



REX PATRICK
Senator for South Australia

Mr. Grant Hehir
Auditor-General
Australian National Audit Office
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AUSTRALIA

Grant

Dear Auditor-General,

I write regarding Performance Audit 2 of 2020-21 (Procurement of Strategic Water Entitlements) and testimony from your office's appearance before the Finance and Public Administration Committee at Senate Estimates on the 19 October 2020.

I have concerns about the price paid for the water license from the Clyde and Kia-Ora Properties. I note that in your audit you concluded, in relation to all purchases examined (including Clyde and Kia-Ora), that *"The price the department paid for water entitlements was equal to or less than the maximum price determined by valuations"*.

Respectfully I cannot reconcile the ANAO's finding regarding the claims made about the Clyde and Kia Ora water license for the reasons set out below.

Commission of Valuation

The valuation upon which the Commonwealth purchase price was determined was commissioned with a start date of 02 March 2017.

The work order required a final valuation to be provided by close of business on the 14 March 2017. The work order required the valuer to *"document the method (e.g. volume-weighted average prices, mean, media, expert knowledge and experience, etc.) and logic used to arrive at a value/ range. If using expert knowledge and experience as the method, it must be justified with evidence/ logical arguments"*.

The valuer was required to provide a value that *"must be single point as well as a value range"* (see figure 1)

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C.A.2 The Requirement

The Department requires the Service Provider to:

- (1) Provide an assessment of the market value of:
 - a) Lower Balonne overland flow water entitlements
 - b) Warrego Unsupplemented water entitlements
- (2) **The value provided must be single point as well as a value range.**
- (3) Indicate the timing and period of validity for the report, and comment on any known factors that may be reasonably expected to change in the near future.
- (4) Document the method (e.g. volume-weighted average prices, mean, media, expert knowledge and experience, etc.) and logic used to arrive at a value/ range. If using expert knowledge and experience as the method, it must be justified with evidence/ logical arguments.
- (5) Use graphs, tables, as appropriate to present analysis and results, as appropriate.
- (6) Include reference sources, data used (in spreadsheet format), as relevant.
- (7) Provide a draft valuation report (in Word format) for comment by the Department by COB 13/03/2017.
- (8) Provide a final valuation report incorporating amendments requested by or otherwise agreed by the Department, to the Department's satisfaction, by COB 14/03/2017.

This report is for internal use only within the Department of Agriculture and Water Resources and the report will not be provided to any third parties.

Figure 1 – Extract from Work Order

Method and Logic

The valuer's report, as per the work order, contained the method and logic used to arrive at a value/range. That methodology and logic included several statements, including inter alia:

- *The range in value¹ is \$1,050 to \$2,300 per megalitre. The variation can be attributed to the time of sale, location, efficiency of the irrigation scheme and the mix and balance of the water resources. OLF has traditionally been considered some of the lower valued water rights as the quality of the property right was inferior.*
- *The market sentiment is considered to be improving and, for many of the above properties², if offered on the market today an improvement in value could be anticipated. By our estimate this may range from only 10 percent to as high as 30 percent.*
- *The majority of OLF licenses would be considered to be in the lower end of this range. The exception to this would be individual properties of a high standard that have achieved above average levels of water use efficiency, in which case the value would be in the higher end of the value range.*

These statements were factors that contributed to the value point/range (as specified in Figure 2).

¹ Referring to other properties that had sold, not the two properties being valued.

² Referring to other properties that had sold, not the two properties being valued.

Valuation

On the 17 March 2017 the valuer, having described his reasoning, provided a single point value, \$1,500/ML and a value range of \$1,100 to \$2,300 per ML.

Valuation

Having regard to the sales evidence outlined in this report and our experience with water markets and irrigation properties, we consider that the value range for Overland Flow Licence (nominal volume) within the Lower Balonne can be assessed as follows:

Water Type	Valuation \$/ML of Nominal Volume	Valuation Range
Overland Flow Licence	\$1,500/ML	\$1,100 to \$2,300 per ML

This valuation advice is confidential to the Department of Agriculture and Water Resources and is provided for financial reporting and acquisition purposes only.

We accept no responsibility to any party not identified as a reliant party. This valuation (including any part of or reference to this valuation) shall not be used for any purpose other than:

- financial reporting and acquisition purposes by the Department of Agriculture and Water Resources; and
- advice to the respective Minister and Government for information and approval purposes

and shall not be published in any document, statement or circular or referred to in any communication outside of the Department of Agriculture and Water Resources or other relevant Commonwealth Authorities without our permission.

CIVAS (QLD) Pty Limited accepts no responsibility for this valuation other than for the stated purpose. This valuation is issued on the basis that no liability attaches to companies in the Collars International Group other than CIVAS (QLD) Pty Limited.

Figure 2 – Extract from Work Order

The Commonwealth paid \$2,745/ML.

Position of the Department

In Budget Estimates 2018-19 Question on Notice 197 of the Rural and Regional and Transport Committee the Department stated:

In this case the price paid by the department was above an estimated 'standard market value range', but below the maximum price the independent valuer advised we should expect to pay. The valuation advice stated that the department should be prepared to pay 10 to 30 percent above the standard market rate for "properties of a high standard that have achieved above average levels of water use efficiency" in this region.

This clearly, and most inappropriately in my view, conflates two cherry picked points in the method and logic.

It is further and significantly noted that, according to Eastern Australia Agriculture Pty Limited's annual report for the year ended 30 June 2017, the Kia Ora and Clyde were actually operating at considerable losses, with a balance sheet in significant deficit. For the 2017 financial year, the company had accumulated net liabilities (liabilities exceeded assets) of \$28,570,000, up from \$15,383,000 in 2016. Even if the cherry picking was permissible, and it is not, the financials would rule Clyde and Kia Ora out as *'properties of a high standard that have achieved above average levels of water use efficiency' in this region.*

Position of the ANAO at Estimates

I note that Mr. White of the ANAO stated on 19 October 2020:

The report also discusses a range of factors that would influence future sales prices and talks about an expectation of a premium of between 10 and 30 per cent that could be expected to apply to the sale.

Respectfully, this is not what the valuation report said. What the report said was, *"The market sentiment is considered to be improving and, for many of the above properties, if offered on the market today an improvement in value could be anticipated. By our estimate this may range from only 10 percent to as high as 30 percent".*

The 'above properties' referred to in this statement were different properties to the properties that were the subject of the valuation.

Value/Range

The single value for the overland flow licenses was \$1,500/ML and the value range was \$1,100 to \$2,300 per ML. The Commonwealth paid \$2,745/ML which is not, as the ANAO suggested, *"equal to or less than the maximum price determined by valuations"*.

I ask that you re-examine the facts associated with the Clyde and Kia Ora water license purchases and amend your report accordingly.

Yours faithfully, 

Rex Patrick
Senator for South Australia
03 November 2020