

Environmental Headwork's Charges An Inequity to Resolve:

INTRODUCTION:

In 2004 the Victorian Government introduced legislation which established the Environmental Water Reserve (EWR), which is water set aside for the environment. Unfortunately, they also introduced a policy which saw the environment not have to pay the storage (headwork's) costs associated with this water, and the costs associated with this storage is currently being met by farmers, despite this water providing a benefit to the whole community.

New upgrades to irrigation infrastructure will see the EWR increase and so will the costs to farmers having to pay these headwork's charges. Farmers across Northern Victoria are currently paying over \$2.5 million to store existing environmental water and look set to pay an additional \$1 million in creased charges due to new infrastructure projects that will deliver additional water to the environment.

This inequitable situation could easily be resolved if the Victorian Government accessed funds from it's Environmental Levy. The levy targets all water users (rural and urban) to meet costs associated with managing environmental water. Of the 165 million collected through the levy over the past 3 years only, \$138 million has been spent. \$27 million remains unaccounted for and clearly could be used to fund environmental headworks.

ENVIRONMENTAL WATER RESERVE (EWR):

In 2005, the Water (Resource Management) Act was passed which saw the creation of the Environmental Water Reserve. The EWR is the legal term used to describe the amount of water set aside by law to meet environmental conditions through:

- Statutory environmental entitlements (such as a volume of water held in storage)
- Conditions on bulk entitlements, licenses and permits,
- The establishment of limits to diversions.

Water gained for the environment through infrastructure upgrades and other works are added to the Environmental Water Reserve.

CHARGES FOR THE MANAGEMENT OF THE ENVIRONMENTAL WATER RESERVE

The Victorian Government's White Paper in 2004 set out the following in regards to charges for the EWR.

"where the Environmental Water Reserve is provided as a bulk entitlement for the environment through a bulk entitlement conversion process, there will be no headwork's charge;"

"where the Environmental Water Reserve is provided as a non-tradeable entitlement or through conditions or rules attached to a consumptive bulk entitlement, there will be no headwork's charge¹;"

However, the cost of storing this water must still be met and unfortunately this leaves those remaining customers having to meet the costs of storing the environment's share. More importantly this creates an inequitable situation where farmers have to pay headwork's charges for environmental water when it provides a benefit to the entire community, not just agriculture.

THE BENEFICIARY PAYS PRINCIPLE:

Clearly, storing environmental water provides a benefit to the whole community. Under the beneficiary pays approach, the people that benefit from the activities pay for the costs of those activities.

In February 1994 the Council of Australian Governments agreed that an Expert Group be established to report on asset valuation methods and cost recovery definitions for the Australian Water Industry. The Expert Group produced pricing guidelines that were endorsed by ARMCANZ² Minister and Senior Officials.

The Expert Group agreed that where the implementation of new resource management initiatives benefited the wider community, then:

"these costs would be borne by government³".

Even Environmental Bodies such as the Wentworth Group agree that:

"the current generation of farmers are not responsible for all the damage that has been done to our landscape over the past 200 years, and that if Australia wants this damage repaired, all Australians should be prepared to provide the financial assistance to help achieve this outcome."⁴

¹ Victorian Government, 2004 "Securing Our Water Future Together White Paper", Pg 65.

² Agriculture and Resource Management Council of Australian and New Zealand

³ Expert Group 1995, "Report of the Expert Group on Asset Valuation Methods and Cost-Recovery Definitions for the Australian Water Industry, Pg. 45)

⁴ Wentworth Group 2002, "Blueprint for a Living Continent: A Way Forward from the Wentworth Group of Concerned Scientists".

Water stored to increase environmental flows benefits a number of parties, not just agriculture, these include:

- 1) The Australian community by reducing the pace of environmental degradation and preserving biodiversity and providing other environmental benefits;
- 2) The local community by maintaining the long term environmental health of the region,
- 3) Industries that rely on long term environmental health, for example fishing and tourism;

More recently, the Victorian Government acknowledged in their Northern Sustainable Water Strategy Discussion Paper that:

"the EWR also provides for other community benefits including the recreation and tourism, social and heritage, and economic values which are dependent on the environmental condition of rivers⁵".

Therefore while the Victorian Government acknowledges the community benefits from the EWR, the cost of storing the water is inequitably being met by farmers rather than the whole community.

This inconsistency within Government policy clearly must be resolved.

EXAMPLE: WIMMERA MALLEE PIPELINE:

The piping of the Wimmera Mallee stock and domestic system is projected to save 80 000 ML of water. Under a new piped system a number of reservoirs and in-stream diversion structures that store water will no longer be required. Grampians Wimmera Mallee Water is currently involved in a community consultation process to review its bulk water supply reservoirs and in-stream assets. While parts of the agricultural sector see little benefit in maintaining these assets, other sectors of the community see the need for these to remain for environmental reasons.

It is inequitable to expect farmers who are already contributing over \$150 million to the cost of the pipeline to then fund the cost of storing environmental water in assets that are not required under a piped system.

⁵ Victorian Government, 2008, "Northern Region Sustainable Water Strategy Discussion Paper", Pg 29

EXISTING ENVIRONMENTAL ENTITLEMENTS IN THE NORTHERN REGION⁶:

River System	Volume of Entitlement (ML)	Comments	Storage Cost per ML	Storage Charge Total
Murray	99,000	Living Murray Bulk Entitlement	\$6.17	\$610,830.00
	27,600	Flora and Fauna Bulk Entitlement	\$6.17	\$170,292.00
	75,000	Part of Barmah-Milleawa Forest Environmental Water Allocation	\$6.17	\$462,750.00
Goulburn	30,000	Goulburn Murray Bulk entitlement (Water Quality)	\$4.92	\$147,600.00
	221,000	Goulburn Murray Bulk Entitlement	\$4.92	1,087,320.00
Campaspe	5000	Campaspe Bulk Entitlement	\$4.92	\$24,600.00
Loddon	2000	Loddon Bulk Entitlement	\$4.92	\$9840.00
TOTAL	459,600 ML			\$2,513,232.00

ADDITIONAL ENVIRONMENTAL ENTITLEMENTS:

A number of other water infrastructure projects are proposing to return water savings to the environment. Some of these include:

Project	Volume of Entitlement ML	Storage Cost per ML	Storage Charge Total
Decommission Lake Mokoan	53,000	\$4.92	\$260,760.00
Shepparton Modernisation	38,000	\$4.92	\$186,960.00
Foodbowl Project	75,000	\$4.92 ⁷ - \$6.17	\$369,000.00 \$462,750.00
Wimmera Mallee Pipeline	80,000	No per ML storage cost available	Unable to calculate storage charge
TOTAL	246,000 ML		\$816,720.00 \$910,470.00

⁶ Victorian Government, 2008, "Northern Region Sustainable Water Strategy Discussion Paper", Pg 30

⁷ It is difficult to determine the exact figure for storing environmental savings made as part of the Foodbowl Project given storage costs for the Murray and Goulburn systems differ.

The tables above identify over 700,000 megalitres of water either allocated or earmarked for the environment. This means that farmers are currently meeting the \$2.5 million shortfall for storing water for the environment and similarly face close to \$1 million in future charges for storing additional environmental water.

As highlighted earlier, increased water for the environment benefits the whole community. It remains totally inequitable for farmers to have to fund the costs associated with storing this water. Further, the Victorian Government created an environmental levy in 2004, to meet increased environmental costs and yet the levy has not been used to fund the costs associated with storing environmental water.

WHAT IS THE VICTORIAN ENVIRONMENTAL LEVY?

The Victorian Government in 2004 introduced the *Water Industry (Environmental Contributions) Act*.

Section 194 states that the purpose for the collection of contributions is to:

- a) *promote the sustainable management of water; or*
- b) *address adverse water-related environmental impacts.*

The "Securing our Water Future Together White Paper" states that:

"For an initial period commencing 1 October 2004 and ending 30 June 2008, approximately \$225 million will be raised, with all of this revenue being used to fund water related initiatives that seek to promote the sustainable management of water and to address adverse impacts to the environment associated with its use. This is likely to increase prices by an average of five per cent for urban water customers and two per cent for rural customers⁸"

In commenting on the Environmental Levy, the Victorian Government states:

"to apportion the responsibility for the degradation and damage of our natural ecosystems to certain sections of the community would be unjust and inequitable, thus the decision that all water authorities should make a contribution to the costs of repairing and managing our environmental assets⁹".

Schedule 4 of the *Water Industry (Environmental Contributions) Act 2004* sets out the amount required from each water authority each financial year. The Government has collected over \$165 million over the past 3 years, but only spent \$138 million, \$27 remains unaccounted for and clearly could be used on funding the headwork's charges of environmental water. (For further detail see Appendix A)

⁸ Victorian Government, 2004 "Securing Our Water Future Together White Paper", Pg 129

⁹ Victorian Government, 2006, Submission to the Productivity Commission – Rural Water Use and the Environment: the Role of Market Mechanisms.

WHAT HAPPENS IN OTHER STATES?

In New South Wales, Queensland and South Australia the Government's fund the cost of storing all environmental water.

WHAT ABOUT THE FEDERAL GOVERNMENT?

Despite a number of outstanding problems with the Federal Water Plan, one issue the VFF did resolve with the former Howard Government was the payment of headwork's charges for environmental water. The former Water Minister, Malcolm Turnbull confirmed in writing that:

"The Australian Government will pay the standard charges for water entitlements that it holds. Water savings held as entitlements by irrigators or irrigation water providers will also need to pay those charges"

The new Federal Government is yet to confirm if they will honour this commitment.

LET'S USE THE ENVIRONMENTAL LEVY AS IT WAS INTENDED:

This paper has been developed to highlight the inequities associated with farmers having bear the costs associated with storing environmental water.

We believe a solution to this problem is already available but not yet realized. The environmental levy was created to promote the sustainable management of water and address adverse water-related environmental impacts. Given that \$27 million remains unaccounted for, it is very clear there is the potential for Government to fund the headwork's charges of environmental water.

We call on the Victorian Government to acknowledge this inequity and use the environmental levy to fund costs associated with storing environmental water.

CONTACT:

For further information please contact:

Natalie Akers

United Dairy Farmers of Victoria
District Council 3 Secretary

Mob) 0408 323 531

APPENDIX A:

Schedule 4 Water Industry (Environmental Contributions) Act 2004:

	AUTHORITY	2004-05	2005-06	2006-07	2007-08
1.	Barwon Region Water Authority	\$2 760 000	\$3 680 000	\$3 680 000	\$3 680 000
2.	Central Gippsland Region Water Authority	\$1 520 000	\$2 030 000	\$2 030 000	\$2 030 000
3.	Central Highlands Region Water Authority	\$1 140 000	\$1 510 000	\$1 510 000	\$1 510 000
4.	City West Water Limited	\$7 660 000	\$10 220 000	\$10 220 000	\$10 220 000
5.	Coliban Region Water Authority	\$1 270 000	\$1 740 000	\$1 740 000	\$1 740 000
6.	East Gippsland Region Water Authority	\$440 000	\$590 000	\$590 000	\$590 000
7.	First Mildura Irrigation Trust		\$100 000	\$100 000	\$100 000
8.	Gippsland and Southern Rural Water Authority		\$210 000	\$210 000	\$210 000
9.	Glenelg Region Water Authority	\$170 000	\$230 000	\$230 000	\$230 000
10.	Goulburn Valley Region Water Authority	\$1 130 000	\$1 500 000	\$1 500 000	\$1 500 000
11.	Goulburn-Murray Rural Water Authority				\$1 240 000
12.	Grampians Wimmera Mallee Water Authority	\$790 000	\$1 240 000	\$1 240 000	\$1 240 000
13.	Lower Murray Urban and Rural Water Authority	\$600 000	\$980 000	\$980 000	\$980 000
14.	Melbourne Water Corporation		\$6000	\$6000	\$6000
15.	North East Region Water Authority	\$890 000	\$1 180 000	\$1 180 000	\$1 180 000
16.	Portland Coast Region Water Authority	\$170 000	\$230 000	\$230 000	\$230 000
17.	South East Water Limited	\$11 340 000	\$15 120 000	\$15 120 000	\$15 120 000
18.	South Gippsland Region Water Authority	\$400 000	\$530 000	\$530 000	\$530 000
19.	South West Water Authority	\$470 000	\$670 000	\$670 000	\$670 000
20.	Western Region Water Authority	\$970 000	\$1 300 000	\$1 300 000	\$1 300 000
21.	Westernport Region Water Authority	\$340 000	\$450 000	\$450 000	\$450 000
22.	Yarra Valley Water Limited	\$12 540 000	\$16 720 000	\$16 720 000	\$16 720 000
TOTAL COLLECTED FROM WATER AUTHORITIES:		\$44.6 million	\$60.236 million	\$60.236 million	\$61.476 million
ACTUALLY SPENT (As detailed in DSE's Annual Reports)		\$44.6 million ¹⁰	\$48.562 million ¹¹	\$44 million ¹²	Annual Report not complete

¹⁰ Department of Sustainability and Environment Annual Report 2004-05, Appendix 16, Pg 163

¹¹ Department of Sustainability and Environment Annual Report 2005-06, Appendix 17, Pg 232

¹² Department of Sustainability and Environment Annual Report 2006-07, Appendix 21, Pg 167

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