

## **Submission to**

# **Independent Pricing and Regulatory Tribunal**

Review into the development of a funding framework  
for Local Land Services NSW

130701

**Stefanie Schulte**  
Economic Policy Analyst

## **Introduction**

NSW Irrigators' Council (NSWIC) represents more than 12,000 water access licence holders across NSW. These water licence holders access regulated, unregulated and groundwater systems. Our Members include valley water user associations, food and fibre groups, irrigation corporations and community groups from the rice, cotton, dairy and horticultural industries.

This submission represents the views of the Members of NSWIC with respect to IPART's *Review into the development of a funding framework for Local Land Services NSW*. However, each Member reserves its right to independent policy on issues that directly relate to their areas of operation, or expertise, or any other issue that they may deem relevant.

## **Executive Summary**

NSWIC submits that the timeline for the consultation process is highly inappropriate and ineffective as vital detail on service provision and delivery costs is yet unavailable. Without further information on the scope of the services provided and the total costs associated with Local Land Services NSW, the establishment of an efficient and transparent funding framework is not possible.

Based on this lack of information, NSWIC is unable to fully comment on all aspects of the proposed funding framework for Local Land Services NSW.

## General Comments

NSWIC appreciates the opportunity to provide comments to IPART's *Review into the development of a funding framework for Local Land Services NSW*. As an expert in water resource management, NSWIC will only comment on those aspects of the Issue Paper that directly relates to our constituency.

We understand that the establishment of a funding framework and an associated audit methodology for Local Land Service NSW (LLS) is complex, especially given the different services Catchment Management Authorities (CMAs), Livestock Health and Pest Authorities (LHPAs) and the Department of Primary Industries (DPI) currently provide and the different funding framework each entity operates under. We are however greatly concerned that a funding framework is being developed in the absence of detailed information on the services that will be provided or the costs associated with the service delivery. As the objective of the IPART review is to establish an efficient and transparent cost recovery methodology, NSWIC submits that further details on the services and costs associated with LLS must be sought.

NSWIC notes that the current funding frameworks for LHPA, CMAs and DPI are governed by various legislation, which will not necessarily be applicable after the amalgamation. In this context, NSWIC is concerned that the currently provided State and Federal funding might not apply in the same capacity to a new entity like LLS. As a significant proportion of current funding comes from State and Federal contributions, the uncertainty associated with future funding is a significant concern for NSWIC. For that matter, we are extremely apprehensive that the creation of LLS will lead to a redistribution of costs towards landholders and industry. This concern is amplified by the Issue's paper comment that "*LLS boards to set charges to recover all the costs of products or services where it is efficient to do*". NSWIC submits that State and Federal governments explicitly outline the funding that will be made available to LLS to provide certainty to landholders and industries.

Furthermore, NSWIC stresses that the focus of this amalgamation must remain on service provision and efficiency gains. The CMAs in particular will be crucial in the design and implementation of the Basin Plan's Environmental Watering Plans and hence will require significant resources. NSWIC is concerned that the consolidation of these three authorities might not ensure that LLS have sufficient resources to complete this important task effectively.

Finally, NSWIC believes that the pricing framework must ensure that there is no compromise in service delivery and that those services must be correctly and efficiently priced. In order to achieve the desired efficiency gains, NSWIC submits that "no cost increases" should take place in the first two years after the introduction of LLS. NSWIC also submits that IPART provides detailed comments as to why the current funding framework is inefficient.

We have continuously raised our objection to cross subsidization and we would like to emphasize to IPART that the pricing framework must ensure that no cross subsidization takes places for the services delivered through LLS.

## Specific Comments

NSWIC would like to make the following specific comments to the Issue Paper.

### Cost Recovery Principle

- *Do you agree with IPART's proposed cost recovery principles? Are there other factors IPART should consider in developing its cost recovery principles?*

While NSWIC supports efficient and transparent cost recovery principles, we would like to reemphasise that transparency would also mean that stakeholders have detailed information on what services will be delivered through LLS and how much this service delivery will cost overall. Without this crucial information, NSWIC is unable to fully comment on the proposed cost recovery principles set out by IPART.

Furthermore, we are particularly concerned about the comment that "LLS boards should set charges to recover all the costs of products or services where it is efficient to do." To recover all costs of products and services from the three groups IPART has identified in the Issue Paper, would indicate, that greater cost burden will be levied on landholders and industries in NSW. Without explicitly outlining state and federal government grants and contributions that currently support LHPA, CMA and DPI, it appears that more costs could soon be borne by individuals. Such a shift in costs without a corresponding increase in services cannot be supported by NSWIC. As mentioned in the previous section, NSWIC submit that a current cost freeze is imposed on LLS to achieve the proposed efficiency gains.

Furthermore, NSWIC does not concur with the three generic parties that IPART has identified in its cost recovery principles. It will often be the case that those generic groups overlap which means that individuals will be paying multiple times for the service provided.

### Introduction to the Cost Recovery Framework

- *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?*

Given the unique structure that arises with the amalgamation of LHPA, CMAs and PDI, NSWIC is not convinced that a cost recovery framework from another jurisdiction is suitable or necessarily implementable for LLS. The services that LLS will provide in the future will necessitate the establishment of a particular cost recovery framework that is specifically tailored to this new authority.

- *Do you agree with IPART's approach which includes a series of stages and 'key questions'? Can our suggested approach be improved?*

NSWIC does not object to using 'key questions' as one input into the decision framework but we are concerned that the phrasing of those questions and the audience that will decide over the answers to those questions might cause inefficiencies. In particular, should the phrasing of these key questions be inadequate or biased, then the result could be a loss in vital services for landholders, industries and communities.

As Q1 of the decision tree indicates, the phrasing of the question "*Is there demand for the service*" is reasonably vague and the answer will depend on who is consulted in the process. Furthermore, the answer to Q2 will often be difficult especially if the benefits and/or risks are widely dispersed. Finally, NSWIC reiterates that the generic groups identified subsequent to Q2 should be revisited to ensure that all relevant parties are captured.

### **Cost Recovery Framework (Stage 1) - Identify demand for the service**

- *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?*

NSWIC is concerned that the discretion over which services will be provided lies with the LLS board. We reemphasise the importance for localism in each step of the creation of LLS to ensure that all relevant parties are effectively consulted.

We are also concerned about 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**

- *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 us?*

While a sliding scale arrangement might be appropriate for some services provided by LLS, NSWIC doubts that this approach is optimal for all cases considered. Without further information about what services will be provided by LLS, NSWIC is unable to comment in detail on an appropriate arrangement for a cost recovery framework.

Furthermore, NSWIC would like to reiterate that regardless of the cost recovery framework, IPART must ensure that no cross subsidisation takes place.

- *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?*

As outlined in our response to the previous question, a risk matrix approach might not be appropriate in all instances where a service is provided by LLS. Without further information on the service provision by LLS, NSWIC refrains from commenting on an appropriate percentage split to apply for a possible risk matrix approach as it will depend on the actual services provided.

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

Please refer to our answer in the previous question.

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

While NSWIC strongly supports localism as part of the creation of a cost share framework, we are concerned that the sole reliance on a stakeholder reference panel to determine cost shares might lead to inefficient and biased results if the representation on these panels is inadequate. However, NSWIC submits that Stakeholder Reference Panels should be one input into the decision framework to determine cost shares.

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

NSWIC is concerned that an unbalanced representation on the LLS board might lead to biased and inefficient cost share ratios that could negatively impact some landholders, industries and/or communities. As such, NSWIC submits that LLS board should be able to have input into the framework but should not arbitrarily change the cost share ratios between parties. As we have outlined in our response to the previous question, stakeholders must have input at each state of the LLS creation.

- *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?*

Without having further information on the actual services being delivered by LLS, NSWIC is unable to comment on the proposed cost share ratios. Once the level of services is established, stakeholder consultation should be sought to discuss relevant parties and possible cost sharing. Setting arbitrary level of cost shares between three parties without further detail is not useful and will not lead to efficient and cost reflective pricing.

- *What information is publically available on an appropriate split between parties that would use LLS services?*

As the creation of LLS establishes an entirely new authority, public information on appropriate splits will be difficult to obtain without appropriate and ongoing stakeholder consultation. NSWIC would like to reiterate that IPART must ensure that there is no cross subsidisation for services provided through LLS.

### **Funding option and collection mechanism**

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

The questions on which services should be delivered through LLS is of primary importance; the establishment of a rating base is secondary. However, NSWIC emphasises again the importance of localism to find the most appropriate, cost effective and efficient solution.

Regardless of the rating base option that will be adopted, NSWIC submits that it must be easily measurable and be both equitable and efficient.

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

Please see our response to the previous question.

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

NSWIC supports reductions in charges should this lead to better outcomes.

### **Audit methodology**

- *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?*

Without having further information on the service delivery through LLS, it is difficult to assess whether the proposed audit methodology is appropriate. NSWIC would like to stress that auditing of the effective cost recovery pricing should take place on a regular basis, in case significant changes to the current system are necessary.

**ENDS.**