

LEGISLATIVE COUNCIL

GOVERNMENT BUSINESSES SCRUTINY COMMITTEE A

Thursday 6 December 2012

MEMBERS

Mrs Armitage
Ms Forrest (Deputy Chair)
Dr Goodwin
Mr Hall
Mr Harriss (Chair)
Mr Valentine
Mr Wilkinson

IN ATTENDANCE

Mr Bryan Green, Minister for Primary Industries and Water

Ministerial Office

Mr James Shevlin, Head of Office
Ms Alison Turner, Adviser

Tasmanian Irrigation Pty Ltd

Mr John Lord, Chairman
Mr Chris Oldfield, Chief Executive Officer
Mr Luke Curtain, General Manager - Commercial

The committee met at 9.00 a.m.

CHAIR (Mr Harriss) - Welcome, minister and advisers. Minister, would you like to make an opening statement?

Mr GREEN - I will make a short opening statement. We are delighted to be here today to talk about the successful year Tasmanian Irrigation has had over 2011-12. I said 12 months ago that we had seen a number of achievements and, from the government's point of view, we felt the irrigation development program was progressing well. I can report to you this year we have seven schemes either completed and operational or under construction, a further two in their late development stages, and an additional six that are being taken through the business-case stage. That includes the biggest irrigation development project the state has ever seen; the \$104 million Midlands water scheme, which is the centrepiece of the program and a major milestone. I have often said to people along the way, we have talked about the project for so long, now it has come to fruition it is hard to believe and is a bit matter-of-fact. We need to reinforce the important fact this is a major intergenerational scheme that will support the Midlands for many years to come. It was over a hundred years in the making, so we are very pleased. I do not think we would have been in a position to do this without having the organisation set-up that we have in Tasmanian Irrigation.

To the end of this financial year, Tasmanian Irrigation has sold 47 919 megalitres of water in seven schemes, involving 271 private individual partners. This clearly shows that we are getting on with the job of the significant irrigation projects around Tasmania and that our partnership between the commonwealth, state and the private sector is continuing to work well. The success of the program to date means that the funding under the Water Infrastructure Fund is now largely committed.

We are now taking a number of projects to the shovel-ready stage. In consultation with Tasmanian Irrigation, we made a decision to allow that process to unfold. We are doing that with a view to attracting more major funding to Tasmania through Infrastructure Australia and we have made it public that we are seeking an additional \$130 million so we can bring those other important projects to fruition.

I am confident and very hopeful that we will achieve strong support from all sides of politics with respect to the projects that we have on the drawing board because they are worthwhile. They show that the model works and from a regional development point of view, gives Tasmania a strong opportunity to take advantage of its competitive advantage when it comes to water.

I would like to thank the CEO and the Chair for their hard work and all the Tasmanian Irrigation employees for the success they have had this year.

CHAIR - You have mentioned the \$130 million extra that you are seeking. There is the combined state and commonwealth commitment of \$220 million. Is that in your bank or is it money which is yet to flow from the state and the feds? I want to understand a bit about that.

Mr GREEN - The Water Infrastructure Fund was established and that has been drawn down.

Mr LORD - There is some funding that is yet to flow from the commonwealth because we are funded on a project-by-project basis. Some of the cash is not in our bank account yet.

Chair, would I be able to make some opening comments as well?

CHAIR - I do not see anything wrong with that.

Mr LORD - We have a reasonable length of time this morning. I probably have 35 minutes.

CHAIR - Yes. That might raise some other issues from members.

Mr LORD - I would like to offer comments on two things; our model and what Tasmanian Irrigation has done.

We are a model the government set up five years ago. The government settled what they wanted as outcomes. With the assistance of bureaucracy and policy makers, they decided that they wanted extra water in 11 regions of the state. They then organised people in the private sector, people whose lifetimes of skill and experience was in the design and delivery of these things, to do it. They separated 'what' from 'how'. They settled on what they wanted and they gave it to us to do. In my view, and not because I am the Chair, I think this model has proven to be very effective and efficient. The private sector's jobs are varied, but one of them is innovation.

Our principles - if you come and work for us, we will tell you that the first thing is simplicity. Everything we do is to be as simple as possible. Second, we treat everyone fairly and what we do is going to last a hell of a long time, at least 100 years. We are uncompromising on those three things, especially the simplicity. For example, with the south-east irrigation scheme, the board ticked off on the twenty-fourth iteration. It went back 23 times. If you look at the design, it is very simple. This is obvious; all good designs are simple. It sometimes takes a while to get there, but it is usually about nine iterations, not 24.

In the beginning, we were give 11 potential districts to provide water to. In those districts, where the communities wanted us to deliver water, we are doing that. We were also given advice as to how we might do it.

We have achieved what we were given. In the cases where we have done that, how we have done it is different - and I mean radically different - from the expected normal way of doing it. This is not surprising because the list we were given were ones that had been around for, in some cases, over a century because they were just too hard to do in normal ways. The innovation that has come from the private sector has enabled 'same water from same catchment to same districts' but in radically different ways.

We have also established a very effective community consultation model. We have established an effective public/private partnership model that works. We have also established what we call a farm water access plan system - a voluntary system, to ensure that the water biodiversity and soils are looked after properly on those parts of farms where water is to be introduced.

We thought of the concept, we discussed with the state department and with their assistance we brokered the acceptance of this with the commonwealth department. Our design is being accepted all the way through as the appropriate standards and controls and checks, and there will be some auditing of these as we go forward.

This model - all of those things - is now being lifted by other jurisdictions for their own use. The major one is New Zealand. They have been over here a number of times and they are taking our model back to New Zealand. They now have a major irrigation development plan in New Zealand and they are using our model. If you look on their website, they have pinched our phrases.

I think this model is very effective and very efficient, and it is not because I am the chairman of it. It should be considered by governments for the implementation of lots of things - certainly, at least, the implementation of building infrastructure.

The second thing is what Tasmanian Irrigation has actually done. As the minister said, we have completed a number of schemes - Whitemore, Sassafras-Wesley Vale, Headquarters Road - which is now called Great Forester - and Winnaleah schemes. We have successfully conducted the merger with Tasmanian Irrigation Schemes and the old Rivers and Water Supply Commission so we are the one entity with all those bits folded into us on 1 July last year.

We took over the management of the Meander scheme and the Meander pipelines, and the overview of Cressy, Longford and the original Winnaleah scheme and various other things.

Our focus is now shifting to operating. All the schemes operated successfully last summer and all of them are working at a greater level now because of the hot weather and winds. I reckon every irrigator was working this morning as I came down.

Mr HALL - Unfortunately.

Mr LORD - Unfortunately. We are currently constructing three schemes and we have not ever built three at once before. We have the lower South Esk, which will be completed by March. We are up out of the ground with the big dam so the risky part - the keyways and things - are done so the risk profile is now quite low. We have the major scheme, which is the Midlands water scheme - there is significant work going on there and we are very happy with the progress. Two weeks ago we started the Kindred North Motton scheme. As members will be aware we just finished water sales - the initial round of water sales with upper Ringarooma for a start. We have achieved our threshold there. In the south-east, we have not achieved our threshold yet so we are going through our normal iterations of considering offering water to the open class and considering redesign to deliver water to those farmers who have now said that they want it.

I expect that we will have advice to the minister about that mid- or late January. We now have six other schemes - one or two from the original tranche, but others that have come to our notice, which we think are worthwhile pursuing, and we are developing those to business case stage, which will be done by the middle of next year. These are a scheme around Scottsdale - the Scottsdale scheme - one from the North Esk in the Evandale area - the North Esk scheme - and the Southern Highlands scheme which is a pipeline scheme from the Shannon River taking water down south to Bothwell. There is also a small scheme on the east coast on the Swan River, Circular Head which will be a big scheme and the Dial Blythe scheme. By the end of next week the initial meetings for all six of these will have been held. They are run by the TFGA to establish irrigator leadership groups and we then proceed.

Our program for the next year will be to operate the schemes that we have, to complete the construction of the three, to finish the water sales of the other two and to build six business cases. Quite a lot of work is now going into providing information to politicians of every colour to put on the table that Tasmania has the opportunity for significant further long, long life irrigation development should the federal government be able to fund \$130 million.

CHAIR - Thank you, John. Can we stay with the \$220 million that I was talking about and build on that? When the organisation was established there was the suggestion that \$220 million, with some private input, would be sufficient to develop the 13 schemes that had been identified at

that stage. Yet we now have a submission to the federal government for an extra \$130 million. Can we have some background on that, and some defence of the original position that \$220 million would deliver the 13 schemes that have been identified?

Mr GREEN - There are obviously some additional schemes, Chair. The north-west scheme, for example, which would be a fairly large scheme, is additional. Based on a couple of other projects not going ahead, we hope Dial Blythe might come to fruition and the north-east project is a very strong prospect, going forward. The Midlands project was an \$88 million project, initially, and now it is a \$104 million project. The passage of time means that the cost of the projects changes.

The model has provided us with the opportunity to consider other projects beyond the scope of the original project set out. We have the confidence to go forward based on the fact that we have been able not only to showcase the projects that we have built already, and we have been able to work closely with the commonwealth on a lot of the technical issues associated with bringing these projects to fruition.

We feel confident that the commonwealth, and particularly Infrastructure Australia, understands that the money, if invested, will be well spent and leveraged significantly. So I guess people could run an argument like, 'Look, you haven't built all the original schemes with the money that was allocated', but we can justify it by saying that we have been prudent in our spending and brought as many projects to fruition as we possibly could.

Mr LORD - What we are doing is a good-news story - in capital letters. We were initially given 11 schemes, and then various schemes were added by the minister of the day. The south-east scheme, for example, was not on the original list. So, we have had a number of other schemes added and we have a matrix on that A3 sheet of paper showing the original ones and how some of them have been altered and cut into pieces as we have worked out how we could deliver them. As the minister said, we now have the confidence to say that there are others which are worthwhile doing.

If any members would like that matrix, showing the original projects and what we are doing now and what we could do, I am quite happy to provide it - I can table it.

There is the passage of time and we work on about a 5 per cent increase in costing this year, with inflation. We have been going for four-and-a-half years so what was x dollars is now x plus quite a bit dollars.

CHAIR - I will pose the question. Yes, we would like that document tabled.

Mr LORD - It is quite complex but I would like to assure the committee that what we are doing is very effective and efficient. I stand on that.

CHAIR - Thank you, John.

Mr HALL - Following on from the Chair's question with regard to the IA money, what happens if some of that federal funding dries up, for whatever reason - a downturn in the federal economy, or whatever? Where would you see us going then? Would the state have to kick in more money or would you have to access money from other sources?

Mr GREEN - That is a hypothetical question. We are going in with confidence. We have spoken with commonwealth officials and I think they understand what we are doing. The point raised about the north-west scheme was interesting; we had public meetings in Smithton about five or six years ago and people were suggesting they were deciduous - dropped off the tree - there was not a -

Ms FORREST - They did feel like that, too.

Mr GREEN - In the early part of my political career in the north-west of Tasmania I had people on my back about the drainage system and the fact that we were not getting the water away quickly enough. We are now in a situation where we want irrigation. It has changed because dairy farmers in this day and age want to keep their cattle in production 365 days a year, and not dry off their cows for 100 days; the water is required to get the cattle through. That was put to us at the time we looked at using Entura. When we got Entura to do some initial work on flows from the Arthur River, the expectation was that the summer take from the Arthur would be of a level that would provide for a fairly significant scheme, but it turned out that it was not and that it had an impact. The VDL Company has now purchased water from Gunns, which means the equation has changed again and we are in a position to think about building that scheme. We are going into this with our eyes open. We are expending another \$2.5 million to get these projects to shovel-ready stage. That is the best way to attract funding.

Mr HALL - With respect, I understand that, but the question was, if there is a shortfall in federal funds where do you go then?

Mr GREEN - We have always said that Tasmanian Irrigation has a role to play in the future because of the mergers. Once the capital funds run out, they are in a different mode. There may be private-sector funds coming to the fore to build projects, the state might be able to contribute an amount, but we are not going to be in a position to provide \$130 million. We think this has national significance in regional development and that is why we have been running such a strong argument with the commonwealth as to why we think these projects are worthy of funding. I have no doubt the commonwealth when talking to us about that will want to leverage funds from the state but we will have to consider that when the time comes.

Mr WILKINSON - With the \$140 million that was originally coming from the feds and the \$80 million from the state, how much of that \$220 million has been taken up to this stage?

Mr LORD - At 30 June the uncommitted part of the state's money was \$9 million plus approximately another \$13 million we are using for working capital. The uncommitted balance of the commonwealth funds was almost \$51 million. We are not given the total amount. We use it at our discretion. We are provided with funds to pay our administration and operating costs and then we put up business cases, which I assume go through both treasuries, Hobart and Canberra. If the business cases are approved then the funds are provided against particular projects.

Mr GREEN - Through the Water Infrastructure Fund.

Mr LORD - The commonwealth funds come through the state's Water Infrastructure Fund and we are given our construction capital contribution on a project-by-project basis. There are funds left in the public development bank account and we also look at the funds that are coming from the private sector; from those who buy the water entitlements. We build the schemes with both the private and public capital.

If I may make one other comment about the federal government's interest in our model and our schemes, I agree that it is a good regional development model. What we do achieves leveraging with private capital for the construction but you would see about as much capital in total again invested by the private sector in developing the farms and the irrigation infrastructure. We could say to treasury bosses that they put down a dollar of public funds and they are getting a significant leverage and they are getting capital investment in long-term infrastructure of a multiple factor as a result of the model that we use.

Mr WILKINSON - There is \$51 million of commonwealth money and about \$20 million of state money awaiting -

Mr LORD - About \$20 million.

Mr WILKINSON - From the original 11 projects, seven projects have been completed already, two are being developed and there are another six in the pipeline?

Mr LORD - No, there would be maybe one or two of the original 11 that cannot be completed in the first tranche but we have put new ones into the original tranche expenditure. We were instructed to look at the original 11 and not prioritise them but do them all at once. Because of the level of work that had been done in respect of each and because of the degrees of complexity or lesser complexity, the gestation period was quite different so the scheme has popped out various stages. We have gone, as we were instructed, as reasonably quickly as we can with there to be no prioritisation. Into that mix the ministers have inserted other schemes as are warranted being brought along and one or two of those have got into the first tranche timing, if you can imagine the time lines. We are not concerned about that. Effectively that is what we can do with the first tranche, and that is why we are now looking at a second tranche and proposing strongly that the second tranche is well worthy of funding for the reasons that I have outlined.

Mr OLDFIELD - In that second tranche at the moment there are two of the original schemes and that is the Southern Highlands Irrigation Scheme, which used to be called the Shannon Clyde; and the Scottsdale Irrigation Scheme, which was formerly the Forester scheme; so they have rolled into the second tranche but the rest of the second tranche are new schemes. Irrigator groups have approached us and government.

Mr WILKINSON - In total, at present, seven have been completed -

Mr OLDFIELD - In the process of -

Mr WILKINSON - Another two, as I understood it, are in the development stage. In other words they have started.

Mr OLDFIELD - They have been through the water-sales process.

Mr WILKINSON - There are six that are still -

Mr OLDFIELD - There are three in construction.

Mr WILKINSON - They will not be able to be completed unless we get this extra money from the feds, is that right?

Mr LORD - Ringarooma and the south-east projects are within the first tranche and then we will get the other six.

Mr GREEN - I will put on the public record that they need to focus very heavily on getting the scheme over the line in the south-east if they are serious about it. Now is the time because there are plenty of other projects that can be built if they do not -

Mr LORD - The ones that we have built and are operating today are the three we are building, the two where we have been to water sales, if we achieve the required thresholds of both those there is funding for all on that list.

Mr WILKINSON - Ten or eleven?

Mr LORD - Plus we also have the funding to complete the business cases and, as the minister said, to a shovel-ready stage by the middle or late next year, which of course is in the federal election cycle. We will be ready with shovel-ready schemes for another six schemes.

Mr WILKINSON - With the planning that you have done, how many extra schemes do you believe will be required, if any?

Mr LORD - Over and above the six?

Mr WILKINSON - Yes.

Mr LORD - I would have to ask my CEO if he has any more on that.

Mr OLDFIELD - The six that we have put into the second tranche have come about because there has been strong community support; they are the ones we are currently pursuing and we call that tranche 2. If we were to ever look at a tranche 3 in years to come, we are a bit unclear where they might be but we think they might be on the east coast. We can see the east coast offers a lot of opportunity for high-value grape and wine production and stone fruits. There is one scheme we are looking at there and we see parts of the east coast like the Coal Valley - good climate, not a lot of frost, lots of sunshine and no rain. If, in years to come, there were to be another round, I think the east coast is probably where we would look. Also, in the future - and this may be some years away - we may look at interconnectivity between schemes, because they are pretty much down the line at the moment.

The six we are looking at in the second tranche are where irrigators have organised themselves, said they want a scheme, but they cannot build it, either because of the approvals process or finances, so they have approached us and the government.

Mr WILKINSON - I know we have been talking about commonwealth money but is the state going to stump up in relation to the extra six?

Mr GREEN - We will see how we go.

Mr WILKINSON - You cannot answer that question?

Mr GREEN - We want \$130 million, which we will facilitate for the project.

Dr GOODWIN - I wanted to explore a couple of themes. One is around the \$130 million and the best-case scenario is that you get that funding from the commonwealth and you are able to proceed with your second tranche. I wanted also to pick up on the points that you were making around how good this model is and how it might be applied in different areas. You have all these staff with all this experience now, so what happens if you do not get the funding for the second tranche, either in full or you only get part of the funding? What ideas do you have about the use of the model in other areas and whether some of those staff might be used for other opportunities? I am wondering what other applications of the model you are thinking of.

Mr GREEN - It is important for people to understand that the people are employed on a contract basis and we have always had an understanding. There are plenty of ideas with respect to how the government might want to utilise the organisation into the future, given the skills that we have in the organisation. Having said that, the focus right at the moment is the irrigation and I want them to concentrate on delivering those projects and getting those funds.

Mr LORD - At the moment our focus is irrigation, that is our brief. The answer to your question, Vanessa, is that at the moment our organisation is doing two things. We are involved in design, approvals, construction, contract management and project management and then building operating systems and then operating. We have construction and operating. In due course, the construction will decline and it will cease, potentially. But given that we are now restructured with the merger, there will be some operating function that will go on, I would imagine, forever. I think the construction team is simply an opportunity for the government of the day with the skill sets there. We have drawn together largely people we have known of, people who know how to work and who are very good at their craft. We only have about 36 people in our team who have come from a variety of backgrounds and they are focusing those skills, in this case, on forestry. But it is simply an opportunity for the state.

Mr GREEN - On irrigation.

Mr LORD - I beg your pardon, irrigation.

Mr GREEN - A lot of them come from forestry.

Mr LORD - Yes, you are quite right. They are all focusing on irrigation and they are able to apply their skill sets to that. It is simply an opportunity that is there and I wanted to make the comment that that opportunity is there.

Dr GOODWIN - It is around the skills and the people involved in the construction side of things. Or are you talking more broadly about the model, the public-private partnership aspect of it?

Mr LORD - I am talking about both, all the things I mentioned earlier - the community engagement, the public-private partnership model, which means a dollar of public moneys, both state and federal, is leveraged multiple times. There is the farm water access plan scheme where we propose that there would be a system to make sure it is done properly. Before the board even knew about the EPBC act, we had determined as a board, in about the first or second meeting, that we were not going to construct anything that would not work because we know that all the major irrigations schemes in the world, the really big ones, have failed; environmentally they are disasters. We were very focused on the fact that we were not going to be another one of those.

There needed to be some close understanding by the farmers as to when it was appropriate to do something and when it wasn't and some reasonable checking system has now been adopted with the assistance of the state and commonwealth departments, which we are most grateful for.

Dr GOODWIN - On the model as a package, you mentioned that New Zealand had been over here and had taken some of the learnings back.

Mr LORD - We think they are nicking it, yes.

Laughter.

Mr OLDFIELD - They've stopped doing that now. They came and saw us a couple of times, we went and spoke at one of their conferences but we told them after that if they want any more of the IP they would have to pay.

Dr GOODWIN - Another business opportunity.

Mr OLDFIELD - We have also had Victorian irrigators sponsored by the Victorian government come and see us and we have given them a brief idea of the model and how we work but we have developed a lot of the IP internally, particularly in water trading. We also are very good at contract management. The state has made a fair investment in those skills so if people want to access those we believe they will need to pay for it.

Mr GREEN - In response to some of the questions we have had about where the funding might come from in the future, I have suggested that local government have quite a bit of cash and several of them -

Mr HALL - Are they jumping for joy?

Ms FORREST - They'd be asking what's in it for them I expect.

On the comment you were making about the capital programs eventually winding down, there is only so much land we can irrigate anyway. Potentially those skills will not be needed in the organisation but there will still be operating - the company will not wind up at that time?

Mr LORD - It is up to the minister but I would envisage, given that we are now the consolidated entity, there will be significant -

Mr GREEN - Rivers and Water and the Tas Irrigation.

Mr LORD - ownership of the schemes operating -

Ms FORREST - At that point is it the intention of the company to be profitable?

Mr LORD - No, it is not. Our model is a cost recovery model. When we build schemes we build a scheme with some public subsidy and some private capital and we spend all of that money so we do not have debt. With the schemes that we build, we have inherited some debt with Tas Irrigation Systems but with our model we do not incur long-term debt. We fund the capital. All the operating costs are then paid by the private sector; farmers, operators and the district pay for all the operating costs and we do not make a commercial profit from it.

Ms FORREST - In the future when you are only operating, not doing capital works, that will still be cost recovery?

Mr LORD - Correct.

Mr OLDFIELD - Self-funding.

Ms FORREST - It will be self-funding.

Mr LORD - Yes. They will be self-funding; there will not be a requirement from the public purse to run the schemes.

Ms FORREST - Yes, but the point is, there is an expectation that state-owned companies provide some money back to the state. Is that not the intention?

Mr LORD - There may be some opportunity. The farmers buy the water entitlements and buy the water in the scheme and they have the right to use that. The schemes are typically for 120-180 days. There will be the opportunity with some schemes for the infrastructure to be used on other days of the year - for example, providing water in the winter or in the shoulders. In that case there will be opportunities for a margin to be made.

Ms FORREST - Have you noticed that there has been a rise in the prices of land that is now irrigated?

Mr LORD - Yes, that will be the case with the investment in water and the land and water together.

Mr OLDFIELD - It is very important to note, though, that the land and water are separate. The water is not attached to the land. The water could be traded in or out of that land at any time and that is a key fundamental of the national water reform.

Ms FORREST - You don't believe then that you are undercharging? If the value of the land rises there is not a case there to charge more? I know the member for Western Tiers does not want to hear any of this and is feeling quite nauseous, but the reality is that we have a state-owned company here and we have a government bottom line that is being supported by other GBEs at the moment.

Mr GREEN - The partnership is about building the infrastructure. The actual cost of the water going forward is being set at operation of the scheme.

Ms FORREST - Cost recovery.

Mr GREEN - Yes.

Mr LORD - It is reasonable to ask what value there is to the state effectively for what we are doing. As you may understand, for us to be able to access the public contribution for capital we have to tick three boxes - one is social, one is environmental and the other is economic. We have to put a case, and it is done on a very conservative basis with existing crops, no blue sky at all, such that both treasuries are comfortable, and that is not an easy task. If the total capital that has

been spent on a scheme, partly private and partly public, is spent on the scheme, the net present value to the state is higher than the cost - in other words, there is an economic benefit. It is not coming through our books and then going to Treasury as a dividend, but there is an economic benefit to the state. I could, with respect, say that is the contribution our team's efforts are going to deliver to the state: an increased economic benefit, some of which will find its way into Treasury.

Ms FORREST - On that point about the water being separate to the land and water trading, can you provide me with more detail about how that works? Do the prices paid for water vary around the state and, if so, why?

Mr LORD - Yes, they do vary. It is a bit of an art and not a complete science. The contribution from the private sector, which is the price we charge for them to acquire their water entitlement, has been around \$1 100 in some years - and it would be \$1 200 or \$1 300 today - for the districts where there is dairying, some cash cropping. In the south-east it is \$2 700 because it is a different world there where there is horticulture and viticulture. In that part of the world \$2 700 is an acceptable price, whereas \$1 100, \$1 200 or \$1 300 is acceptable in other regions based on the current enterprises. We have to judge what is reasonable and affordable for farmers to pay to get their enterprises going.

Ms FORREST - What about the Midlands, farmers appear to pay even less than that?

Mr LORD - For some of the winter water it was a lesser amount, but the summer water is not. It is a juggling act. We have done analyses of the margins of the enterprises that will be run and be able to be expanded with the water and we have worked out what we are charging is reasonable given that is the case. It is not as cheap as some people would like, but it is achieving the outcome. Probably the best test is the market. We are not, as a general rule, selling out when we put the product on the market. Only in one scheme has all the water been sold to the farmers at the beginning.

Mr OLDFIELD - It is important to note that once the initial sale is complete and the farmer owns the irrigation right, the price for that ultimate sale, if it is sold on, is determined by the market, not by us. One of the factors that John is touching on is when we set that price we try to anticipate what the market value of that water will be and so far we have been fairly accurate. Where there have been trades, and when Gunns did an option of lower surety water than ours, it encouraged us greatly. We think our water is about right in the market, but it is now an open market. The logic behind that is - and again it is the National Water Initiative, which is supported by the state - if water is traded on the open market, it will reach its correct economic value and as such will be used to its highest possible economic use. If water is free, people will run dry sheep; if it is \$2 700 a megawatt, they will grow stone fruits et cetera. That is the logic and it seems to be a logic that works.

Ms FORREST - On what basis are the lower rates in the winter in the Midlands established?

Mr LORD - That is a very interesting question. We worked in partnership with local communities. The TFGA held community meetings. If your district is on our map, they hold a meeting to see whether the landholders, the farmers, are interested in the opportunity of the scheme. If they are, they form a leadership committee, we are told about it and then we come and meet the committee and say, 'We're potentially partners with you. We have some technical advice, but if you're interested it is a proper partnership. Your guys are going to carry as many

bricks as us'. In every case, when there is an expression of interest and the district says what it wants, we go behind closed doors and our team works out if we can deliver that amount of water to that part of the district and get ticks in our three boxes. We then show it to the minister and if he is happy - and we advise the minister, for example, that there are not any showstoppers - we hold a public meeting, launch the third option - maps and information faxed to everyone - and we say to the district, 'This is our idea for your district, and if you don't live there' - this is an outsider's view - 'please look at what we are proposing, tear it apart and give us your local knowledge, your advice, about what we think', over 30 days, and they do.

In most cases we have received very solid advice, some commercial, which I will come to, and some engineering designs which have caused us, in some cases, to materially alter our design so we have the best of our team plus your district.

The winter water aspect - with the leadership group in the Midlands, there were some very difficult issues and at one stage Richard Gardner came to me and said, 'John, we want to stop because we're not happy about a lot of commercial things', and I said, 'Right'. So we had a chat and they were discussing the pricing of it. I said, 'Why don't you have a think', and I gave them what I call the bookends and said, 'We have a certain volume of water and we need to achieve a certain amount of capital to be raised from the sale of that. Why don't you and your team have a think about it'. They came back to us with the design that we have adopted - it was their contribution and it is very good to say it.

Ms FORREST - So it will still cover the cost?

Mr LORD - Yes, because we had that total amount to raise but they cut and shut it, they worked out what was going to work in their district.

Mr OLDFIELD - But there was only a limited amount of winter water at that price available and that sold out. There is remaining winter water on that scheme now but it is at the full price.

CHAIR - That is probably an introduction to Greg with the south-east.

Mr HALL - A lot has been covered but how much do you need to get it across the line? You have a lot of resistance from landowners at the moment.

Mr GREEN - Not so much resistance.

Mr HALL - Are we going to get institutional investors to try to get across the line?

Mr GREEN - We are thinking our way through that at the moment. I wanted to highlight that it is important that people are very conscious of the fact that this is a once in a lifetime opportunity to build this scheme.

We have had our expressions of interest and we are considering that now.

Mr LORD - Perhaps, Chair, if I can explain the process more clearly, when a district is looking at the opportunity of a potential scheme, expressions of interest are called for and the prices that the farmers will have to pay for the water entitlements and then the likely operating costs are known. We get the expressions of interest and our team works out how we reasonably design a scheme that is going to work and then we proceed.

Then we get to the hard part of saying, 'The treasuries are approving, please sign the contract', and we usually get a different pattern, and in some cases it is quite different - water required in different parts in different volumes to what was originally expressed.

So we had to take that away, give it back to our engineers, who basically have to redesign the scheme. Because we are there to meet the demand of what the district wants, we do not build things and then try and sell it, we talk to the market and say, 'What would you like?'

At the moment we are doing that with the south-east and we have a range of things that we can do in that case. We can go to the open market, to other investors, or we can redesign the scheme. We are working through that at the moment. This is normal procedure. We have done this many times before and we will provide advice to the government, to the minister, probably in four or five weeks about this.

Mr HALL - I suppose it can be a little subjective when you are trying to pin a cost per megalitre on a scheme. You are saying that in the south-east it is going to cost you \$2 700 a megalitre because you will have higher value crops. But as we know, all those things can be cyclical. If I am sitting there as a farmer and I am thinking, 'Who knows what the future holds?' and to pay \$2 700 a megalitre, I will put to you at the moment, is a pretty big ask. As you know, you have all the infrastructure to go in on top of that. The other question is the financial institutions which have been a bit recalcitrant with regard to lending for purchasing water rights. Have you had any discussions or feedback from the farming community in that regard?

Mr GREEN - Before we talk about the second part of the question, it is important to recognise that there is a significant public subsidy associated with the building of the scheme and that is put to the irrigators in the first place. It is a large amount of money per megalitre from the point of view of infrastructure costs but it was an 'eyes open' arrangement. What is the subsidy, potentially, for the south-east?

Mr LORD - Over \$5 000 a megalitre. It is quite an expensive scheme.

Mr HALL - Are the headworks charges, the construction costs on that scheme, more in relative terms than for other schemes?

Mr LORD - Yes. The distances involved are considerable and it is also very flat, so it requires a lot pumping; you cannot rely on gravity in that scheme.

Mr GREEN - You put it to them on the basis that you were prepared to put in this amount and it is going to cost you this much to get the scheme over the line.

Mr LORD - We are not surprised about the price that we set for the water entitlements there. We have been working with the leadership groups and they are fully aware of it. We have discussed it with them and it was acceptable to them. One point that is sometimes a little difficult for people to grasp is that normally when someone comes into your district to sell something to you or buy something from you, they sit on the other side of your kitchen table from you. We explain to the farmers in the district that we are coming to sit on the same side of the table with them; we are their partners. We are there to do the very best we can. We do not have unlimited resources. We are dealing with the art of the possible.

In my experience and what I have been able to find out, I do not believe we have had the ducks lined up in a row for agriculture for this level of infrastructure development in the history of Tasmania's white settlement.

Mr GREEN - What is the running cost of the scheme, once it is built?

Mr OLDFIELD - Over \$280 per megalitre, so it is quite expensive to run and that is a reflection of electrical pumping prices.

Mr HALL - That is reflected in the landowner or the water right owner paying for that in annual charges.

Mr OLDFIELD - Correct. The other key thing we look at when we are pricing these schemes is, we do not want to see a massive transfer of wealth once it goes to the open market. For example, the first public trades on that south-east scheme were in the order of \$4 000 or \$5 000; all we have facilitated is a transfer of wealth. We do not want to see that happen. About \$2 700 will be the market price and we are pretty close. We are very careful how we set these prices so that we are not just transferring wealth from the public to the private purse.

Mr LORD - Chair, there was another part of Ruth's question about the water entitlements and trading. With the water entitlements, if you buy water, you will pay your deposit. We will take your deposit and we will then build the scheme, complete that and then commission it. Then we will ask you to pay the other 90 per cent. Then we will give you your water entitlement. That is then a tradeable asset, separate from the land, like a share in BHP.

The water entitlement contains two parts which are initially stapled together. One is an entitlement to a share of the water in the scheme. The second is the right to have it delivered to an agreed place, which would be an outlet on your property. With the Cressy-Longford scheme there are big, open channels. You could put double the amount of water in your channels and there is a large delivery capacity there. But most of what we are doing is pipelines and we can only afford to build pipelines to deliver the amount of water that has been bought. The actual delivery right - people are starting to realise that the right to have it delivered is, in some cases, more important than the water.

Mr GREEN - We are building some capacity in the schemes though.

Mr LORD - We are building schemes where, if you buy a certain amount of water, we will have outlet on your farm which is triple the amount. But the pipelines themselves are being built to deliver the water that the scheme is designed to deliver because we cannot afford to build in larger pipelines. The delivery right is really important and some people are starting to arrange themselves in groups in districts to - I will run my big irrigator tonight and Greg will run his tomorrow because the flow that we have won't be sufficient for both of us to run it in real time. There are practical ways of making this work.

The water and the water right and the delivery right are separated and traded separately. They can be traded permanently and they can be traded on a temporary basis. We have designed and put in place a registry first - I will come to the security in a minute - and a trading system, and that is now working where there are temporary and some permanent trades taking place.

In terms of security, we worked with our financiers and the banking industry since the beginning. I envisage, in years to come, that there will be a registry which will be like a Torrens system. We do not have that at the moment but there is a registry which is searchable and it enables security interests to be noted such that, if your bank had lent you money as part of their security, then you cannot transfer your entitlement to someone else until your security holder has been given notice that that is contemplated. We are told by the financiers that what we have at the moment is pretty good.

Mr HALL - Minister, you might recall in the past I had asked you the question about whether there was any capacity of the state government to intervene as mentioned by former premier Bartlett with regard to assisting farmers in purchasing water entitlements. Has anything else been done on that at all?

Mr GREEN - We have tried to assist people through the process and when problems have arisen we have tried to accommodate those issues - we had the flood -

Mr HALL - That seems to me to be one of the biggest roadblocks for landowners.

Mr GREEN - Yes, we did not get onto that. Some of the institutions have not been coming good and lending.

Mr OLDFIELD - It has been interesting that in the early days, and given my former role at the TFGA, it was a major concern as well that farmers would not be able to afford to finance these schemes. When I was at the TFGA we ran a pretty hard case with government why there should be some financial assistance.

The reality has turned out to be quite different in that farmers have managed to access the funds they have needed. It really has not materialised. The state government helped us with early payments for the scheme, which gave us some money to help farmers who were in trouble for a 12-month period after the floods but the reality is we did not really have to draw on that. When we invoiced farmers for the completion of the contracts, our payments have been very good so it has surprised us a little bit that the shortage of capital does not seem to have been a major issue. We have done a lot of work with the major rural lenders in the state and whilst they will not attribute a full value to the water as they might with property, they will certainly take into account some value on that water and they will also match it to the land. We have seen some of the larger institutions here willing to lend money and we have regular contact with them, almost on a monthly basis, so they understand what we are doing.

Mr HALL - I am pleased to hear that.

Mr GREEN - It is almost a contrary position where people have a lot of equity but have chosen not to participate in the scheme and we get frustrated by the fact that there is an opportunity to build farms that have existed intergenerationally in some cases and people are choosing not to unlock some of that equity to assist in the building of schemes.

Mr HALL - Following on with the water rights issue, do we have a list in the operating schemes we have at the moment of what percentage of water rights have not been taken up?

Mr LORD - Yes.

Mr HALL - Can you provide that to the committee? Do we have that available at the moment?

Mr GREEN - Scheme by scheme?

Mr HALL - Yes, scheme by scheme.

Mr LORD - We can give you a rough estimate straightaway or we can provide the exact position.

Mr HALL - It would be useful.

Mr LORD - Where I do not get it quite right, Chris will correct me. Sassafras-Wesley Vale[✓] is all taken up except for 40 megalitres which we are keeping just in case there is some needed for industrial purposes.

Mr OLDFIELD - In fact we are starting to get requests now for additional water out of Sassafras-Wesley Vale over and above what we can supply.

Mr LORD - At Whitemore 70 per cent has been sold. The Lower South Esk is now all sold because a private investor bought it.

Mr HALL - You may have them there?

Mr LORD - Yes, we do. Read them through, please, Chris.

Mr OLDFIELD - Of Whitemore, 70 per cent was taken up initially. Sassafras-Wesley Vale, effectively 100 per cent; Headquarters Road, 76 per cent; Winnaleah, 70 per cent; Lower South Esk, 100 per cent, so it is all sold; the Midlands, 72 per cent but of that all the summer water has been sold so there is none available; Kindred North Motton, 60 per cent and, as the minister said the demographic there is the issue. With our recent sales that we closed at Upper Ringarooma we are about 65 per cent now.

What we also intend to do, because we are carrying that additional water, there is a cost to that so we have some plans to go to the market in probably February and run an auction on some of that remaining water. We are carrying the debt of that and we would like to clear that.

Mr HALL - Did you mention Meander?

Mr OLDFIELD - Meander is a scheme we inherited so we treat it a little bit differently. We do have available water left on Meander both in the pipelines and in the river.

Mr GREEN - There is a big opportunity for you there.

[10.00 a.m.]

Mr OLDFIELD - What we think we will do, because we want to protect the value of our water for the irrigators who have already purchased it, is make a decision as to how we bring that water to market. We will probably look at some of the pipeline schemes where there will be scarcity when they are sold out. In order to protect that earlier value we probably will not put all the Meander water on the market, but will pick out sections and put that to market.

Mr HALL - With the residual on most of those schemes, there is probably about 30 per cent unsold or thereabouts - have you, or will you, offer that to institutional investors at this stage?

Mr OLDFIELD - Once we have finished selling the water to the irrigation district we then sell it to anybody who will buy it. If the water goes to auction, anybody can purchase that water. To use that water there are still restrictions in farm water access plans, but anyone could buy that water.

Mr LORD - As a general statement of how we operate, the minister made a very clear statement in the House early on that when we go to the market with water, the landowners will be given first chance. It is what we call the 'initial price'. If the landowners in that district want to buy the water they may, and no-one else can buy the water at that time. If, once they have bought all they wish, there is still some there, then we will go to the open market. After that, it will not be closed again. Given we proceed to some offering in February - that will be open.

Mr HALL - Have you been to an auction system yet? Have you been through a process?

Mr OLDFIELD - This will be our first. There was an auction conducted for some of the Gunns' water this year and that was fairly successful, so we will follow that model. To answer your previous question, there is approximately 12 000 megalitres in total on Meander still for sale but that is divided between pipes and rivers. We will be careful how we manage that. Any water that we go to auction with will have a floor price not below what farmers paid for it. We are not going to detract from the value of the previous sales.

CHAIR - Staying with the finance economic model, am I right in understanding, with the \$100 million you are seeking from the feds, your expectation was to generate a \$50 million private contribution? Do you have any indication as to whether that may be achieved, whether there are sufficient expressions of interest? Can I also go to a point John made a moment ago about the searchable register - the key performance achievements in your annual report suggests that has been only partially achieved? Could you address that?

Mr OLDFIELD - The first step on these tranche 2 schemes that did not have previous irrigator committees is to form the committees, and the TFGA does that, and then we go to expressions of interest. We estimate what the scheme is going to cost to build, and what it is going to cost the farmers in capital and operating costs - what their contribution is going to be. Expressions of interest are based on those costs. If the expressions of interest that came back showed there was no take-up in the district, we would not proceed with the schemes much further. It is implied, therefore, that when a farmer comes to us with an expression of interest he understands what his obligations will be and that is factored into how much water he has put into his EOI. So far we have committees established in all those tranche 2 schemes. We launched the Circular Head irrigators group two days ago and we are going over to the east coast next week. The North Esk scheme had its first meeting last week and the other schemes have committees already in place. There is an indication from those farmers that they would be willing to contribute to capital.

CHAIR - And the searchable register, and the fact it has not been fully developed, according to the annual report?

Mr OLDFIELD - The register is a key thing we have to do. We have found there is not a good national standard on how these operate, so we have started it ourselves. We have a register now and the aim will ultimately be to have that online where it is fully searchable, and we are progressing through that stage now. The work we have done to date in developing those registers we have done in conjunction with financial institutions. It is important that whatever we do satisfies their demands - it is a work in progress but we have only recently finished our first four schemes. The building blocks are there for it to become far more accessible than it currently is.

CHAIR - Are you able to identify the total economic benefit to the state as a result of the first tranche?

Mr OLDFIELD - For the first tranche it is in excess of \$350 million - around about \$380 million, we think. The second tranche, we think, will be about an additional \$280 million. That is made up of the initial contribution, and the on-farm investment and the economic wealth that is being generated.

When these schemes have been up and running for a time it would be useful to go back and see how we have delivered. But we will need a couple of seasons. Last season was the first season for three of our new schemes and it rained a lot so we did not use a lot of those schemes. This year, the level of water we are supplying is higher than the peak last season. Once we have had two or three seasons, we will be able to see how this develops. In our Headquarters Road scheme, which is a fairly small dam, last year was the first season and very little water was used out of the dam because it rained a lot, but we still know that it generated economic wealth because farmers could go and plant potatoes with the confidence that they could finish them if they needed the water. As it turns out they did not, which is a good outcome for them.

Mr LORD - I will add to that and say that in some districts now the farmers are really looking to our schemes as an insurance policy. As Chris has indicated, the best outcome is that they do not draw water from the schemes. Why is this the case? What a farmer can grow will generally depend on water captured in their dam last winter. They know they can grow something, but they cannot predict how much - they are annual croppers and they are limited by available water. But if they have subscribed to water entitlements from, say, the Whitemore scheme, they are able to do business and guarantee production. They can say to prospective customers - 'I can produce this for you, but for me to make this commitment and make the necessary investment on my farm, I am going to need a five-year contract please. There will be price variations but I am going to need the certainty that you will want my product for five years. Given that I have water in the Whitemore scheme, I can say to you for the first time that I can deliver'.

If it is a season where the rain falls at the right time, like in the Headquarters Road area, that's the best outcome of all because farmers do not need to buy water, or pay the variable costs, or do the work on the farm to irrigate. But if they get caught, and there is a dry period, they can irrigate. This is a paradigm shift. Farmer leaders like Richard Gardner talk about the reliability of our schemes, which we have not touched on this morning.

One of the engineering parameters is that the water is 95 per cent reliable. That is special in Australia. This enables horticulture. We are offering farmers reliability - the insurance that enables them to plant and say to the markets with certainty that they can deliver. In many districts this has never been available before. The best outcome is if we build the schemes and we do not use them. In the future we can look at the economic wealth created by these districts. Whether

we deliver water or not, will not be the test - it will be the confidence that we have given, the insurance policy value. We will be able to look back and say, 'They were producing that much, and, one way or another, they are now producing this much'. That will be the test.

CHAIR - Chris, can I come back to you. You said the first tranche has generated \$380 million in economic benefit to the state. Does that take account of the usual economic modelling of a 1.5 multiplier when you talk about the construction materials, transport, hospitality - all those sorts of things that are happening at the same time as the construction goes on?

Mr OLDFIELD - Yes, it does. When we do our economics, they are very conservative. Some of the value-add during construction we probably do not take into account, but certainly in operation, the on-farm expenditure and the impact that has on communities in terms of employment, is factored in. If we look at the activity that comes as part of construction, that is the blue sky benefit of these schemes and anybody who drives through Campbell Town now will see Fulton Hogan utes and equipment all over the place. They will see Hazell Brothers who are established in Oatlands - a lot of construction activity. There are a lot of pipes being manufactured in the north-west and Zest, a local producer, you will see those moving down.

A lot of that stuff is not factored into our economic case but it is the reality that the Midlands, at peak, will have 140 people working on that scheme and that will have a significant and economic impact on Campbell Town.

Dr GOODWIN - I want to explore this theme of economic development or benefit a bit more but around the work of the Irrigation Development Unit, which continues that 'wealth-from-water' type work. It is one thing to get the water to the farmers but it is another thing for them to work out what sort of opportunities there might be for them. How do you measure that success because that is also in the Courtney indicator?

Mr GREEN - We are going to organise a forum for them, number one.

Laughter.

Mr OLDFIELD - I may ask Luke because he has headed that unit up. In the Irrigation Development Unit we have been given two staff members by state government, one from DED and one from the minister's department, DPIPWE. One of those is involved purely in helping attract investment. The second one has come out of the wealth-from-water program where our key role is also helping to attract investment but it is ensuring that we can do the best to use the resources that we have until their farm has maximised the value of that water.

Whilst there is not 'I'm going funding from wealth-from-water' as such, there is sufficient funding to ensure that we can continue the access information that exists currently so we have organisations such as the university through TEER - Tamar Estuary & Esk River program, through DPIPWE. There are people who have done a lot of work there. We can provide a focus for that work and we are now developing strong relationships with various sections of DPIPWE, DED and the university to ensure that information is kept current and available to farmers.

So that IDU has two functions and the way I measure its success is how much water we sell but a key component will be how much value we add to farmers who want to know what to do with that water.

Dr GOODWIN - How do you measure the value-adding because from some of the material I have seen there have been surveys of farmers and they have described what they are now growing as compared to what they were previously growing? That is one indicator, but how do you get to the crux of it and measure it?

Mr GREEN - Yes, see the future.

Mr OLDFIELD - A crude indicator is how many pivots have been sold in the state in the last year and we think the answer was 115. They are six-figure pieces of equipment, as you know.

When these things have been running for two or three years go back and check some of the parameters. It won't necessarily be new crops, it will be the reliability of an existing enterprise mix but what we are trying to do is attract new ideas into the state and to build on the state's brand.

I have been with the Premier to the trade missions to Asia. Tasmania has a unique brand when it comes to states in Australia. If you go to the supermarkets in Japan you see Tasmanian-branded beef, you do not see Queensland-branded beef. We want to build on that in attracting investment and looking at new things to grow. Our IDU, in a very small sense, is helping do that but we are not doing it in isolation, we are doing it with a strong relationship with DED and a very developing and strong relationship with TIA - Tasmanian Institute of Agriculture.

Mr GREEN - And NRM - Natural Resource Management - I have asked them to think about issues associated with the salmon industry. There is a really good opportunity from a rotational crop point of view to look at growing protein for the salmon industry.

Mr OLDFIELD - We provide water for the salmon industry now in two ways. We help them with the hatchery, they buy water from us and we own an operation near Geeveston, a small dam, where that water is made available because salmon have to be bathed in fresh water twice a year, I think. They are customers of our irrigation system.

Mr GREEN - There are rotational crop opportunities, potentially, and a whole range of other crops. Nobody is talking about hemp at the moment but they were for a while. Now you can potentially sell the oil for food.

Mr LORD - I expect there will be a ramp-up time. The Coal River Valley was 20-something years, but it will not be that length of time in other districts. We have lead-in times in some of the districts, especially those where they do not have water at the moment. I can think of one in particular who will plant a whole lot of test things in a small area of land to find out what will grow in her district. I expect we will find that over a period of years there will be a move into higher value, probably horticultural, enterprises. It will not be a green Midlands when you drive through in January and February. It is a large area and there will be pockets of intensive irrigation and the rest will be farmed as it is currently farmed, but we will not click our fingers and see these enterprises now.

We have to enable people to acquire access to the water and then conduct the experiments on their farm and in the marketplace. Tasmania has a wonderful story to sell and we can provide a backstory for products. We can go to all sorts of people around the world who need things and

say, 'We can give you a single source of supply with a backstory behind it'. In some cases this is not possible with some of these industries now. It is not going to happen next year, but in five or 10 years time there will be some very interesting things happening. What we are doing is providing the opportunity.

Ms FORREST - With regard to the impairment of the schemes, they are impaired fairly promptly - about 90 per cent impairment - is the impairment really a proxy for the cost of the water entitlement sold? With the Sassafras-Wesley Vale scheme there were sales of \$6.1 million and impairment was \$11.8 million. Another was \$4.3 million sales and \$9.7 million impairment. Winnaleah was \$3.9 million sales and \$9.7 million impairment. What is the real purpose here?

Mr LORD - This is not easy; this is accounting standards. Let me give you an example. If I sold you and Jim something for \$50 each, but if it cost me \$100 to make the sales, my profit and loss account is going to show zero. The situation we have with the funds coming from government - some of our sales are from government and some from the private sector - we are not allowed to treat the cash from government that is received for construction as income. In this case, we receive \$100 - \$50 from you and \$50 from Jim - and we spend that on construction, but we are only allowed to show his \$50 as income. We have to take your \$50 to equity, so we have an imbalance in our profit and loss account because of the accounting standards. In this case we do not buy product to sell to you, we construct something. We spend \$100, we go to the minister and buy a pump or something and it is in our balance sheet as \$100 but because we are not going to generate a profit from the use of that, because the future use of the scheme is at cost, we cannot keep that asset in our balance sheet at value. You have to show it in our balance sheet at what it cost us, or the future value. There is not a future value so we have to write it off.

Ms FORREST - Sometimes there is no future value of any of the scheme. You are not going to make a profit. It is a cost recovery. It is a government policy issue. I assumed when we passed this legislation it was to establish a state-owned company and there is in my mind an expectation there will be some cash benefit to the state, not just economic benefit. We are talking about the economic benefit. There was obviously a policy at the time not to expect that, even 20 years down the track, assuming this is still going and we are getting all these innovative crops and great benefits to the state in other terms and to the landowners. Can the impairment be reversed and we see some benefits flow in dollar terms to the state for the taxpayers' money that has gone into it?

Mr GREEN - If you look at the iteration of Tas Irrigation in the first place it was established initially to build schemes and we have taken a decision since that time to incorporate the Rivers and Water Supply Commission and the other irrigation scheme -

Mr OLDFIELD - The TIDB, TIS and Rivers and Water.

Mr GREEN - Yes - to incorporate all those together. From the policy point of view we are slightly exposed when it comes to the operation of this organisation and returning a profit to the government but I think there is a clear understanding of why it was established in the first place. But that is not to say that once the constructions are all finished and over time we couldn't get into a position where it could make some money. But it is certainly not the case now.

Ms FORREST - I understand it is not the case now and I appreciate why it is not the case now but I am looking to the future here as well. The chairman has said each year here about the great benefits of the company and -

Mr GREEN - I understand what the premise of your question is as well but right at the moment we are not in a position to leverage that. There has been a whole cultural shift. People talk about 10 years into the future with respect to what we might grow but if you look back 10 years, those people who had so-called water rights along rivers and streams in Tasmania in the past effectively got the water for nothing. Through a series of steps we've got to the point where -

Ms FORREST - They are willing to pay for it.

Mr GREEN - Yes. We are effectively there now and we are seeing water traded now. It has changed a lot.

Ms FORREST - It is small steps but we have a long-term view here for this state.

Mr GREEN - We do, that is true. It is intergenerational infrastructure that we are building and there is no doubt about that.

Ms FORREST - Yes, and 100 years was mentioned so surely we need to have an eye to that. I'm not going to be here and I don't think you are either. I don't think any of us will be here.

Mr GREEN - The oracle.

Laughter.

Ms FORREST - Once all the capital investment has been made, obviously there will be maintenance and things like that, that will be ongoing.

Mr GREEN - You are probably right. I am not sure about the history of the operation of schemes like this around the world but your question is right and your answer is also right.

Ms FORREST - The capacity is there, though, for that to happen.

Dr GOODWIN - In the annual report you talk about the assets and your levies. Can you explain how they work?

Mr LORD - When you build infrastructure that has a long life you know what will need to be replaced. You might say it will last for 200 years but there will be some monitoring that will need to be done. With pipelines there is some work to be done. With pump sets the life is shorter and so if we were planning for 200 years we would need to replace the pumps at certain stages and they are a very expensive item. We do not wait until we have to replace the pumps next year because they cost a fortune. We plan and we charge on all the schemes an asset renewal levy so we direct and put aside cash at an amount that matches what we believe the lumpy repair expenditure will be to maintain the scheme at the capacity, basically. With Cressy, Longford and Winnaleah, the schemes that have been operated by those districts now for some years, these are the figures in the financial statements. The amounts that are there are the amounts that the irrigators have paid into a fund and we hold that in separate bank accounts and those funds are there to pay for the lumpy repairs and maintenance. It is a fully funded, ongoing maintenance program put in place.

Mr OLDFIELD - Those asset renewal levies are based on an asset management plan and that is done in conjunction with the local irrigator group.

Mr LORD - The asset renewal levies are paid by the irrigators as part of their annual levies every year in cash.

Mr GREEN - A 10-year management plan?

Mr OLDFIELD - I think it is a rolling five-year asset management plan that we have and again they do that in conjunction with the local irrigators. As the chairman said, the alternative is not to charge anything and then have big hits every few years. If farmers wanted to do that, that is something that we would consider, but the average farmer does not want to do that at all.

Dr GOODWIN - Do you have a breakdown of the costs the farmers are paying and how it has varied across the last couple of financial years?

Mr OLDFIELD - We can break that down precisely because we run these schemes to cost so we do it in conjunction with the irrigator groups. When we look at the fixed costs and we break it into components of scheme administration and asset, we can detail that precisely. The variable cost is a reflection of what it costs to run pumps and where we have to pay for water. Sometimes we do and sometimes we do not. That information is available to the last cent and is made available to the irrigators as an open book.

Mr WILKINSON - An issue in a number of states for a number of years, as you would be aware, John, relates to where you have water rights and where you own the property. As often happens, the father or mother in a will could leave the property itself to the son and the water rights - I have known a couple who have done this - to the daughter. If they are separated it can cause real problems. If the daughter, for some reason, wants to sell her water rights, the brother could say he has the property and should be able to buy the water rights. It causes a real problem where you have the water rights split from the property itself. You say the value of the property increases partially because of the water rights but what is the view in relation to that? Is there any way to prevent this from happening? It has caused real problems in Victoria, I know for a fact.

Ms FORREST - A lawyer's field day.

Mr LORD - No, I may offer a legal answer.

Mr GREEN - Set up a tent at Agfest.

Mr LORD - I think it is reasonable to protect members of the public from things that third parties might do to them. But I think it is very bad policy to introduce rules and regulations to protect people from themselves. What we are providing is an opportunity. The families have to understand what they have and if they muck it up in their wills, or their advisers do, I'm afraid that's their funeral. We are providing an opportunity with an awful lot of flexibility. It's not only the economic benefits that will come through things being able to float to their highest economic value, it does provide the families with tools. They are not stuck.

It is up to us to assist the advisers. Our team has run a number of forums for the professional advisers - legal, accounting, agricultural consulting et cetera - in this state to explain our registers, the flexibility with the trading, permanent and temporary. Families are now starting to learn about

this and it is not easy, so it is going to take a while for the farming community to understand. I would be hoping that the advisers who practise in this area have come to the seminars or talk to Luke who will explain. I think what we are providing them now are tools that will be more useful and more flexible than they have had in the past. It is going to be up to them to do their succession planning and their designing. It will not work if we put in place rules to do it for them.

Mr WILKINSON - That is good. I am not here to tell stories, but it has happened on a number of occasions, as John would well know and it has caused families to completely implode.

Mr LORD - I understand that but it is up to the families and their advisers to get their act together.

Ms FORREST - You would have to get decent advisers.

Mr WILKINSON - What is the latest update in relation to the operation of publicly searchable registers for water entitlements?

Mr OLDFIELD - They are progressing in their construction and we have had to develop a lot of intellectual property behind those registers and we have had some skilful people doing that. We have developed those registers in conjunction with financial institutions, so whatever we produce is satisfactory to lenders of money. We have had a close relationship with most of the major rural lenders in the state. That is progressing. It is a work in progress and by the end of the year we hope to see we are further down the track. The registers exist now; they are robust and they can be searched. We have developed a new web presence in recent weeks where water trading can now take place online, where ordering can take place online and ultimately, we would like to see our registers available in the same way.

Mr WILKINSON - Already there is a fully functioning and operating water-trading market?

Mr OLDFIELD - No. The market is in its early days in Tasmania. Nationally, that is up and running. We are starting to see some trades here now and we report on a monthly basis the trades that take place within our scheme because there are requirements for us to be aware of what is happening so we maintain our registers. We are organising our first public auction in February. We are trying to encourage some opportunity for farmers who own water to be part of that auction, if not at this time then in the future. We would also like to see existing state licences starting to be traded more in the same way. That gets back to that basic theory that, if water is traded, it reaches its best value and then its best outcome. It is early days for water markets here but they are well-established on the mainland and we will see them develop here.

[10.30 a.m.]

Mr WILKINSON - And trading has already commenced here you say?

Mr OLDFIELD - Yes, we are seeing that now.

Mr WILKINSON - To what extent?

Mr OLDFIELD - Not a lot. Each month we report to the board with three or four trades. Both in terms of the irrigation right and in terms of the zone flow delivery right that the chairman mentioned because they can be traded separately. We report on those each month and we are starting to see one or two trades per scheme.

Mr WILKINSON - Have you got any investors in the market, people just investing in water, at the moment, nothing to do with wanting to use it to farm?

Mr OLDFIELD - We have had one major investor from the mainland who has purchased over \$10 million of water and he has no direct plans for that water but I know there are a number of parties who have been in touch with him on a regular basis with proposals and he will consider those. In our upper Ringarooma scheme, where we have just completed water sales, for the first time we have seen farmers buying water as an investment product. We know of two farmers who have bought a sizable amount of water with no intention of using it on their properties but they see it as an investment for the future. They may add that to their land when they ultimately sell it or trade it on a short-term basis across the scheme.

Dr GOODWIN - I have a question around the amalgamation of the three entities into one and the savings that resulted from that. You provide a bit of information in the annual report but perhaps not the full picture so I am wondering if it is possible to get a breakdown of that.

Mr OLDFIELD - There have been some savings. The first one has been in terms of people. We automatically took on the people who were in TIS when we merged. Some of those have moved on and some of those positions have not been replaced. For example, there was a CEO of TIS which no longer exists in that function as it has become part of mine, but we have also managed to rationalise some offices. TIS had an office in Salamanca, we started to use that, we were using department offices, we moved out of that and we have subsequently moved offices again because we found cheaper accommodation. There have been some savings and, importantly, there have been some efficiency gains. I believe that the way that we administer our registers, the way we price water, the way we interact with irrigator groups - and this is no reflection on TIS - it is just that things have developed.

I think that we do that pretty well and the irrigators who have now come under our umbrella as opposed to TIS would also say that there has been some innovation as well as straight financial savings introduced.

Dr GOODWIN - Are you able to quantify the amount of the savings?

Mr OLDFIELD - We could. It would be in things like rentals and staff if we had to do that. At the same time, we have also grown in other areas because we have had to employ operators. Not a lot yet but then we try to maximise their value by putting them across schemes. There would be some synergy savings.

Mr GREEN - Have you ever had a tour of the schemes?

Dr GOODWIN - No, I haven't.

Mr GREEN - You should.

Dr GOODWIN - It would be good.

Mr OLDFIELD - We would be delighted to.

Dr GOODWIN - On the flip side of that, has there been any downside to the amalgamation of the three entities? Hopefully not.

Mr GREEN - From my point of view as minister, it went very well. Leading up to the decision it was pretty tough for some organisations but I am more than happy with the way it went.

Mr OLDFIELD - If there were any downside, it would be that the cultures of the two businesses were quite different. When you have any merger or acquisition or takeover either in public or private life, there are going to be some difficulties and we have tried to manage that as well as we could and where it has not worked out I think those people have been treated with dignity. It is always going to happen when you merge organisations.

Mr HALL - It seemed that the Auditor-General was concerned about the capacity to generate sufficient revenue to fulfil both your operational requirements as well as depreciation. Have you any comment on that, minister?

Mr GREEN - We touched on that a while ago.

Mr HALL - I just wanted to see if I get the same answer.

Mr GREEN - As at this stage, we are operating in a construction mode. In future, it is true, we will have to be in a cost-recovery, neutral position at least, if not better, with respect to the ongoing management. Then the Rivers and Water Supply Commission would have to consider how we maintain the normal role that would be undertaken from that perspective.

There are decisions to be made at some stage in the future about the structure of the organisation. We have always said that to them and that is why people are employed in the way they are. Everybody understands the phase we are in. We are prepared to think about how we may be able to utilise skills in the future but you would want a pretty tight model of that as well. We have had some preliminary discussions about where they may be able to help in other areas but they are very preliminary at this stage.

Mr HALL - There was a bit of interchange between Vanessa and Mr Oldfield about administration. You will try to get as many efficiencies in your administration as possible.

Mr OLDFIELD - Yes, we will and it is a discipline that we are starting to increasingly ensure takes place across the business. We know that, ultimately, if we are being funded purely on an operations basis, it has to be self-funding. The test now is, when we do something, how are we going to pay for it and that is a discipline that will increasingly become relevant as you move from the construction phase into operations. At this stage, we have no recurrent funding. We have to ensure that we are self-funding, so when we spend money, we have to know where it comes from and we have to justify that to the irrigators who are paying for it. What we do not want to see is one scheme subsidising the other. That cannot happen because that would be unacceptable to those irrigators. That is where there has to be discipline that, if we are going to spend something, the money has to be available and it is coming from a farmer's pocket, so we have to be accountable for that.

Mr HALL - If I could be the devil's advocate for a moment, it has been tremendous and I have always been a supporter of the irrigation schemes that have been developed and are proposed

throughout the state. There is a school of thought amongst some producers that expansions into the Midlands, for example, will create more land available for poppies et cetera and therefore, there is probably only a finite number of contracts which will be available to farmers in a lot of commodities. Therefore, the processes or other entities will be able to dilute the prices. That is a real concern amongst a lot of existing farmers, that the markets are finite.

Mr GREEN - I am aware that there is another process going on in the Legislative Council looking into issues associated with the poppy industry. In my humble opinion, you will discover that there is a huge growth in the demand for that product going forward on a world scale, and Tasmania needs to be in a position to meet that growth in demand. Already, the manufacturers are putting pressure on Australia to allow for the production of poppies elsewhere in Australia and in New Zealand, and there is the very topical issue of the importation of straw. My view is that what we are doing by this is positioning Tasmania for an expansion phase, that we provide more opportunity to increase our manufacturing base and stabilise the industry in Tasmania as opposed to the other way round.

I know that there is a fairly tight-knit group in the poppy growers organisation that believes some of the decisions the government and I have made are contrary to their best interests.

Mr HALL - I was not trying to be specific about poppies, but a range of crops as well.

Mr GREEN - I think it is relevant, given you mentioned poppies, that I talk about that issue. I am looking forward to the finalisation of the process that is being undertaken with your inquiry, because I believe, in the end, we will all discover we need to have a more open mind about how we operate that industry in Tasmania. While the analogy is not completely true with biosecurity and apples - we have very tight biosecurity for apples. Does the importation of apples mean we are not the Apple Isle any more? No, it does not. We have to think about how we consolidate manufacturing in Tasmania with these businesses.

Ms FORREST - And downstream processing.

Mr GREEN - Yes, the downstream processing side.

CHAIR - Minister, I will focus you back to the question. It was broad in terms of other commodities. You have focused on this to make your point, but could we get back to the specifics of the Midlands.

Mr GREEN - In other areas, my expectation is the Midlands will provide opportunity for a diverse range of crops. I hope we see expansion, opportunity, and jobs as a result of this.

Mr LORD - We believe there are some major industry sectors, dairy for example, where there is market demand for significantly increased volumes of milk. Some of the major commodities produced are not at a finite market. The second thing - and I am speaking about the district I live in, the Cressy/Longford plain - is we have duplex soils, shallow soil and then clay. We don't have deep red ferrosol soils like the north-west. In our district, I do not believe the paddocks can be cropped and cropped. You cannot plant poppies and poppies and poppies; you need a rotation. I expect some of the poppy rotations were a little closer together than they perhaps should have been. I think some of the water in some of the districts will enable there to be a lengthening to more appropriate rotation times, so we can look after our soils properly. If we

can bring in other crops that have some value to provide a worthwhile rotation, it will enhance the sustainability of the existing poppy industry.

Ms FORREST - John, you spoke earlier about some of the environmental harms in other states. Have there been any environmental issues with any of the schemes here? Some of them are very new and you probably would not have had time to ascertain that. When the discussion first happened it was about the food bowl, and the salinity issues in the Midlands. What is happening with that?

Mr OLDFIELD - To date there have been no environmental incidents that I am aware of. All our farmers have to have a farm water access plan before any water can be applied to their land. It is a whole-farm planning approach, but individual modules look at soil and salinity et cetera. They were designed to avoid the very problems we are seeing in the Murray-Darling Basin. They are a binding document; we will not deliver water unless they are in place. They are also audited each year and we have to audit a set percentage to make sure farmers have applied water in accordance with those plans. We think that is the best chance of ensuring good environmental outcomes. And, there is state and federal legislation we have to abide by as well. We have not had any environmental incidents of any real significance at this stage.

Mrs ARMITAGE - I know this is your first year as a wholly-merged company and it is probably difficult to get comparatives in the first year, but with regard to your expenses are your employees 36 FTEs?

Mr LORD - Yes, 36 or thereabouts.

Mrs ARMITAGE - The word 'other' always concerns me. 'Other employee entitlements' - I notice your salaries and wages have gone up very minimally but your 'other employee entitlements' have gone up by \$166 000. What are covered by 'other employee entitlements'?

Mr OLDFIELD - Some of that would be vehicles. We have people who are mobile and we have a number of vehicles.

[10.45 a.m.]

Mrs ARMITAGE - So they are classed under there, as opposed to -

Mr OLDFIELD - I believe that is where they would be shown. Some of those are entitlements and some of those are tools of trade but there are no other employee entitlements over and above superannuation.

Mrs ARMITAGE - There is a large increase from last year - \$166 000 over and above 2011, when your wages have only gone up minimally.

Mr OLDFIELD - Yes, the bulk of that would be vehicles. I will ask Luke to answer.

Mr CURTAIN - It would also be a shift in our staffing. With the merger, there was a lot of administrative staff, and there were some redundancies in their use. We also increased our operational base, and part of that operational base is a requirement for vehicles.

Mrs ARMITAGE - While we are talking about administration, you said there were a few savings with the reallocation of offices, but I notice that office expenses have gone up a bit. I am

assuming that is because you have moved office a couple of times, but the other administration expenses have gone up \$162 000 from last year.

Mr OLDFIELD - You can see a lot of that is in audit fees - external audit fees went up.

Mrs ARMITAGE - I am looking at the bottom - 'other administration expenses', not the first part. You often wonder what the word 'other' encompasses - a lot of things can be thrown in under that heading.

Mr OLDFIELD - Yes, they could be.

Mrs ARMITAGE - I wonder why that has increased such a lot from last year when there are going to be savings. Can you explain what might come into 'other administration expenses'?

Mr CURTAIN - That would be additional overhead or staffing requirements and the additional cost of bringing in the different types of staff that we have in our organisation.

Mr OLDFIELD - But it is also the first year where we have taken into account the activities of TIS as well.

Mrs ARMITAGE - I appreciate that.

Mr OLDFIELD - We have taken over additional staff, additional liabilities. So next year, I guess, in comparison -

Mrs ARMITAGE - No, I realise it is a bit difficult being the first full year but, as I said, the word 'other' always raises a few questions.

Mr WILKINSON - The state government has mentioned that it would do all it could to lure irrigators to the state. Has it done that? If so, how many, and where?

Mr GREEN - I remember that. They were going to have a major sojourn to -

Mr WILKINSON - They were.

Mr GREEN - Then they were flooded out up there.

Laughter.

Mr GREEN - As the chair and CEO have mentioned, we have had one major investor in water in Tasmania and that will provide the catalyst for people to understand, and pardon me for using this phrase, that the state is open for business when it comes to irrigation opportunities. There is a far greater maturity within the sector than there has been in the past with respect to recognising the opportunities to expand. Dairy is growing; a surprising number of dairy farms are on the market. There are opportunities for people to invest in Tasmania, if they are interested in dairy.

Mr WILKINSON - So, not much has been done because it doesn't have to be done? Is that what you are saying?

Mr OLDFIELD - There was a plan, as you know, to go and do a major push into the mainland but then they were flooded out so we haven't done that. But we do have quite a strong presence, nationally. People now know what we are doing here and we are getting irrigators from Victoria coming to see us. New Zealanders certainly know but we have not done a push into the other states per se.

Mr WILKINSON - Is there a need for a push? From listening to you, it would seem that there isn't.

Mr LORD - In my view, Jim, water is the ultimate finite resource. It will take a little while for a lot of that to settle but in the longer term, in my view, this is probably Tasmania's single greatest sustainable competitive advantage. We have a small amount of land and vastly more than our proportion, on a national basis, of water and we will have that forever.

Mr WILKINSON - We have 20 per cent of the country's water.

Mr LORD - Yes, it is a large percentage.

Ms FORREST - It is 12 per cent.

Mr WILKINSON - I thought it was 20 per cent.

Mr LORD - It is between 12 or 13 per cent - I share your view. I think it will happen - it will not happen next year - it will take a little while because with agriculture the cycles are very long, and capital investment from the private sector is long term. Our role is to provide an opportunity and then leave it to the innovation of the private sector to pick their gaps and develop them.

Mr WILKINSON - Thank you.

CHAIR - You mentioned intellectual property earlier - are there opportunities for the business to build that? I think of the Hydro consulting model, for example.

Mr OLDFIELD - Yes, there is. We do some limited consulting now. If we do, we seek the authority from our minister so we have done some consulting work in a very limited sense. That is not so much on our IP, it is on our project management skills. We have helped a couple of people. We think there is a market for our IP, particularly in our water registers and our trading rights, but we will be very careful how we market that and usually they would like it free but they are not going to get it free.

CHAIR - The other matter is - and please take this on notice and get the information back to our committee secretary - can you give us a breakdown of the successful construction companies which have participated in the rollout of the scheme so far? It would be interesting to understand the mix of overseas successes as opposed to local.

Mr OLDFIELD - Certainly.

CHAIR - Thank you very much, minister, and members of the organisation.

Mr GREEN - I thank you, Chair, and the committee, and also the irrigation staff who have assisted us in the preparation for today's hearing.

The committee suspended at 10.51 a.m.