



Australian Government



Inspector-  
General of  
Water  
Compliance

## WATER'S EDGE: TRANSCRIPT

### **S1, Episode 4: Border rivers trade audit - how different trading rules can cause issues when water is traded across two jurisdictions**

Speaker: *Water's Edge* podcast acknowledges the traditional owners of country throughout the Murray-Darling Basin and Australia and recognises their continuing connections to lands, waters, and community. We pay our respects to Aboriginal and Torres Strait Islander cultures and to the elders past, present and emerging.

AH: Coming up: what an audit of trade in the border rivers region has uncovered.

ER: We found two instances where water was taken and on the records and in the water register, it hadn't been approved yet for take. It was approved after the fact.

AH: Whether community should be concerned about the findings.

DB: The community ask for truth and transparency in the water industry. I don't think it's unreasonable for them to be concerned about any water matters at all.

AH: And what's being done to address discrepancies.

DB: I think that's what generally speaking the community expects: that not only are things metered, but when things are being traded that that's being accurately recorded.

AH: I'm your host, Annebelle Hudson. Today, I'm joined by the deputy Inspector-General, Daniel Blacker, director of audit and investigations, Matt Wilkes, and assistant director of audit and investigations, Elliot Raboy.

Speaker: Welcome to *Water's Edge*.

AH: Joining us on the line today is Troy Grant, the Inspector-General of Water Compliance. How are you today, Troy?

TG: I'm terrific, thanks, Annabelle. Thanks for having us once again on *Water's Edge*.

AH: Fantastic. Now, this episode we're going to be talking about the border rivers trade audit. Can you just give us a little bit of an overview about why you wanted to do this audit?

TG: Yes, look, as we've spoken about on another podcasts, we have a couple of critical statutory roles. Compliance is the most obvious one, where we do a lot of our regulatory work. We also have an oversight body of powers, where we look at water management practices and systems as well. And then inquiry powers. Underpinning all that is our communication with the Basin community, to try and overall put them together and restore trust and confidence. And, through our water management in the states, what we've learned is that trade - the trading of water - is a paramount concern of everyone in the Basin. It's really been subject to some critical analysis through the ACCC report regarding trade markets across the state, about the quality of them,

and specific to the Murray-Darling Basin plan there are some very specific trade responsibilities that we carry forward in our office. So our team of audit and investigation, led by our director, Matt Wilkes, they do a series of audits both proactively and reactively into some of the arrangements that currently take place, and border river trades is the one that's been focused on in this episode.

AH: Tell us a little bit about Matt and what his role and what his team is doing for the Inspector-General's office.

TG: Well, we were taken aback just recently when we did a community survey at the Henty field days about how important good trade practices are across the Murray-Darling Basin. It ranked as the number one area of interest for people who completed the survey. Water management, as you know, is very complex and technical, but when it comes to certain activities like trading, there's some pretty black and white requirements under the legislation and the arrangements in the Murray-Darling Basin plan. This particular audit that Matt Wilkes and Elliot Raboy will talk to you about on a technical basis was to make sure that the systems and processes and accounting methods were up to a good standard, that we're properly accounting for the trading of water from NSW and Queensland and vice versa, and what is being recorded and the quality of their systems and to give everyone - particularly the water users themselves - confidence as they're making business decisions for their crops going forward or plantations. That when they're trading water, that the systems supporting that are robust, transparent, and up to speed with what's required pursuant to the Act. So, with no further ado, I'll hand over to the experts to take everyone through what is a complex but very important subject matter that's part of our remitted work.

Speaker: This is *Water's Edge*. For more information, visit [www.igwc.gov.au](http://www.igwc.gov.au).

AH: Okay. Let's get this underway. We might start off. Troy gave a little bit of an overview as to the purpose of the audit, but we might get Dan to run us through a little bit more detail about what the purpose of the audit was, what the scope was, and what it set out to achieve.

DB: So, as the Inspector-General was saying, we've got responsibility in the Basin for sustainable diversion limit compliance. So, one of the really important things for us is that we're getting accurate information coming through from states. So, each state - whether it's NSW, Queensland, or one of the other states in the basin - is responsible for their own water management within their jurisdiction, including water trade. But when things start to move across borders, or have got an impact on sustainable limits under the basin plan, that's where we come in. In this audit, we were particularly interested in looking at the accuracy of how both NSW and Queensland were dealing with water trades as they moved either from NSW to Queensland or from Queensland to NSW. So, that accuracy then plays into the numbers that we get, that we add up to make the sustainable diversion limit, and so as we come to make a decision on compliance or even enforcement in that space, we're really keen to make sure that those numbers are accurate so that we've got a clear picture of what's actually happening on the ground.

AH: Something we'll be referring to a bit is something called 'permanently linked works'. Elliot, I might get you to run us through what exactly is a 'permanently linked work'.

ER: Permanently linked works are mentioned quite a bit across this audit report. Mainly because we were looking at any transfer of water that went interstate, between Queensland and NSW.

So, a good portion of this was what's called permanent linked works. So, that made up approximately 83% of all border river transfers during that period. So, permanent linked works, if we can explain it in a simple way: say, Annabelle, that you're a farmer. You've got two farms. One on the NSW side of the Macintyre River, and one on the Queensland side. You've got water in your NSW account. If you set up a permanent linked works, and you get that approved, you can actually transfer water through an application when you require it in Queensland. So, there's a debit and credit of water that goes from one side to another. That really is the crux of what a permanent linked work is. So, we also call it a tag - a tag trade.

AH: Okay. Let's get into some of the findings of the audit.

ER: So, what we did was take a sample of a period in time of all the transfers of water across the border rivers. We looked at the sample. It was 61% of all total volume traded between Queensland and NSW. Some of the findings we had, we looked at all the trades and transfers and looked to see for accuracy, completeness, cut-off, and existence. On the whole, we found quite a few inaccuracies, totalling 5% of all samples tested, where either the volume traded was incorrectly put on a water register or whether the applications that had gone through didn't even appear - so that the trades didn't actually reflect what was in the water register, which is quite concerning. There were other areas as well that we found that the so-called 'permanent linked works' we were talking about beforehand haven't been treated as a trade. So, they haven't gone through the same approval process as a allocation trade would have gone through.

AH: Something that's been a bit of a sticking point is a 'trade'. So, when you were doing this audit, what was considered the definition of a trade?

ER: The Basin plan sets out a broad definition. Section 1.07 in the Basin plan says that a trade includes a reference to transfer, and it goes on then to also indicate what, to avoid any doubt, what a trade includes. A trade that does not involve a payment for consideration: so, that's going back to that permanent linked works that we were talking about, Annabelle, in your account, where you're both the account holder of both sides and that's what's referring to, and also that no monetary value took place there. So, you're transferring your own water and that's what we define as a trade, as per the Basin plan.

MW: I think it's more important to understand that in this audit we found more than just that. That's one sticking point, as you said Annabelle. But of greater concern is the inaccurate accounting that has been found.

AH: So, what were some of those inaccuracies?

ER: Some of those inaccuracies were due to the fact that those permanent linked works aren't being treated as a trade. So, we found that it was very difficult to reconcile some of these transfers. The interstate and intrastate transfers are all linked together, making it very difficult to individualise what's been occurring and reconcile it with the NSW side.

AH: Did you find any instances where water was being taken without approval?

ER: We did. We found two instances where water was taken and on the records in the water register it hadn't been approved yet for take. It was approved after the fact.

AH: And that's a no-no?

ER: That's a no-no. That's a compliance issue, there.

AH: And, Dan, this might be something you could talk about a bit more, are there any consequences for that sort of activity?

DB: Yes, there certainly is, Annabelle. That's where the compliance role comes in. The state of the primary compliance agency in that situation - Queensland will investigate those instances, and look to see what if any breaches have occurred. And, if there is non-compliance, they'll look at their policies around what, if any enforcement action should be taken. One of the recommendations coming out of the audit was that they supply the findings of those investigations to the Inspector-General so that we can have a look and be satisfied that's been closed out.

AH: So, what role does metering play in this?

DB: Yes, that's a really good question, Annabelle. Metering is required in both jurisdictions for water take. I think NSW are just at the back end of their metering reforms at the moment, so they're uplifting their accuracy and their coverage and also their timeliness in relation to metering. One of the things we did pick up in the audit, and particularly in the findings, was that in Queensland before a trade is approved, the policy is that a meter read is required. Whereas, in NSW, the approval agency doesn't require a meter read before they approve a trade. That's one where there's not a compliance issue. It's a choice of the NSW agency about their policy. But we're highlighting where there's room for improvement in the system and where we can get a greater level of consistency across the two jurisdictions. So, we did recommend that Water NSW change their policy to require a meter reading before a trade is approved, and in the management response coming from NSW they've highlighted that, with the improvements to their metering and telemetry coming online, which gives them real-time information, that it will become much easier for them to implement moving forward.

MW: That's right, Dan, and the risk of quarterly metering reads, or relying on quarterly metering reads, is that the data is out of date. So, if they are doing an allocation trade, the seller of the water has to have a certain amount of water in that account to be able to sell it. If they're relying on data which is three months old, that water might not be in their account.

AH: I think Troy's used this analogy before: it's kind of like a banking situation, you know? Your bank isn't going to transfer money if you don't have the funds to be able to do it. So, it's a similar sort of scenario with water. Something that this report has highlighted is that 83% of all the interstate trade, or 26.3 gigalitres, is through works that is permanently linked. How much do you think this affects the water market?

DB: In a lot of instances, this is movement of water by location but not necessarily by owner. So, typically, when people think of the water market, they think of a change of ownership. But in the Basin plan it does say that trade can be a change of location, so it's quite a technical definition, but the consequence is that when you're moving water by location but not by owner you're often not affecting the market more broadly because you've still got the same owner and it's not affecting the supply of water into the market. The other thing to think about, here, is the circumstances where this occurs. It's the only place in the border between NSW and Queensland where this trading's occurring. So, it's pretty localised. 26 gigalitres is a lot of water, but in the context of how much water's actually being consumed I think the impact is relatively low.

MW: Although the impact is low, the fact remains that it was a transfer that needs to be treated as a trade, per the definition within the Murray-Darling Basin plan. So, although the effect is low there is still that issue there - that it must be considered a trade. Because the Act says that.

DB: It's an important point, and it's one not lost at the moment, on the back of the ACCC's inquiry into water markets. It's a live topic at the moment, as to government's response. But accuracy in the water markets was a pretty key factor that the ACCC picked up on, and they were particularly keen to highlight that, generally speaking, coming out of that inquiry, that accuracy needed to be improved, that data needed to be improved. All of that plays into the transparency of the market.

AH: This trading that we're seeing in the border rivers area, obviously the audit didn't look at the southern part of the Basin with the Victoria-NSW-South Australian border. Is this issue unique to the border rivers region?

ER: They're quite different areas. If we just look at the NSW-Queensland areas, Queensland don't recognise tag trades.

AH: What's a tag trade?

ER: A tag trade is when there's permanently linked works. So, in the Basin plan, they're called tag trades, which is a bit different in the southern basin. When you've got NSW and Queensland together on this border area, there are added complexities there.

AH: With so much work being done across the basin to improve practices and policies and operations, as well as the culture, based on this audit, are things really improving?

DB: That's a big question, and one that we ask ourselves quite a bit. The short answer is yes. What tends to happen is by nature often when we're looking at compliance and looking at risk, we're always going to the places where we think there might be an issue or a risk or a concern. So, it's not unusual to come out of an audit with findings for improvement. I think more importantly is how the different jurisdictions and agencies respond to the audit and findings. Our hope is - and certainly what we're seeing at the moment is - is that agencies will take a look at our findings as an opportunity to improve, and it's just about continually improving that system. I think I mentioned before that we think a lot of what we saw in these arrangements occur in the border rivers occurred as a localised arrangement. We don't see the risks of that being broader, systemically, across the basin. The conditions that arise here don't tend to arise in other places in the same way. So, we don't see that systemic risk, and we've seen some really good responses by both Queensland and NSW in their management responses, which are published on our website along with the audit, and that gives a good indication that they're both approaching this as an opportunity to improve, as a learning exercise, and an opportunity to make sure that the system's robust. Out of that comes trust and confidence.

AH: I guess the purpose of this podcast is to communicate to the community some of the findings and break it down for them into terms that are a bit more understandable, or digestible. So, is there anything that this audit has found that the community should be concerned about?

DB: The community asks for truth and transparency in the water industry. I don't think it's unreasonable for them to be concerned about any water matters at all. This audit is just one of many that have been conducted over the years in the water industry. It's raised some issues

that the states involved have committed to doing some work on, on the recommendations, but ultimately none of the findings were something that they can't work on to improve for next time.

ER: There are, obviously, some concerns around the inaccuracies of any record-keeping - government departments as well. You're looking at records of registers of water, where people have spent money and put their livelihoods on, and they want to be confident and assured that when they send through applications that they're recorded correctly and not going to be done for compliance if they were incorrectly recorded. From a larger perspective as well, the public want to know that water is being managed correctly. So, I think this is a good wake-up call for the two jurisdictions to have a look at their practices as well and see whether they can close those inaccuracies up.

DB: The other thing I'd just pick up on, Annabelle, is that whilst it's really important that people get the fundamentals right, we've been - particularly in our first year as an Inspector-General - really focused on the basics. So, focused on metering, on the accuracy of the market, et cetera. We don't see the volumes or the discrepancies that we found as materially impacting sustainable diversion limit compliance. So, we're quite comfortable that it's not impacting the macro decisions. But we are keen to see the basics and fundamentals in place. I think that's what generally speaking the community expects: that not only are things metered, but that when things are being traded that's been accurately recorded so that we've got that really clear, transparency about what's going on in a water area or the water market.

AH: Something mentioned in the report is manual adjustments. What are manual adjustments, and are they allowed to do that? Is that something the community should be worried about?

ER: When we looked at the Queensland accounts for their water register, there were a number of customer accounts that had manual adjustments linked to the volumes of water with no indication for why these adjustments were made. They weren't time-stamped either, so it was very difficult as auditors to trace.

DB: Our understanding is that there weren't a lot of those, and it's fairly small volume, and not significant in terms of the trades. But this really goes back to our purpose for being in this space, which is accuracy equals transparency, and transparency equals trust. So, we're just encouraging jurisdictions to get their policies and practices and procedures in place so that we can be really confident that that sort of manual adjustment isn't occurring in the future. Certainly, we're not overly concerned about it in this audit. But we want to make sure that we get to a best practice model about how we account for that in each area.

MW: The commitment to improve in each of those areas has been quite clear.

AH: So, Matt, what can the Inspector-General do about the problems identified in this audit?

MW: Well, as an office, we'll look to see how the state's implement those recommendations as soon as they can, and that will determine at a later date whether another piece of work needs to happen.

AH: Are you giving them a timeline to get things in order?

MW: At this stage, we're not looking towards a timeline but we would expect it to be completed timely. We will go back and have a look at those recommendations in due course, when there's



been plenty of time for them to make those changes, and have another look. It's important that, as an Inspector-General, we don't do an audit, drop it, and walk away. It's important for us to follow up on recommendations that we have made, especially when the state has agreed to implement those recommendations.

AH: What has the response been from the states? Obviously on the website we've got a statement from NSW and Queensland has provided an interim statement. But what have they state?

MW: So, NSW has provided us with a final managerial response, where they have agreed with our findings, with our recommendations, and have definitely made clear that they look forward to working with the Inspector-General on those recommendations and implementing them. Queensland have provided an interim response. They have 90 days under the Water Act to respond to us with a formal, or managerial, response.

AH: Have you had any interactions with ministers or the state regulatory bodies involved?

DB: We talk pretty quickly with jurisdictions, as you can imagine, because we've got to co-ordinate across a whole range of compliance activities. We've certainly been talking about this trade over a long period of time. We've got an indication from agencies at senior executives in both NSW and Queensland that they're looking at this as an opportunity to improve, and to mature those arrangements. I think this is a classic case of a localised arrangement that's been in place over a long period of time and, whilst it's worked for each of those jurisdictions over a long period of time, as we start to look at things more and more through a lens of a 'whole of basin' management, and less as a state-border issue, that there are some changes that need to be made. So, both jurisdictions are looking at it through that lens. And that's kind of the expectation of us, as an Inspector-General at a Commonwealth level, that we're looking at everything through the lens of the basin and the needs of the basin and states naturally and quite rightly so have to manage within their borders. But when things start to cross borders and have an impact or a consequence at a whole of basin scale, that's where we come in and start to look at areas of risk and through audits like this point out where improvements can be made.

MW: I think it's important to also identify that the states were quite supportive of the audit. They participated in the audit. With the auditees, when we were asking for information, it was provided. When we needed discussions and clarification, it was provided. I think that's important to producing an audit such as this. You can't provide something if the information is half-hearted or provided poorly. It was provided very well for making our findings based on that.

AH; So, the public can have confidence that the states co-operated to a standard that you're pretty happy with? It doesn't appear that they're trying to withhold information as part of this audit?

MW: I don't think they were withholding information at all through this audit. The information we got was what we requested.

AH: Alright, well, if anyone's interested in looking at this report as well as the associated response from NSW and Queensland, that's all on the Inspector-General of Water Compliance's website. That's under the reviews and reports section. I'd like to thank Elliot, Matt, and Daniel for their time today, and Troy earlier on in the episode. Thanks for joining us on *Water's Edge*.

MW: Thanks for having us, Annabelle.

ER: Thanks, Annabelle.

Speaker: *Water's Edge* is produced by the Inspector-General of Water Compliance, Australian government, Canberra. For more information, visit [www.igwc.gov.au](http://www.igwc.gov.au).