

Attachment I

Murray–Darling Basin Authority

30 September 2024



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1 Introduction

In 2008 the NSW Government signed the Murray–Darling Basin Agreement. Under the agreement, the Murray–Darling Basin Authority (MDBA) administers joint programs on behalf of the Murray–Darling Basin jurisdictions. The MDBA joint programs consist of a series of initiatives, which are jointly funded by the contracting governments – the Australian, New South Wales (NSW), Victorian, South Australian (SA), Queensland and Australian Capital Territory (ACT) governments. The contributions are divided amongst the contracting governments in accordance with the agreed cost share principles decided by the Murray–Darling Basin Ministerial Council in 2006.

1.1 Background

The MDBA joint programs are established by the Murray–Darling Basin Agreement, which has the following purpose:

‘promote and co-ordinate effective planning and management for the equitable, efficient and sustainable use of the water and other natural resources of the Murray–Darling Basin, including by implementing arrangements agreed between the contracting governments to give effect to the Basin Plan, the Water Act and State water entitlements¹’.

The MDBA has significant functions under the Water Act, and particularly under the agreement. The agreement establishes the authority to deliver, in conjunction with the contracting governments, jointly funded programs for the contracting governments. The joint programs are set out in the agreement, but also include giving effect to decisions of the Murray–Darling Basin Ministerial Council and the Basin Officials Committee, in relation to:

- the maintenance, operations and renewal of the River Murray assets (e.g., locks, weirs, regulators etc.)
- River Murray operations including the sharing of the waters
- natural resource management and enabling programs
- advising these bodies and providing them with administrative support.

The objectives of the joint programs are to:

- operate the River Murray system in accordance with the Murray–Darling Basin Agreement
- maintain and improve the health of the River Murray system (and the Basin, where relevant) in accordance with the Murray–Darling Basin Agreement and associated agreements.

These objectives are included in the MDBA Corporate Plan under the key activity, ‘Efficiently and effectively operate the River Murray system for partner governments’.

The joint programs comprise of 2 joint ventures:

¹ cl 1, Schedule 1, Cmwth Water Act 2007

- the River Murray Operations (RMO) joint venture between the NSW, Victorian, SA and Australian governments
- the Living Murray joint venture between the NSW, Victorian, SA, ACT and Australian governments.

Within the MDBA, the activities under the 2 joint ventures are given effect through the programs listed in Table 1.

1.2 MDBA joint programs relating to WAMC

The WAMC pricing proposal will cover non-River Murray operations, with the inclusion of the Salt Interception Scheme from River Murray Operations. Non-River Murray operations include:

- The Living Murray
- Water Quality and Salinity
- Native Fish
- enabling programs.

Table 1: Summary of programs and relationship to WAMC

Programs	Projects	Considered in NSW Bulk Water or WAMC costs
Asset Management	Asset Management Strategies	Bulk Water
	Riparian and Environmental Assets	Bulk Water
	Environmental Works and Measures – Program Management	Externally funded
	Environmental Works and Measures – Operate and Maintain ¹	Bulk Water
	Operations Services – Hydrometric Network ¹	Bulk Water
	Salt Interception Schemes ¹	WAMC
	Hume Irrigation Outlets Renewal ¹	Bulk Water
	Water Assets (NSW) ¹	Bulk Water
	Water Assets (SA) ¹	Bulk Water

	Water Assets (Victoria) ¹	Bulk Water
Running the River	River Operations	Bulk Water
	Operations Services – River Management Office	Bulk Water
	Operations Improvements	Bulk Water
Natural resource management	The Living Murray	WAMC
	Water Quality and Salinity	WAMC
Enabling programs	Interstate Trade	WAMC
	Data Capability and Core Modelling	WAMC
Administrative support		

1. State constructing authority (SCA) carries out majority of the project as on-ground activity,

1.2.1 The Living Murray

The Living Murray (TLM) is a joint initiative of the Australian Government and the governments of NSW, Victoria, SA and the ACT. It was initiated in response to compelling evidence of a long-term serious decline in the health of the Murray River system. Its primary goal is to achieve a healthy, working river for the benefit of all Australians. To this end, it focuses on improving the health of 6 important ‘icon sites’ along the river by increasing the flow of environmental water to benefit the plants, animals and communities that the river supports.

The Living Murray program is intended to maintain and improve the health of the River Murray system and southern Basin so that communities, economies, cultural heritage and nature can thrive, including:

- improved environmental outcomes in the southern connected Basin consistent with the Basin Plan
- coordinated delivery of all water for the environment in the southern Basin (including coordinating the use of the jointly held water portfolio with that of other environmental water holders, coordination between valleys and with river operations, e.g. weir pool manipulations)
- oversight and coordination of water planning, management, delivery, monitoring and First Nations engagement at the River Murray icon sites to support adaptive management (including River Murray channel)

- ensure return on joint government investment in water and environmental works at River Murray icon sites, which are also SDLAM (Sustainable Diversion Limit Adjustment Mechanism) projects.

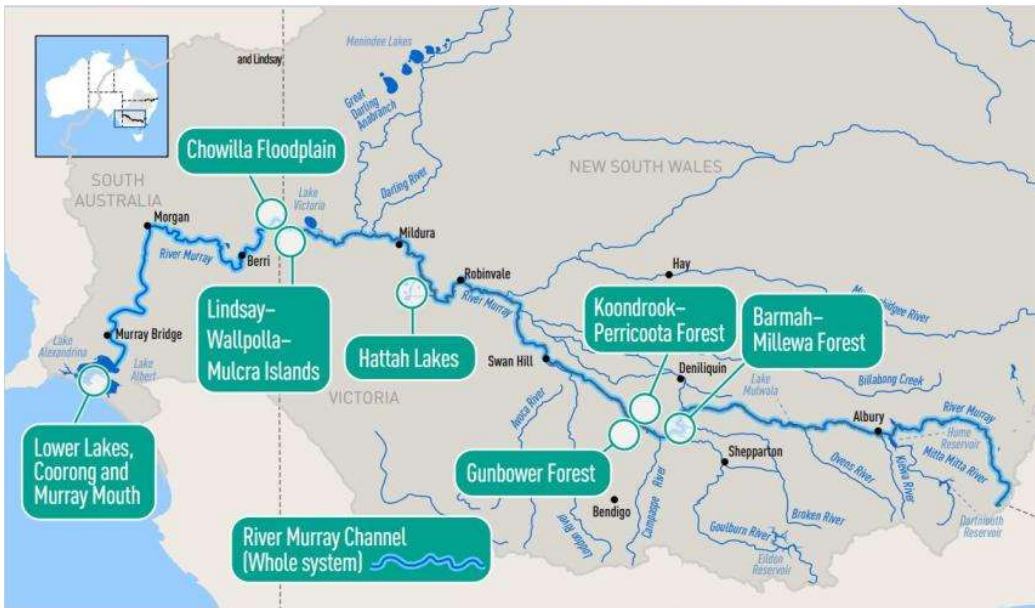


Figure 1: Location of the Living Murray icon sites

1.2.2 Water Quality and Salinity

The Water Quality and Salinity program works to achieve the following functions:

- the provision of data, which will enable the development and improvement of management plans for meeting water quality objectives in the River Murray
- the periodic reporting and assessment of water quality to determine trends
- the indication of changes in water quality brought about by control measures
- the requirement for additional investigation on control measures
- the characterisation of the effect of long-term changes in land use and land management on water quality.

Water quality is monitored at 28 sites along the River Murray and the tributaries close to the confluence with the Murray.

The Basin Salinity Management 2030 (BSM2030) is a strategy to maintain collective effort in salinity management for the 15-year period 2016 to 2030. The focus of the BSM2030 is to:

- maintain the cap on salinity through the existing basin salinity target and the existing accountability framework
- bring environmental water fully into the accountability framework in a practical and pragmatic way
- explore opportunities to responsively manage salt interception schemes so that operations can be further optimised, and costs can be reduced when river salinity is forecast to be low
- support Basin Plan flow management obligations to have regard to the salinity targets for managing water flows

- support basin states managing salinity in their catchments through their land and water management plans and be consistent with their Basin Plan water resource plan obligations
- develop fit-for-purpose governance arrangements that reduce the frequency of audit, reporting and reviews
- invest in knowledge to reduce uncertainty and potentially avoid the need for future capital investment in new joint works and measures
- undertake a major strategic review to ensure the strategy continues to guide effective salinity management.

1.2.3 Native Fish

The Native Fish program aims to increase community awareness and involvement in the actions being taken at local levels to recover native fish and support prevention of pest fish incursions into the Basin. The program comprises 3 components:

- Demonstration Reach projects that increase community awareness in the Upper Murrumbidgee (ACT), Dewfish (Mid-Condamine), Ovens River (Victoria), Katfish Reach (Katarapko, SA)
- Supporting the Tilapia Exclusion Strategy (Queensland and north NSW focus)
- Maintenance of the Finterest website – including the Native Fish Strategy legacy items.

1.2.4 Enabling programs

The enabling programs and the corporate overheads underpin the delivery of the river management and natural resource management programs and associated outcomes and goals.

The programs ensure data capability and undertake core modelling on behalf of partner governments. MDBA develops and maintains models for the River Murray and Lower Darling system for the purposes of policy development, responsive management and accountability with respect to volumetric extraction and salinity management. This facilitates the configuration of model reference scenarios to support partner governments. Improvements that the Data Capability project has realised include:

- data pipelines, tools and dashboards to support the salt interception schemes adaptive management pilot and other salinity monitoring
- data architecture and management to support ecological monitoring at TLM icon sites.

The Interstate Trade program supports allocation and reconciliation of 1,000 GL of interstate flows annually. Annual volumes of allocation trade across the Barmah Choke varies greatly from year to year with the volume for 2022–23 being just under 200 GL, with a 4-year average of about 190 GL. These trades have allowed irrigators to source water from, or sell water to, a broader range of users to meet their needs across borders in connected water systems.

The Interstate Trade program:

- facilitates interstate water trade under Schedule D of the Murray–Darling Basin Agreement
- continues to coordinate the development, implementation and adaptive management of interstate water trade policy within the Murray–Darling Basin
- leads to continuous improvement in interstate water trade mechanisms.

1.2.5 Salt Interception Schemes

The Salt Interception Schemes project is carried out within the Asset Management programs. The project comprises of the MDBA program oversight and the operation and maintenance of salt interception RMO (River Murray Operations) asset infrastructure. The MDBA represents the joint partners' interests providing oversight across all the RMO assets, which includes salt interception schemes and related SCA (state constructing authority) activities. This includes implementing and maintaining strategies for the purposes of operating and maintaining the RMO assets including budget development, preparation of annual work plans and budgets with SCAs, and financial management and control of budgets.

The Salt Interception Schemes project contributes significantly to collective government salinity management within the River Murray, as outlined in the BSM2030 Strategy. Key deliverables include:

- operation and maintenance of 13 salt interception schemes
- in accordance with the MDB agreement, MDBA oversight of the Salt Interception Schemes project and representation of the joint venture interests
- maintenance of salt interception schemes to achieve and then maintain agreed salinity levels in the River Murray system
- performance reviews of schemes and models that underpin the salinity registers
- operation and maintenance of salt interception schemes in accordance with the operation and maintenance manuals
- continuation of the responsive management trial of the salt interception scheme, progressive refinement of the predictive tools for salinity risk, and reporting of trial performance, as per BSM2030 strategy
- annual 'Run of River' survey undertaken, and salinity models maintained
- planned maintenance of salt interception scheme hydrometrics
- groundwater salinity modelling to inform the overall SIS operations along the southern connected Basin and hydrogeological advice.

2 Drivers of the activity and services

Consistent with the Murray–Darling Basin Ministerial Council's Statement of Intent, the contracting governments (Australian, NSW, Victorian, SA, Queensland, ACT) and the MDBA are committed to working together through jointly agreed and funded activities to support the common goal of a healthy and productive Murray–Darling Basin.

The Murray–Darling Basin Agreement formalises this partnership by establishing a mechanism for the governance and delivery of the joint activities authorised by the council. The arrangements for managing the River Murray are set out in the agreement. The Basin states of NSW, Victoria and SA, and the Australian Government are all signatories to the agreement and contribute funding to the joint management of the River Murray system (refer **Error! Reference source not found.**), based on each state's level of water use.

Under the agreement, the functions of the ministerial council include making determinations about matters specified in the agreement [sub-clause 9(b)] and approving the annual work plan, budget and asset management plan [sub clause 9(c)]. Part V of the agreement provides several powers and functions to the MDBA and establishes the MDBA to act for and on behalf of the contracting governments to manage the jointly funded programs.

The MDBA is a Commonwealth statutory authority established by section 171 of the Act. The precursor organisation was the Murray–Darling Basin Commission. The MDBA sits within the Australian Government Climate Change, Energy, the Environment and Water portfolio.

The policy and strategic direction of the MDBA’s activities are set by the 7-member authority, consisting of a chair, the MDBA’s chief executive and 5 part-time members. The MDBA reports to the federal minister responsible for water in relation to the Murray–Darling Basin Plan. For the River Murray Operations and Natural Resource Management joint programs, the MDBA reports to the Murray–Darling Basin Ministerial Council through the Basin Officials Committee.

The Service Level Agreement (SLA) describes the roles and responsibilities of members of the council (acting as the representatives of the contracting governments who are parties to the agreement), and the MDBA, the services that the authority (acting for and on behalf of the contracting governments) provides, and will provide, to the contracting governments, along with the approach to be taken to how these will be delivered. It also sets out the risk management approach to be followed by the parties, and the reporting requirements to be met by the authority to assure the council that the delivery of these services is being undertaken in an accountable, transparent and efficient manner.

The SLA sets out the scope of the services to be provided by the MDBA under the agreement to be provided annually in the Joint Programs Work Plan and Budget (Work Plan). The activities under the Work Plan are derived from:

- the asset management plan, as reviewed annually
- the current asset agreement
- the objectives and outcomes for river operations, as reviewed and updated annually or from time to time
- specific agreements such as the Basin Salinity Management Strategy, and the Living Murray Agreement
- specific functions under the agreement, such as water accounting and river health monitoring
- any other specific program requested by the council.

The Work Plan sets out all the programs and activities to be delivered by the MDBA for the council in relation to joint programs. The Work Plan is approved each financial year by the council in relation to joint programs. The MDBA members and council can at any time amend the elements of the work plan relevant to their responsibilities as necessary.

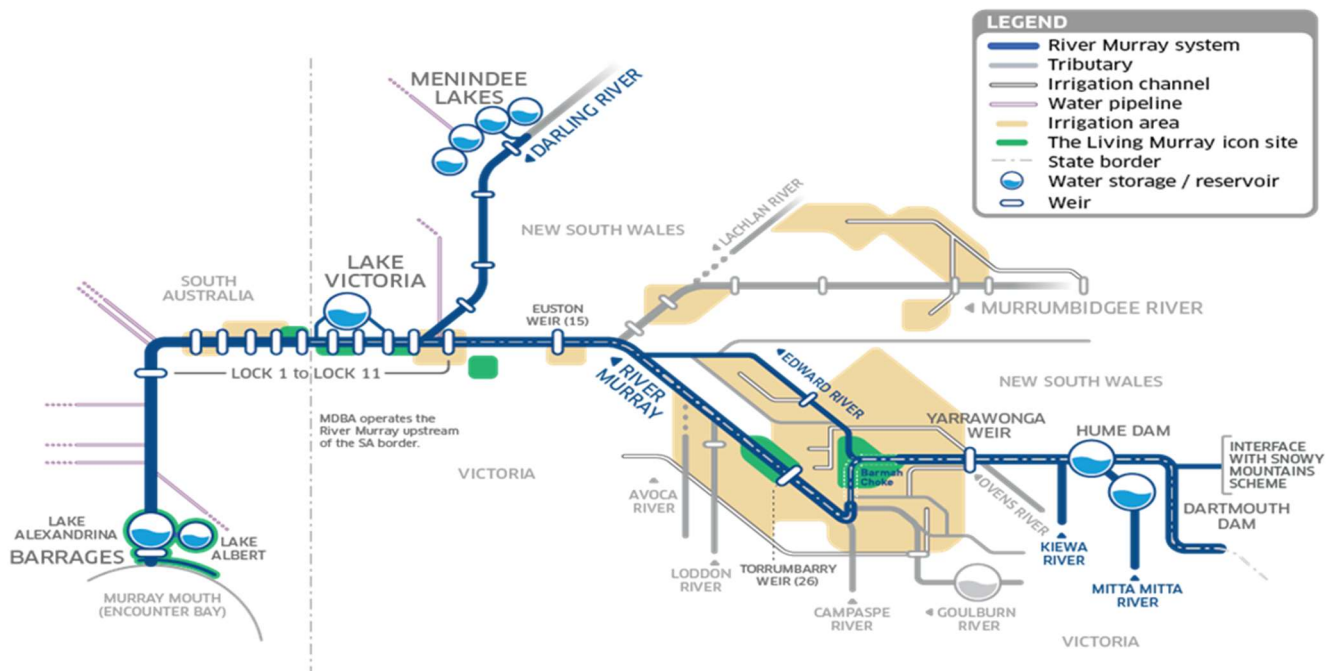


Figure 2: The River Murray System operated by the MDBA

2.1 Regulatory framework

The Water Act 2007 is the primary Commonwealth legislation that governs the management of water resources in the Murray–Darling Basin. The Act aims to:

- improve water security for all uses of water resources in the Basin
- promote the use and management of the Basin’s water resources in a way that optimises economic, social and environmental outcomes
- ensure the return to environmentally sustainable levels of extraction for water resources that are overallocated or overused
- protect, restore and provide for the environment of the Basin
- maximise the economic returns to the Australian community from the use and management of the Basin’s water resources
- implement relevant international agreements to address the threats to the Basin’s water resources
- ensure that the management of the Basin’s water resources takes into account the broader management of natural resources in the Basin
- achieve efficient and cost-effective water management and administrative practices in relation to the Basin’s water resources
- provide for the collection, collation, analysis and dissemination of information about:
 - Australia’s water resources

- the use and management of water in Australia.

The MDBA is established by section 171 of the Act, with the functions, powers and duties conferred onto it by the Act. Additionally, sub-section 86A (3) of the Act defines the scope of the River Murray system. In essence, the River Murray system is the main regulated river system that drains the southern part of the Murray–Darling Basin and extends across parts of NSW, Victoria and SA.

Importantly, the Act also incorporates the Murray–Darling Basin Agreement, which is Schedule 1 to the Act, as well as the requirements for making, reviewing and analysing the effectiveness of the Basin Plan. Of relevance to the joint programs, the agreement:

- establishes key committees
- defines key terms
- sets out how water is to be distributed and shared between NSW, SA and Victoria, including the requirements for river operations
- establishes the requirements for the management of the RMO assets
- establishes the requirements for the measurement of water quantity and quality in the River Murray
- implements certain aspects of the Basin Salinity Management 2030 strategy
- sets out the principles, arrangements and requirements for transferring water allocations and entitlements between states and valleys in the Murray–Darling Basin.

2.2 Overview of governance

The MDBA is responsible for planning for and managing the water resources of the Murray–Darling Basin. As part of this role, the MDBA is responsible for managing the joint programs on behalf of the contracting governments, including overall responsibilities for the following:

- overseeing the management of the RMO assets
- coordinating and directing river operations
- delivering the natural resource management function and enabling programs (not part of this submission)
- providing head office functions such as technical, modelling and committee secretariat support.

The management and delivery of the joint programs are supported by several committees, along with the contracting governments and SCAs. There are key committees responsible for either making decisions under the Act and agreement, including decisions required to provide advice to decision-makers. The contracting governments and SCAs are broadly responsible for the day-to-day operation, maintenance and management of the RMO assets and for providing input into other programs within the joint programs.

The governance arrangements for making decisions under the Act and agreement are summarised in Figure 3 below.

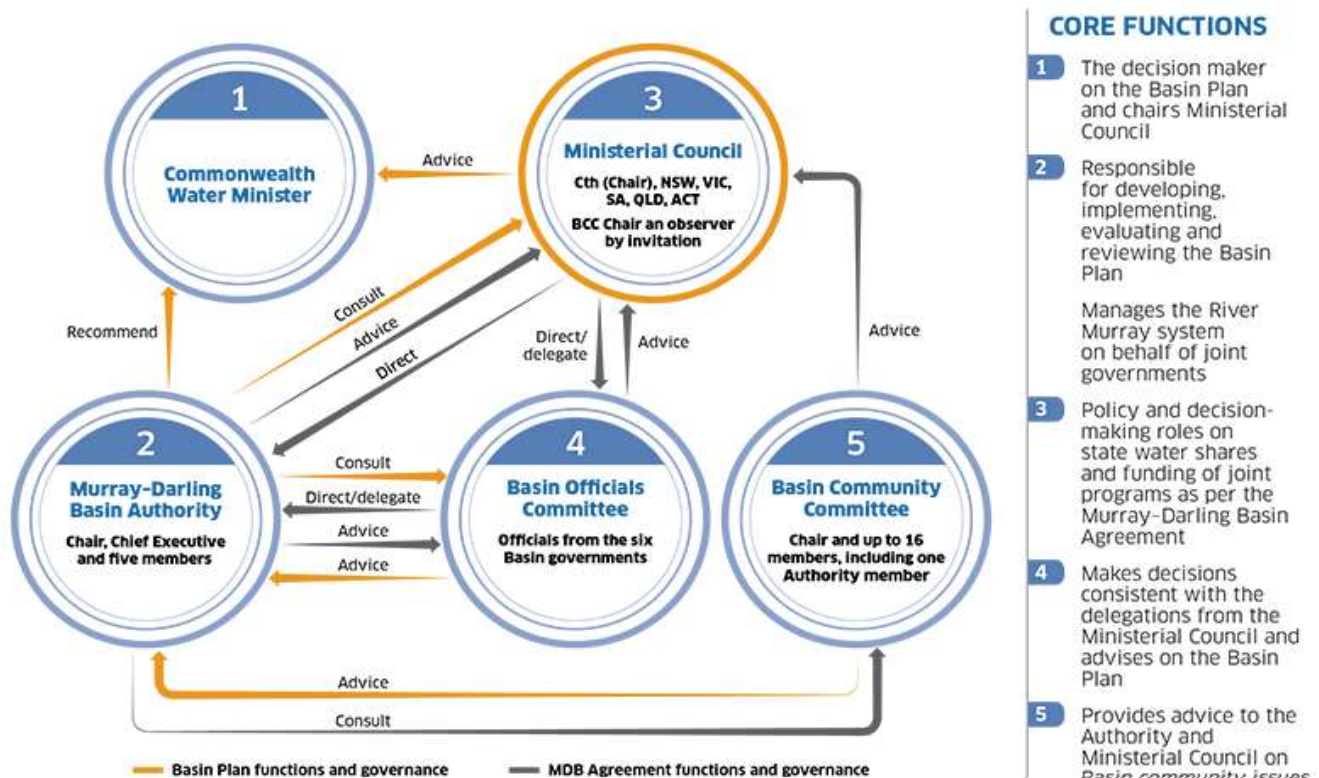


Figure 3: MDBA Joint Programs Governance

3 Performance over the current period to date (2021–25)

3.1 Service delivery and service levels

The summary below is based on the overall joint program, not solely against the NSW contribution within the Table 2 below.

3.1.1 What has been delivered?

Over the current period 2021–25, the joint programs are managing the delivery of the following major activities:

- 3 annual work plans for the financial years 2021–22, 2022–23 and 2023–24. The 2024–25 work plan was agreed by jurisdictions in May 2024
- delivery of water for the environment at 7 nationally significant icon sites, providing connectivity and environmental outcomes on the back of high unregulated flows in the River Murray. Water also delivered to improve water quality outcomes and prevent fish deaths in the Lower Darling
- progression of the Schedule D review into the implementation of improvements to the water market through the Water Market Reform Roadmap

- implementation of the Basin Salinity Management 2030 Strategy, including agreement and publication of the Basin Salinity Management Procedures 2023 to provide the necessary detail to support salinity management practitioners involved in the implementation of the BSM2030 strategy
- delivery of the salt interception program, including the continued operation and maintenance in accordance with operating plans and procedures, the review and update of the Sunraysia groundwater model
- development of and transition to the Source Murray Model to realise improvements to modelling in relation to environmental watering, allocation trade and water balance analyses. This facilitates the configuration of model reference scenarios that will support the Basin Plan Review.
- establishment of the Finterest website as a trusted resource for community members to seek information and share views on the Basin’s native fish, as part of the broader Native Fish Recovery Strategy, to increase awareness of the actions to recover native fish at local levels
- completion of the Joint Program Business Improvement (JPBI) project to improve the transparency, prudence and efficiency of the joint programs budget. The project has secured jurisdictional agreement to a multiyear budget process for 2025–2029. Shifting to a multiyear budget approval process will offer joint programs several key benefits, including:
 - improved long-term planning
 - enhanced stability and predictability
 - efficient resource allocation
 - reduced administrative costs
 - strategic vision and purpose
 - flexibility in funding
 - better response to changes
 - increased accountability and transparency
 - improved stakeholder engagement
 - opportunities for evaluation and adjustment.

3.1.2 Joint programs budget trends

- 2021–22 – Jurisdictions agreed to \$4m in budget savings to address a funding shortfall. This was largely achieved by deferral of projects into the outyears, noting this would contribute to a systemic risk of increasing costs compared to expected contributions. A review was commenced to investigate and advise on funding sustainability, reporting in December 2022.
- 2022–23 – Jurisdictions agreed to a budget \$10m (8.6%) lower than the scenario found to be prudent and efficient by the independent reviewers. The proposed reductions are mostly significant to high risk for joint venture partners (the recommended scenario was moderate risk).
- 2023–24 – Jurisdictions agreed to a budget at the same level as the 2022–23 budget, which absorbed all CPI increases within existing program budgets. This budget came with some

significant to high deliverability and residual risks for the contracting governments. While the jurisdictions accepted these risks as broadly tolerable if the identified controls are implemented, they noted that risks will continue to compound, as they have over recent years, becoming unsustainable in the medium term without an increased level of investment.

- 2024–25 – Jurisdictions agreed to a budget that sustains previous budget reductions but has increased to support known increases in salary and core operating expenses. This approach has mostly maintained the risk profile from 2023–24.

3.1.3 Major impact of flooding in the current period

The flooding across the Murray–Darling Basin in 2022–23 created the need for expenditure outside the approved work plans in 2022–23 and 2023–24. The MDBA exercised its authority under Clause 56 of the MDB Agreement to enable the additional spend during 2022–23 and 2023–24 outside of the annual work plan, with no individual activity exceeding \$2m. The total cost for SA Water, Goulburn–Murray Water (GMW) and WaterNSW, across multiple sites and activities, was \$2.78m.

It should be noted that SA Water and GMW experienced the greatest flood impact and for a prolonged period, while WaterNSW’s flood impact was comparatively minor. The repair of the asset base post-flooding is continuing into 2024–25.

The Joint Programs 2022–23 to 2025–26 Annual Work Plan & Budget was not approved until 5 September 2022, and the 2021–22 carryover funds were not processed until 28 September 2022, which has resulted in some delayed expenditure across the joint programs. Global supply pressures and increasing materials and fuel costs are likely to continue to impact the delivery of some activities.

Interrupted access to TLM intervention sites, particularly upstream sites e.g. Barmah-Millewa Forest for long periods of 2022–23 due to flooding, impeded the ability to capture icon site condition and intervention monitoring data.

Flooding during the reference period affected water quality and salinity programs significantly, because of unregulated flows and increased inflows driving stratification and risks of blue green algae outbreaks. Annual ‘Run of River’ surveys to support salinity models were disrupted by high water levels in 2022–23.

The prioritisation of post-flood recovery projects prevented the Katfish Demonstration Reach project being undertaken in 2022–23. Impacts to water quality (low dissolved oxygen) during the flooding resulted in large-scale fish deaths in the River Murray, with likely long-term impacts on native fish populations in the River Murray.

3.1.4 Major impact of the COVID-19 pandemic in the current period

Over the course of the 2021–22 financial year, the continuing impact of the COVID-19 response across basin states had a notable impact on the delivery of budgeted items across the joint ventures work plan, and particularly in the assets and natural resource management program areas.

Scheduling and delivery of activities over the year experienced significant disruption resulting from the volatility of state border restrictions and unpredictability of access to sites. Impacts on supply chains hindered several procurement and other key activities. And stakeholder engagement, particularly with Aboriginal communities, was adversely impacted.

3.2 Expenditure

Table 2: IPART allowance and operating expenditure over the current determination period (\$'000, nominal)

	2021-22	2022-23	2023-24	2024-25 ^a
IPART allowance	9,235	9,791	10,046	10,107
Actual expenditure ^b	9,323	9,239	10,510	11,414

^a: 2024-25 'actual' figures are forecasts at the time of submission.

^b: MDBA has confirmed the raw data that informs Table 2. The MDBA does not control the modelling undertaken by NSW for the purposes of the 2024 IPART Submission.

3.2.1 Expenditure performance

Consistent with its obligations in the Murray-Darling Basin Agreement, the MDBA prepares performance reports on a quarterly basis for the ministerial council. The reports provide an assessment on financial and deliverable performance as well as a detailed risk assessment of the joint programs against the work plan and budget for that financial year.

Performance reports are a reference for the causes and mitigating responses to any deviations in operating expenditure. A summary of the issues identified in quarterly reporting for each year in the current period is below.

- 2021-22 – The end-of-year variance is 17% of the full year reporting. The largest component of the end-of-year variance – at -15% of the total budget – can be attributed to the river management function, of which the Assets Management Program and the Hume Irrigation Outlets Renewal project represent 13%. The variance is resulting from:
 - high river flows preventing infrastructure maintenance and on-site assessments
 - complexities of engineering design and scoping investigations (e.g. Hume Irrigation Outlets Renewal)
 - supply chain issues
 - delays due to the ongoing impact of COVID-19
 - delayed approval of the 2021-22 Annual Work Plan
 - delayed activity impacting multiple projects due to key dependencies (e.g. Mildura Weir pull).
- 2022-23 – An end-of-year variation of approx. \$26 million, or 21% of the original budget, can be attributed to the need to delay or reschedule delivery of on-ground activities, and to focus on flood management, mitigation and remediation activities. The end-of-year underspend is associated with:
 - underspend of \$9.4 million for the Hume Irrigation Outlets Renewal project, due to the complexity of the work, high water levels in the Hume Dam and delays around structural investigations on the trash racks

- the delayed delivery of on-ground activities, due to the impact of an extended period of flooding in the River Murray system. This has resulted in some re-allocation of funds to activities that can be delivered and in substantial requests for carryover of funds into 2023–24
- other program budget issues, including high river flows preventing/delaying on-site monitoring and surveillance and community engagement issues delaying river restoration works and staff vacancies.
- 2023–24 (note, this is from the latest report) – On 31 December 2023, the joint programs forecast a minor end-of-year underspend of \$0.8 million, 0.7% of the \$123.9 million full-year reporting budget, which is predominantly due to:
 - additional flood remedial work in SA Water assets (up to \$3.1 million above approved budget)
 - an approximately \$1.2 million overspend across the SCA components of the budget, largely due to higher than anticipated routine maintenance costs for the NSW SIS program, additional investigations and welding at Hume Dam required on Penstock One and to complete the comprehensive risk assessment
 - a \$1.9 million underspend by WaterNSW on the Hume Irrigation Outlets Renewal project
 - an underspend in the Running the River program, due to staff vacancies and issues in relation to the Barmah-Millewa Feasibility Study led by the Operations Improvements project
 - a forecast \$1.1 million underspend in enabling programs, predominantly due to staff vacancies (noting this may change, depending on the outcome of mitigation strategies).

3.2.2 Independent assessment of budget performance over the current period

There have been several independent reviews undertaken to understand the implications of ongoing budget constraints and, therefore, the increasing risk profile for the joint programs in the future. These include:

- River Murray Operations (RMO) Cost Review 2019/20 to 2021/22 – Independent Review of the Joint Programs Work Plan and Budget. Issued September 2023
- Business Case for Improvements for the Joint Programs – Independent Review of the Joint Programs. Issued December 2022
- The Review of Joint Programs - Assessment of Prudence and Efficiency of 2022/23 to 2026/27 Expenditure – Review of Joint Programs. Issued July 2022

The 2022 Review found that investment in the asset renewals was 50–60% of recommended levels, and that the current single-year budgeting approach:

- is time-consuming to implement with considerable effort required to iterate the budget to match the funding contributions proposed by contracting governments, which contributes to delays in the approval of the annual work plan

- limits the ability to carry out activities in an efficient manner, as delivery timescales are compressed
- means that there is also reduced ability to enter into multiyear contracts with confidence
- discourages prudent activities, which will take more than a single year to complete
- provides limited incentive for transformation and longer-term efficiency.

The 2023 Independent River Murray Operations (RMO) Cost Review made similar findings to the 2022 Review, including that:

- there is substantial weight of evidence that the level of total funding needed to sustain the RMO in the long term needs to increase
- capital expenditure for renewal of assets needs to increase to be at a sustainable level
- benchmarking of renewals expenditure showed there is significant risk of underinvestment, which will result in higher lifecycle costs in the medium to long term, as assets are not renewed at the optimal time
- benchmarking of operating expenditure showed it is likely that the current level of operating expenditure is insufficient, based on the size and age of the asset base.

The Business Case for Improvements to the Joint Programs was endorsed by the partner governments in February 2023. The business case assesses and recommends practical changes to the process for development of the joint programs' annual work plan and budget that:

- increase the transparency of program outcomes and associated investment for joint venture partner governments
- facilitate joint venture partner governments securing joint programs budget contributions, thereby increasing certainty for all program participants
- enable improved planning and delivery of joint venture work programs
- mitigate the risk of ongoing underspends and the associated accumulation of uncommitted joint programs funds.

Overall, the benefits of addressing the above opportunities will be to make the joint programs more efficient, effective and sustainable for supporting the overall objectives and benefits sought by partner governments.

The issues that led to the review of the joint programs, and which are also opportunities for improvement, are:

- \$15 million (14% of the budget) is not spent each year on average
- expenditure on asset renewals is at 50–60% of recommended levels
- the budget is approved one month after 1 July on average
- expenditure within and between programs is difficult to prioritise
- there is a lack of integrated long-term planning
- the budget structure lacks clarity, coherence and consistency.

4 Activities and services for the next period (2026–30)

4.1 Service levels

Across several reviews, service levels have been found prudent and delivered efficiently within allocated budgets. It is not anticipated that service expectations of the joint governments will change significantly in the next period 2026–30. However, due to inadequate capital investment, the uplift of current funding would result in increasing risks in 2026–2030.

4.1.1 2024–25 Work Plan and Budget

The current reference for activities over the 2026–30 period is the 2024–25 Work Plan and Budget. While a comprehensive and transparent process has been followed in the 2024–25 joint programs budget development, it is an interim year while the Joint Programs Improvements project is running. As a result, a work plan and budget for 2025–26 onwards has not been formalised or approved by the partner governments. Thus, the information presented is a best estimate at this time. It is anticipated, based on the Review of Joint Programs, that there will be an increase in costs. The increase in costs will be determined by agreed budget processes and governance arrangements, which includes an independent review by March/April 2025 (this is further discussed in the ‘Forecast expenditure’ section below).

The work plan and budget for 2024–25 has been prepared through:

- a strong focus on joint decision-making between all the SCAs and the MDBA, identifying risk-based priorities across the Murray–Darling Basin as a system
- challenging operating and routine maintenance activity costs with a focus on the deliverability of proposed activities (particularly in relation to asset management) and the risks to the overall condition and risks to the level of service provided by the RMO assets
- consulting with relevant joint program oversight committees to identify efficiencies and assess and mitigate short- and long-term risks and consequences of recommended options.

4.1.2 Risks

There are several significant and high residual risks for partner governments associated with the 2024–25 Joint Programs Work Plan and Budget, including:

- high and significant residual risks to assets delivering on their specified levels of service and/or not meeting safety standards (including with the Hume Dam, salt interception schemes and the maintenance and operation of the Torrumbarry Weir pool and associated structures)
- significant risks to maintaining capability to deliver on agreed program outcomes, including technical and personal capability to deliver in agreed timeframes and to respond to climate change impacts.

While the proposed budget increase for 2024–25 sustains the risk profile from 2023–24, if the budget constraints continue, the risk profile for joint governments increases significantly and is considered unsustainable, as re-iterated by the 2023 Independent RMO Cost Review.

A risk profile, given a scenario of an ongoing constrained budget without CPI increases, was developed as part of the 2023–24 budget process, where CPI increases were absorbed within the budget (refer Figure 4).

Key issues driving the escalating risk profile include:

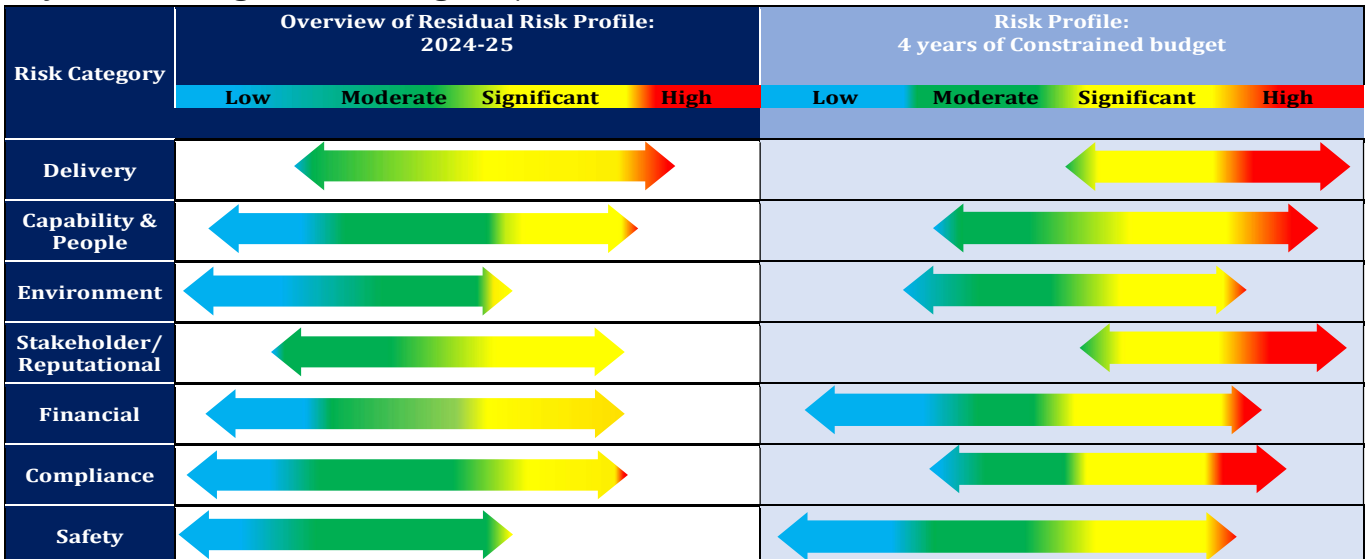


Figure 4: Summary profile of the risks to full delivery of the 2024–25 work plan and progression over a 5-year period, if the budget remains constrained across all programs

- optimised lifecycle cost approach not adopted, resulting in increasing outyears’ costs
- a backlog of construction, renewal and compliance projects deferred and increasing risks and costs
- interdependencies of projects at sites, leading to multiple deferrals and compounding risks
- construction inflation is high and above CPI for some sites/states (i.e. steel, materials etc.)
- an aging asset base, increasing the risk of failure and non-compliance with safety standards, investigation funding needed for upcoming significant projects
- fleet, major and minor plant and equipment aging and not compliant with corporate policies
- decreased operating expenses reducing stakeholder engagement and/or confidence in the operation of the programs and assets leading to high stakeholder and reputational risks.

4.2 Forecast expenditure

Table 3: Proposed operating expenditure over the next determination period (\$’000, 2024–25)

	2025–26	2026–27	2027–28	2028–29	2029–30
Proposed expenditure ^a	13,966	11,902	12,402	12,587	12,394

^a MDBA has confirmed the raw data that informs Table 3. The MDBA does not control the modelling undertaken by NSW for the purposes of the 2024 IPART Submission.

Consistent with its obligations in the Murray–Darling Basin Agreement, MDBA will continue to oversee related projects of the Non-River Murray Operations, and of the Salt Interception Scheme from RMO. Much of the expenditure is for the operating and maintenance and MDBA’s oversight role. The operation and maintenance activities are determined by standards and guidelines set by manufacturers, industry and legislation. Where possible, the maintenance and operating investments are determined by the review of asset data to consider efficiency opportunities while maintaining agreed acceptable levels of service and risks.

In IPART’s 2021 WAMC determination, a capital allowance was not allocated to MDBA for WAMC. NSW does not incur capital expenditure in delivering its MDBA water management activities² (nor does it break down NSW’s contribution into operating and capital expenditure allowances). The MDBA costs within NSW are treated as recurrent operational expenditure. It is noted, however, that consistent with the agreed cost-sharing arrangements, costs are categorised as capital, investigations, operating and maintenance for the purposes of calculating joint venture government contributions.

The NSW Department of Climate Change, Energy, the Environment and Water (the department), with the support of MDBA, has reviewed IPART’s decision to use a regulatory asset base (RAB) to incorporate MDBA capital costs in WAMC prices in the next period. The department proposes to treat all WAMC-related MDBA costs as operating expenditure and not use a RAB. Using a RAB for MDBA capital costs will create a funding shortfall between the agreed NSW contribution from WAMC and the revenue received from WAMC prices.

If IPART maintains its approach of ‘looking through’ NSW’s actual contribution to the MDBA and establishing a notional RAB approach for MDBA costs, this would:

- require the NSW Government to fund the difference between NSW’s actual contribution to the MDBA for its water management activities and the revenue received from prices – which would be on top of the NSW Government’s already significant contribution to water management costs under this pricing proposal for which no additional NSW government funding has been agreed, or
- come at the expense of other WAMC activities or services, as there is no guarantee that the NSW Government would fund such a shortfall.

Neither outcome would be efficient or equitable. The NSW Government decision is not to fund all shortfalls in WAMC revenue. The department will be required to develop options to manage shortfalls in WAMC revenue. The combination of these issues will result in cross subsidisation between the broader WAMC customer base and MDBA customers. The department’s proposed approach is consistent with how MDBA costs are treated by other utilities and price regulators in other jurisdictions. SA Water and Goulburn–Murray Water (Victoria) treat MDBA costs as operating expenditure (Goulburn–Murray Water MDBA-related costs within the Essential Services Commission 2024 determination are treated as operating expenditure). NSW’s contribution to the MDBA is characterised as operating expenditure, therefore there is no forecast MDBA capital expenditure.

² IPART, Review of prices for the Water Administration Ministerial Corporation from 1 October 2021 to 30 June 2025, Final Report, 2021, p 73.

The MDBA joint program budget and work plan has agreed governance arrangements that oversee the preparation, which includes aggregating a whole program, risks and costs to achieve agreed service levels.

The Joint Venture Budget Performance Committee, comprising representation from each of the contracting governments, is primarily responsible for the oversight and performance of the joint programs. The River Murray Operations Committee, comprising senior SCA asset managers and senior representation from the contracting governments, also provide specific oversight of the RMO program. Combined, these forums provide a level of scrutiny and transparency, and they ultimately ensure that an efficient program is presented to the Basin Officials Committee (BOC), and ultimately to the ministerial council for approval.

The ministerial council, comprising representatives of contracting governments, reviews the MDBA's financial and delivery performance to ensure it is efficiently delivering required outcomes. The MDBA has also been subject to a range of independent reviews, including reviews of its efficiency, and has drawn on these reviews to identify and implement efficiency measures and opportunities for improvement. These inform its expenditure forecasts and budget.

4.2.1 Future impact of the Joint Programs Business Improvement Project

It should be noted that as a result of the implementation of the Joint Programs Business Improvement Project, future work plan submissions will be based on improved investment planning approaches, and therefore changes to outyear forecasts are expected, compared with what is presented in this submission.

Ultimately, the Improvements project aims to move towards:

- the agreement of a sustainable multiyear budget and work plan from 2025–26 onwards
- improving the information base on which the forward estimates are based, particularly regarding asset management
- providing more flexible and efficient program and budget management.

The business case outlines a comprehensive improvement program over 3 tranches of work (from 2022–23 to 2024–25), based on 7 levels or areas for attention to deliver improvement:

- multiyear committed funding and forecasts
- vision and objectives
- roles and responsibilities
- budget controls and management
- medium-term efficiency program
- activity-based costing
- improved asset management.

Implementing all the elements of the Improvements program is required to achieve the outcomes sought by partner governments. That is, resetting the foundations on which the budgets are developed alongside improved governance, management and accountability mechanisms are all required to address issues such as the re-occurring underspends and the long-term sustainability of the joint programs.

4.2.2 Importance of a 2025–29 budget uplift

As the independent reviews referenced in this submission have concluded, an uplift will be required as a component of the multiyear budget currently under development for 2025–29. Further detail on the multiyear budget will be available as development progresses in the second half of 2024–25. The uplift includes both budget and strategies to improve the prudence, transparency and efficiency of the joint programs.

There is only a limited supply of water in the Basin to meet multiple demands of agricultural growth, population changes and increasing climate variability. To maintain a healthy river system, water resources in the Murray–Darling Basin need to be managed carefully to meet the challenges of agricultural growth, population changes and increasing climate variability.

To do this, the proposed optimised lowest lifecycle cost budget for 2025–2029 emphasises the critical need to align financial resources with an expanding need to address the renewal of River Murray assets in order to continue to manage water resources in the Murray–Darling Basin.

Operating on constrained budgets has resulted in de-prioritisation of asset renewal activities. Robust methods for measuring and assessing asset risk have identified the need for a budget uplift in order to address rising risks, which includes asset failure. Climate change risks are impacting the asset base with increased instances of both flooding and drought events, requiring the asset base to operate in more extreme conditions, therefore increasing operations and maintenance costs.

The 2025–2029 budget represents an opportunity to get back on track. A budget uplift for 2025–2029 is not merely a financial adjustment, but an essential move to ensure our assets and programs can continue to operate and be relied upon for the availability and delivery of water for irrigation and critical human needs.

If budget constraints continue, the risk profile for joint governments increases significantly and is considered unsustainable. Key issues driving the escalating risk profile include:

- optimised lifecycle cost approach not adopted, thus increasing outyears' costs
- a backlog of construction, renewal and compliance projects deferred and risks and costs increasing
- interdependencies of projects at sites, leading to multiple deferrals and compounding risks
- construction inflation is high and above CPI for some sites/states (i.e. steel, materials etc.)
- an aging asset base, increasing the risk of failure and non-compliance with safety standards, investigation funding needed for upcoming significant projects
- fleet, major and minor plant and equipment aging and not compliant with corporate policies
- decreased operating expenses reducing stakeholder engagement and/or confidence in the operation of the programs and assets, leading to high stakeholder and reputational risks.

Approval of the 2025–2029 budget uplift is critical to managing the risks identified.