

River Murray Operations Cost Review: snapshot

The Australian Government has committed to reviewing costs associated with operating and maintaining the structures of the River Murray System. The Murray-Darling Basin Authority commissioned Cardno PTY LTD to undertake this work, with the aim of improving the transparency of processes, they are effective and efficient, and ensuring that spending is reasonable.

The first review was delivered in December 2019, with future reviews to occur every three years.



Overall there is no evidence of unreasonable operation and maintenance costs from the Murray-Darling Basin Authority or by State Constructing Authorities, and River Murray Operations Joint Program costs are considered reasonable.

Scope of the Cost Review

Covered actual expenditure for 2016/17 to 2018/19, budget expenditure for 2019/20 and forecast expenditure for 2020/21, 2021/22 and 2022/23.

The review included three elements:

- a review of the business processes that control spending
- a review of overall spending and the cost of specific activities and operations
- benchmarking to provide transparency on costs and assess whether spending is reasonable.

Key findings

- Benchmarking of processes and spending showed that operating expenditure is consistent, and the relative costs for dams, locks weirs and barrages are consistent with industry averages.
- Across all assets there is no evidence of unreasonable operation and maintenance costs, with trends aligned to the type, scale and age of structures.
- There is a general trend of costs increasing with asset age.
- Average annual spending on structure maintenance and upgrades (capital expenditure) is \$12 million, compared to \$62.9 million for operating (operational expenditure).
- In the past three years, operational expenditure increased by an average of 3% per year.
- Operational and capital expenditure are both consistently under budget.
- Capital expenditure is mostly related to small to medium projects, and spending was more consistent than examples from other water service providers.

Options for improvement

In total the review makes 10 recommendations for Basin governments to consider. These primarily aim to improve the quality and efficiency of River Murray Operations Joint Program processes.

Recommendations for improved management of River Murray Operations costs

- streamlining the budget process and shorten the development/approval process
- reviewing the terms of reference for committees to ensure clarity of roles and avoid duplication in the budget process
- adopting a consistent approach to communicating asset risk
- agreeing on a more consistent approach to forecasting future costs
- placing greater emphasis on long-term planning and expenditure forecasting, reflecting the long lifespan of assets

Recommendations for ongoing benchmarking

- considering the costs and benefits of benchmarking operating expenditure by the size/scale of assets, with asset managers to provide commentary on the underlying causes of observed trends
- considering the value of benchmarking service delivery measures
- considering the value of benchmarking support services and administration/management

Recommendations for future cost reviews

- applying a similar review scope for any future reviews of River Murray operations costs
- applying benchmarking similar to this review in future reviews and provide to State Constructing Authorities early in the review period for comment.

Basin governments will consider the recommendations and look at ways to adopt the recommendations. For some recommendations, actions have commenced.

Budget analysis

The River Murray Operations Joint Program is developed and delivered within a comprehensive governance framework. However, the budget process is too time consuming, causing delays in approval with the potential to impact operations, maintenance and construction activities.

Analysis of support services and administration/management shows potentially varying levels of efficiency between the three State Constructing Authorities, although the data is not robust enough to provide a conclusion.

There is consistent underspend in short-term operating and capital expenditure. For operating costs, the difference between what was budgeted and spent between 2016-17 and 2018-19 was around 10%. This was mostly driven by the capacity of State Constructing Authorities, noting that those with the largest underspends are working to address the underlying causes. For capital expenditure the cause of underspend is not clear, as it is partially obscured by carryover. Longer-term forecasting of future spending is inconsistent across State Constructing Authorities due to a wide range of variables used to calculate budgets. There was nothing to suggest that these issues are a result of, or contribute to budgets being unreasonably high.

River Murray Operations – Roles and Responsibilities

Part of the MDBA's responsibilities include operating the River Murray on behalf of New South Wales, South Australia and Victoria to ensure water is effectively managed and shared between these states. Water is shared under the rules established in the *Water Act 2007* and the Murray-Darling Basin Agreement.

Under a Joint Program arrangement, the MDBA is responsible for calculating state shares and delivering water, along with overseeing the day-to-day operation, maintenance and upgrades of assets including dams, weirs, salt interception schemes and barrages.

Basin state governments own the assets, respond to the MDBA's operating instructions, implement management plans and estimate the cost of performing these activities.



Australian Government



Government of South Australia