



Australian Government

Department of the Environment, Water, Heritage and the Arts

**The Department of the Environment, Water, Heritage and the Arts,
response to the findings of the *Review of the 2007-08 Water
Entitlement Purchases* conducted by Hyder Consulting**

REVIEW FINDINGS FOR 2007-08 WATER ENTITLEMENT PURCHASES

PURCHASING FINDINGS

Report Findings	
<p>1. Hydrologic and hydraulic modelling should be undertaken to establish watering requirements and required flow regimes.</p> <p>DEWHA should establish target watering regimes for the environmental assets and link the acquired entitlements to their watering requirements. These set targets are important for deciding on value for money and for assessing deliverability of acquired entitlements to the environmental assets. In addition, smaller parcels can be considered together to increase the capacity to deliver water effectively.</p>	<p>DEWHA Response</p> <p>In the medium term, the Environmental Watering Plan prepared by the Murray-Darling Basin Authority will provide clear guidance on environmental priorities and target watering regimes. In the interim, a Commonwealth Environmental Watering Priorities Project has also been initiated by DEWHA, to obtain key information and advice to develop a decision making framework to direct water purchasing activity. Information from this project will also be used to provide input to the environmental watering plan and guide environmental watering activities.</p> <p>DEWHA is currently working with State authorities to develop environmental water delivery arrangements that will take into account the catchment hydrology and flow regimes.</p>
<p>2. An unregulated entitlement that is offered to the WPP may be an appropriate purchase if it is possible to transfer it to another site</p> <p>Some water offered to the WPP may be from an unregulated source that is not immediately able to deliver water to a particular environmental asset. However, in some water plans there are mechanisms for transferring unregulated water to regulated sections downstream of storages and these should be investigated before rejecting an unregulated entitlement.</p>	<p>DEWHA Response</p> <p>DEWHA is currently working with State authorities to make arrangements that allow the Commonwealth to buy and manage water for the environment in unregulated rivers.</p>

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<p>3. Where there is a potential for conversion of entitlements from one security to another then future purchases should consider conversion to the preferred security type</p> <p>The capacity of the acquired entitlement to deliver the proposed watering regime could be enhanced through a conversion of security type. For example, if a high volume of flood flows is desired, a low security entitlement or supplementary flow access would be preferable to a small volume of high security entitlement. Such conversions would be dependent on the relevant water plans for the river valley.</p>	<p>DEWHA Response</p> <p>The rules governing the conversion of entitlements are contained in the relevant State water management plans. The Commonwealth Environmental Water Holder will have the opportunity to convert entitlements to a different security, where this is allowed, if it can be demonstrated that this will improve its capacity to benefit environmental assets.</p>
<p>4. The allocations market should be considered as a source of water for the short-term needs of environmental assets</p> <p>If there is a priority asset that needs water urgently, a temporary allocations purchase will provide better access to water than a permanent entitlement purchase. This is also consistent with the pricing strategy emphasis on value for money.</p>	<p>DEWHA Response</p> <p>It is accepted that this is a potential strategy for providing water to environmental assets in the short term. This option is among those that has been considered for the protection of the Lower Lakes. However the use of this option to address extreme environmental needs of assets such as the Lower lakes could have substantial impacts on the water market and the irrigation sector. Market prices have risen to very high levels in the past when water is scarce and reached over \$1000/ML in 2007. Any Government entry to the market which reduced water availability to very low levels would be expected to have a similar impact on price. In addition the purchase of significant volumes of temporary water when it is scarce could substantially reduce horticultural production and the viability of regional communities</p> <p>However, the prime objective of the purchasing water entitlements (rather than seasonal allocation water) is that it will lead to a long term re-balancing of water use between irrigation and the environment. For this reason purchase of seasonal allocation water is not accepted as a cost effective long term strategy for the <i>Restoring the Balance in the Murray-Darling Basin</i> program.</p>

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<p>5. The Commonwealth should examine the approach of buying environmental outcomes as part of the WPP</p> <p>The approach of 'buying outcomes' involves specification of watering regimes for the environmental assets and seeking expressions of interest from entitlement holders (or those demonstrating access to water) to deliver the required regime for a competitive price. This creates a new product with clear specifications; there are many potential suppliers of this product, with a good understanding of the real-time supply in delivering this product; the property right and asset ownership as well as risks remain with the supplier or as accepted by the buyer.</p>	<p>DEWHA Response</p> <p>This will be considered as part of the ongoing review of the program. The development of alternative water products will be considered: for example through the River Reach project being developed in the Murrumbidgee valley</p>
<p>6. Competitive sourcing of water for environmental assets through existing entitlement holders should be explored</p> <p>The Commonwealth could tender out services to deliver the specified watering regimes and flow requirements after the development of the Murray-Darling Basin Authority Basin Watering Plan. This allows the potential suppliers of such services such as existing water users and river operators to assess their capability to deliver such services in a competitive market. This way, no matter who owns the entitlement, they will consider delivering environmental services as an option, as compared to irrigating a crop or trading water.</p>	<p>DEWHA Response</p> <p>This will be considered as part of the ongoing review of the program, particularly once the Murray-Darling Basin Authority has finalised the Basin Plan, including the Environmental Watering Plan.</p>
<p>7. The Commonwealth should facilitate the transition to a more open and transparent water market</p> <p>There is a variety of reporting requirements used at the moment and some confusion about their implementation. The lack of standardised reporting was mentioned on numerous occasions by stakeholders who suggested that methods used in other sectors such as the share market have a level of availability and transparency not yet developed in the water market.</p>	<p>DEWHA Response</p> <p>The Commonwealth will continue to work with the relevant state authorities to make sure the reporting of water market transactions are transparent and comprehensive. DEWHA will publish a summary of water entitlement prices that are reported on state registers. However the Commonwealth will not reveal information on individual transactions, as to do so would breach commercial confidentiality obligations with sellers, and would also compromise the Government's objective of purchasing water entitlements in a way that delivers value for money for Australian taxpayers.</p> <p>DEWHA will continue work on the development of a more efficient and useful national registry system through the COAG processes in order to deliver on the National Water Initiative commitments.</p>

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Economic Review Findings	
<p>8. Collecting more data for benchmarking of the WPP</p> <p>To overcome the issue of statistical significance of survey results, and to increase the confidence levels of the statistical results on the likely impacts of the WPP, DEWHA should ask sellers, at the point of sale, whether they would be willing to participate in a future survey of the WPP.</p>	<p>DEWHA Response</p> <p>The application form for the Northern Basin tender has been amended to include a question asking for permission to contact the seller to discuss their experience with the application process.</p>
<p>9. Understanding of the economic impacts of the WPP would be further enhanced by a greater understanding of what farmers selling their water are subsequently doing with the proceeds, in particular where and how they are investing the proceeds.</p> <p>To obtain a complete understanding of likely regional economic impacts of a sale to the WPP it would be beneficial to know what the seller is doing with the proceeds. For those who say they will retire debt it would be useful to know what they intend doing once the debt is retired. An understanding as to whether the proceeds from the sale of the water entitlement are used any differently to the annual proceeds from the sale of their agricultural production would also be a valuable addition to any further social research.</p>	<p>DEWHA Response</p> <p>This issue will be addressed in detail in coming program reviews. The application form to sell water entitlements to the Commonwealth seeks consent for the Department to obtain feedback on the water entitlement purchase program, and this could include asking how the proceeds for water entitlement sales are used. Any questions on how sales proceeds are used would need to be framed in a way that respects the rights of sellers to use the proceeds as best meets their needs.</p>
<p>10. An understanding of the impacts of the purchases would also benefit from economic modelling of the direct on-farm impacts of the purchases, and the subsequent impact on both the water market and the local and broader region(s).</p> <p>An analysis could be applied to both of the impacts of the purchases already made and the impacts of future purchases by the WPP. When the volume of water purchased becomes greater and if allocations return to their previous long term average then the impacts of the WPP are likely to be far more significant than those experienced in this first round.</p>	<p>DEWHA Response</p> <p>The Department of Environment, Water, Heritage and the Arts is addressing this recommendation, and will report on further progress in due course.</p>

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Stakeholder consultation findings	
<p>11. A vision and clear goals for the WPP</p> <p>There is an urgent need for a clear vision with set goals and targets for the WPP that addresses Basin-wide issues.</p>	<p>DEWHA Response</p> <p>This is being developed as part of the communication strategy being developed for 'Water for the Future'. Additional attention will also be paid to the communication materials for the Restoring the Balance in the Murray-Darling Basin program.</p>
<p>12. Develop a pro-active and educative communication program</p> <p>The WPP is widely known in the water market and potential sellers of entitlements. Irrigation water supply organisations and other regional and rural communities also know about the program. The goals and vision for the WPP however, are not well understood. There is an urgent need for a well-resourced communication and education program that helps irrigation communities understand the WPP and plan for its further implementation. There is also a need to inform the wider public and stakeholders who have other interests in the WPP. There needs to be a clear, consistent and repeated communication program to support the role and benefits of the WPP.</p>	<p>DEWHA Response</p> <p>A comprehensive range of information on the water entitlement purchase program that has been provided on the Department's website. This includes up to date information on current water purchases, Program Information and Guidelines, Fact Sheets and answers have been provided to frequently asked questions. There is also extensive background information on the water purchase program and the Water for the Future program. This includes information on the Commonwealth Environmental Water Holder, the New Exit Grant Package, Irrigator-led Group Proposals, the Review of the 2007-08 Water Entitlement Purchases, media releases and relevant publications.</p> <p>Communication and education about the water entitlement purchase program will be improved in response to stakeholder needs and in particular in response to suggestions from the Stakeholder Consultative Committee. The Department will also increase its direct engagement with irrigation communities in order to better communicate the Government's water purchase program and how it fits with the overall Water for the Future plan and other government programs.</p>
<p>13. Clarify and communicate the role of the WPP in setting the new Basin Wide Plan</p> <p>The development of the new Basin Plan by the MDBA is not expected to be completed before 2011. In the meantime there is a great deal of uncertainty being created by not making it clear how the water entitlements held by the CEWH will affect the cap under that Plan and the EWP. There is also confusion about the role of the CEWH and whether the water it holds will remain in the consumptive category that can be traded or permanently classed in an environmental flow category.</p>	<p>DEWHA Response</p> <p>When water sharing plans expire and are reviewed, the entitlements purchased for environmental use will be recognised as environmental water when setting the new sustainable diversion limits. Any impacts of a new Basin cap on irrigators' water entitlements will also impact equally on corresponding water entitlements held by the Commonwealth Environmental Water Holder.</p> <p>An explanation of this has been included in the Northern Basin purchase round guidelines, and will be included in all subsequent communication materials.</p>

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<p>14. There needs to be a wider range of environmental assets</p> <p>The current set of environmental assets does not take adequate account of riverine processes and the ephemeral nature of riverine ecosystems such as floodplain environments. The environmental assets should be broadened to reflect the Basin wide approach that should shape the vision for the WPP.</p>	<p>DEWHA Response</p> <p>Purchases of water entitlements will be considered against the aim of improving the overall health of the MDB and will be guided in part by the Murray Darling Basin Commission's Sustainable Rivers Audit. Purchases will be made to improve overall catchment health as well as to improve specific assets such as Ramsar listed wetlands.</p> <p>It should be noted that the WPP has used priority assets such as important wetlands, as an indication of where water is needed, but this doesn't mean the water would only be used for these assets. Water use should be based on the greatest need / best outcome at the time, which may be for river health or drought refugia rather than a particular environmental asset. Furthermore, where there is potential synergies between different environmental needs in different locations, attempts will be made to optimise environmental benefits. Communication materials for the Northern Basin purchase round have been modified to reflect this position.</p>
<p>15. Opportunities to purchase the water entitlement when land and water are sold together should be investigated.</p> <p>Many properties are marketed with both a land and water entitlement. This is a large component of the overall water market. Methods for the Commonwealth to obtain the water entitlement without taking ownership of the land may be available that also meet procurement guidelines.</p>	<p>DEWHA Response</p> <p>The Government has committed to working with State Governments to co-fund the purchase of appropriately located irrigation properties and their water entitlements to enhance environmental outcomes in the northern basin. The Government has also committed to working with irrigation communities to buy out water entitlements from areas willing to move out of irrigation, facilitated by a price premium reflecting the value of water savings from closure of infrastructure such as supply channels. The Department is preparing a set of program guidelines for both of these elements of the program. Once they are endorsed by the Minister, it is proposed that they be publicly released in order to guide the development of these types of proposals.</p> <p>Other opportunities to purchase water entitlements that represent value for money will continue to be investigated by the Department.</p>
<p>16. Clarify the relationship between the WPP and the NSW Government and the MDBC water purchases</p> <p>The different government programs for purchasing environmental water should be coordinated. There needs to be intergovernmental cooperation to ensure that the different programs do not compete and/or conflict with each other.</p>	<p>DEWHA Response</p> <p>Water Purchasing Program will complement other environmental water recovery programs. The water recovery targets of other programs will be taken into account when deciding on the volume of water to be purchased under the Restoring the Balance in the Murray-Darling Basin program.</p> <p>While the goals and objectives of each program should be co-ordinated, each program will continue to operate independently in the market.</p>

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<p>17. Establish a northern MDB unregulated entitlement working group.</p> <p>The impediments to purchasing entitlements in the northern unregulated parts of the MDB have become apparent. Northern stakeholders have requested closer contact with WPP to assist working through the issues involved in entitlements in the northern unregulated systems.</p>	<p>DEWHA Response</p> <p>The Department has begun working closely with the NSW and Queensland Governments to facilitate the purchase of water entitlements in the unregulated portion of the Murray-Darling Basin. This work is focussing on the protection of enhanced environmental flows in unregulated rivers from other licenced users further downstream.</p> <p>The Department also proposes a targeted community engagement program in the northern basin to support the Northern Basin purchase round. This will provide a forum for learning of other issues concerning stakeholders.</p>
<p>18. Work more closely with irrigation communities that indicate they would like to be involved in a restructuring process</p> <p>Some irrigation communities may request assistance in dealing with the impact of reduced water through a range of factors such as climate and changed economic circumstances. There is scope for DEWHA to work more closely with these communities to facilitate structural adjustment.</p>	<p>DEWHA Response</p> <p>The Government has committed to working with irrigation communities to buy out water entitlements from areas willing to move out of irrigation, facilitated by a price premium reflecting the value of water savings from closure of infrastructure such as supply channels. The Department has developed guidelines for industry led proposals for industry restructuring.</p> <p>In addition through COAG the Commonwealth is committed to develop a rigorous framework to monitor impacts of water reforms on a regional basis by December 2008 (including water purchases, infrastructure and other market driven adjustment). The Department will coordinate the development of the framework.</p> <p>This complements the monitoring work currently being undertaken by the National Water Commission and will require the Commission to monitor, evaluate and report the positive and negative impacts of interstate trade in the southern Murray-Darling Basin. A detailed indicator framework is currently being developed and this will provide a mechanism for future monitoring.</p>