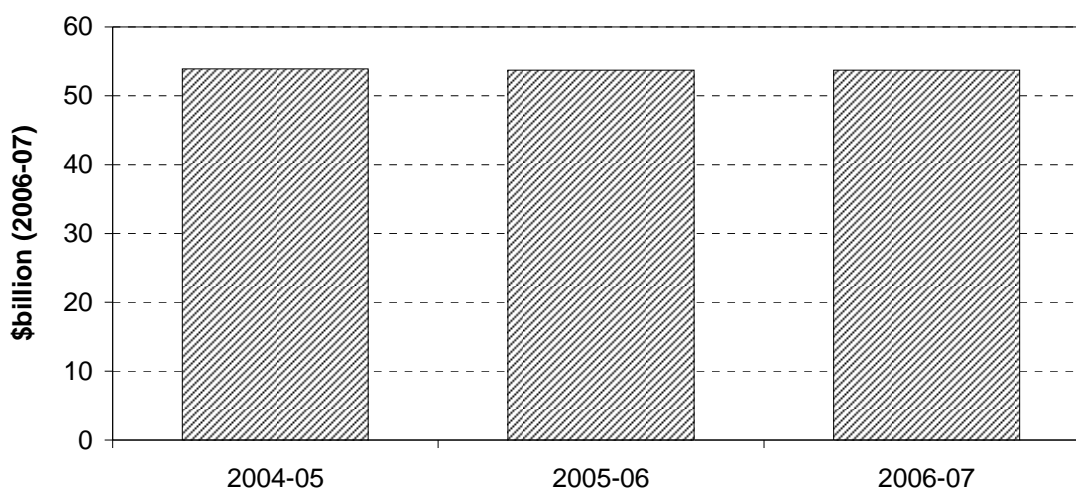
The size of the water sector GTEs — in terms of the value of the assets controlled and income earned — varies substantially (figure 6.2). The smallest monitored water GTE in 2006-07, was Cradle Coast Water (\$105 million in assets and \$10.0 million in total income). The largest monitored water GTE was Sydney Water (\$12.3 billion in assets and \$1.8 billion in total income).

**Table 6.1 Activities — water GTEs, 2006-07**

<i>Water GTE</i>	<i>Activity</i>				
	<i>Catchment management</i>	<i>Bulk water</i>	<i>Reticulation</i>	<i>Wastewater treatment</i>	<i>Irrigation supply<sup>a</sup></i>
<i>New South Wales</i>					
Sydney Catchment Authority	✓	✓	x	x	x
Sydney Water	x	x	✓	✓	x
Hunter Water	✓	✓	✓	✓	x
State Water	✓	✓	✓	✓	✓
<i>Victoria</i>					
Melbourne Water	✓	✓	✓	✓	x
City West Water	x	x	✓	✓	x
South East Water	x	x	✓	✓	x
Yarra Valley Water	x	x	✓	✓	x
Barwon Water	x	✓	✓	✓	x
Coliban Water	x	✓	✓	✓	x
Goulburn Valley Water	x	✓	✓	✓	x
Gippsland Water	x	✓	✓	✓	x
Central Highlands Water	x	✓	✓	✓	x
Southern Rural Water	x	✓	x	x	✓
Lower Murray Water	x	✓	✓	✓	✓
Grampians Wimmera Mallee Water	x	✓	✓	✓	✓
Goulburn–Murray Rural Water	x	✓	✓	x	✓
<i>Queensland</i>					
SunWater	x	✓	✓	x	✓
<i>South Australia</i>					
SA Water	x	✓	✓	✓	✓
<i>Western Australia</i>					
Water Corporation	✓	✓	✓	✓	✓
<i>Tasmania</i>					
Hobart Water	✓	✓	✓	x	x
Cradle Coast Water	x	✓	x	x	x
Esk Water	x	✓	x	x	x
<i>Australian Capital Territory</i>					
ACTEW Corporation	✓	✓	✓	✓	x

<sup>a</sup> Not including wastewater sales for irrigation purposes.

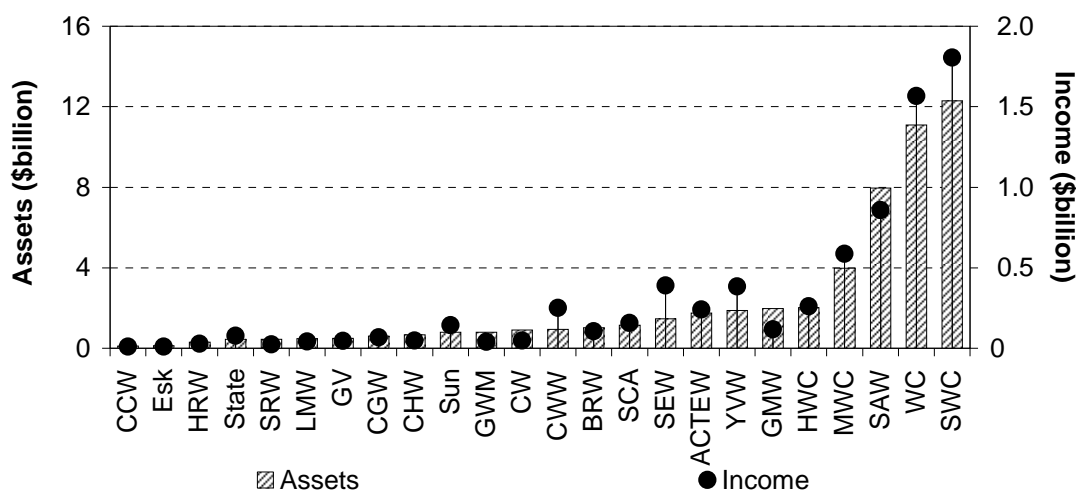
Figure 6.1 Sector assets — water GTEs<sup>a,b</sup>



<sup>a</sup> The value of sector assets is reported in 2006-07 dollars using the implicit price deflator — gross fixed capital formation for public corporations (chapter 1).

Source: Productivity Commission estimates.

Figure 6.2 Assets and total income — water GTEs, 2006-07



Source: Productivity Commission estimates.

## 6.2 Market environment

Changes in the operating environment — demand and supply conditions, regulation and pricing arrangements, and sector reforms — can affect the financial performance of water GTEs.

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## Water demand and supply

The demand for water is determined by factors such as population, industry composition and activity, weather conditions and any related restrictions on usage (box 6.1). The performance of many GTEs was adversely affected by drought over the reporting period. In addition to limiting water supply, drought conditions can impose additional costs. For example, SA Water reported increased asset maintenance costs because extremely dry and reactive soils caused pipes to burst (SA Water 2007).

The volume of water supplied by most metropolitan water GTEs has decreased since 2001-02 (figure 6.3). However, the Water Corporation in Western Australia experienced a significant increase (9.9 per cent) in urban water supplied over the same period (WSAA 2008b). Overall, the water supplied by monitored urban water GTEs in Australia declined by 11.8 per cent between 2001-02 and 2006-07.<sup>1</sup>

### Box 6.1 Restrictions on water usage

Various types of restrictions have been imposed on water usage:

- Permanent water restrictions
  - South Australia introduced permanent water restrictions in October 2003. Victoria and the ACT followed in 2005 and 2006 respectively.
- Temporary water restrictions
  - All capital cities, except Hobart and Darwin, had water restrictions in place as at 30 June 2007 (WSAA 2008a).
  - Across Victoria, 192 towns were subject to water restrictions as at 30 June 2006 (VWIA 2006).
  - In South East Queensland water restrictions were increased to Level 6 from 23 November 2007, because of worsening drought conditions.
- Specific customer or activity restrictions
  - The WA Government restricted the use of sprinklers by households and businesses to two days per week beginning in September 2001.<sup>a</sup>

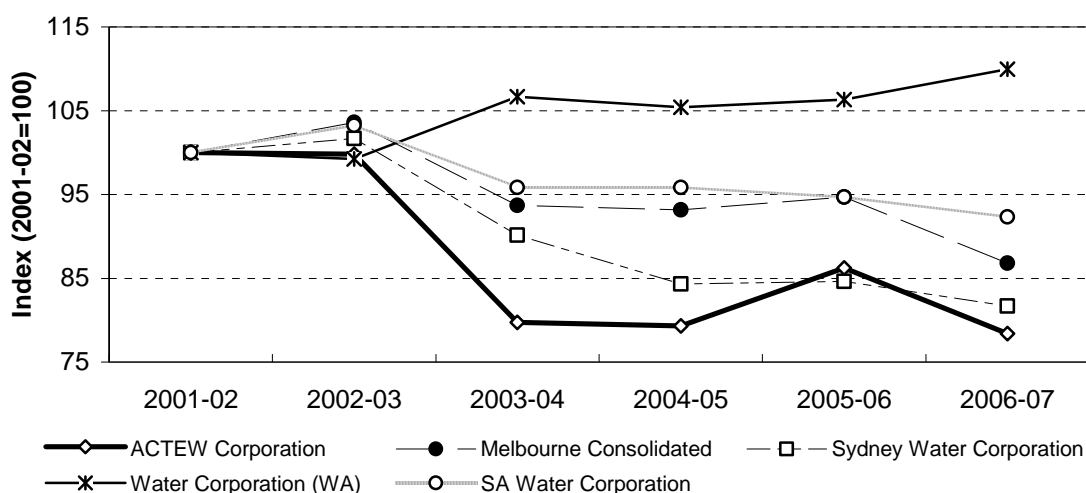
<sup>a</sup> This scheme was extended to a permanent watering day roster, effective from 1 October 2007.

Sources: VWIA (2006); WSAA (2008a).

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<sup>1</sup> Calculated using WSAA (2008b) data for ACTEW, City West Water, SA Water, South East Water, Sydney Water, Water Corporation and Yarra Valley Water.

Figure 6.3 Urban water consumption — selected water GTEs<sup>a,b</sup>



<sup>a</sup> Urban water consumption is defined as 'total urban water supplied' from WSAA (2008b). <sup>b</sup> Melbourne Consolidated includes the total urban water supplied by the three Melbourne retail water GTEs — City West Water, South East Water and Yarra Valley Water.

Source: WSAA (2008b).

## Regulation and pricing

The regulatory arrangements for monitored water GTEs differ across jurisdictions. Most GTEs operate under licences that specify standards for water quality and supply reliability, and cover the extraction of water from rivers and underground systems.

The prices charged by NSW, Victorian and ACT water GTEs are regulated by independent bodies.<sup>2</sup> In Queensland, Western Australia, South Australia and Tasmania, water and sewerage charges are set by government after consultation with respective water authorities and other stakeholders.

### *Usage-based pricing*

Historically, water and sewerage charges were based on property values, accompanied by a free allowance of water that could be consumed without any usage charge. Property-based charges rarely reflected the cost of providing water

<sup>2</sup> The Independent Pricing and Regulatory Tribunal regulates prices for NSW water GTEs, the Essential Services Commission regulates prices for Victorian water GTEs, and the Independent Competition and Regulatory Commission regulates ACTEW Corporation's prices.

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and sewerage services, and sometimes resulted in cross-subsidisation between customers (PC 2002b).

All monitored water GTEs now employ usage-based charges for water supply services,<sup>3</sup> typically comprising a fixed access charge and a volumetric charge based on water use.<sup>4,5</sup> The access charge is intended to reflect the fixed costs of supply, which are a significant proportion of total costs. The volumetric charge is intended to reflect the variable cost of supplying water. In some cases, usage-based charges are in the form of inclining block tariffs, implemented partly as a demand management initiative.

The adoption of usage-based charges means the financial performance of a GTE is directly related to the amount of water it distributes. Further, GTEs that earn a significant share of total income from the volumetric component of usage-based charges have greater exposure to changes in the demand for water.

Governments also collect revenue for water-related initiatives through general water billing arrangements. For example, from 1 October 2003, SA Water customers were required to pay the ‘Save the River Murray Levy’.<sup>6</sup> Further, an amendment to the *Water Industry Act 1994* requires Victorian metropolitan and regional urban water authorities to make environmental contributions.<sup>7</sup>

### *Infrastructure contributions*

Developers are required to make contributions to most water GTEs to finance new infrastructure. These contributions take the form of payments or the gifting of assets that they are required to construct.

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<sup>3</sup> Three Tasmanian water GTEs — Hobart Water, Esk Water and Cradle Mountain Water — have a two-part water pricing structure including a variable component which they charge for bulk water supplied to local councils. However, residential and small non-residential properties are charged a flat rate for water supplied by their local council.

<sup>4</sup> Usage-based charges were first introduced in 1982 by the Hunter District Water Board (now the Hunter Water Corporation).

<sup>5</sup> Two GTEs — Water Corporation and SA Water — continue to use property-based charges for sewerage services.

<sup>6</sup> The SA Government uses the revenue generated by the levy to help fund its annual contribution to an agreement with the Australian, NSW, Victorian and ACT Governments to improve the health of the River Murray.

<sup>7</sup> The Act outlines a pre-established schedule of annual payments, effective from 1 October 2004 until 30 June 2008. Goulburn-Murray Water was only required to make a contribution in 2007-08.

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The level of contributed assets from developers that water GTEs receive each year is affected by the level of land development. Changes in the level of developer and customer contributions affect some water GTEs more than others. For example, Goulburn Valley Water's developer charges and contributions accounted for 13.7 per cent of its total income in 2006-07. Developer charges and contributions were not required by the Tasmanian GTEs.

## **Sector reforms**

Water industry reforms have been aimed at improving efficiency and financial performance by making the GTEs more commercially focused. Further, environmental sustainability has become a focus for decision making regarding water resource allocation.

Some GTEs have privatised or outsourced business activities for commercial reasons. For example, SA Water contracted out the management and operation of the water supply for the Adelaide metropolitan area in 1996 to a private company for a period of 15 years. Both Coliban Water and Central Highlands Water have entered into public-private partnerships for infrastructure provision and services.

### *The National Water Initiative*

In June 2004, the Council of Australian Governments (COAG) agreed to the National Water Initiative (NWI).<sup>8</sup> The objective of the NWI is to optimise economic, social and environmental outcomes by developing nationally consistent markets, and regulatory and planning frameworks for managing Australia's surface and groundwater resources (COAG 2004). In 2006, COAG prioritised the delivery of six fundamental reform elements:

1. conversion of existing water rights into secure and tradeable water access entitlements
2. completion of water plans that are consistent with the NWI through transparent processes and using best available science
3. implementation of these plans to achieve sustainable levels of surface and groundwater extraction in practice
4. establishment of open and low-cost water trading arrangements

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<sup>8</sup> All Australian Governments are now signatories to the agreement, although the Tasmanian Government did not sign until 3 June 2005 and the WA Government did not sign until 6 April 2006.

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5. improvement of water pricing to support the wider water reform agenda
  6. implementation of national water accounting and measurement standards, and adequate systems for measuring, metering, monitoring and reporting on water resources (COAG 2006).

The National Water Commission (NWC) was established in 2004 to manage the implementation of the NWI and to implement two programs of the Australian Government Water Fund — Water Smart Australia and Raising National Water Standards. The NWC also undertakes biennial assessments of governments' progress in implementing the NWI.

The first biennial assessment, released in May 2007, found that governments had made considerable progress in implementing the NWI in its first two years. However, more improvement was required in particular areas, such as reducing the over-allocation of water resources.

### **6.3 Profitability**

Profitability indicators provide information on how well GTEs are using the assets vested in them by shareholder-governments to generate earnings. However, the diverse range of activities of water GTEs has to be taken into account when comparing indicators across GTEs.

For the water sector as a whole, profit before tax fell 7.8 per cent in real terms to \$1.9 billion in 2006-07. This resulted from a 2.7 per cent decrease in total revenue and a 0.8 per cent decrease in total expenses in real terms. Individually, eight out of the 24 water sector GTEs reported an improvement in their real operating performance in 2006-07, while the remaining 16 GTEs reported a decline.

The cost recovery ratio indicates the ability of an entity to generate adequate revenue to meet current expenses. Under the NWI, metropolitan water GTEs are expected to achieve upper bound cost recovery by 2008, while rural water GTEs are expected to achieve lower bound cost recovery and, where practicable, move towards the upper bound (COAG 2004).<sup>9</sup>

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<sup>9</sup> Lower bound cost recovery pricing includes operational, maintenance and administrative costs, externalities, taxes or tax-equivalent payments, dividends, provisions for the cost of asset consumption and interest costs on debt. Upper bound — full cost recovery — pricing also encompasses the total opportunity cost of the GTE's investment in assets (calculated using a weighted average cost of capital).

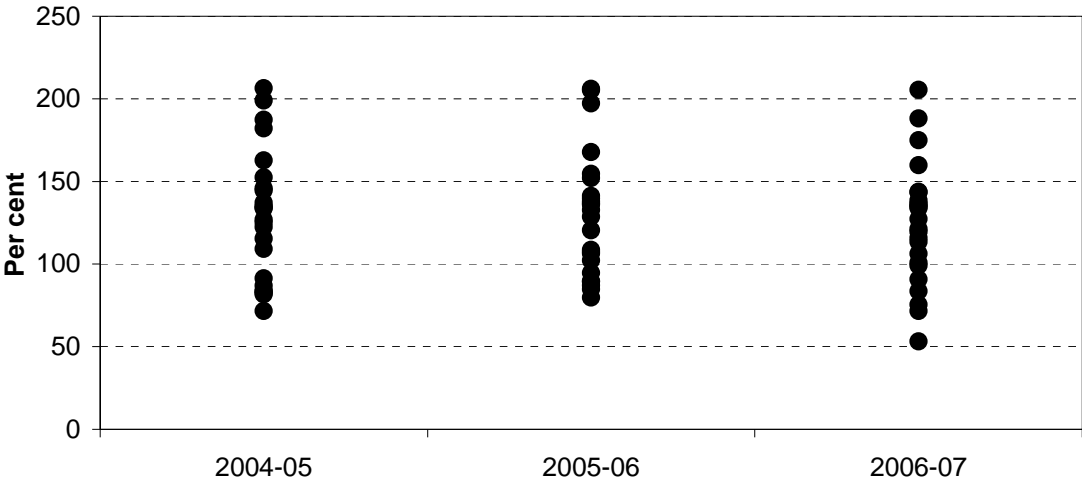
For the sector as a whole, the cost recovery ratio decreased 2.2 percentage points to 150 per cent in 2006-07. Eighteen of the water GTEs recorded a cost recovery ratio over 100 per cent in 2006-07 and five recorded an improved cost recovery ratio from 2005-06 (figure 6.4).

The rate of return on assets is a useful indicator of the efficiency with which an entity uses its assets. The asset base used to calculate the return on assets is the total value of operating assets in a GTE’s annual report (including contributed assets). Although contributed assets are gifted to the GTE, they are likely to require maintenance or replacement at some time in the future.

The return on assets for the sector decreased to 4.9 per cent in 2006-07 (from 5.0 per cent in 2005-06), due to the fall in profitability combined with growth in the sector’s assets. Nine of the 24 water sector GTEs reported an improvement in their return on assets between 2006-07 and 2005-06 (figure 6.5).

Four water GTEs recorded a negative return on assets for the entire reporting period — Coliban Water, Goulburn–Murray Water, Grampians Wimmera Mallee Water and Southern Rural Water. They all operate in regional or rural Victoria. These GTEs also failed to recover their operating costs during this period (their current ratios were less than 100 per cent).

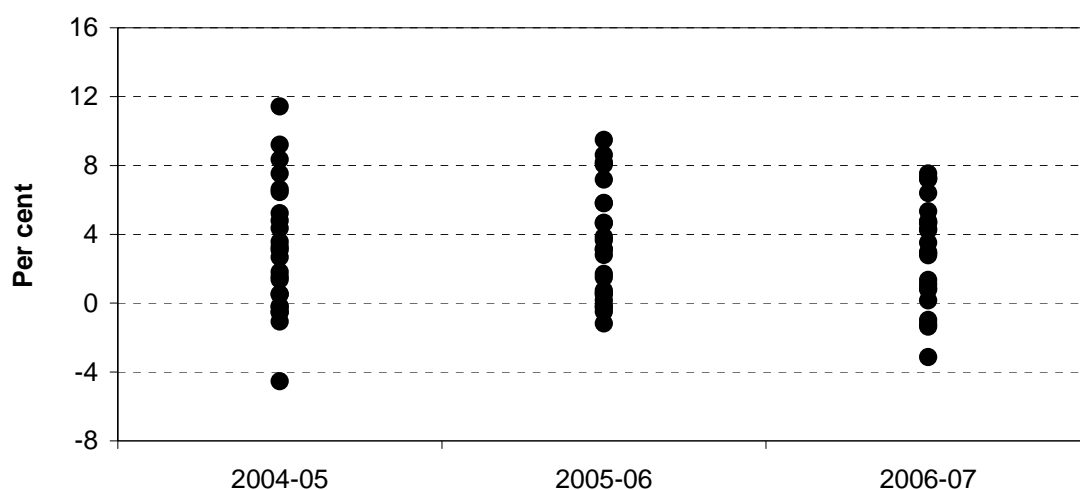
**Figure 6.4 Cost recovery — water GTEs<sup>a</sup>**



<sup>a</sup> Each data point represents the cost recovery ratio for a government trading enterprise in that financial year. Cost recovery is the ratio of revenue from operations to expenses from operations (chapter 1).

Source: Productivity Commission estimates.

Figure 6.5 Return on assets — water GTEs<sup>a</sup>



<sup>a</sup> Each data point represents return on assets for a government trading enterprise in that financial year. Return on assets is the ratio of earnings before interest and tax to average operating assets (chapter 1). Average operating assets is the average of the value of operating assets at the beginning and end of each financial year. Where an average could not be calculated, the value of operating assets at the end of the financial year was used.

Source: Productivity Commission estimates.

Of the 24 water GTEs, 19 did not achieve a return on assets that exceeded the risk-free benchmark rate in 2006-07.<sup>10</sup> This suggests that these water GTEs are not operating on a commercially viable basis. Of the five GTEs that did achieve this level, four were metropolitan water GTEs and one was a territory-wide GTE that encompassed large urban areas.<sup>11</sup>

In Victoria, there are distinct differences in the profitability of water GTEs operating in metropolitan and non-metropolitan areas.<sup>12</sup> The aggregate return on assets for Victorian metropolitan water GTEs in 2006-07 was 6.2 per cent, compared with a return on assets of -0.5 per cent for regional urban and rural water GTEs.

Victoria's rural water GTEs — Southern Rural Water, Lower Murray Water, Grampians Wimmera Mallee Water and Goulburn–Murray Rural Water — were

<sup>10</sup> The risk-free rate of return used is the 2006-07 interest rate on a 10-year Australian Government bond (5.8 per cent) (RBA 2008).

<sup>11</sup> The five GTEs are ACTEW Corporation, City West Water, Melbourne Water Corporation, South East Water and Water Corporation.

<sup>12</sup> The metropolitan water GTEs are City West Water, Melbourne Water Corporation, South East Water and Yarra Valley Water. The other monitored water GTEs from Victoria are regional urban or rural water authorities.

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subject to a price determination by the Essential Services Commission (ESC) for the first time on 1 July 2006.<sup>13</sup> Under the new price determination arrangements, the ESC allows the rural water GTEs to choose between using the renewals annuity approach or including the cost of capital investments in their regulatory asset value. The ESC then sets prices based on the revenue requirements of the GTE.<sup>14</sup> Only Southern Rural Water and Lower Murray Water elected to retain the renewals annuity approach.

Generally, using the renewals annuity approach results in lower prices and decreased reported profitability. It involves setting aside funds for known future asset replacement and rehabilitation. It is an alternative to setting prices based on the consumption of existing fixed assets using an accounting measure of depreciation. Indeed, the use of the renewals annuity approach would have contributed to the negative return on assets reported by Victorian rural GTEs prior to 2006-07. For a more detailed discussion of the effect of renewals annuity pricing see box 6.1 of the 2005-06 report (PC 2007).

Another measure of profitability is return on equity — the GTE's operating earnings before interest and after tax for the year expressed as a proportion of equity held in the business. The return on equity followed a similar trend to return on assets for most water GTEs in 2006-07.

Setting charges that do not cover costs, including the cost of capital, has implications for performance, particularly when considering future investment decisions within the sector and across the economy. Under the full corporatisation model, the intention is to subject GTEs to the same capital market disciplines as the private sector. However, in practice many water GTEs are not generating a commercially sustainable rate of return on assets (chapter 4).

## 6.4 Financial management

Financial management indicators provide information about the capital structure of GTEs and their ability to meet the cost of servicing debt and other liabilities as they fall due.

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<sup>13</sup> Previously all Victorian rural GTEs used the renewals annuity approach in setting water charges.

<sup>14</sup> The ESC determines the prices that are required to generate sufficient revenue to cover service costs — including operating and capital expenditure, compliance costs and depreciation (ESC 2006).

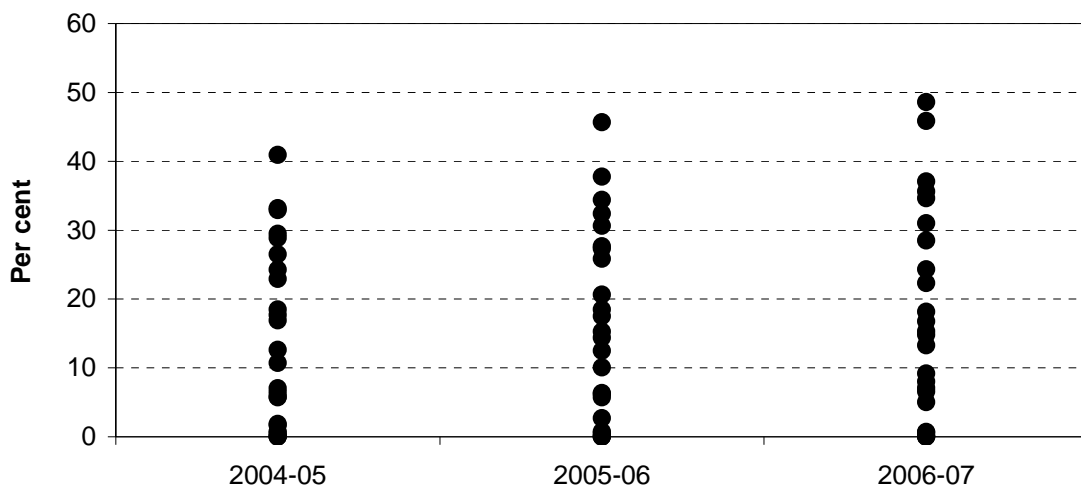
Water sector debt increased by \$590 million (5.6 per cent) in real terms to \$11.2 billion in 2006-07. Three water GTEs — Sydney Water Corporation, Water Corporation and Sun Water — held 47.9 per cent of the sector’s debt in 2006-07. The increase in debt for the sector, combined with steady operating assets, resulted in a small increase in debt to assets from 20.0 per cent in 2005-06 to 21.9 per cent in 2006-07 (figure 6.6).

Individually, debt to assets increased for 14 water GTEs and declined for eight in 2006-07. Two GTEs — Southern Rural Water and Esk Water — were without debt at 30 June 2007.

Interest cover measures the capacity of a GTE to meet periodic interest payments out of current earnings. A high interest cover indicates that an entity could sustain a fall in profit or an increased interest expense and still meet the cost of servicing debt. The interest cover for the water sector was 3.9 times in 2006-07, down from 4.3 times in 2005-06. Three GTEs had negative interest cover ratios and another three had ratios below 2 times in 2006-07.

The ability of water GTEs to meet short-term operating liabilities without having to use funds other than current operating assets is indicated by having a current ratio of over 100 per cent. The current ratio of the water sector as a whole was 50.8 per cent in 2006-07, down from 55.0 per cent in 2005-06, suggesting water GTEs may have difficulty meeting short-term obligations.

**Figure 6.6 Debt to operating assets — water GTEs<sup>a</sup>**



<sup>a</sup> Each data point represents debt to assets for a government trading enterprise in that financial year. Debt is defined to include all interest bearing liabilities (chapter 1).

Source: Productivity Commission estimates.

Individually, 14 water GTEs had current ratios of less than 100 per cent, compared with ten in 2005-06. Melbourne Water had the lowest current ratio, at 12.4 per cent. Although some water GTEs had current ratios below 100 per cent, the reasonably stable cash flows that are generally a feature of the water sector suggest that low current ratios could be sustainable.

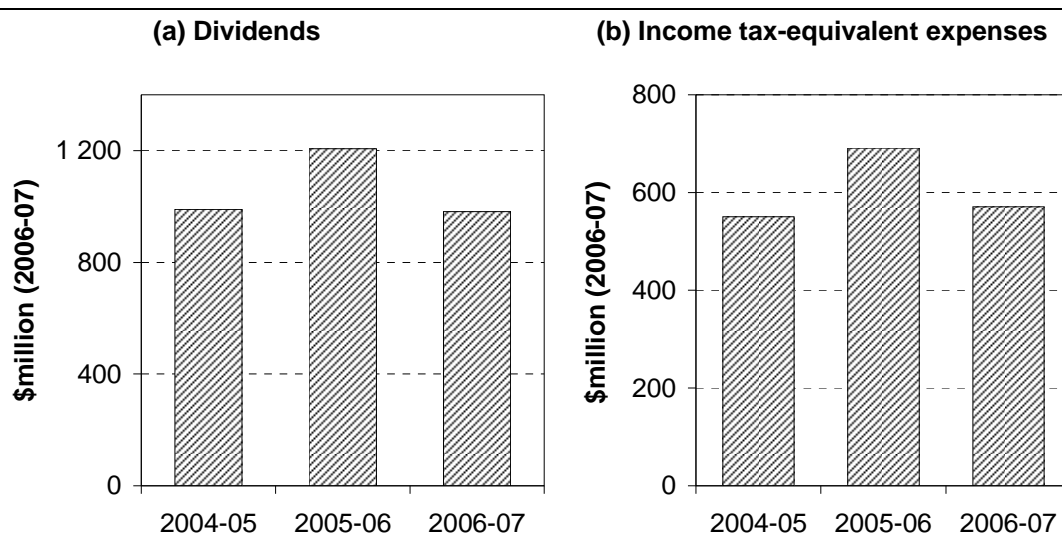
## 6.5 Transactions with government

Governments have sought to give GTEs a greater commercial focus as part of the reform process. They have also attempted to facilitate competitive neutrality by exposing them to replicated capital market disciplines and regulations similar to those faced by private sector businesses.

The dividend payable by each GTE depends on the dividend policy of its owner-government. Fifteen of the 24 monitored water GTEs distributed dividends in 2006-07. Of these, three recorded dividend payout ratios of at least 100 per cent and a further three recorded a ratio above 50 per cent (figure 6.7a). All nine of the GTEs that did not report a dividend payment in 2006-07 were Victorian regional or rural water authorities. For the sector as a whole, dividend payments decreased by \$225 million (18.7 per cent) in real terms to \$981 million in 2006-07.

The value of recorded income tax-equivalent expenses decreased by \$120 million (17.4 per cent) in real terms to \$571 million in 2006-07 (figure 6.7b). This was

Figure 6.7 Dividends and income tax-equivalent expenses — water GTEs<sup>a</sup>



<sup>a</sup> The values of dividends and income tax-equivalent expenses are reported in 2006-07 dollars using the ABS implicit price deflator — gross fixed capital formation of public corporations (chapter 1).

Source: Productivity Commission estimates.

mostly a result of the 7.8 per cent real decrease in profit before tax recorded for the sector.

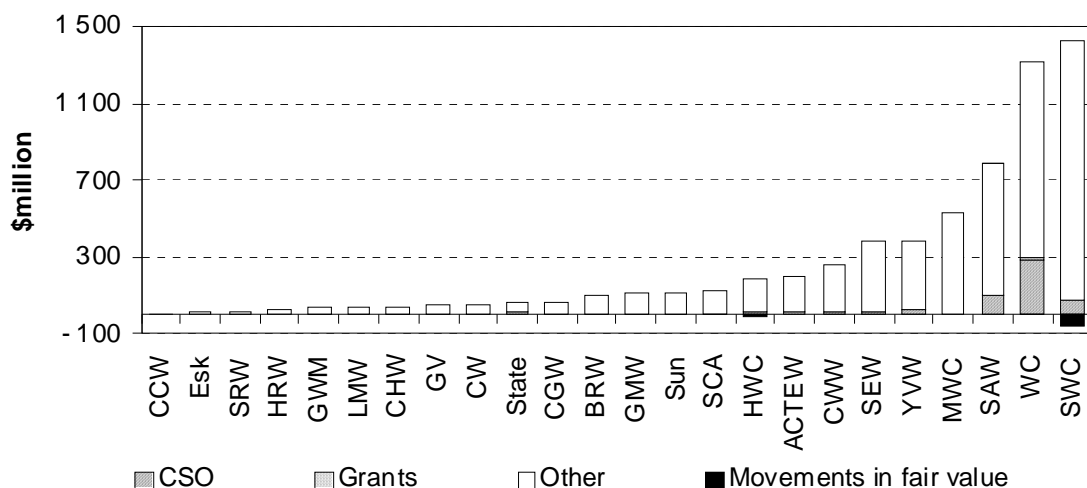
Seventeen GTEs recorded income tax-equivalent expenses in 2006-07. Four of these GTEs recorded higher real income tax-equivalent expenses in 2006-07 than in 2005-06. Two GTEs recorded income tax-equivalent benefits in 2006-07.

The change in income tax-equivalent expenses does not always reflect the movements in profit before tax — in some cases other factors such as asset revaluations and previous tax payments had a greater influence. For example, SunWater received a favourable tax ruling during 2006-07, which led to it recording an income tax-equivalent benefit despite a profit before tax of \$20.1 million.

Community service obligations provided by some water GTEs include concessions, the supply of services below the cost of provision and upgrading sewerage infrastructure. Eighteen water GTEs received CSO funding totalling \$745 million in 2006-07.<sup>15</sup> Payments to the Water Corporation of Western Australia accounted for 48.3 per cent of all CSO funding in the water sector (figure 6.8).

The real value of CSO payments decreased for all but four of the GTEs that received CSO funding — Central Gippsland Water, Goulburn-Murray Water, Grampians Wimmera Mallee Water and SunWater. Goulburn-Murray Water and

Figure 6.8 **Income sources — water GTEs, 2006-07**



Source: Productivity Commission estimates.

<sup>15</sup> Several Victorian GTEs disclosed CSO payments in their annual reports, but did not report the amount separately in their financial statements.

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Grampians Wimmera Mallee Water experienced large increases in CSO payments due to the introduction of the Drought Relief Rebate Scheme. Eleven GTEs experienced a decrease in CSO payments of over 5 per cent in real terms.

Community service obligation payments represented over 10 per cent of total income for five GTEs — State Water (21.8 per cent), Grampians Wimmera Mallee Water (18.5 per cent), Goulburn–Murray Water (17.9 per cent), SA Water (18.2 per cent) and Water Corporation (23.0 per cent).

## WATER

Table 6.2 Whole of sector performance indicators 2004-05 to 2006-07<sup>a</sup>

Indicators	Units	Pre-AIFRS <sup>b,c</sup>		AIFRS <sup>b</sup>	
		2004-05	2004-05	2005-06	2006-07
<i>Size</i>					
Total assets	\$m	48 680	48 663	49 365	53 734
Total income	\$m	6 312	6 223	7 003	7 309
<i>Profitability</i>					
Profit before tax	\$m	1 818	1 685	1 871	1 878
Operating profit margin	%	35.3	33.8	34.5	33.5
Cost recovery	%	154.6	151.0	152.7	150.5
Return on assets	%	4.8	4.6	5.0	4.9
Return on total equity	%	4.5	4.6	4.7	5.0
Return on operating equity <sup>d</sup>	%	4.3	4.2	4.4	4.6
<i>Financial management</i>					
Debt to equity	%	22.1	22.6	26.2	28.1
Debt to assets	%	17.4	17.6	20.0	21.9
Total liabilities to equity	%	32.7	40.9	44.6	48.7
Operating liabilities to equity <sup>e</sup>	%	26.8	28.1	31.8	33.9
Interest cover	times	4.6	4.2	4.3	3.9
Current ratio	%	61.3	57.1	55.0	50.8
Leverage ratio	%	126.8	128.1	131.8	133.9
<i>Payments to and from government</i>					
Dividends	\$'000	898 492	893 682	1 108 658	981 183
Dividend to equity ratio	%	2.3	2.4	3.0	2.5
Dividend payout ratio	%	54.4	56.4	68.0	55.7
Income tax expense	\$'000	524 538	496 858	635 106	570 656
Grants revenue ratio	%	0.5	0.7	1.0	1.0
CSO funding	\$'000	553 743	556 354	686 347	745 167

<sup>a</sup> Figures are nominal values. <sup>b</sup> Water GTEs commenced reporting under the Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for water GTEs. <sup>c</sup> Data prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. <sup>d</sup> Refers to 'return on equity based on operating assets and liabilities'. <sup>e</sup> Refers to 'operating liabilities to equity based on operating assets and liabilities'.