

## **Toonumbar Water Users Association**

### **Submission to IPART Review on Bulk Water Prices 2005**

In our submission to the 1998 IPART review, we considered that there were only three means of achieving the goal of achieving full cost recovery for the delivery of bulk water in the Iron Pot / Eden Creek regulated water system.

These were

- \* Increase the amount of water used
- \* Increase the charge per megalitre of water
- \* Decrease the administration expenses associated with this water system

To a large degree this premise has not altered.

#### **1. INCREASE THE AMOUNT OF WATER USED**

The major users of water are the dairy farms. These farms have spent large amounts of money to ensure that they can use available water in an efficient manner to provide a pasture based feed system. There has also been some interest from farms in other areas for the growing of maize on the Toonumbar system as a means of overcoming the unreliability of other farming areas e.g. the higher reaches of the Richmond River.

The area of cropping has increased and with increased cost pressures, irrigation is considered useful as an insurance to ensure the completion of a crop

The beef farms have had a difficult few years with their efforts hampered by the prolonged drought. Some with access to the regulated stream have used the water well, whilst others have preferred to reduce costs by not irrigating.

Some non traditional enterprises have appeared e.g. Tea-tree and Paulowina plantations but have not radically altered the agricultural face of the district.

#### **In summary,**

There is a core group of dedicated water users who use water in line with best practice. The Water Wise courses have been well attended. The opportunity of fine tuning and improving irrigation infrastructure by means of using schemes such as the Irrigation and Drainage Grants has been seized.

The lowered allocations of water over some of the recent drought years have impacted on the amount used. This has also created a realization that the dam is a finite resource and when the pressure is really on it may not always fulfill its role as a reliable water source.

Until recently there has been a moratorium on the allocation of new licenses during the drought. So there has been in fact an increasing demand which has not been able to be satisfied. There were also a number of lodged licences which had not been allocated by DIPNR and had the potential to further increase water sales.

There is an opinion within some of our membership that the original construction of Toonumbar Dam was a poor commercial decision. This thinking is based on the relatively small dam capacity which has always struggled to generate sufficient income stream to justify the investment. These members feel that it is folly to continually expect the current users to compensate for this original decision.

## **2. INCREASE THE CHARGE PER MEGALITRE**

There is a realization that costs will increase, however the fact that this is continuing to decrease our terms of trade is a major concern.

Dairy farmers are supposedly operating in a deregulated market place however, many of their costs such as labor, workers compensation and quality assurance are regulated. It is quite apparent that within the rural community that this is having a detrimental effect.

In our 1998 submission, we stated that 36.67c/litre of milk was a typical price received in our area for the year 1996/97. For the 2004-05 year an average price would be in the range of 34.5c/litre of milk. Meanwhile variable costs, labor and fixed costs have moved from 27.5c/l to 31.9c/l.

The State Wage Case 2005 decision of the NSW Industrial Relations Commission has meant that Award rates have increased by \$17/ week. This is further compounded by Superannuation and Workers Compensation responsibilities of employers.

Simultaneously there is a community expectation for increased environmental responsibility. This costs both the water provider and users with no cash or profit benefit to either.

Members of our Water Users Group have discussed the 2005 IPART submissions of DNR and State Water with our local member of the NSW Irrigators Council.<sup>1</sup> The figures for each industry are different but the trends and the concerns are similar. Previously our group had recognized that price increases were inevitable but we suggested that moderation needed to be a key component in the decision.

**WE DO NOT BELIEVE THAT THE SUGGESTED PRICE INCREASES CONTAIN EVEN A HINT OF MODERATION.**

The mood of our members is that these proposed price changes will create a very real threat to the viability of any agricultural business along the Toonumbar System. In an attempt to illustrate this, production costs and income of dairy farms and their vulnerability are discussed in more detail in the **Appendix**. However, the principles espoused in the appendix are true regardless of the agricultural industry and this discussion constitutes an important part of our submission.

## **3. DECREASE ADMINISTRATION COSTS**

During the drought many lessons were learnt about improved management of our stream.

There is a relatively small number of people involved in the water management of the

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<sup>1</sup> We are concerned that there appears to be some irregularity with the figures and would appreciate if the figures could be reassessed to ensure their accuracy.

stream. There is a very capable and experienced staff at the dam and they have been able to foster a real sense of co-operation amongst the water users. The willingness of the water users could be harnessed to reduce some costs e.g.

- \* reading of meters

- \* assessing stream flows

- \* water trading This would require a register of people that had water available to trade and were prepared to do so.

However, we believe there is probably little significant cost saving to be achieved in this area.

Developing alternative sources of income may prove to be a relevant method of defraying administration costs. The dam is located in a very picturesque area within easy access of highly populated and popular coastal areas.

There is also a case for realignment of some of the State Water administration charges. Some of the more profitable western dams may be able to absorb a greater percentage of the costs associated with the overall administration of the State Water bureaucracy.

## **DISCUSSION**

The principles espoused in our submissions are, we believe, still quite sound. However, they are unlikely to have any really significant affect on the desire for full cost recovery.

We consider that the businesses that utilize the Toonumbar water play a major role in the local communities by means of the people employed and the supplies and services required. Hence, a strategy that allows these businesses to prosper has merit in maintaining the health of the Kyogle and Casino townships in particular.

We concur with the opinion of the Centre for International Economics in *Implications of Water Reforms for the National Economy*. They state that "In isolation the increased water charges have had little impact on the economy as a whole but have seen a net transfer of wealth from irrigators to irrigation providers of \$114 million a year".

If one analyses the Toonumbar system as a business, it is top heavy weighed down by fixed and variable costs well out of balance with the income.

One can attempt to keep adjusting the existing system but we believe this will not achieve a satisfactory solution for either the water providers or water users.

The Toonumbar system is still supplying the same amount of water with the same services that were available when the dam was commissioned in 1974. It is a classical case of a business which has the assets, knowledge and experience but has failed to realize that the market and environment has changed. The only solutions which have been considered are to increase prices to the customer and cut costs.

Any other business faced with the same economic conundrum needs to address the scale of its operation.

This is why dairyfarmers are now milking 200 -300 cows whilst previously they were milking 100.

## **There is an opportunity available. Sell more water**

We believe that it may be feasible to market an increased amount of water to a community that is increasing in size. This would require raising the height of the dam wall. Work done by Rous County Council suggested raising the wall was a practical solution. One alternative was to increase the wall height by 10 metres and this would create a storage depth of 37 meters at the dam wall and allow another 127ha to be inundated.

\* The long range weather forecasts are for increased temperatures with increased variability in periods of wet and dry.

\* The North coast is an area with a rapidly expanding population base and this will in turn require an increased availability of good quality water.

\* Toonumbar Dam is regarded as appropriate to increase the storage capacity both structurally and environmentally.

\* Under the current economic climate it is unrealistic to nominate a desired rate of return on assets with a passive marketing policy. In our previous submission, we stated that over the past 18 years there has been no real attempt to market the suitability of the area as an area of reliable water and suitable agronomic features. Now we would like to reiterate this point but extend the time frame to 24 years.

\* If increased sales of water could be achieved, this would have the effect of diluting the capital and fixed costs associated with the dam. We do not believe that the wages and variable costs associated with this change would alter markedly.

\* This proposal would require careful research and marketing but we consider Toonumbar Dam is an asset which can provide support to the communities, local agriculture and yet be of benefit to the appropriate water supply authority.

\* We do not believe that decommissioning the dam is an appropriate option. There is likely to be significant hardship and legal challenge should this policy be followed. We believe that this is a very short sighted approach and once the asset is gone the damage is done. The loss of facilities and infrastructure is a very real issue in our local communities.

The Toonumbar Water Users Association is appreciative of the opportunity to assist in the review process. We would be keen to participate in any further discussions.

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## APPENDIX

In 2003, a consultancy group, McArthur Agribusiness, was employed by local Councils to determine the most appropriate land use for the water resources of Toonumbar Dam. The conclusion from this report was that dairying was the most suitable use followed by cropping especially of high gross margin crops.

The soundness of this opinion has been illustrated by the ability of these industries to operate successfully throughout the last few years of extreme drought conditions. A major contributing factor in this has been the reliability of the water supply and the skill with which the water resource was managed.

### HOW ARE DAIRY FARMS PERFORMING ECONOMICALLY?

As part of a recognition of the difficulties facing the national dairy industry, Dairy Australia instituted a program called Taking Stock. This has allowed the farms involved to undertake a thorough assessment of their performance as a business and to then decide what is their ability to operate profitably. ***These assessments have shown that like many other agricultural industries, the dairy industry is not very robust and is vulnerable to price fluctuations.*** However irrigated farms significantly outperformed dryland farms. We are confident of the accuracy of these figures and are consequently very concerned about the effect of the proposed water price increases.

#### Production Efficiencies:

\* Using industry benchmarking, the farms operating on the Toonumbar water system are regarded as efficient. Many of the dairies are consistently within the top 25% of farms when feed costs, stocking rates, pasture utilization and irrigation management are considered.

There is always room for improvement, however the gains will be at the fine tuning level. The substantial gains have been made and there does not appear to be any major research indicating the potential of huge productivity gains in the near future.

#### Commodity Price Changes:

\* Since dairy deregulation, the price of milk to farmers has not kept pace with the increasing input prices. This is one of the main factors in the significant decline in dairy farm numbers throughout Australia. Milk processors in South East Queensland and Northern New South Wales are now becoming aware of the real possibility of being unable to supply their market milk requirements especially in the Autumn period.

Recently we have had discussions with members of the Board of the collective bargaining group "Premium" that negotiates milk prices with Parmalat Australia. Their work on producers' costs indicate the need for a price rise of at least 7 cents per litre to address the imbalance between the static milk price and increased costs of the last few years. They believe that unless a rise of this significance is achieved the loss of farms from the industry will continue. It is highly unlikely that forces within the market place will allow a rise of such magnitude.

### **Return on Assets:**

\*The Return on Assets on the Operating Dairy Business has declined in recent years due to the cost price squeeze. Compared to alternative non agricultural investments the return is disappointing being in the range of 0-1% .

Land values have increased within the district especially in the last two years. However, if an historical view is taken of the last 20 years and adjustments made for the capital developments that have been undertaken, then the compound annual increase in land value is 3.7%. This confirms that the land values are still consistent with agricultural usage.

However, if the goal is to maintain an agricultural base within the district and to provide the opportunity for intergenerational transfer of farms, it is imperative that the businesses have reasonable operating profits. It is not sustainable long term if people ignore such items as depreciation and a reasonable return for their labour input.

### **Dairy Operating Profit Percentage and Value to the Community:**

\* Dairying is a very high turnover, low margin business. One indicator of this is the Dairy Operating Profit Percentage. This is the amount of money left out of each dollar earned. For the 2004-05 year, this figure for local farms is in the range of 2.8 cents or an expenditure of 97.2cents out of each dollar earned. {Queensland Dairy Accounting Scheme Annual Summary} If the farm is carrying much debt this profit figure is significantly less. This reinforces the value of these farms to a rural community. The money spent by each farm coupled with the multiplier effect means that the rural industries contribute significantly to the local economies.

### ***The Farms are Very Vulnerable to Price Fluctuations.***

### **Effect of Water Price Changes:**

For a farm with a 720ML water allocation and an annual milk production of 1.6million liters, a rise in water charges of \$62/ ML would effectively remove any margin from the business. Again it should be reinforced that a developing farm is at far greater risk than these figures would indicate.

A great deal of thought needs to be put into deciding what is the role of agriculture in this water system. The current submissions from DNR and State Water to IPART have the potential to cause significant economic and personal damage and yet are most unlikely in our opinion to satisfy the goal of full cost recovery.

If the goal of DNR and State Water is to remove the agricultural use from Toonumbar, we believe that this should be clearly stated as the farmers are receiving conflicting messages. We have currently received notification of an *Incentive Scheme for On-Ground Works Which Improve Irrigation Efficiency*. It is very difficult to determine whether one should invest in efficiency projects if the water prices are not going to be affordable within the constraints of our businesses.

We also believe that we have a responsibility to our families, our workers , our processors and our supporting industries to give some clear indication of our future intentions. Many of the businesses are valued at well over a million dollars and for our future we need confidence that there will be some satisfactory return for the effort and risk involved. Otherwise owners must consider moving their investments elsewhere.

We believe that the IPART decision needs to balance desire for full cost recovery with the need for an appropriate, sustainable and responsible agricultural sector. We consider that without some compromise these two objectives are not compatible.