

Finance and Public Administration Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE  
BUDGET ESTIMATES 2020-21

**Department/Agency:** Australian National Audit Office

**Senator:** Senator Patrick

**Topic:** Procurement of Strategic Water Entitlements – Re-examination of valuation

**Question reference number:** 0039

**Type of question:** Hansard, 19 October 2020, pages 113-114

**Date set by the committee for the return of answer:** 4 December 2020

Number of pages: 2

**Question**

**Mr White:** And that range is directly correlated to the analysed sales in the tables on the previous pages, which lead to the discussion that also talks about how the absolute minimum price that would be expected—for the last historic sale, of \$2,300—would be higher in a future period of time. So reading the report and analysing the tables of sales and the expectation of a premium was what we read the report to be saying.

**Senator PATRICK:** I wonder if you could re-examine that. At the end of the day, when you get a valuation on a house or on anything, there are a whole range of things that might be talked about. Then, the valuer presents his or her findings. In this instance, it's really clear what the range is. I wonder if you could perhaps re-examine that and come back on notice as to whether or not you think an error has been made in the way in which this has been read?

**Response:**

In reference to this purchase the department commissioned a valuation of overland flow water licences within the Lower Balonne region.

The Department applied the valuation report in setting its maximum price for the two properties, referring to both the price range proposed and the possible 10-30 per cent price movement also outlined in the report, given rising market prices and the premium that may apply to some high demand properties. The valuer did not provide direction on the use of premium referred to in the report itself, nor did they suggest a value for the specific properties purchased. At the time of the audit the ANAO considered the department's utilisation of the report reasonable.

Subsequently, the valuer has advised the ANAO that he does not consider the application of the premium referred to in their valuation report, to the range provided, as reasonable.

In the scope of works for the valuation report, the valuer was requested to provide a single point as well as a value range, which they did, however, other material required to be provided by the valuer is somewhat contradictory. For example, the valuer also notes in the report that some sales would be expected to be at or above the maximum point on the range provided.

The Department's valuation methodology allowed for an adjustment to the valuation advice and advice from the Department is that an alternative option may have been taken prior to the purchase if they had been aware of the valuer's view at that time.

The ANAO based its conclusion on its view that the price paid was in accordance with the Department's methodology for non-active markets and that the valuation report provides information that supports a valuation that is higher than the range provided as the valuation.

I have completed an internal review of the audit, including the subsequent views of the valuer. The internal review found that the audit conclusion was supported by audit evidence, specifically the valuation report, and that the ANAO based its conclusion on its view that the price paid was in accordance with the Department's methodology for non-active markets and that the valuation report provides information that supports a valuation that is higher than the range provided as the valuation.

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ANSWERS TO QUESTIONS ON NOTICE  
BUDGET ESTIMATES 2020-21

**Department/Agency:** Australian National Audit Office

**Senator:** Senator Patrick

**Topic:** Procurement of Strategic Water Entitlements – Valuations

**Question reference number:** 0040

**Type of question:** Hansard, 19 October 2020, Page 113-114

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Number of pages: 2

**Question**

**Senator PATRICK:** When you looked at the purchase, DAWR had used a desktop valuation that related to Murrumbidgee supplementary licences; that's how it came to the conclusion that it was paying the right price. However, under the water-sharing plans you're not allowed to transfer water from the Murrumbidgee to the Lowbidgee area. I'm just wondering why you accepted the valuation methodology of the department, taking valuations from one valley and using them in another?

**Mr White:** I'd have to take that on notice, Senator.

**Senator PATRICK:** Perhaps you could examine that and come back to us. That would be appreciated. Thank you, Chair.

**Response:**

Auditor-General Report No.2 2020–21 *Procurement of strategic water entitlements* outlines the valuation methodology used by the department for water purchases.

4.25 'For active markets, the Water Market Policy Section within the department provides internal advice on market activity and observed trends sourced from the state register of sales to the relevant line area, including:

- the highest market transaction, preferably in the six months prior to the assessment;
- the highest price paid three-month extrapolation using the Volume Weighted Average Price (VWAP) trend;
- monthly average prices, trend and three-month extrapolation on trend; and
- quarterly average prices, trend and three-month extrapolation on trend.'

4.26 'Additionally, the methodology notes that the Water Market Policy Section will also provide information from other sources such as short-term views from water brokers, consultants, major market participants and short-term weather outlooks.'

4.27 'The methodology provides scope for the line area to select and justify the most appropriate approach and make additional allowances to account for other factors that may make it more advantageous to purchase a specific entitlement such as enhanced environmental benefits. The methodology also notes that the department should not set an upper limit on willingness to pay and should negotiate openly on a case by case basis.'

Departmental documentation indicated that limited sales information was available from the NSW state water register. The department considered other information sources in line with its valuation methodology when undertaking the internal valuation. This included seeking pricing information for comparable entitlements due to the limited information available, consistent with other valuation methodologies.

The ANAO considered the approach taken by the department was reasonable based on the information available and considered at the time.