Submission on LLS Funding Framework

Namoi Water: Supporting sustainable water use in the Namoi Catchment and representing water users in the Peel, Upper and Lower Namoi Catchment Area.

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Introduction

Namoi Water is the peak industry group for irrigated agriculture in the Peel, Upper Namoi and Lower Namoi Valleys in the North West of NSW. We are a non-profit, non-political organisation supporting our members to achieve a sustainable irrigation industry that meets the environmental, economic and social needs of our local communities. Namoi Water makes this submission on behalf of our membership collectively, however each member reserves the right to independent view and submission on any issues they deem relevant.

Cost recovery principles (Chapter 3)

1. Do you agree with IPART’s proposed cost recovery principles? Are there other factors IPART should consider in developing its cost recovery principles?  

The principles proposed appear a sound concept, however we note our support for the principle of the framework to include no cross subsidization of services delivered through LLS. The cost recovery should reflect the risk, who benefits and who created the risk. Also benefits from the other externalities of the action e.g. the wider community benefit of the maintenance of stock routes as wildlife corridors. However our experience has been that legacy assets cause significant issues in future service costings and should not be included under future provisions on the basis of full cost recovery on the current/future asset value. What is the current asset base of these three services? Namoi Water questions on this basis how the framework was developed without the detailed information on the services to be provided and the cost of this services. Currently LHPA, CMAs and DPI funding streams are provided for by different legislation, how does this fit in the newly amalgamated service? We are concerned that the federal funding will change in its provision which will negatively impact on the funds allocated to core services. Our members have highlighted their concern the LLS will lead to a redistribution of costs towards landholders and industry. The pricing framework must ensure service delivery is transparent, correctly allocated and efficiently priced. Namoi Water supports NSWIC submission and the view that there should be "no cost increases" in the first two years after the introduction of LLS.

(Chapter 4)

2. Should we use the cost recovery frameworks that we have identified from other jurisdictions? Are there other examples of cost recovery frameworks that we should consider? 

The framework appears to be appropriate, however must be specific to the services the LLS provides. For some services it will be clear has to who is the major beneficiaries and creators of the need for the service.

3. Do you agree with IPART’s approach which includes a series of stages and ‘key questions’? Can our suggested approach be improved? 

The approach of stage and ‘key questions’ is an example of one appropriate model. As with all services over time the CMA Catchment Action Plan and LHPA strategic planning process identify priority services and benchmarks these organisations have worked towards. Much of the answers to the key questions will be driven by the individuals knowledge, business structure and consultation. Whereas previous processes provided for broader range of services to be identified and provided for the valley as a whole.

Cost Recovery Framework (Stage 1) – Identify demand for the service (Chapter 5)

4. How should we identify the demand for the services provided? How should we identify the main party or parties that benefit from or contribute to the need for the services?
The analysis of who benefits and who are the risk takers needs to be carefully undertaken. In the example of the Property Vegetation Plans; the benefit to the wider community of land set aside for conservation maintained by the landholder, is greater than the benefit for the landholder. Therefore the cost should be mostly borne by the community. If there is any public good then the public should bear the cost including legacy costs that must not be passed on to the landholder. We also concur with NSWIC regarding the cut-offs that would identify minor or dispersed beneficiaries/ risk creators. While it might not be possible in all cases to directly identify the explicit beneficiaries of a service, this should not necessarily be a reason to refrain from providing the service through LLS.

**Cost Recovery Framework (Stage 2) – Apportion cost shares between parties (Chapter 6)**

5. Should a sliding scale arrangement be used to apportion costs between parties using LLS services? If so, are the percentages used for the State/Commonwealth Plant and Animal deeds appropriate for use?  

A sliding scale arrangement appears to be appropriate, however its appropriateness can only be tested by implementation and this leads to risk of failure of scale. Without further information about what services will be provided by LLS, detail on an appropriate arrangement for a cost recovery framework

6. Should a risk matrix approach be used to apportion costs between parties using LLS services? If so, what percentages would be appropriate to apply to the relative risks imposed by different stakeholders?  

Good for some services however not so for others how this is tested prior to the LLS being established needs to be further assessed based on the services proposed to be delivered and their cost.

7. Can we assign weights (high, medium and low) to reflect the impact each party has in requiring the service be provided?  

Yes

8. Should IPART use the Stakeholder Reference Panel’s consultation outcomes to apportion costs shares for LLS services? Are there issues with this approach?  

This is a good model for those services that vary in their impact and apportion of benefits across the state. ie nearer large towns the traveling stock route may be used more by the community for recreation and conservation, then for stock movement and drought feed,

9. Should LLS boards be able to exercise discretion under the draft Cost Recovery Framework when determining cost shares between parties?  

Like all transparent processes the broader the source of feedback the better the outcome, using stakeholder reference panels as the sole source to determine cost shares might lead to inefficient and biased results if the representation on these panels is inadequate.

10. Do you agree with the approaches discussed by IPART to apportion cost shares? If not, why not? Can you suggest another way to determine efficient cost sharing that is transparent and practical?  

This process places significant emphasis on the representation on the LLS board, which ultimately leads to it becoming a political process. There is real risk that dependent on the board membership that share ratios that could negatively impact some landholders, industries and/or communities. The LLS board
should be able to have input into the framework but should not arbitrarily change the cost share ratios between parties.

11. What information is publicly available on an appropriate split between parties that would use LLS services?

The survey to assign the split needs to be well conducted and designed to get good information. However it is a good method to assess the preserved and actual benefits of services. The difficulty is to ensure that the responds give a true reflection of the services benefits. It is suggested that a template to collect the information is developed. It is also suggested that this is one of multiple data points used to test the veracity of the information received.

**Funding option and collection mechanism (Chapter 7)**

12. Which rating base(s) should be adopted by LLS and why would this rating base be the best option?

What services are needed by a region is of primary importance, delivering cost effective and efficient solution for the funding model is imperative. Whatever rating base option is used it needs to be transparent, measured and equitable.

13. Which fee collection system(s) should be adopted by LLS and why should this fee collection system be adopted?

See above.

14. Should exemptions or reductions in charges be used as part of the cost recovery mechanism to provide incentives to reduce risks?

Yes.

15. Are there lessons to be learned from the rating bases and fee collection mechanisms that are adopted in other jurisdictions?

The major question for Namoi Water members is in relation to the base rate fees that relate to the old LHPA which many were not members of as they did not have livestock. A base rate based on land value would mean that there land has the potential to be of higher value then grazing land and thus this new cost would be proportionally greater for the cropping farmer.

However if the rate is based on the number or potential number of livestock on a property then the funding may not cover the funding required for biosecurity of crop lands. There is also the difficulty of land that has the potential for use as both cropping and grazing. Levelling the rate on a per hectare may mean that for some landholders with low stocking rate would be disadvantaged. There can be a wide variation of carrying capacity across a region. Using the unimproved land value for the base rate also has drawbacks.

Namoi Water needs further information to determine what principles the base rate should be founded on based on the services provided. A fee for service for those services that reflect the level of benefit to the client can then be levelled. However services that have a broad or community wide value should be covered by Government grants or similar as per current funding arrangements. It is inefficient for the government to cause amalgamation and lose funding streams capacity to provide services.

A base rate if proposed could be managed by the State Government and paid to the appropriate LLS. The fees for service are then set and collected locally. The rates for these should be based on the community
survey data of what the community indicates as important, Catchment action plan targets and other data points that are collected. However a matrix may be needed to balance the aspirations of urban and small landholders and those of the large landholder who may represent a smaller proportion of the population. The LLS services are likely to be accessed and used by more than just the farming community. If the local stock routes for example are considered by the community as more of a conservation area rather than as a route for traveling stock and drought feed, then the community should be pay for and have a say in its management.

**Audit methodology (Chapter 9)**

16. Do you agree with IPART’s proposed approach to assessing the extent to which LLS boards have applied efficient cost recovery pricing? Are there other factors IPART should consider? 82