



Australian Government

**Department of the Environment,
Water, Heritage and the Arts**

COMMONWEALTH ENVIRONMENTAL WATER HOLDER

2008-09 Business Plan

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1. The Business Plan

1.1 Purpose

This business plan has been prepared for the use of the Commonwealth Environmental Water Holder (CEWH) and the Department of the Environment, Water, Heritage and the Arts (the Department) to:

- Guide the CEWH's activities in 2008-09, ensuring that
 - the most effective use is made of available environmental water;
 - obligations under the *Water Act 2007* (the Act) and other relevant legislation are met;
- Provide a basis for business plans in subsequent years; and
- Communicate with stakeholders about the approach that is being taken.

Any comments on this plan or on CEWH activities generally can be forwarded to cewh@environment.gov.au. The plan is not a fixed document and activities will change within 2008-09 and for future years.

1.2 Objectives of the CEWH

The objectives of the CEWH are set out in Part 6 of the Act. They are:

- to manage the Commonwealth environmental water holdings (the holdings) on behalf of the Commonwealth; and
- to administer Environmental Water Holdings Special Account (the Special Account) on behalf of the Commonwealth.

In 2008-09 these functions will be undertaken in the context of:

- receiving the first water entitlements from the programs of *Water for the Future*, particularly in the Murray-Darling Basin (the Basin);
- receiving the first allocations against those water entitlements;
- establishing procedures for many of the CEWH's activities
- operating in the relatively new and evolving field of environmental water management;
- significant variation in water management arrangements between the various water entitlements and the States;
- guidance on environmental watering plans, and updates to these over time;
- a variety of water and environmental water management bodies whose activities may intersect with the CEWH; and
- continuing dry climatic conditions and a generally poor outlook for allocations.

During 2008-09 the CEWH will:

- enter into environmental watering partnerships or other arrangements to ensure that the 2008-09 water allocations are used to protect or restore priority environmental assets;
- develop a longer term strategy for performing its environmental watering functions effectively;
- establish administrative and management information systems to enable it to meet its statutory objectives and other requirements;
- produce an Annual Report for the Minister; and
- develop capabilities, procedures and arrangements within the Department, particularly other areas of the Water Group, and externally which will enhance the CEWH's longer term performance of its statutory functions.

1.3 Context

The management of water entitlements for environmental watering is a relatively new field in Australia. Although some states and the Murray Darling Basin Commission currently hold and manage environmental water entitlements, the collective experience in this area is limited and evolving. The CEWH functions are new to an Australian Government agency.

There is currently an urgent need for more water to be allocated to the environment. Allocations in 2008-09 are expected to be low although these could vary substantially during the course of the year

In this context, we will broadly approach 2008-09 so that we:

- retain flexibility – both within the year and in regard to future years;
- develop working relationships and clarity of roles (as a basis for future arrangements);
- build expertise and skills; and
- continually review and update policies, procedures and priorities.

This business plan is framed accordingly.

1.4 Content and Structure of the Business Plan

Section 2 deals with the nature, functions and relationships of the CEWH. These define its characteristics, objectives and resources.

Section 3 deals with activities relating to using water.

Section 4 deals with managing the holdings.

Section 5 deals with governance and financial management arrangements of the CEWH, including the operation of the Special Account, record of holdings, the Annual Report and other administrative issues.

Section 6 provides a Work Plan of activities including timeframes and level of priority.

2. The CEWH – Nature, Functions and Relationships

2.1 Nature of the CEWH

The CEWH is appointed under s115 of the Act with statutory functions contained in Part 6 of the Act, which are performed on behalf of the Commonwealth. The position holder must be engaged under the *Public Service Act 1999*. The appointee can delegate any of his or her powers under the Act to an employee of the Senior Executive Service (s117).

On 16 April 2008 the Secretary of the Department (the Secretary) appointed Mr Ian Robinson, to the position of the CEWH. Mr Robinson also holds the position of the First Assistant Secretary of the Water Governance Division.

The CEWH is subject to direction by the Minister or the Secretary in undertaking its functions with the exception of trading in the holdings, entering into contracts for those purposes, and in maintaining a record of the holdings (s107). Any directions must be reported in the CEWH Annual Report (s114) (cf section 5.4.3). The Minister may also, with Parliament's approval, make operating rules (s109) about water trading. Operating rules are intended to provide general direction on water trading.

2.2 Functions and Activities of the CEWH

The statutory functions of the CEWH are (s105(1)):

- managing the holdings on behalf of the Commonwealth; and
- administering the Special Account on behalf of the Commonwealth.

Managing the holdings involves two core **operational activities**:

- establishing the holdings and refining the holdings over time to ensure that they can efficiently service environmental water priorities (s105(2)(a-b)); and
- making water allocations available for use in environmental watering activities. (s105(2)(d-e));

Managing the holdings includes three core **administrative activities**:

- managing the Special Account (s111-s113);
- maintaining a record of the holdings (s105(2)(c)); and
- producing an Annual Report (s114).

It will be important for the CEWH to undertake monitoring and reporting on operational outcomes, practice good governance and risk management processes, and actively engage with internal and external stakeholders.

The functions of the CEWH are to be performed for the purpose of protecting or restoring the environmental assets of the Murray-Darling Basin (the Basin) and other areas outside the Basin where the Commonwealth holds water so as to give effect to relevant international agreements referred to in s4 of the Act. The CEWH must manage the holdings in accordance with relevant environmental water plans

(the Basin environmental watering plan and plans listed in regulations), the Minister's operating rules and environmental watering schedules to which the CEWH is party (s105(4)).

The Basin Plan will be prepared by the Murray-Darling Basin Authority (MDBA) under Part 2 of the Act. The Basin Plan includes an environmental watering plan (EWP) (s28). The Basin Plan is scheduled for completion in 2011.

2.3 Organisational Relationships

2.3.1 The CEWH and the Environmental Water Holder Section (the EWHS)

The CEWH is supported by Departmental officers (s116) principally from the Environmental Water Holder Section (EWHS) within the Water Governance Division of the Department.

The EWHS reports to the Assistant Secretary (Market Development) and in turn to the CEWH who is also the First Assistant Secretary of the Water Governance Division.

The EWHS currently comprises seven officers and the Department meets the costs of employing these staff.

2.3.2 Relationships within the Department

The Department's Water Group comprises three divisions: Water Governance, Water Efficiency and Water Reform.

The Water Efficiency Division (WED) manages the *Restoring Balance in the Basin* program that is part of the Government's *Water for the Future* policy. The entitlements purchased under this program will be managed by the CEWH. The WED will also be managing the *Sustainable Rural Water Use and Infrastructure* program. Where projects funded under this program result in water savings, it is intended that a proportion of these savings will be acquired as water rights to be managed by the CEWH.

The Water Reform Division (WRD) is responsible for providing the Department's advice to the Department's programs (eg *Restoring the Balance in the Basin*) and to the CEWH on the environmental priorities to which water should be allocated. WRD will also provide input to the MDBA in the development of the EWP.

The EWHS is responsible for managing (under the direction of the CEWH) the holdings and for the negotiation and implementation of environmental watering agreements.

Apart from the specific roles above, the CEWH will consult across the Water Group and with external experts to ensure it has the necessary information to make decisions on the use of the environmental water.

Figure 1 shows the distribution of environmental water responsibilities within the Water Group of the Department together with the role of the MDBA.

2.3.3 Relationships with the Murray-Darling Basin Commission and the Murray-Darling Basin Authority

The Murray-Darling Basin Commission (MDBC) is currently responsible for:

- managing the River Murray and the Menindee Lakes system of the lower Darling River (in the case of the Menindee Lakes when there is sufficient water in the Menindee Lakes to bring the lakes into MDBC control), and
- advising the Murray-Darling Basin Ministerial Council on matters related to the use of the water, land and other environmental resources of the Murray-Darling Basin.

The MDBC manages The Living Murray Program, which aims to achieve a healthy working River Murray system. The program's first step is the recovery of 500GL of water for environmental purposes and is being implemented from 2004 to 2009.

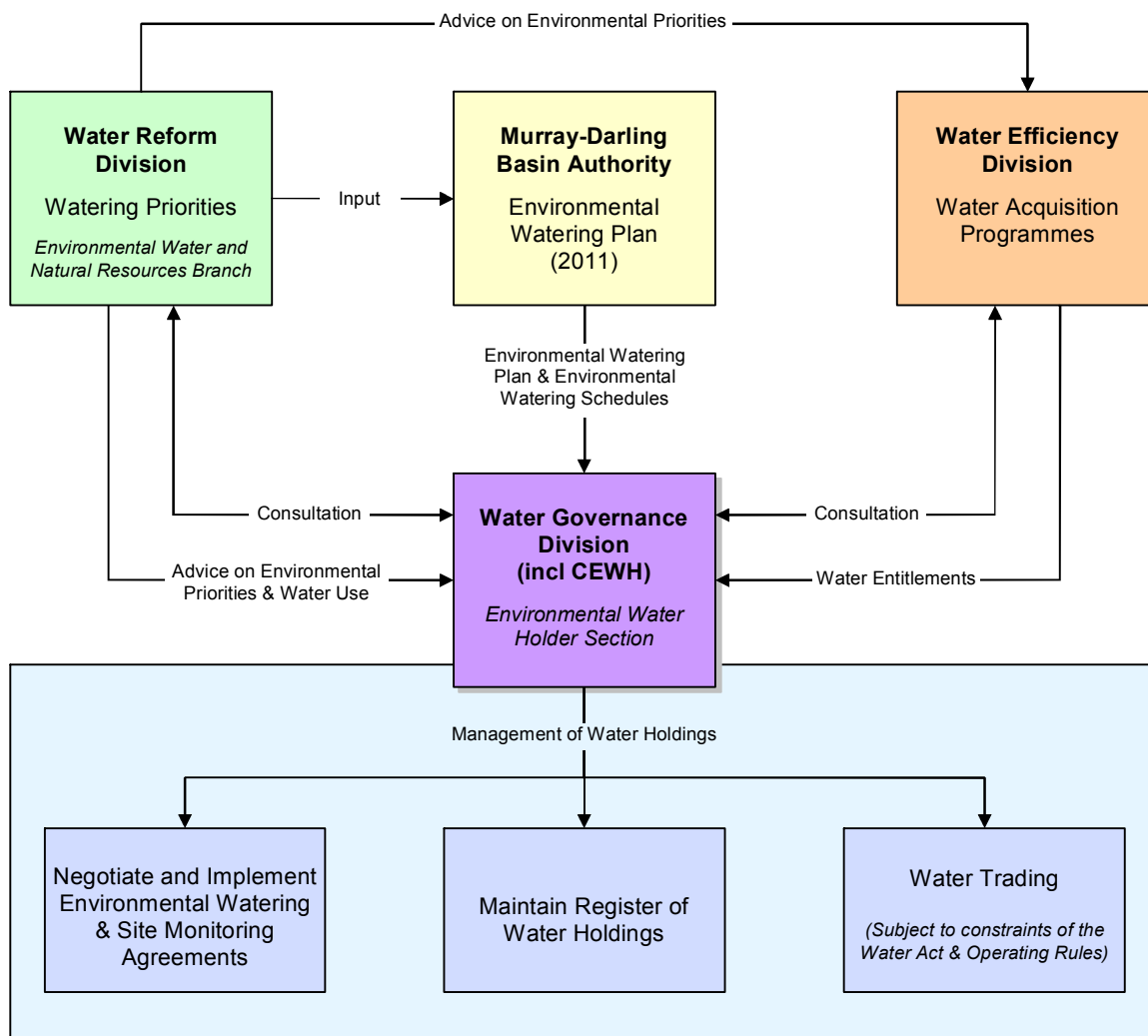
The CEWH attends the Living Murray's Environmental Watering Group to gain an understanding of existing activities and to consult on possibilities for coordinated use of the holdings and The Living Murray's environmental water.

As part of the Government's reform of the Basin, the MDBC is to be brought together with the MBDA. The MBDA will be responsible under the Act for the Basin Plan that will include the environmental watering plan. The CEWH must manage the holdings in accordance with the EWP (s105(4)(a)), once the Basin Plan is adopted.

The MBDA must consult the CEWH, and other environmental water managers in developing and implementing the EWP (s28 & 29);

The MBDA is responsible for identifying and accounting for environmental water under the Basin Plan and performing monitoring against targets that measure progress towards achieving environmental objectives.

Figure 1: Key Environmental Water Responsibilities – Department and MDBA



3. Water Use

At the start of 2008-09, the environmental watering plan (EWP) has not been prepared, there are no plans listed in regulations and the CEWH is not party to any watering schedules. Until the Basin Plan takes effect, the CEWH must manage holdings in the Murray-Darling Basin in a way that protects or restores the Basin's environmental assets (s248).

3.1 Environmental priorities reflected in acquisition programs

Water rights acquired for the holdings are selected on the basis of value for money which includes their capacity to service priority environmental assets in the Basin. Those assets are The List of Wetlands of International Importance (under the Ramsar Convention) and water dependant ecosystems supporting listed threatened species, listed threatened communities and migratory birds. They include parts of the Living Murray Icon Sites, the Gwydir wetlands, and the Macquarie Marshes.

The Water Reform Division will provide the CEWH and the MDBA (preparation of the environmental watering plan) with advice on priorities as well as providing advice to assist the assessment of acquisitions under the *Restoring the Balance in the Basin* and the *Sustainable Rural Water Use and Infrastructure* programs. This approach is designed to ensure that as far as possible acquisitions match the environmental priorities to which the CEWH will allocate water.

3.2 Environmental watering priorities

Across the Basin there are plans that identify environmental priorities. These include the water sharing plans for inland regulated rivers in NSW, the bulk entitlement regimes in northern Victoria, the Murray River Plan in South Australia and environmental water management plans such as the Living Murray Icon Site Plans, which provide more detail on environmental watering needs. These will be considered in the preparation of the EWP and will assist in determining the initial use of the holdings in 2008-09. The CEWH will manage its holdings in accordance with Australian Government priorities, generally through existing environmental watering programs that provide sound governance and water management arrangements.

At July 2008 the outlook for inflows into the Basin and therefore any increase in currently low storage levels is poor. In most valleys allocations are likely to be close to zero at the start of 2008-09. In past dry seasons water allocations have increased as the year has progressed, however, the current outlook and low storage levels indicate that allocations this year are likely to remain low.

It is proposed that in 2008-09 the CEWH will broadly act consistent with principles agreed by The Living Murray Environmental Watering Group:

- avoiding critical loss of threatened species;
- avoiding irretrievable damage or catastrophic events; and
- providing drought refuges to allow re-colonisation following drought.

Watering priorities will be assessed after consultation with other jurisdictions and the MDBC considering:

- the significance of the consequences of not watering;
- the likelihood of these consequences occurring; and
- the probability of a successful outcome, (including identification of any necessary complementary activities).

Given the outlook for allocations the use of the holdings is likely to occur later in the 2008-09 season when critical ecosystems require maintenance watering. Decisions about use of the holdings will need to be responsive to conditions as they change.

The environmental watering priorities discussed in this Section are initial and general. WRD has commenced work on a project, reporting through the Water Group executive that will establish a framework for advice on environmental priorities.

The Department and CEWH will also seek external expert advice on environmental priorities. Both the WRD input and this external advice will ensure that prioritisation is robust and responsive to changes in environmental conditions.

The *Water Act 2007* provides that the CEWH must perform its functions for the purpose of protecting or restoring environmental assets so as to give effect to relevant international agreements. However, the range of outcomes that constitute 'giving effect to relevant international agreements' is broad.

For example, the Biodiversity Convention requires Parties, as far as possible and as appropriate, to undertake a broad range of measures to assist with in-situ conservation of biodiversity. One of these obligations requires Parties to promote the protection of ecosystems, natural habitats and maintenance of viable populations of species in natural surroundings. The Ramsar Convention is also written broadly.

Providing watering undertaken by the CEWH is performed for the purpose of protecting or restoring environmental assets and that watering gives effect to a relevant international agreement, it is open to the CEWH to prioritise any particular environmental asset over any other. Prioritisation will be determined based on the best available advice and research with the aim of achieving the maximum environmental outcomes.

3.3 Delivering water

A 2008-09 objective will be to use available water allocations to build on other environmental water to deliver the most effective outcome. This will involve continual review of options throughout the year with decisions being made in partnership with other environmental water managers. Advice will be sought continuously on the condition of environmental assets and their relative needs.

With only small volumes of water available in the holdings in 2008-09, the CEWH will generally not be in a position to undertake adaptive watering activities on its own. It is therefore prudent and efficient for the CEWH to focus initially on undertaking its watering activities in conjunction with existing adaptive environmental water managers as delivery partners. This approach will also be a platform from which future delivery arrangements can be considered.

3.3.1 Delivery Partnerships in 2008-09

During 2008-09 the CEWH will:

- establish initial water delivery partnerships in the Basin with existing environmental water managers, principally NSW, Victorian and South Australian agencies;
- use the involvement in those arrangements to build its internal capabilities; and
- identify potential future partnership and watering arrangements.

As these will be the first agreements entered into by the CEWH and the holdings will be actively building during that period, initial agreements will be for periods of up to 12 months and will be reviewed during that period. The CEWH will seek to take advantage of existing access and environmental water use arrangements but will also ensure flexibility as to what type of arrangement will be entered into for future years.

Agreements with Basin State agencies or other environmental watering groups are likely to take the form of an overarching agreement or memorandum of understanding, with subsidiary asset and catchment watering agreements.

The initial asset and catchment water delivery agreements are expected to involve the CEWH providing allocations to a partner, for use in a manner that is consistent with the agreement. As the partners will generally provide the works and approvals necessary for the watering activity, the CEWH is not generally expected to have to establish those arrangements in its own right in 2008-09.

The provision of water to the partners may involve:

- Coordinated releases of water from storage;
- Making water allocations available for use by the partner for specific uses; and
- Allowing allocations to be delivered using a partner's water supply works.

3.3.2 Anticipated content of initial delivery partnerships

Watering agreements, which may take the form of a Memorandum of Understanding, will reflect a partnership focus. They are expected to vary between jurisdictions and may include the following.

- Making allocations available from the holdings to the partner on the basis that it will be used in accordance with the agreement.
- Identification of suitable watering plans for environmental assets, including the identification of delivery requirements.
- Agreed priorities for use of water with scope for active prioritisation of assets and watering actions.
- Notification to the CEWH of conditions favourable to a watering activity, intentions to undertake a watering activity, and/or expectations that the holdings allocations may not be used.
- Recovery of allocations that are not be used in accordance with the agreement.

- Account debiting rules when the holdings are mixed with water obtained from other rights through the water meter, and agreements on the sharing of delivery losses.
- Permission to use water on land not held by the Commonwealth.
- Monitoring and reporting on the outcomes.
- Limits to the liability to the Commonwealth for the actions of the partner in undertaking the watering activity and notification of any events or circumstances where damage has been caused.
- A review of the agreement and options for renewal.

The Act allows the CEWH to enter into agreements with land owners with regard to water supply and other works and environmental watering activities. These are likely to be the most complex arrangements for the CEWH to develop and manage, due to the potential diversity of partners, the nature of the works or activities covered by such arrangement, and variations in the planning and water use laws.

3.3.3 Future delivery partnerships

During 2008-09 the CEWH will develop long term options for undertaking its watering activities. This will further consider:

- experience with the initial partnership agreements;
- types of partnership and watering agreements;
- obtaining additional expert advice on watering decisions;
- integration with planned environmental water; and
- longer term monitoring and evaluation.

4. Managing the Holdings

The function of managing the holdings comprises two core operational activities:

- Establishing and managing the holdings; and
- Making holdings allocations available for environmental watering activities.

Water rights acquired by the Commonwealth under *Water for the Future* become part of the holdings. The CEWH will ensure that water rights that become part of the holdings can be used to protect or restore environmental assets.

4.1 Building the holdings

The holdings are defined (s108) as water rights, water delivery rights, irrigation rights, similar rights, interests in relation to such rights, and rights held in trust or donated, owned by the Commonwealth for the performance of functions related to the Act. The holdings will include all Commonwealth water acquired or held for the purpose of protecting and restoring the environment. The sources of holdings are:

- (1) Commonwealth purchases of water rights;
- (2) water savings from Commonwealth investments in irrigation improvements; and
- (3) donations.

The Commonwealth has allocated \$3.1 billion under the *Restoring the Balance in the Basin* program to purchase existing water rights from willing sellers in the Murray Darling Basin, and \$5.8 billion under the *Sustainable Rural Water Use and Infrastructure* program to invest in infrastructure over the next ten years. Acquisitions become holdings for the purposes of Part 6 of the Act at the time when ownership is transferred to the Commonwealth.

At the beginning of 2008-09 the total of the holdings is 217ML of NSW Murray River general security water entitlements. This is a right, owned by the Commonwealth, that was acquired for The Living Murray program.

4.1.1 Commonwealth purchases of water rights

The Water Efficiency Division (WED) is managing the acquisition of water rights on behalf of the Commonwealth. Water rights acquired over the next ten years under the \$3.1 billion *Restoring the Balance in the Basin* program will become holdings for the purposes of Part 6 of the Act when ownership is transferred to the Commonwealth. (More information about this program is available at <http://www.environment.gov.au/water/mdb/entitlement-purchasing/index.html>.) Some acquired holdings may require additional transactions (such as conversion from shares in an irrigation corporation to State issued water rights) to ensure that they can be effectively used. This will generally be managed by the WED, but should be subject to the approval of the CEWH.

Proposed acquisitions are reviewed by an assessment panel using criteria agreed to by the Minister. The *Restoring the Balance in the Basin* program is an administered funding program managed by the

Department (not the CEWH) under guidelines approved by the Government.

The criteria currently used in Commonwealth acquisition assessments consider the:

- capacity of the right to service priority environmental assets;
- security of the entitlement;
- watering needs of the environmental assets that the right can service; and
- value for money – the financial cost of acquiring and managing the right.

Amongst other factors, these criteria ensure that the programs are purchasing / acquiring entitlements that can be effectively used to meet environmental objectives.

In the future it may be that, if the CEWH Special Account has sufficient funding available, the CEWH may purchase in addition to the *Water for the Future* programs. This is not expected to occur in 2008-09.

4.1.2 Acquisition of water rights from investments in water savings

The *Sustainable Rural Water Use and Infrastructure* program is a national program that will make investments within and outside the Basin. Water rights arising from those investments will become part of the holdings and be managed by the CEWH.

The Minister has indicated that investment projects must:

- secure a long term sustainable future for irrigation communities, in the context of climate change and reduced water availability into the future;
- deliver sustainable and lasting returns of water to the environment to secure real improvements in river health; and
- deliver value for money in the context of the first two conditions.

Water recovered from these investments are expected to begin accruing to the holdings from 2009-10.

4.1.3 Donations

The holdings may include water rights donated by private individuals and the States. Donations may also be in the form of money. If donations are offered to the CEWH it will consider the way in which donations are structured and any enduring requirements associated with the donations.

4.2 Managing holdings allocations

The CEWH will collect and regularly update data on acquisition of entitlements under the *Restoring the Balance in the Basin* program and ensure that the holdings register (section 5.2.2) is kept up to date. Water allocations accruing to the holdings, transfers and water use are reported on water accounts for each licence (water right) issued by the relevant State agency or irrigation corporation. The CEWH will regularly review these accounts and use them to update the holdings register.

The holdings register will be used in conjunction with allocation announcements made by State agencies, historic allocation announcements and climate forecasts to predict likely future water holding positions.

These forecasts will be kept updated to assist with determining the most effective watering opportunities.

4.2.1 Managing water accounts

Separate water accounts for each licence in the holdings will have different characteristics with respect to factors including:

- conditions on using allocations;
- processes for ordering water;
- linkage to water use approvals;
- rules and processes for trading water allocations; and
- water accounting rules such as carryover and water order debiting.

In 2008-09 the CEWH will develop an understanding of these for each water right acquired, seeking external advice as necessary.

Transfers of allocations between licences in the holdings will be necessary to enable the CEWH to take advantage of water carry over. This will be of considerable importance in the southern-connected rivers of the Basin to reduce the constraints imposed by jurisdictional and institutional boundaries, and water delivery capacity.

The Act also allows the CEWH to sell allocations to buy water that better meets the environmental objectives (s106(2)). Given the size of the holdings and the environmental requirements it is unlikely that trade of allocations will occur in 2008-09.

4.2.2 Making water available for use

Arrangements for making water available for use under different delivery partnerships will depend on the rules of the relevant jurisdiction or corporation, the preferences of the delivery partners, the location of the watering activity, and trade offs between efficiency and flexibility. Developing a comprehensive understanding of these requirements and documenting them will be a major component of the work plan in 2008-09.

The most direct process for making water available in situations where holdings are located in the same jurisdiction is to link the holding account to the delivery partner's works approval and thus allow the partner to order water under the terms of an agreement.

Alternatively, the CEWH may use allocation transfers to:

- transfer allocations to a partner's accounts, providing them with authority to use it under an agreement; and
- recover water from a partner's account where it cannot be used under the agreement within a water accounting period.

A further option is to use term transfers, leases or tagged trading to transfer allocations to a watering partner and to allow them to use water under the terms of an agreement.

Table 1 identifies some of the pros and cons associated with the different methods of making holdings allocations available to a partner (or their works). Further work will be undertaken in 2008-09 to gain a detailed understanding of the various options and to establish practices that maximise the CEWH's capacity to effectively and efficiently manage the holdings.

Table 1: Methods of making water available to a partner's works

Method of making water available	Pros	Cons
Administrative - linking the holdings account to the partners works	Requires no dealings.	Opportunities limited by State borders, institutional arrangements and trading restrictions.
Trade - Allocation transfers (temporary trade) – debits water from the holdings account and credits the partner	Allows the transfer of holdings allocations through most institutional, jurisdictional and physical trade barriers. Allows for transfers between different types of holdings accounts for end of year banking.	Approval can take several weeks. May need to undertake several transfers if they are not well planned. Must actively recover any unused water from partner's account.
Trade - Tagged trading - equivalent to assignment between valleys or jurisdictions – similar in effect to multiple allocation transfers as and when allocations accrue	Reduces the number of allocation trades and the need for active management.	May be assessed on similar terms to a permanent trade and take several weeks (or months) for approval. Must actively recover any unused water from partner's account.
Trade - Term transfer – provides the partner with all allocations accruing to the Holding for a defined period of time	Reduces the number of allocation trades and the need for active management.	May be assessed on similar terms to a permanent trade and take several weeks (or months) for approval. Must actively recover any unused water from partner's account.

4.2.3 Works and measures to deliver water

Works to install minor structures and other measures such as pumping may be required to deliver water to some environmental assets, particularly during drought conditions when river levels are low. Works and measures are less likely to be required where the target of watering is an in-stream asset or a terminal wetland. The need for works or measures will be considered in consultation with delivery partners (cf section 3.3).

The Commonwealth currently contributes funds to works and measures associated with watering undertaken in the southern connected part of the Basin through The Living Murray Initiative. Where the CEWH undertakes watering in conjunction with The Living Murray it is anticipated that there will be little additional costs associated with installing minor works or pumping.

4.2.4 Disposal of unused allocations

The CEWH may only dispose of water (seasonal allocations) and holdings (entitlements) if

- the seasonal allocations are not required to meet environmental objectives in a given water accounting period and cannot be carried over to the next accounting period [s106(1)]; or
- the proceeds of the disposal (of either seasonal allocations or entitlements) are used to purchase water (either seasonal allocations or entitlements) that improves the capacity of the holdings to meet the environmental objectives [106(2)].

As at July 2008, it is not anticipated that there will be unused allocations in 2008-09.

4.3 Reviewing the holdings

The Act allows the CEWH to sell water rights provided that it uses the proceeds to buy water that better meets environmental objectives. The CEWH will review the holdings over time with respect to their adequacy in meeting environmental objectives in an efficient manner. During 2008-09 it is not anticipated that review of the holdings will result in sale of water rights because purchases to date have been organised to align with current environmental objectives and are in regulated river licences that provide security and flexibility of use.

4.4 Operating Rules

The Act allows the Minister to make operating rules by legislative instrument that may relate to the trading of the holdings. These rules would provide a general framework rather than providing specific direction. As trading in entitlements is unlikely to occur in 2008-09 it is not expected that there will be a need for operating rules in that year. This position will be kept under review and advice provided as required.

5. Governance and Financial Management

5.1 Budget and Financial Management

The CEWH is statutory position in the Department. The Special Account is a Department account established under s111 of the Act as a Special Account for the purposes of the *Financial Management and Accountability Act 1997*. The holdings and any contractual commitments will be administered assets and liabilities of the Department.

The functions and activities of the CEWH will be conducted consistent with established Departmental financial arrangements. Given these arrangements, the CEWH will have the resources, staff and support of the Department to undertake its functions.

During 2007-08, the Environmental Water Holder Section (EWHS) made arrangements to support the CEWH in the following areas: financial systems for managing expenses, the holdings register and the special account; legal and technical advice on the CEWH's functions; staffing and the provision of funding for departmental expenses.

In 2008-09, the emphasis of the CEWH's work in financial management will be on refining estimates of the costs of holding, delivery and trading water and ensuring that adequate funding is available to meet such costs.

5.1.1 2008-09 Budget

A 2008-09 EWHS budget and a budget for the management of the holdings have been prepared. These budgets will be monitored during 2008-09 against actual water rights acquisitions, water allocations and expenditure. Holding and usage costs comprise fixed and variable components. The variable component depends on the annual amount of water allocated to the entitlement and the amount of water used. The budgets will be updated in accordance with departmental processes and timelines and any changes to funding arising from those processes. During the year, the EWHS will develop 2009-10 budget and forecasts for later years.

Partnership arrangements for water delivery will seek to share the costs, including for environmental monitoring and any works or pumping required.

5.1.2 The Environmental Water Holder Special Account

The Water Act 2007 specifies that the CEWH is to administer the Environmental Water Holdings Special Account on behalf of the Commonwealth. The CEWH may delegate some or all of this administration to an SES officer in accordance with s117 of the Act.

Section 112 of the Act specifies the allowable credits: appropriations for the special account, amounts received by the Commonwealth in the performance of the CEWH's functions, amounts received from Basin States, amounts received from the sale of property paid for from the Special Account, and donations.

Allowable debits are specified in s113 (2-3) of the Act and comprise the costs and expenses incurred by the CEWH in performing his / her statutory functions and meeting the expenses of administering the Special Account. The salary costs of the CEWH and Departmental officers assisting the CEWH cannot be paid from the Special Account and are therefore paid from Departmental funding.

The Department will support the operation of the Special Account through its financial management and reporting functions. At the beginning of 2008-09, the Special Account has been established and \$2.02 million has been credited to the account. (There have been no debits from the Special Account.)

The CEWH and the Department has received advice on specific accounting issues from KPMG. These issues cover the form of appropriations that can be credited to the account.

The *Water Act 2007* requires the CEWH to report annually on the management of the Special Account. The CEWH will undertake this function in conjunction with the Department which is required to report on the special account in its financial statements.

The Special Account will be audited as part of the audit of Department's financial statements.

5.1.3 Financial Commitments / Obligations

Holding and using water, and agreements with watering partners will create financial obligations for the Commonwealth in the form of holding and delivery charges, (potential) commitments to provide funding for the maintenance or replacement of works over time, and other contractual commitments.

5.2 Asset Management (Valuation and Registration of the Holdings)

5.2.1 Accounting and Valuation of the holdings

The CEWH and the Chief Financial Officer (the CFO) of the Department will work closely to ensure the holdings are appropriately recorded and reported.

Advice from KPMG indicates that rights acquired for the holdings are intangible assets in accordance with the Australian Accounting Standard on Intangible Assets (AASB 138). These will be recognised on the Department's balance sheet, if they meet the recognition criteria in AASB 138: that it is probable that expected future economic benefits will flow to the entity from the rights and that the cost of the rights can be measured reliably. The KPMG advice is currently being considered by the Australian National Audit Office.

Rights that are recognised will initially be valued at cost (or fair value for assets acquired at no or nominal cost) and are expected to be subsequently valued using either the cost model or the revaluation model depending on whether an active market exists for all water entitlements held.

An active market is a market in which all the following conditions exist:

- the items traded in the market are homogenous,
- willing buyers and sellers can normally be found at any time, and
- prices are available to the public.

Water allocations will not be identified as separate assets. Consistent with the classification of the permanent water licences as intangible assets, the water allocation is considered analogous to a future income stream 'built in' to the value of the underlying water entitlement asset. In other words, the value of the water licence equals the discounted expected value of future water allocations.

5.2.2 Holdings Register

The CEWH is required to maintain an up to date record of the holdings (s105(2)(c)) and is not subject to direction from the Minister or Secretary in pursuing this function (s107).

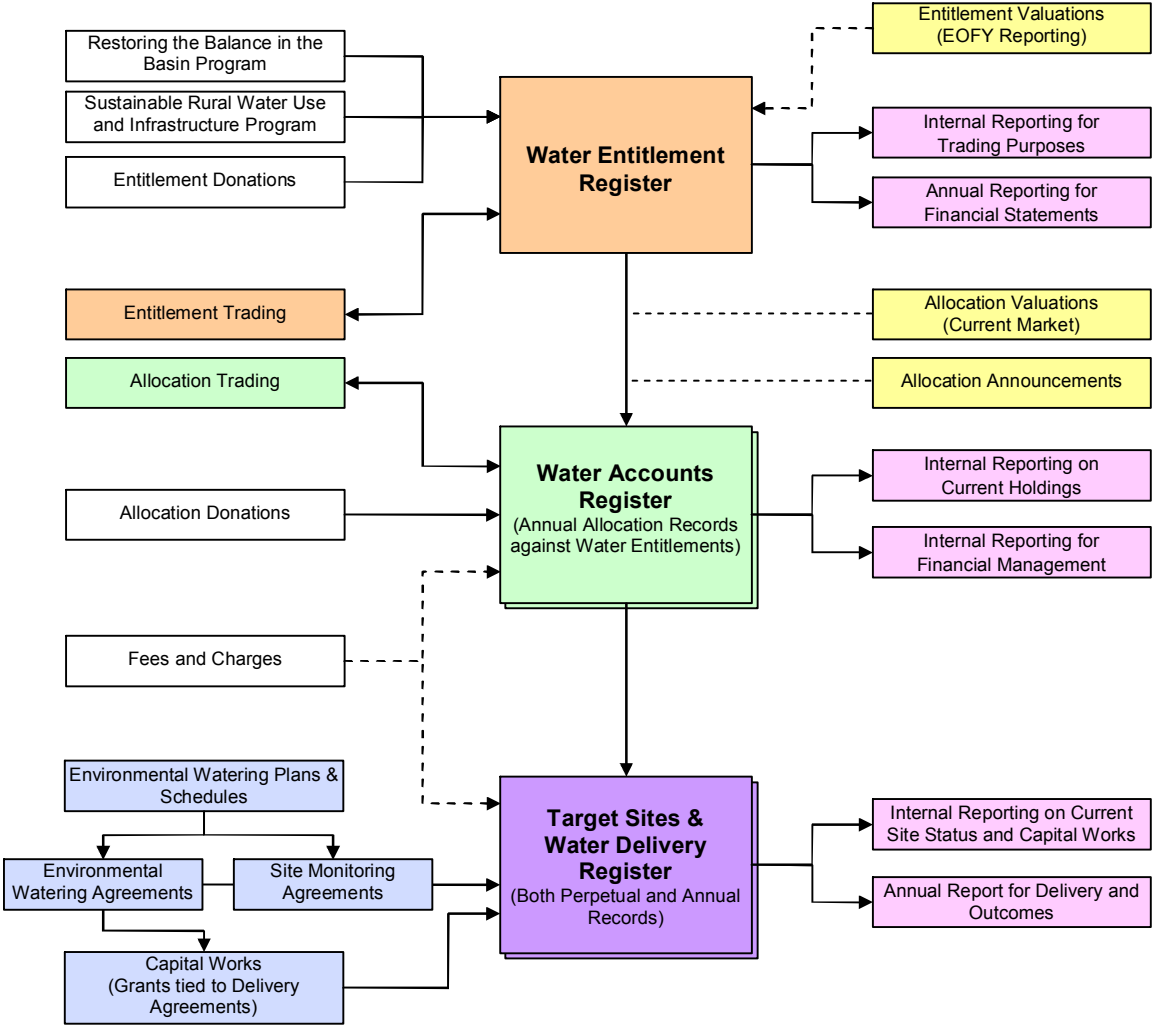
The CEWH will maintain an up to date record in the form of a register of holdings. The register is a list of the entitlements held and the credits available to their associated allocation accounts; an Entitlement Register and a Water Account Register.

The register of holdings will provide information on:

- water delivery activities;
- market prices and valuations;
- dealing records;
- allocation account management; and
- costs incurred in managing the holdings.

A register has been developed and is in place for the commencement of 2008-09. The adequacy of this register will be reviewed periodically to ensure it continues to meet the CEWH's needs. Figure 2 is a schematic diagram of the register.

Figure 2: Information Management and Data Flow Schematic



5.2.3 Market Information

Data on the trade in water entitlements and allocations is recorded in state managed registers. The CEWH will continually collate and analyse these data to ensure that up to date information is available on the volume and price of water traded in areas where holdings are held or being acquired. This market information will be:

- used in the valuation of the holdings;
- used in identifying opportunities for trading allocations and entitlements;
- used to responding to requests information; and
- available to the purchasing team for setting and checking their benchmark prices

5.3 The Annual Report

The CEWH is required to provide the Minister with an Annual Report as soon as practicable following 30 June (s114(1)). The Annual Report must provide information on the achievements against the objective of 'the environmental watering plan', management of the Special Account, and all directions that the Minister and the Secretary gave to the CEWH (s114(2)).

The Minister is required to table the Annual Report in Parliament and cause a copy to be provided to each of the Basin States. The Annual Report will be published in the companion volume to the Department's Annual Report, which provides a number of annual reports on legislation administered by the Department.

5.4 Governance

5.4.1 Confidentiality of Information and Conflicts of Interest

The CEWH will observe the Australian Government's and Departmental procedures and policies for the handling of confidential information and conflicts of interest.

5.4.2 Record keeping and documentation

The CEWH will maintain records in accordance with established Departmental and Australian Government requirements. The records to be maintained include:

- directions from the Minister or the Secretary and the response to those directions;
- watering agreements, the activities undertaken through those watering agreements, and their outcomes;
- dealings in holdings and holdings allocations; and
- advice received on environmental watering priorities.

5.4.3 Directions from the Minister and the Secretary

The CEWH is subject to direction by the Minister or the Secretary in undertaking its functions with the exception of water trading, which includes: dealings in the holdings; entering into contracts for those purposes; and in maintaining a record of the holdings (s107).

Any direction from either the Minister or the Secretary will be formalised in a written form to ensure that there is no misinterpretation.

5.4.4 Business Plans

Sections three to five describe the key functions of the CEWH during 2008-09 and section six describes the key areas of work. The areas of work are expected to be dynamic and will be reviewed quarterly during the year, to allow for changes in priorities and the introduction of new activities. A reviewed and updated business plan will be prepared for 2009-10.

5.4.5 Internal Reporting

The CEWH will ensure that the Water Group executive, Deputy Secretary, Secretary and the Minister are kept regularly informed about:

- progress against the work plan (section 6);
- use of water; and
- forecast positions in relation to the holding and their use.

5.4.6 Risk Management

The Department has an internal risk identification and management process which involves a regular formal review. Risks to the CEWH's operations will change over time as the holdings, watering arrangements and systems mature.

5.5 Potential Legal Liability Arising from Use of Water

The CEWH will obtain advice on the Commonwealth's potential liability for damage caused to property or persons through a watering activity undertaken by a partner in the name of the Commonwealth, or undertaken directly by the Commonwealth and, in the light of this advice will consider the appropriate management of legal risk.

The CEWH discharges the statutory functions of the position as an employee of the Commonwealth and on behalf of the Commonwealth. Therefore both the CEWH and other APS employees working on CEWH issues would not be personally responsible for compensation for damage if they act responsibly and reasonably in the discharge of their duties.

5.6 Performance Monitoring, Evaluation and Reporting

Performance monitoring, evaluation and reporting of the use of the holdings will be used to assess the effectiveness of watering strategies and to further develop watering priorities. The information gathered will be useful for evaluating the outcomes of environmental watering policies.

The CEWH is required to provide information in its annual report on achievements against the objectives of the environmental watering plan in the Basin Plan. The CEWH will also provide information on any other watering it undertakes outside of the Basin.

During 2008-09, the CEWH will generally use the site monitoring and evaluation provided by delivery partners and environmental site managers, such as the MDBC, State agencies and catchment management and natural resource management bodies. This monitoring will focus on the effect of the watering event.

The CEWH, with assistance from WRD, will assess the existing monitoring, evaluation and reporting activities undertaken by partners and other environmental site managers and consider what additional arrangements that may be required.

5.7 Communications and Stakeholder Engagement

The CEWH will engage with a range of external stakeholders (particularly environmental water managers) in establishing its initial watering partnership arrangements and in developing its long term strategy for watering arrangements.

An information sheet and “frequently asked questions” sheet have been prepared and these will be regularly updated to form the basis for a CEWH web page (on the Department’s website) and a media kit. The web page will include information on the use of the holdings and will be updated as appropriate.

6. Work Plan

This section provides an initial work plan of activities for the CEWH in 2008-09. The work plan will be kept under review and updated as necessary. [Table 2](#) describes the activities that are proposed for 2008-09. An indicative timeframe and level of priority has been provided for each activity.

Table 2: Work Plan for 2008-09

Activity Number	General Issue	Section Reference	Description	Period /Date	Priority
1	Nature, functions and relationships	2.3.3	Participate in discussion with the MDBA as it is created to ensure CEWH input to the environmental watering plan and related activities including: <ul style="list-style-type: none"> – the coordination of environmental watering activities; – development of watering schedules; and – EWP targets and monitoring. 	Ongoing	Medium
2	Water Use	3.2 3.3	Review relevant water use plans being used by the jurisdictions. Seek advice from within the Department (WRD) and externally (delivery partners and experts) on the priorities for using environmental water.	Ongoing	Medium
3	Water Use	3.2	Review priorities for use of the holdings during extreme dry conditions in 2008-09.	Ongoing	High

4	Water Use	3.3.1 3.3.2	<p>Negotiate with Basin State agencies and other environmental water managers to establish arrangements for catchment and asset specific water delivery. It is anticipated that the CEWH may have delivery partnerships with organisations including:</p> <ul style="list-style-type: none"> – NSW Department of Environment and Climate Change; – Victorian Department of Sustainability and the Environment; – South Australian Natural Resource Management Board; – The Living Murray Initiative / MDBC; – Queensland Department of Natural Resources and Water. 	30/09/08	High
5	Water Use Governance and financial management	3.3.2 5.6	In conjunction with Water Reform Division, review the monitoring and evaluation provided by watering partners and environmental site managers of <u>watering events</u> undertaken in conjunction with the CEWH, and identify any additional arrangements.	30/06/09	High
6	Water Use Governance and financial management	3.3.3 5.6	In conjunction with Water Reform Division, obtain advice on existing monitoring of priority environmental assets, and on any possible <u>gaps</u> to meet the needs of the CEWH.	31/03/09	Medium

7	Water Use	3.3	<p>Review the delivery arrangements that are established in 2008-09 to develop options for long term agreements. The review may consider:</p> <ul style="list-style-type: none"> - Tasks involved in the environmental use of water including: <ul style="list-style-type: none"> o Decisions regarding when to use water for environmental purposes; o Water ordering and account management processes; o Supply works construction, operation and maintenance; and o Monitoring reporting and review processes. - Potential delivery partners in with the Murray Darling Basin and in other areas where the <i>Sustainable Rural Water Use and Infrastructure</i> program acquires water rights; - Forms of agreement that could be used in relation to these bodies; - Agreements with land owners and the requirements any approvals; and - Other issues arising from the negotiation and exercise of partnership agreements, and the development of the Basin environmental watering plan. 	30/06/09	Medium
8	Water use	3.3	<p>Consider the need for coordinated water use with other environmental water holders / managers such as:</p> <ul style="list-style-type: none"> - relevant State agencies outside the Basin; - WaterFind Environmental Fund; - The Environmental Water Trust; - Catchment Management Authorities and NRM Boards. 	31/03/09	Low

9	Managing the holdings	4.2	<p>Develop expertise within EWHS for managing holdings allocations. This will address issues including:</p> <ul style="list-style-type: none"> • making water available for use by a delivery partner and recovering un-used allocations; • trading allocations to different areas for water use; • allocation sales. 	Ongoing	High
10	Managing the holdings	4.3	Identify rights that cannot be usefully employed and opportunities to refine the holdings to improve watering outcomes or make them more cost effective.	30/06/09	Low
11	Managing the holdings	4.4	Review the need for operating rules and advise the Minister accordingly.	Ongoing	Medium
12	Governance and financial management	5.1	Monitor expenditure against 2008-09 budget, provide updates throughout the year in accordance with Departmental timelines and processes.	Ongoing	High
13	Governance and financial management	5.1	Prepare 2009-10 Budget	31/03/09	High

14	Governance and financial management	5.1	<p>Manage and report on the Commonwealth Environmental Water Holdings Special Account in accordance with the <i>Water Act 2007</i> and Departmental and Australian Government procedures and policies. These will include ensuring that:</p> <ul style="list-style-type: none"> - receipts and expenditures are accurately classified in the Department's financial management system; - accurate records are maintained and kept; - budgeting and reporting requirements are met. 	Ongoing	High
15	Governance and financial management	5.2.1	<p>Ensure valuation of the holdings, including investigating:</p> <ul style="list-style-type: none"> - whether the water market is an active market and the reliability of water market price data; - alternate valuation techniques where market prices are not available. 	Ongoing	Medium
16	Governance and financial management	5.2.2 5.2.3	<p>Maintain the register of holdings, which will include;</p> <ul style="list-style-type: none"> - an entitlement register; - a water account register; - information on water delivery; - market prices and valuations; - dealing records; and - costs incurred in managing the holdings. 	Ongoing	High

17	Governance and financial management	5.2.2	Establish and maintain internal authorities to ensure secure data entry and access in the holdings register.	30/09/08	High
18	Governance and financial management	5.2.2	Develop and implement quality assurance processes to ensure that the holdings register is accurate, reliable and adequate.	30/09/08 and ongoing	Medium
19	Governance and financial management	5.3	Prepare the 2008-09 annual reports in accordance with the <i>Water Act 2007</i> and with Departmental and Australian Government requirements.	31/08/09	High
20	Governance and financial management	5.4	<p>Maintain records of work related activity in accordance with departmental and Australian Government standards. Records to be maintained include:</p> <ul style="list-style-type: none"> • directions from the Minister or the Secretary and the response to those Directions; • watering agreements, the activities undertaken through those watering agreements, and their outcomes; • dealings in holdings and holdings allocations; • advice received from the Water Reform Division regarding environmental watering. 	Ongoing	High
21	Governance and financial management	5.4.4	Review work plan activities each quarter.	Ongoing	High

22	Governance and financial management	5.4.4	Review and update the Business Plan for 2009-10	30/06/09	Low
23	Governance and financial management	5.4.5	Review the CEWH's risk assessments and risk management strategies.	30/06/09	Medium
24	Governance and financial management	5.7	Update the information sheet and "frequently asked questions" sheet regularly and the CEWH web page (on the Department's website).	Ongoing	Medium

7. Glossary

allocation

The volume of water allocated for use in any year under a *water right*.

Basin Plan

The plan for water management in the MDB under the Part 2 of the Act, to be developed by the MDBA and made as a legislative instrument by the Minister.

entitlement

Common name for a *water right* issued under State legislation.

environmental watering plan

Part of the *Basin Plan* that deals with managing water designated to protecting and restoring environmental assets (s28 of the Act).

holdings

All *water rights* owned by the Commonwealth, except those that are not for the purpose of water management under the Act. The holdings include all Commonwealth owned water rights that are held for the purpose of protecting and restoring environmental assets.

operating rules

The Minister may, with Parliament's approval, make operating rules (s109 of the Act) that provide general direction to the CEWH around *water trading*.

planned environmental water

Water or *water rights* designated for specific environmental purposes under State water management regimes.

southern-connected rivers

Rivers located within the southern part of the MDB with permanent (or near to permanent) hydrologic connection allowing water from upstream catchments to be used in downstream catchments. The major southern-connected rivers include:

- Murray River
- Murrumbidgee River
- Darling River downstream of Menindee Lakes
- Goulburn River
- Other rivers of northern Victoria within the MDB

Special Account

The Environmental Water Holdings Special Account established under s111 of the Act, which is to be managed by the CEWH.

tagged trading

A trading arrangement under which every allocation under a *water right* is made available for use in a catchment that is different from the source catchment.

- The *water right* retains its original source location and characteristics.
- A person who has obtained a *water right* by tagged trading owns the water right in the source catchment but may also need a water use right in the delivery catchment.
- Intrastate tagged trades are made under State legislation. Interstate trades are made under State legislation and the Murray Darling Basin Agreement.

term transfer

A fixed term transfer of allocations under a water right to another person.

water right

Any right (or share in a right) conferred under State law to hold or take a nominal volume of water from a water resource, usually in the form of an annual *allocation*. The actual volume of the *allocation* varies from year to year depending on the amount available.

Water rights issued in each State are referred to by different names:

- entitlement (NSW)
- water share (Victoria)
- supplemented allocation (Queensland)
- water holding allocation (South Australia)

water trading

Transfer of water or a *water right* from one person to another. This includes purchasing, disposing of, and otherwise dealing in, water and *water rights*.

water year

The 12 month period during which a volume of water is allocated to a *water right*. The water year is typically 1 July to 30 June with some exceptions in the northern MDB.

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