



PARLIAMENTARY BUDGET OFFICE

NSW Parliament • Parliament House, Macquarie Street Sydney 2000

Referred by: Australian Labor Party **Proposal No:** C780
Date Referred: 10/11/2022 **Date Published:** 20/03/2023
Proposal Title: Do not proceed with the New Dungowan Dam

Cluster: Planning and Environment

General Government Sector Impacts

	2022-23 \$'000	2023-24 \$'000	2024-25 \$'000	2025-26 \$'000	4 year Total \$'000
Expenses (ex. depreciation)	(4,964)	(39,931)	-	-	(44,895)
Depreciation					-
Less: Offsets					-
Revenue					-
Net Operating Balance:	4,964	39,931	-	-	44,895

Capital Expenditure			-	-	-
Capital Offsets					
Net Capital Expenditure:	-	-	-	-	-

Net Lending/(Borrowing):	4,964	39,931	-	-	44,895
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Total State Sector Impacts

Net Lending/(Borrowing):	4,964	39,931	-	-	44,895
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Notes and costing assumptions:

The policy proposes to cancel the New Dungowan Dam construction. This means termination of the New Dungowan Dam works upon formation of government, but allowing the works on the New Stage 1 Pipeline to be completed. Upon completion of the pipeline, the NSW Government will receive the budgeted \$20 million contribution from the Australian Government.

Based on advice from the Department of Planning and Environment (DPE), as of February 2023, the pipeline is 70 per cent complete and likely to be commissioned and handed over in early 2023-24. DPE cautions that there is a risk that continued wet weather may delay the completion of the pipeline project, and if so, the costing may change.

The impact is a net saving of \$44.9 million over the forward estimates and an additional \$578.3 million beyond the forward estimates, or a total of \$623.2 million. The net saving is due to a reversal of costs that can be avoided upon cancellation, including the expense provision budgeted for the project, being higher than foregone revenue and termination costs (see breakdown overleaf).

Notes and costing assumptions continued:

(Amounts in \$'000s)	2022-23	2023-24	2024-25	2025-26	4-year Total	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	Total
Revenue												
Commonwealth contribution					0	-60,400	-74,500	-83,700	-43,900	-147,600	-150,300	-560,400
Expenses												
Reversal of costs allocated to DPE	-6,464	-39,931			-46,395							-46,395
Reversal of expense provision					0	-60,400	-175,000	-290,200	-228,600	-227,600	-156,900	-1,138,700
Termination costs	1,500				1,500							1,500
Net lending	4,964	39,931	0	0	44,895	0	100,500	206,500	184,700	80,000	6,600	623,195

Background

In October 2019, the Australian and NSW Governments announced that they will jointly fund the planning and delivery of the new Dungowan Dam and Pipeline. This project aims to increase the water supply for Tamworth and maintain water reliability for agriculture in the Peel Valley.

The 'Early Works' stage of this project relates to works on the new pipeline. The new pipeline will be connected between the Calala Water Treatment Plant and the Dungowan Village.

DPE expects the early works to be completed in early 2023-24. These include:

- installation and commissioning of the pipeline
- transfer of customer connections to the new pipeline
- finalisation of acquisitions of easements over the new pipeline corridor
- transfer of pipeline to Tamworth Regional Council as the proposed owner and operator.

The 'Main Works' stage of the project refers to the construction of the new dam. The construction may only start once planning approval is received. As of February 2023, the planning approval is still underway.

Assumptions

Reversal of costs allocated to DPE

DPE was allocated a combined envelope of funds for the delivery of planning and early works for three dams, namely Dungowan, Wyangala and Mole River. The savings from cancelling the Dungowan project were derived by calculating the difference between DPE's forecast of the project's budget requirements as of September 2022 under the current plan, and the amount that will be fully spent or committed by the time it gets terminated. DPE estimates this difference to be \$6.5 million of operating costs in 2022-23.

In February 2023, the government allocated a further \$39.9 million of funding in 2023-24 to DPE for contractor expenses, design, and geotechnical investigations. Cancellation of the project will result in this expense being reversed.

DPE noted that there will be no savings from ongoing maintenance and depreciation of the early works infrastructure. The asset was planned to be handed over to Tamworth Regional Council for ongoing management upon completion.

Termination costs

DPE assumes that there will be \$1.5 million of termination costs involved when the project is cancelled. These costs relate to project management, planning, transfer, contributions for operations, and contract break fees.

Notes and costing assumptions continued:

DPE notes that technical accounting adjustments for the impact of a possible asset write-down or transfer to Tamworth Regional Council are not included in the costing.

Foregone revenue

In cancelling the main works of the project, the PBO assumes that the Commonwealth contribution will have to be returned, thereby foregoing revenue, as the money cannot be used for any other purpose without the Australian Government's approval.

As announced in Commonwealth Budget October 2022, Commonwealth funding for Dungowan Dam in the forward estimates was deferred to 2026-27 onwards. Therefore, the costing does not reflect any foregone revenue over the forward estimates (except for the revenue budget that was reprofiled from 2022-23 to 2023-24).

Reversal of the expense provision for the Dungowan project

The expense provision in the NSW Budget was reprofiled in January 2023. In line with the updated Commonwealth contribution profile, NSW Government deferred \$1.1 billion expense provision to 2026-27 onwards.