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NSW IRRIGATORS' COUNCIL

SUBMISSION TO THE

SENATE

**RURAL AND REGIONAL AFFAIRS AND TRANSPORT
COMMITTEE**

INQUIRY INTO THE

MDBC AMENDMENT BILL 2006

January 2007

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**NSW IRRIGATORS' COUNCIL
SUBMISSION TO THE
SENATE RURAL AND REGIONAL AFFAIRS AND TRANSPORT COMMITTEE
INQUIRY INTO THE
MDBC AMENDMENT BILL 2006**

1. NEW SOUTH WALES IRRIGATORS' COUNCIL

NSW Irrigators' Council (NSWIC) represents more than 11,500 irrigation farmers and licensed entitlement holders across NSW. These irrigators are on regulated, unregulated and groundwater systems. Council's members include valley water user associations, food and fibre groups, irrigation corporations and commodity groups from the rice, cotton, dairy and horticultural industries.

[Attachment 1](#) records the membership details of the NSW Irrigators' Council.

In responding to this Inquiry's Terms of Reference, NSWIC is representing the views of its members. However, each member reserves the right to make independent submissions on issues that relate directly to their areas of operation or expertise, or, on any other issues they may deem relevant.

2 PURPOSE OF THE MDBC AMENDMENT BILL 2006

NSWIC supports the purpose of the *MDBC Amendment Bill 2006* to:

“promote and co-ordinate effective planning and management for the equitable, efficient and sustainable use of the water, land and environmental resources of the Murray-Darling Basin.”

It is a key issue for NSWIC members that all government water corporations and agencies involved in water resource management are operated in a manner that delivers efficient, cost effective business outcomes.

These outcomes should be achieved in an environment that exposes each business to competitive pressures through regular market testing of the provision of all aspects of their operations and services.

River Murray Water's operations must be required to be operated in a manner that is consistent with the principles of the National Water Initiative. This is the minimum standard that will be acceptable to NSWIC members who are now expected to pay full cost recovery for the user share of the NSW component of River Murray Water's operations.

3. NSWIC COMMENTS ON THE KEY ASPECTS OF THE BILL

3.1 Provides for appropriate contracting governments to make annual annuity contributions towards the future capital replacements and major cyclic maintenance costs of River Murray Water

NSWIC supports measures such as the application of annuity payments, that will provide financial certainty to the operations of River Murray Water. The concept of an annual annuity is not a new concept to NSWIC members as this was, until recently, the preferred method of funding State Water's capital requirements.

In return, River Murray Water must be required to demonstrate ongoing improvements in its financial management and performance commensurate with the security and certainty provided by the annuity funding option.

Appropriate business performance benchmarks must be established to monitor and judge the business management of the enterprise. There must be appropriate rewards and sanctions applied to encourage best practice business management.

There must be annual financial and business operations reports published that review the performance of River Murray Water against annual budgets, operation plans and other relevant benchmarks.

3.2 Enables annuity contributions to be accumulated and invested, and allows the Murray-Darling Basin Commission (the Commission) to borrow funds where accumulated annuity contributions are insufficient to meet costs in any year. Borrowings would require the approval of the Murray-Darling Basin Ministerial Council

The provision and level of annuity payments must be based on funding requirements identified through annual and multi-year capital and operation planning processes. It would be expected that the annuity is closely tied to the actual expenditure requirements and that the organisation has a capability to complete capital and operational programs as forecast. On this basis, there should be minimal build-up of reserves.

NSWIC would not support the build-up of reserves beyond a small contingency allowance if these funds are recouped from NSW irrigators on a full cost recovery basis.

If for either operational or urgency reasons additional funds are required to meet unforeseen circumstances, then an ability to borrow against future annuity payments would be supported. If this facility was required to be used on a regular basis, it would indicate a systemic failure of the organisation to be able to plan and manage its normal business capital and operational expenditures and forecasts.

NSWIC recommends that both the level of the annuity and the level of any reserves be regularly reviewed, to ensure that these aspects of River Murray Water's business operations continue to reflect the reality of the organisations business performance.

This review should be held at least every five years and be incorporated into the wider independent review of River Murray Water's operating and capital expenditures.

3.3 Enables the Murray-Darling Basin Ministerial Council (Ministerial Council) to recover water business costs from State governments in shares comparable to those which would apply if fee-for-service pricing were introduced. These proportions must be reviewed at least every five years

The National Water Initiative at s.66 (v) (a), (b) (c) is dictating “...full cost recovery for all rural surface and groundwater based systems....”

In NSW, this has led to MDBC charges being treated by the Independent Pricing and Regulatory Tribunal (IPART) as ‘pass through’ charges that are not subject to independent scrutiny.

NSWIC members are expected to pay full cost recovery for MDBC services that:

- are not benchmarked in a contestable market;
- have not been scrutinised through an independent process to ensure that all investments and expenditures are prudent, efficient and for services and capital works that are actually required; and
- have not taken into account community service obligations associated with other beneficiaries of the infrastructure and services provided by MDBC and River Murray Water.

This issue is further elaborated on at point 4.1 below.

3.4 *Enables the Ministerial Council to allocate responsibility for River Murray Water structures from one constructing authority to another, subject to the agreement of the parties concerned;*

This provision is supported if it leads to more efficient service delivery and management of River Murray Water’s capital works and maintenance programs.

NSWIC also supports the widening of this provision to mandate the market testing of these services, as there are many private sector entities capable of competing in the provision of River Murray Water’s capital works, maintenance and planning programs.

3.5 *Enables the Ministerial Council to alter from time to time financial thresholds above which specific Council approval must be sought by the Commission; and*

This provision is supported.

3.6 *Clarifies that Queensland cannot be held liable for works and measures in which it is not directly involved.*

This provision is supported.

4. OTHER ISSUES FOR CONSIDERATION

4.1 *Independent Scrutiny of MDBC and River Murray Water Expenditure and Capital Forecasts*

As discussed above, NSWIC is calling for an immediate, independent review of all MDBC operations, including River Murray Water, to determine the efficiency and prudence of its operations and its operating expenditure and capital budget forecasts.

NSWIC contends that it is untenable that, under the auspices of the National Water Initiative, governments are seeking full cost recovery from industry yet are not willing to subject one of their own agencies to public, independent scrutiny.

The NSW Minister for Natural Resources has supported NSWIC's position on this issue, but to date, despite repeated representations to the Federal Government on this issue over the past 12 months, no commitment has been offered to facilitate this review process.

Currently, in NSW, all MDBC charges are treated as 'pass through' charges by IPART and are subject to no independent scrutiny to ascertain the efficiency, prudence, accuracy or necessity of these charges, or the basis for their allocation between users and across valleys.

In its 2006 draft Bulk Water Price Determination, IPART determined that all of the \$88.1 million of forecast MDBC costs for the 4 year price path be attributed to irrigators in the Murray Valley.

In its final Bulk Water Price Determination, IPART amended this position "*to pass through to users only the user share of amount that the NSW Government has decided it would contribute to the MDBC.*"¹

The combined State Water and Department of Natural Resources user share of the MDBC operating expenditure for the 4 year price path was set at \$40.21 million.

In making this determination IPART stated that: "*The tribunal is also concerned about transparency, and about incentives for efficient management of these costs.*"

Of concern to NSWIC members was IPART's decision to spread the MDBC charges across irrigators in many other valleys without consultation with industry and without demonstrating the formula applied for this apportionment.

While this approach is of significant benefit to irrigators in the Murray Valley it raised the ire of irrigators in the other NSW valleys. Tables 1 & 2 illustrate the final allocation of these MDBC costs across all NSW valleys.

¹ *Bulk Water Prices for State Water Corporation and Water Administration Ministerial Corporation from 1 October 2006 to 30 June 2010*, p28

Table 1 Tribunal's findings on the State Water's user-share MDBC operating expenditure allocated by valley (\$million 2006/07)

Region/River Valley	2006/07	2007/08	2008/09	2009/10	Total (2006/07-2009/10)
Border	0.0	0.0	0.0	0.0	0.1
Gwydir	0.1	0.1	0.1	0.1	0.3
Namoi	0.1	0.1	0.1	0.1	0.3
Peel	0.0	0.0	0.0	0.0	0.0
Lachlan	0.0	0.0	0.0	0.0	0.0
Macquarie	0.0	0.0	0.0	0.0	0.2
Far West					
Murray	6.9	6.8	6.7	6.6	27.1
Murrumbidgee	1.5	1.5	1.5	1.5	6.0
North Coast	0.0	0.0	0.0	0.0	0.0
Hunter	0.0	0.0	0.0	0.0	0.0
South Coast	0.0	0.0	0.0	0.0	0.0
Fish River Scheme	0.0	0.0	0.0	0.0	0.0
Total	8.7	8.6	8.4	8.3	34.0

Source: *Bulk Water Prices for State Water Corporation and Water Administration Ministerial Corporation from 1 October 2006 to 30 June 2010*, p186

Table 2 Tribunal's findings on the DNR's user-share MDBC operating expenditure allocated by valley (\$million 2006/07)

Region/River Valley	2006/07	2007/08	2008/09	2009/10	Total (2006/07-2009/10)
Border	0.05	0.05	0.05	0.05	0.21
Gwydir	0.08	0.08	0.08	0.08	0.31
Namoi	0.06	0.06	0.06	0.06	0.24
Peel	0.0	0.0	0.0	0.0	0.01
Lachlan	0.08	0.08	0.08	0.08	0.31
Macquarie	0.10	0.10	0.10	0.10	0.39
Far West					
Murray	0.68	0.68	0.68	0.68	2.71
Murrumbidgee	0.51	0.51	0.51	0.51	2.04
North Coast	0.0	0.0	0.0	0.0	0.0
Hunter	0.0	0.0	0.0	0.0	0.0
South Coast	0.0	0.0	0.0	0.0	0.0
Fish River Scheme	0.0	0.0	0.0	0.0	0.0
Total	1.55	1.55	1.55	1.55	6.21

Source: *Bulk Water Prices for State Water Corporation and Water Administration Ministerial Corporation from 1 October 2006 to 30 June 2010*, p190

Council is also concerned at the different treatment of River Murray Water charges across jurisdictions. In an era of interstate water trade, there is potential for distortion in the marketplace that must be resolved.

For consistency and to preserve market neutrality and distortions in the market, NSWIC believes that each jurisdiction must recoup River Murray Water charges in a manner that is consistent with National Water Initiative principles.

The benefit of the independent review requested by NSWIC would be to demonstrate the level of both capital and operating expenditure required by River Murray Water and the MDBC and also the appropriate apportionment between States, users and in NSW's case, each valley.

RECOMMENDATIONS

It is recommended that:

- 1. The Federal Government initiate the immediate conduct of an independent review of the operating and capital expenditure of the MDBC and River Murray Water.**
- 2. A independent review of the operating and capital expenditure of the MDBC and River Murray Water be held every 5 years.**
- 3. All jurisdictions adopt consistent principles in the recovery of River Murray Water charges.**

4.2 Accountability - The River Murray Water Advisory Board

NSWIC is concerned that as a major financial contributor to the operations of River Murray Water and a significant stakeholder in its operations, that the irrigation sector is not represented on the River Murray Water Advisory Board.

The current River Murray Water Advisory Board comprises:

- The President of the Murray-Darling Basin Commission - Rt Hon Ian Sinclair AC
- Commonwealth Government nominee - Ross Dalton
- New South Wales Government nominee - Deputy Commissioner David Harriss
- Victorian Government nominee - Deputy Commissioner Denis Flett
- South Australian Government nominee - Roger Perry
- External specialist appointed by the Commission - Don Dyer
- Chief Executive, Murray Darling Basin Commission - Wendy Craik
- General Manager, River Murray Water - David Dreverman

RECOMMENDATION

It is recommended that one industry nominee be immediately appointed to this Advisory Board.

4.3 Market Testing of Services

NSWIC is of the view that in the current environment of governments seeking full user-pays contributions for their share of the operating and capital costs of water agencies and authorities, that market confidence in this policy must be underpinned by maximum use of market forces to delivery efficiency of business operations and service delivery.

All River Murray Water services must be market tested to ensure that the most effective, efficient and economical means of operating River Murray Water are identified and adopted.

RECOMMENDATION

It is recommended that market testing of all River Murray Water services be immediately introduced.

ATTACHMENT 1 – NSW IRRIGATORS’ COUNCIL MEMBERSHIP

Bega Cooperative Society Limited
Border Rivers Food and Fibre
Coleambally Irrigation Co-operative Limited
Cotton Australia
Gwydir Valley Irrigators Association Inc.
Hunter Valley Water Users Association
Lachlan Valley Water
Macquarie River Food and Fibre
Mungindi Menindee Advisory Council
Murray Irrigation Ltd
Murray Valley Water Diverters Advisory Association
Murray Valley Groundwater Users’ Association
Murrumbidgee Groundwater Pumpers’ Association
Murrumbidgee Horticulture Council Inc.
Murrumbidgee Irrigation Ltd
Murrumbidgee Private Irrigators’ Inc.
Namoi Water
NSW Farmers’ Association Dairy Section
NSW Farmers’ Association
Ricegrowers’ Association of Australia
Richmond Wilson Combined Water Users Association
Southern Riverina Irrigators
South Western Water Users
Wine Grapes Marketing Board

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