

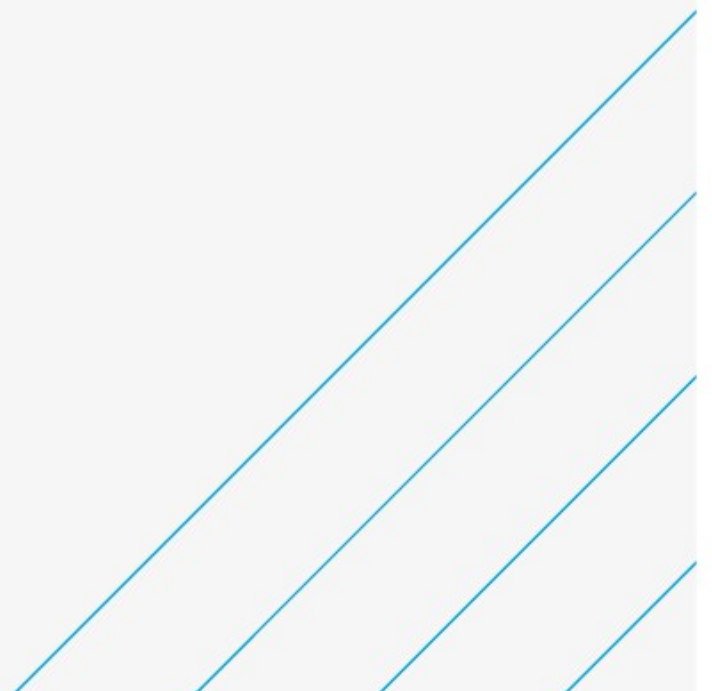
# Review of MDBA and BRC costs associated with Water NSW and WAMC's activities

Supplementary Report

IPART

09 June 2021

5200693/SUP/002



# Notice

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## Document history

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# Contents

Chapter	Page
<b>1. Introduction</b>	<b>6</b>
1.1. Terms of reference	6
<b>2. MBDA response to IPART's Draft Determination</b>	<b>7</b>
<b>3. BRC response to IPART's Draft Determination</b>	<b>7</b>

## Tables

**Table 3-1 – Recommended scope adjustments to BRC proposed (operating) costs**

7



# 1. Introduction

## 1.1. Terms of reference

In August 2020 the Independent Pricing Tribunal of New South Wales (IPART) appointed Atkins to carry out a detailed review of the Murray Darling Basin Authority (MDBA) and the Dumaresq-Barwon Border Rivers Commission (DBBRC or BRC) costs associated with WaterNSW's and WAMC's activities. The purpose of this review is to inform the Tribunal's Determination on prices for the next price control period for WaterNSW rural bulk water and Water Management (WAMC) prices from 2021.

IPART issued its Draft Determination and Report in March 2021. The MDBA and BRC submitted responses to this Draft Determination in April 2020. We were subsequently asked by IPART to review these responses with respect to expenditure and costs and report our findings to the Tribunal. This report has been prepared in accordance with the Terms of Reference set out in the contract between Atkins and IPART dated 5 July 2019.

## 2. MBDA response to IPART's Draft Determination

In its response to IPART's Draft Determination the MDBA made two representations relevant to our expenditure review which we respond to in turn:

Representation 1:

*The independent cost review was provided to IPART's consultant Atkins as part of their assessment of MDBA Program costs and is available on MDBA's website. It is not clear how Atkins have given account to these improvements when recommending further generic efficiency requirements. We are concerned that further untargeted reductions in expenditure will lead to limitations to service delivery and increased risk of a service failure.*

We considered the Cardno findings which related to outturn costs rather than forward looking expenditure. For future expenditure based on our observations there was limited (if any) opportunity for efficiencies to be factored into the annual budget. We consider the recommendations on efficiency we have made are modest and proportionate to the control each agency has over its costs.

Representation 2:

*We also question the utility of a 'continuing efficiency at the Frontier' without information on a comparable frontier company. The MDBA program is delivered under unique arrangements comprising a joint venture of Commonwealth, state and territory governments, with on-ground activities delivered by multiple state agencies. As noted in the report, the MDBA in conjunction with joint venture governments has made significant gains in planning, budgeting and delivery. Budget development is scrutinised by partner governments and their respective delivery agencies and through this, innovations and efficiency improvements from one agency are shared with others. IPART has not identified any specific elements of business practice nor example 'frontier' company processes that could be employed to realise the proposed efficiency gains.*

We acknowledge the lack of comparator organisations however all organisations are unique in many ways. The concept of the Frontier efficiency is universally well understood and this should encourage new innovations, ways of working and a drive towards efficient outcomes.

## 3. BRC response to IPART's Draft Determination

In our Final Report we recommended three scope adjustments to BRC's operating costs reproduced in Table 3-1 below.

**Table 3-1 – Recommended scope adjustments to BRC proposed (operating) costs**

Adjustment	Description
Water Infrastructure adjustment	Currently there is no defined O&M contract with Sunwater, as the Commission is not registered as a legal entity. Sunwater have been operating the assets for the Commission since the early 2000s when they became a Government Owned

	<p>Corporation. Before then these assets were operated as part of the greater Department. During FY20, supported by the Commission, Qld DNRME has commenced negotiations with Sunwater Ltd, formalising contractual arrangements. Sunwater undertakes facility management activities (dams and weirs) on behalf of the two States, through the Commission. DNRME was legislatively recognised as the sole Qld State Controlling Authority in May 2020. There has been an increase in <i>Water Infrastructure</i> costs which have been attributed to Sunwater for the last two years and are as a direct result of not having a formalised contractual agreement in place for their O&amp;M works for the BRC. We therefore recommend an adjustment to the future determination period costs for <i>Water Infrastructure</i>. This will align comparatively with historical costs prior to Sunwater applying significant risk premiums to their costs to BRC. This approach ensures that only efficient costs are being passed through to users in NSW.</p>
Resource management adjustment	<p>As discussed in our Final Report, the BRC have experienced a problem with accruals in recent years, this combined with the recording of cash has led to an appearance of underspending against the budget. As the most recent years of cash costs have been used for budgeting purposes there is a perceived decrease in costs. We consider that using actual costs including accruals is more appropriate basis for budgeting.</p>
Annuity Fund Contribution adjustment	<p>For the proposed operating expenditure, we recommend netting off the annual annuity fund contribution as this is linked more closely to capital expenditure which is reflected in our proposed capital expenditure allowance.</p>

In its response to IPART's Draft Determination the BRC commented that it

*Commission acknowledges that a significant increase in the Sunwater costs has contributed to larger call-up requirements on the States. While the Commission agrees in part with IPART's views on Sunwater's charges' efficiency, we also consider that a material component of the increase is justified. These increases don't just include allowance for CPI but also reflect changes in the Queensland operating landscape regarding risk and changes in insurances. The Commission also works with Sunwater to ensure they are undertaking a higher level of renewals and maintenance activity, to ensure that the Commission's asset portfolio is appropriately maintained.*

We do not propose to alter our recommendations on expenditure from that which we proposed in our Final Report. We have not been provided any additional information in relation to how much of the additional costs relate to Sunwater contract negotiations and how much BRC consider is unjustified.

It is of note that we looked at all of the aspects of BRC costs and the basis by which the budget baseline was set and in our Final Report we also recommended increasing costs for the accruals issue on which the BRC budget was based so there is a net effect on the recommended expenditure. It is unclear from BRC's response whether or not they are supportive of this recommendation.



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Page 9 of 9