

VERIFIED VERSION

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into budget estimates 2014–15

Melbourne — 15 May 2014

Members

Mr N. Angus

Ms J. Garrett

Mr D. Morris

Mr D. R. J. O'Brien

Mr C. Ondarchie

Mr M. Pakula

Mr R. Scott

Chair: Mr D. Morris

Deputy Chair: Mr M. Pakula

Staff

Executive Officer: Ms V. Cheong

Witnesses

Mr P. Walsh, Minister for Water,

Mr A. Fennessy, Secretary, and

Ms C. Jackson, Acting Executive Director, Finance and Planning, Department of Environment and Primary Industries.

**Necessary corrections to be notified to
executive officer of committee**

The CHAIR — I declare open the estimates hearing for the water portfolio — hearing 21 in the 2014 estimates process. I welcome back the Honourable Peter Walsh, Mr Adam Fennessy and Ms Carolyn Jackson. There are a number of officers from the department in the gallery who may be called. I will identify them at the time if they are.

The minister now has an opportunity for a brief presentation of no more than 10 minutes on the budget estimates for the water portfolio.

Mr WALSH — As I said in the previous portfolio presentation, the Department of Environment and Primary Industries was created on 9 April 2013 to provide a better and more efficient management approach for public and private land and water for the people of Victoria, boost service delivery in regional areas and provide a one-stop shop for environmental and primary industries.

The 2014–15 budget provides \$452.8 million in funding towards the effective management and supply of Victoria's water resources within a total budget for the Department of Environment and Primary Industries of \$1.8 billion. The water management and supply output is guided by the departmental objective of effective management of water resources to meet future urban, rural and environmental needs. The water portfolio is overseen by DEPI and the Office of Living Victoria. The output develops policies, provides strategic advice and oversees regulatory systems to drive the effective management and efficient use of Victoria's water resources. The majority of funds are invested in government programs and projects delivered by service delivery partners, such as catchment management authorities and water corporations.

With Melbourne's water storages in a strong position, a zero gigalitre desalinated water order for the 14–15 financial year was placed. The Victorian coalition government is firmly focused on limiting the costs of the desalination project for water customers. Our government has overseen \$1.2 billion in cost reductions on the total contract costs of the desalination project. The latest reduction comes from the successful strategic debt refinancing which will save Melbourne water customers \$187 million. In addition water bills have been reduced by \$419 million in withheld payments when the project finished late and \$625 million predominantly from the successful negotiation of the project's electricity operation contract.

A priority for the water portfolio is to deliver improved efficiency of supply and use of water in order to approve livability for all Victorians. Our government has taken a number of important steps towards delivering this priority. On 17 December 2013 I launched Melbourne's Water Future, which defines our government's approach to improving water cycle management. Melbourne's Water Future provides a long-term vision for a smart, resilient water system for a livable, sustainable and productive Victoria.

The Right Water campaign, launched in February 2014, provides households with clear and practical information on how they can make greater use of rainwater around their homes. It delivers on commitments made in Melbourne's Water Future to engage the community in whole-of-water-cycle management. Our government is also focused on ensuring that Victorian households are not faced with rising household water bills. The Fairer Water Bill initiative involves water corporations participating in an independent review of their operation to identify savings that will translate to lower household water bills.

The Murray-Darling Basin plan was signed into law in November 2012, and last June Victoria was the first participating state to sign the intergovernmental agreement on implementing water reform in the Murray-Darling Basin and the associated funding agreement. This agreement validates Victoria's longstanding view that a healthy basin can be achieved alongside sustainable, productive and competitive irrigation. Through the coalition government's effort we secured \$14.3 million over three years to develop offset projects to reduce the volume of water required to be recovered from productive use under the basin plan, \$47.4 million over eight years for start-up costs associated with implementing the basin plan, a commonwealth commitment of \$25 million from its \$100 million Murray-Darling Basin regional economic diversification program for assistance to communities affected by the basin plan. Our current focus is on ensuring that we are meeting our obligations under the new basin plan trading rules, which will take effect from 1 July 2014.

The Victorian government is focused on providing for a secure future for irrigation production through our support for irrigation modernisation and on-farm efficiency programs. The \$2 billion GMW Connections Project, due for completion in 2018, is building a more sustainable future for irrigation agriculture in the Goulburn-Murray irrigation district. Our government is also delivering two significant on-farm water

infrastructure programs in the Goulburn-Murray water area, totalling almost \$160 million. Both on-farm works programs are providing irrigators with financial support to implement best practice farm works, including flood and spray technologies. These programs also create water savings, labour savings and productivity gains, which helps to secure viable, sustainable irrigation communities into the future.

On 19 December 2013 I announced that Victoria had successfully secured \$103 million of commonwealth government funding to modernise the ageing irrigation infrastructure in the Sunraysia district. This project will deliver a range of critical infrastructure works across the three irrigation districts of Mildura, Merbein and Red Cliffs. The health of Victoria's waterways underpins many aspects of regional tourism, jobs and investment, particularly in coastal areas like the Gippsland Lakes and along the Great Ocean Road. Managing our waterways to ensure that they keep providing this important environmental, social, cultural and economic value is a key priority for our government.

In October 2013 I launched the new Victorian Waterway Management Strategy, which provides a clear direction for this government's significant investment of more than \$100 million since 2012–13 to improve the health of Victoria's waterways. The strategy provides a single integrated management framework for rivers, estuaries and wetlands and has been developed following a significant consultation and community engagement process with a wide range of interested parties. The government has committed to enabling adaptation to a varying and uncertain climate. The change of conditions from drought to floods over the last few years has demonstrated the need to plan for a wide range of environmental conditions to improve the resilience of the state's water system. Our government has taken a number of important steps towards delivering on this priority. The managing risks to water availability project is achieving practical knowledge to better understand variability and develop scenarios to inform our water planning. Surface and groundwater monitoring and assessment initiatives ensure that the government has the right information at the right time to make decisions.

Improved accounting for Victoria's water distribution system will allow us to identify efficiency gains. Improvements to water entitlement allocation frameworks embed adaptability and allow users flexibility to make decisions. New flood policy, mapping and mitigation works will improve resilience to extreme events. The water law review will revise and streamline Victoria's water legislation while maintaining existing entitlements to water.

The 2014–15 budget delivers a range of significant initiatives which will help our government further deliver its priorities for the water portfolio. Following the devastating floods in 10–11, the coalition government instituted the Comrie Victorian floods review. A priority for the water portfolio is implementing the water-related recommendations of the review. The 14–15 budget provides \$7.6 million for funding to implement the recommendations from the Victorian floods review and the parliamentary Environment and Natural Resources Committee inquiries into flood mitigation and rural drainage. The funding will be used to construct levees and other flood mitigation works to help improve community resilience to flooding and inundation.

As mentioned earlier, our government is focusing on supporting a more productive, effective and sustainable irrigation industry in Victoria. The 2014–15 budget provides \$1.9 million to build on the significant work already under way. The rural water management initiative includes funding towards the monitoring of the basin salinity management strategy, which was required under the basin plan. It also provides funding to establish the governance arrangements, monitoring and oversight and stakeholder management related to the Sunraysia modernisation project. This will ensure delivery of the project in accordance with the funding agreement between the commonwealth, the Victorian government and Lower Murray Water.

The 2014–15 budget makes provision for an additional \$8.85 million towards Victoria's annual contribution to the Murray-Darling Basin Authority for joint programs. This funding is in addition to the \$21.8 million already committed as part of the Victorian government's annual contribution to the Murray-Darling Basin Authority. This gives certainty to our irrigators, urban water users and those in the tourism industry who depend on cost-effective and efficient river systems. Thank you.

The CHAIR — Thank you, Minister. We now have until 5.00 p.m. for questions, and again I will ask the first one. Minister, could you outline to the committee the budget initiatives in the water portfolio which will strengthen Victorian communities both in the coming year and over the forward estimates period?

Mr WALSH — Thank you, Chair. The responsibilities in the water portfolio begin with catchment and waterway health and extend through to infrastructure, oversight, water-saving and reuse projects, flood management, governance and water legislation. Our challenge as a society is to strike the right balance between economic, environmental and social values to ensure there is enough water to go around. This is an important challenge to get right, given that local communities across Victoria are dependent on their precious natural resource.

The water portfolio initiatives announced in the 14–15 budget build upon significant work already undertaken to support stronger communities. As has been said in the presentation, there is \$7.6 million in this budget to further implement some of the work and do some further flood studies. Following the significant flooding events of 2010 and 2011, and in one area of Victoria in 2012, a number of flood studies have been funded principally by the state government, but with commonwealth and local government money as well. A number of those reports are now finished or coming to a finish, and some of this money will be partnered with commonwealth money to start the implementation of some of those flood studies.

I was in Rochester on Saturday making a \$510 000 announcement there, where approximately \$270 000 of that was from the state government to start implementing the first stage of their flood study following the significant floods they had in that period 2010–11. We are rebuilding a levee bank on the south of town where a channel has been decommissioned by Goulburn-Murray Water. We will be putting in place additional flood warning gauging so they get better notification of what is occurring with floods coming down to Rochester down the Campaspe River. We are doing some more detailed design work about how they can increase the drainage of water away from the town into the future.

That is one example of where that money is going to be spent in the future, and there will be additional announcements made over the next month or so for other communities that have finished their flood studies, and we will be starting to implement the work that has already been done. Those announcements will be in Charlton, Carisbrook, Seymour, Donald, Clunes and Quambatook. As I said, Rochester has already been done, and there will also be some additional money to continue the work done in Creswick. You can probably all remember the significant flooding in Creswick and the flood study that was done there. Money has already been spent there to implement the first stage of that, so this will be some additional money to continue that work in Creswick.

In the portfolio area there is also money for rural water management around how we continue the modernisation of our irrigation system, particularly that money that is there to have the oversight over the Sunraysia modernisation project. It took a long time in coming; it was a project that was announced in principle by the then Premier, John Brumby, and Penny Wong as the water minister back in 2008. It took till last year to finally get that project signed off with the commonwealth and announced. It was a great outcome for the Sunraysia region.

I will give a small example of some of the other environmental works that have taken place. At Yarrowee River near Ballarat some environmental works have been done there and \$1 million has been spent in restoring the river's health as an urban waterway with the community of Ballarat. I am happy to leave it there.

Mr PAKULA — Minister, your presentation referred to a number of programs that are within the remit of the Office of Living Victoria. There is an output amount for the water section of DEPI in budget paper 3, page 109, from which I understand the Office of Living Victoria is funded. I understand Right Water and Fairer Water Bills are just two of the programs that have OLV oversight. It is being reported in the Age that OLV is currently being investigated by the Ombudsman. Can you advise the committee how much the Office of Living Victoria is budgeted to spend on staff, consultancies and contractors in each year over the forward estimates, and how much is the total for those for 2013–14?

Mr WALSH — Thank you for the question. After I make some comments I might ask the secretary to do some of those numbers. The Office of Living Victoria has been set up and is charged with the responsibility of implementing our urban water reform, and it has been doing a very good job of that particular program. There has been an immense amount of community consultation. If you look at the journey, it started with the ministerial advisory council, which went out and consulted with the community to develop this up as to how we can better utilise stormwater, recycled water and rainwater for non-drinking purposes in the urban environment. As I said, a lot of work has been done and there has been a lot of consultation with the community and the

industry to develop that up. We are now starting to see the fruits of that work. We are seeing a better recognition of using those alternate water sources for replacing potable water for non-drinking purposes, which means that we increase our effective water supply into the future. I will ask Adam to give some of those details.

Mr FENNESSY — Through you, Chair, some of the details of the funding for the Office of Living Victoria are: for 14–15 the budget is \$39.1 million, and the overall staffing level is based on the levels of 13–14, which is 115 staff. As the minister was alluding to, that is a growing number because the agenda is growing, so we need to make sure that OLV is resourced to deliver the increased programs and the reforms.

Mr PAKULA — Noting that the Office of Living Victoria is funded out of that appropriation that I referred to, I want to go to this question of contract splitting whereby an individual receives multiple payments under \$100 000 for a single job to avoid that contract going to tender and to prevent those contracts being publicly disclosed. The Assistant Treasurer, in the Legislative Council, has confirmed that the practice of contract splitting is not permitted under Victorian government supply policies. Can the minister confirm that Mr Simon Want has been engaged for a single task as a consultant working to set up the OLV but has received payments from two sources, those being DEPI and the minister's ministerial office allocation?

Mr WALSH — Thanks for the question, Mr Pakula. I assume the premise of that question comes from the *Age* newspaper.

Mr PAKULA — Do not worry about the source.

Mr WALSH — Well, I do worry about the source, because unless you have some factual information to base your question on, it does not have any relevance. I do not see the *Age* newspaper necessarily as a source. We are here to answer questions out of the budget papers, not out of the *Age* newspaper.

Mr PAKULA — On a point of order, Chair, I at no stage said my question was based on anything from the *Age* newspaper. The minister has asserted that and then used that as a basis to avoid answering the question. As a member of the committee inquiring into the expenditure of public funds, I am not required to provide the minister with a rationale for why I have asked a question. I have asked the minister a question about whether something is or is not the case, and the minister simply needs to say either it is the case or it is not the case. I at no stage suggested that I had got my information from any source.

Mr O'BRIEN — On the point of order, Chair, I have two matters. Mr Pakula has indicated investigations in relation to the Ombudsman, so one needs to be careful in that regard not to prejudge outcomes. The second matter, more importantly, is that in Mr Pakula's question he has made reference to an individual who is not the minister, and in relation to the reputations of individuals, there are important principles concerning matters that can be put. One should not make questions from the ether. Questions should be sourced appropriately, because it is not good enough that reputations can be bandied around and innuendos made under the cover of parliamentary privilege.

Mr PAKULA — On the point of order again — —

The CHAIR — No; sorry. You do not get two goes at the same point of order. I have not ruled yet.

Mr PAKULA — I cannot respond to what Mr O'Brien has just said?

The CHAIR — No, you speak once on a point of order. There is no right of reply.

Mr ANGUS — On the point of order, Chair, I concur with my colleague Mr O'Brien. Also, no individuals are mentioned by name in the budget papers, so clearly Mr Pakula is straying into other sources which do not stem from these papers. I also request that you rule it out of order.

Mr SCOTT — On the point of order, Chair.

The CHAIR — Thank goodness we are down to four! Mr Scott.

Mr SCOTT — The question that was asked by the deputy chair related to the expenditure of public funds. A debate about the source of the question is really not germane to whether the minister should answer it or not. It clearly related to the expenditure of public funds, which were ultimately drawn from the taxpayers of Victoria,

and it is within both the general government and also the other areas of the state of Victoria, as defined in the accounting standards that we deal with in these budget estimates. Therefore the minister should respond to the question; it is quite simple. The argument put that therefore we have to identify the source of the original information or have to get into a debate about our opinions on various news organisations is not particularly relevant.

The CHAIR — I am sure there is no-one else to speak on the point of order. Firstly, I have reservations about naming individuals in these sorts of hearings. We need to be careful that this parliamentary committee, or any other parliamentary committee, does not turn into a kangaroo court. But having said that, it is not up to me to direct the minister how to answer a question. That is a matter for the minister. I also observe that engaging in debate backwards and forwards with the committee is not the way we want to go ahead. The process is to ask a question, then to receive an answer. It is up to the minister how he answers the question, not up to me to direct him how to answer the question. If you do not get the information you are seeking, you may wish to come back to the matter from another angle when you next have the opportunity to ask a question. Minister, did you wish to add anything?

Mr WALSH — No thanks, Chair.

Mr ANGUS — Minister, I refer you to slide 5 of your presentation where you talk about the Fairer Water Bills initiative. Can you outline to the committee how the government is cutting the cost of living for Victorians through reductions to their water bills?

Mr WALSH — Thank you, Mr Angus. I had the pleasure of being with the Premier on Sunday, Mother's Day, to give what I think is a great Mother's Day present to all the families in Melbourne, which is a \$100 reduction per year on their water bills over the next four years. As part of the work program of OLV it has been working to provide the secretariat to an independent reviewer, Graeme Samuel, the ex-ACCC chair, to do an independent review of the water businesses here in Victoria and work with them to find efficiency savings so that we can pass them back to customers.

You would well remember that water bills from 2007 until 2012 had effectively doubled in Victoria. They have gone from about \$500 per year to nearly \$1200 per year. That is principally because of the decisions by the previous government, particularly around the desalination project and the north-south pipeline, both projects that the previous government actually promised they would not do in 2006, and then in July 2007 they turned around and announced that they would build effectively one of the largest desalination plants in the Southern Hemisphere, a plant that I believe is too big, too expensive and too far from Melbourne to be — there could have been a better option for Melbourne. The story around the north-south pipeline is very well documented. Those things led to major increases in water bills here in Melbourne. The independent reviewer has been working with the water authorities and asked them to come forward with efficiencies they can find in their businesses. This is both for the metropolitan urban authorities and the non-metropolitan urban authorities.

On Sunday we announced the savings for the metropolitan urban authorities. There will be subsequent announcements over the next few weeks for the non-metro urban authorities as they finalise their savings and go into their corporate plans. The timing of this has been built around the development of the water authorities' corporate plans, which they have to have back to myself and the Treasurer by the end of May, for tick-off in June, to start from 1 July. Those savings will be passed on to Melbourne water customers from 1 July. The first bills that go out after 1 July will have that \$100 saving on them. We clearly understand the cost of living pressures that people have, and this is a small step to undoing the huge increase in bills that the previous government put on Melbourne water customers.

The water authorities have worked through a very detailed process, and I commend them for the work that they have done in this particular Fairer Water Bills initiative. They came forward with something like 300 saving initiatives. They worked with a consultancy company called Third Horizon to do some of that work, which is a company that has international experience in water businesses. Those savings were then verified by Deloitte to make sure that they were achievable, because one of the prerequisites that was asked of the water authorities was that there should be no lessening of service in this particular process, and no lessening of environmental outcomes as well. That has been ticked off by Deloitte.

The savings are principally around improved financial management; management of their assets, particularly the use of new technology to prolong the life of assets, so you do not have the cost of replacement sooner; some changes to procurement practices and how the water authorities can have joint procurement in the future to help drive down costs; and particularly around work that can be done in the future over the life of this project around shared services. Given that the water authorities are all owned by one owner, being the government, there is the opportunity for them to work together around procurement and shared services into the future. Customers of City West, Yarra Valley, South East Water and Western Water will see the benefits of that, as I said, flowing from their first bills after 1 July. The customers of the non-metro urban water authorities will also see the benefits, but they are yet to be announced.

Mr ANGUS — Thanks very much, Minister. Congratulations on great work. I know my constituents are very grateful.

Mr SCOTT — Minister, I just want to ask a further question relating to the Office of Living Victoria. I have a document from the annual report which outlines the organisational structure of the department. It has the Office of Living Victoria and Mr Mike Waller effectively having a direct line of reporting to the secretary of the department. From the same document which I referred to in an earlier session, the organisational structure from April 2014, the Office of Living Victoria has disappeared. It seems to be almost the organisation that dareth speak its name. I am just seeking clarification — —

Members interjecting.

The CHAIR — Order! Mr Scott has the call.

Mr SCOTT — I am just seeking some information from you about how the Office of Living Victoria integrates with the department. What kind of departmental oversight or review accompanies Office of Living Victoria advice to the minister?

Mr WALSH — Thank you, Mr Scott. I will ask Adam to add something after I have made a couple of comments. The Office of Living Victoria is an administrative office of the government and is there, as I said at the start, to implement the government's urban water reform agenda. It is doing a very good job of doing that. I think the example I just used in the answer to Mr Angus, of the Fairer Water Bills initiative, is an example of what they have been able to achieve on Melbourne water customers' behalf and, in what will be announced in the next few weeks, on regional Victorian urban water customers' behalf. It is doing a very important role for the government and doing a very good job of that. From an administrative point of view I will ask the secretary to make some comments.

Mr FENNESSY — Through you, Chair, as the minister mentioned, the Office of Living Victoria is an administrative office, and as you would be aware under the Public Administration Act an administrative office head has the same functions as a department head has in relation to the department, so there is that measure of independence. At the same time, under the Public Administration Act the administrative office head is then responsible to the head of the department, in this case me, for the conduct and efficient and effective management of the functions that the administrative office has to deliver upon, and I then have the duty to report that to the minister. So we do a lot of work together between the department and the Office of Living Victoria to make sure that we have got the governance right and we have got the accountabilities, reporting and oversight.

At the formation of the Department of Environment and Primary Industries last year, seeing this as something I wanted to get further advice on, we jointly conducted a governance review with the Office of Living Victoria so we could clearly identify what the department would do and what the office would do. That review did end up in a removing of duplication. The department had some urban water functions, and so did the Office of Living Victoria, so under that governance review all the urban water reform functions were consolidated in the Office of Living Victoria. In practical terms the office is a separate and independent administrative office, but under the legislation we work together so that the accountabilities flow from the office to me and then we can advise the minister on policy through the office and administration through myself.

Mr SCOTT — Just to seek some further clarification about the relationship between the office and the department, in terms of employment within the office, I would just like to seek clarification about how employment has taken place and will take place within the office. Can the minister or the secretary give clarity

around the role that the department has in employment within the office and give surety that any employment that has taken place has been in accordance with any of those arrangements?

Mr WALSH — I think I have had a number of questions on this in Parliament, if you have read *Hansard*, Mr Scott — or you were probably there to listen — and what I have said in those answers is I expect the department to adhere to government policy around procurement and employment, and I believe they have.

Mr O'BRIEN — I would like to take you — it is very timely — to slide 4 of your presentation, which talked about the Victorian desalination plant. I can say that the Office of Living Victoria does do a great job, and it is the sort of initiative that the previous government should have done, instead of wasting Victorian money — taxpayers money and Melbourne water customers money — on a \$28 billion white elephant. You ask if I am mad. I will tell you who is mad, and that is Victorians, at your waste and mismanagement, and you should be ashamed — —

The CHAIR — Mr O'Brien!

Mr O'BRIEN — That is who is mad. Now I will turn to the minister, who knows something about water and saving taxpayers money.

Mr PAKULA — Even the minister is laughing at you.

Mr WALSH — No, I am actually laughing at you.

The CHAIR — Minister!

Mr O'BRIEN — I note that you have — speaking of savings — in your presentation indicated that, notwithstanding Labor's mismanagement, \$1.2 billion in cost reductions from the total contract cost has been saved, and I was asking, Minister: could you explain for perhaps the Labor members and for the Victorian community what steps the Victorian government has taken to minimise the impact of this misguided white elephant project on Victorian families?

Mr WALSH — Thank you, Mr O'Brien. I, like you, share the view that Victorians are mad at the previous government about this particular issue. They know the impact that this has had on their water bills. We saw that last year when the full pass through effectively put water bills up by about 20 per cent. So in 2011, with the then Premier, Ted Baillieu, we released a lot of the details around the desalination contract and we gave a commitment at that time to the customers of the Melbourne water businesses that we would do everything in our power to reduce the impact of the cost of the desalination plant where we could reasonably do that, given that the contracts were all signed by the previous government. The work that has been done there — and I commend the department and particularly Peter Sammut, who heads up that part of the department, for the work he has done on this particular project. As you would be aware, there are hundreds and hundreds and hundreds of pages in this contract, and he has done a great job in trawling through that and making sure we can maximise every opportunity that we have to reduce the cost of it for Melbourne water customers.

There has been a total of about \$1.2 billion saved by the work that has been done now at this particular stage. Most recently there was the opportunity for the project to be refinanced early, and that saved Melbourne water customers approximately \$187 million, so a significant saving by that being put in place. If you actually look at the money that was withheld because the plant was late — and AquaSure wanted the money; we made sure we did not pay that money, because they did not actually fulfil the contract and it was late — we saved \$419 million for Melbourne water customers out of withholding that money for the project because it was actually late being finished. The renegotiation, or negotiation, of the electricity operation contract saved predominantly \$625 million. So if you put those numbers together, that adds up to about \$1.2 billion.

This year we have put in place a zero water order again following advice from Melbourne Water. The minister of the day has to advise AquaSure bond by 1 April each year as to what the order might be for the following financial year. I find something ironic about the date being 1 April, but that is the date in the contract. Melbourne water storages at that time were a little bit over 74 per cent, so obviously it was very logical that there would not be a water order put in, so a zero water order was put in. That saves significant cost for Melbourne water customers. Melbourne water customers are paying for the fixed charges on the desalination plant, but they do not actually have to pay for the production of any water, which would be a significant cost

again over that time. We have put in a non-binding forecast of a zero order for the 15–16 year and 16–17 year, given that the water storages are in the condition they are here in Melbourne. There have been some quite significant savings there.

One of the things that was part of that journey at one stage was discussion around up to \$1.3 billion in claims being passed through from the builders to AquaSure for the government.

Mr O'BRIEN — It was actually the CFMEU, yes?

Mr WALSH — That was around two principal issues: one was weather events down there, and the definition of whether there were cyclonic weather events or not; and the other was around industrial disputes. You mentioned the CFMEU, and one of the things I found intriguing in the contract was that the CFMEU and the ETU were given exclusive union rights to that site.

Members interjecting.

The CHAIR — Order! Mr O'Brien, the minister has the call.

Mr WALSH — The work practices on that site have been widely reported about and the fact that they probably led to some of the overrun in time of the project and to some of the cost blow-outs on the project as well. There was discussion from Thiess Degremont Suez, the builders, passed through AquaSure, that the government should pay for some of those claims. We were very firmly of the view as a government that we should not pay for any of those claims, so again through the very good work of Peter and his team that was successfully negotiated away from a potential of up to \$1.3 billion back to 0 as part of that process. We will continue to do whatever we can to fulfil the commitment we gave when the then Premier, Ted Baillieu, and I stood and said we would do everything possible around this contract to make sure we could reduce the impact of it on Melbourne Water customers.

Mr PAKULA — I take you back to the presentation and to budget paper 3, page 107, and the objective 'Effective management of water resources to meet future urban, rural and environmental needs'. The urban water cycle effective management goal also extends to regional centres, and you have put out recent media releases — that is, in June 2011, March 2013 and April 2014 — regarding the Living Ballarat program. Can you tell the committee, as of today, how much captured stormwater or recycled water has been stored or captured anywhere under this project and injected into the Ballarat aquifer under an initiative of the Living Ballarat program run by the OLV?

Mr WALSH — Thank you for the question, Mr Pakula. We did make available \$1 million for the Living Ballarat program, and the reason Ballarat was the regional city chosen to do this was that my journey as a shadow minister started on this path with watching on ABC online a workshop or a community event held in Ballarat where Professor Tim Fletcher presented at the invitation of the Committee for Ballarat about how urban cities can be a catchment in their own right — this was during the peak of the drought, and Ballarat was obviously very water stressed — and about how you can make better use of stormwater, recycled water and rainwater in the urban environment, and how for most of our cities effectively as much water runs off the roofs and streets of those communities as is actually consumed by those communities. This started that journey, which is why we have gone back and made that money available to Ballarat — because the Committee for Ballarat had done a lot of work on it.

A local committee has been overseeing this. It is being chaired by Mark Harris, who is a previous councillor at Ballarat City Council and has done a very good job of chairing that committee on its behalf. They are shortly to have their draft to go out for public consultation, which I am assured will be finished by the end of May. It has taken a little bit longer than I would have liked or envisaged, but one of the things that has been done right through these processes is that there has been extensive community consultation, so there is buy-in by the community. It is not just about coming up with an idea and telling a community what is going to happen, like the previous government did with the desalination plant and the north–south pipeline.

It is about how you involve the community in this process, and that work can be time consuming at times, but I think it will deliver a better result. A draft strategy will go out for community consultation sometime in early June to come back and have a final document by probably August or September. Some of the things they are looking at, as you mentioned in your question, are trials around aquifer recharge in the Ballarat West

employment precinct. It is believed that aquifer is suitable for that sort of work. Not all aquifers are suitable for recharge; you have got to make sure that, if you put the water down, you can get the water back out again and use it. As you said in the question: how do you harvest stormwater and rainwater in the urban environment in Ballarat?

One of the things they are very focused on is how they maintain Lake Wendouree. Having been to Ballarat when Lake Wendouree was dry, you understand the importance of that lake to the urban community in Ballarat. As part of the work they are looking at — and I was up there only a couple of weeks ago — they have the Right Water house, part of the Right Water program, in the botanical gardens. The manager of the botanical gardens took us over the back to where they have a wetland, where there is some water that is harvested off the urban environment and put through a wetland. I think you understand the technology and how it is cleaned up through a wetland and used to keep the lake recharged.

Part of this whole strategy is how they increase the catchment for that wetland so they can have more water to put in in their lake. They have developed a process whereby they effectively take the lake to slightly over full in the winter time; they can then get through the summer and have a good supply in the lake. As these strategies are developed, there are things that happen along the way. That work is being done on how they can get more water for their lake. The work has started on how they can do aquifer recharge in that program in the Ballarat West employment precinct.

Mr PAKULA — Minister, I can assure you I was at Lake Wendouree when it was dry and I was there when it was refilled in 2010. I find your answer interesting because you first announced this Living Ballarat project on 3 June 2011, almost three years ago, and I take it from your answer that there has actually so far been zero water stored or captured or injected into the aquifer as a consequence of that project.

If I were to suggest to you that the investment from the Office of Living Victoria into Living Ballarat, the \$1 million you referred to, has gone to fund a contract managed by Dr Coombes for work on analytical modelling and technical services to assess the performance of the proposed integrated water cycle management options — in other words, the money has gone on the management of that contract rather than the actual injection of any water into the aquifer — how would you respond?

Mr WALSH — Peter Coombes has been involved in doing some of the modelling. Peter Coombes is a world-renowned expert in this area, and one of the things that has been critical to the work that has been done with OLV is making sure they actually have the appropriate staff to do that and they have looked to have the best people they possibly can to do that. As I said, he is a world-renowned expert. He has done work overseas, he has done work in Saudi Arabia and he has done work in New South Wales.

You actually have to have the right modelling done to build up the project. You do not just go in and say that you are going to put a drain here or you are going to put a pump there or a pipe there; you actually have to model the urban environment to know the yield you have to work with to know the scale of the project you are doing and make sure that whatever you do does not have an unforeseen consequence on someone else in that urban environment. Peter has been doing that work. Peter has been doing a number of projects to make sure the modelling is done to build the project on a very sound footing. You do not just go in and make decisions to do something like was done with the desalination plant and the north–south pipeline.

Mr ANGUS — Page 14 of budget paper 3 details a new initiative to reduce the risk of flooding. You also touched on that in your presentation with your slides. The Victorian government has undertaken a number of flood studies across the state. Could you outline to the committee the importance of the flood studies and their impact on local communities?

Mr WALSH — Thank you very much, Mr Angus. Since those floods in 2010–11 and the floods in Numurkah and Nathalia in 2012, there have been some 26 flood studies commenced, and 14 of those have been completed. I suppose one of the issues with the drought we went through was that a lot of people had been led to believe that it was never going to rain again and was never going to flood again. We all know that the Australian climate is droughts and floods, so the return of floods was not surprising to some people, but for a lot of people who were starting to believe the popular myth that it was never going to rain again it was quite a surprise. Those communities were heavily impacted by those particular floods.

As I said in my presentation or in answer to one of the previous questions, a number of those flood studies are finished. Creswick has already had some work done. I talked about the money that was announced at Rochester on Saturday, and there will be further announcements out of that budget allocation that we made over the next couple weeks.

The funding for these particular projects are usually jointly matched. A third of the contribution from the state government, a third from the commonwealth under the natural disaster resilience grants and a third from local government goes into these particular projects. An example of that is the levee that was recently finished around Kerang. As you may be aware, the Kerang township came very close to flooding. Fortunately it did not. There were other communities that were flooded, but Kerang was not. They had to rip up part of the Murray Valley Highway and crown it up with road graders to put a temporary bank in to stop the town being flooded. With \$500 000 over two years from the state government, \$500 000 over two years from the commonwealth and \$700 000 from the Gannawarra council out of its Local Government Infrastructure Fund, they have built a whole new levee on the southern side of Kerang, which means that Kerang will be protected in the future event of a major flood.

They are examples of the sorts of projects that can be done. The \$7.6 million in this year's budget will be our contribution to implementing some of those flood studies to do that sort of work in the future. There will be a further 12 flood studies commenced out of this particular money. It is a bit like the answer to the previous question. It is no good rushing in to put up a bank or dig a drain or whatever; you actually need to do the detailed work to know what you are going to do.

One of the reasons the flood studies have been spaced out over time is that there is a limited availability of hydrologists. You cannot get enough hydrologists to do all of this work at once, and if you tried to, you would actually push up the price of doing these particular projects. This new funding, as I said before, will enable works to be done in Carisbrook, Charlton, Rochester as I said, Donald and Quambatook, with some further work at Creswick as well.

Mr SCOTT — Minister, I refer you to budget paper 5, page 177, which refers to the national partnerships payments from the federal government relating to Water for the Future. My question relates to the \$2 billion Goulburn-Murray Water connections program. I am seeking clarification as to whether Victoria is on schedule to deliver on the commitments under the intergovernmental agreement on implementing water reform in the Murray-Darling Basin. Specifically, will you meet targets on the irrigation system upgrades and farm water efficiency measures in regards to cost, timetables for reporting and delivery and water-saving targets?

Mr WALSH — Thank you, Mr Scott, for the question. This is obviously a lot of money and a major project not only for Victoria but particularly for northern Victoria. The way this project was structured under the previous government — having the Northern Victoria Irrigation Renewal Project as a different legal entity and administrative process to Goulburn-Murray Water and starting to implement this project separate to Goulburn-Murray Water was — I do not think was a good way to do the project. You had two organisations with different responsibilities and probably different aspirations as to what they were trying to achieve, and they were not necessarily working well together. One of the things we did on coming to government was roll the NVIRP responsibilities into the Goulburn-Murray Water. It is now called Goulburn-Murray Water Connections. I think having the two working together is going to achieve a better outcome over the longer term.

In January I went and spent half a day with Goulburn-Murray Water in their control room looking at how they are managing this project and the systems they are putting in place to meet the contractual arrangements with the commonwealth. As I said, when you had the two different entities I think there was a mismatch of aims. I think they have very good control systems there now to know what is going on with the project. The reports I am getting are that now they have got those good control processes, they are actually speeding up the process. So since they made some slight changes, where there was a significant time lag between contracts being developed and farmers signing those contracts I am told that is now under 60 days, which is a substantial improvement in the time frames. From the changes they have been making since they took over the project we are starting to see results, and they have informed me that they believe they will meet the contractual arrangements by the end of this project in 2018.

Mr O'BRIEN — Just following on from that, I would like to ask you in relation to accountability and transparency in service efficiency arrangements in relation to the Murray-Darling Basin plan, what changes have been made in the last 12 months to improve those arrangements with the Murray-Darling Basin Authority?

Mr WALSH — Thank you for the question, Mr O'Brien. The development of the Murray-Darling Basin plan was a very tortuous and traumatic process for a lot of regional communities and individuals, and there was a lot of uncertainty throughout that process. I think that was made worse by the way the commonwealth at one stage went about the plan, the guide to the draft plan that was released and just the lack of genuine community consultation.

Over time that was improved. Victoria worked hard with the commonwealth government in negotiations with the commonwealth minister to achieve a good outcome for Victoria, knowing that there was going to be a Murray-Darling Basin plan; that was reality. I believed it was in Victoria's best interests that we engage constructively to get a good outcome for Victoria, and I think in what was negotiated we did that.

One of the prerequisites I wanted to see in the plan — as you know, Mr O'Brien, the commonwealth at that stage was buying water by open tender and that was creating some significant challenges for the irrigation systems in northern Victoria and even for the modernisation that we just talked about in the previous question. If the commonwealth comes in and buys water from different spots across the system, it undermines the viability of the whole system, and it was creating what was colloquially called in northern Victoria the 'Swiss cheese effect', where you have a number of properties down the channel that no longer irrigate, which means that the viability of that channel is questioned.

In whatever we negotiated with the commonwealth I wanted to see that we actually had the commonwealth out of the water market in Victoria so there could be some certainty for those communities. We were able to successfully negotiate a basin plan that saw the commonwealth not being in the general tender water market in Victoria in the future.

One of the other thing key things we wanted to see was that any water recovery to fill the basin plan should be apportioned across the states so that each state made a contribution based on the proportion of extractions they had out of the basin. That was not something that was in the early drafts of the plan. We were able to achieve that again, which meant that in whatever was negotiated Victoria met its share but did not find it had to also meet the share from one of the other states out of that particular process.

As I said in my presentation at the start of this, once we had achieved the things that we wanted to have in the plan from Victoria's point of view, we were the first state government to sign up to the intergovernmental agreement, and that enabled some of the money to flow to Victoria to start implementing the plan.

There is \$14.3 million over three years to develop offset projects, which again reduces the volume of water recovered from productive use in Victoria. If members of the committee ever get the opportunity to go to northern Victoria, they should look at the Hattah Lakes project. You have engineering solutions there that enable the Hattah Lakes to have water pumped into them. A 1000-megalitre-a-day pump is set up in the river to pump water in to fill the lakes without having to have a major flood to do that. More recently there is the Gunbower project at Hipwell Road, where there is a channel and a diversion where they can now flood Gunbower Forest out of the channel system rather than having to again have a major flood to do that. They are the offset projects that we had inserted in the plan.

They are Living Murray projects. But we need more projects like those to make sure there is less water being taken out of consumptive use and money to develop those projects. There is \$47.4 million over eight years for Victoria's costs associated with implementing the basin plan. One of the things we were very strong on with the commonwealth was that this is the commonwealth plan, but it is actually the states that are going to have to implement a lot of the work, and state taxpayers or irrigators should not have to pay the cost to implement a commonwealth plan, so that money is there to help us do it.

As I think I also touched on, there was the Murray-Darling Basin Regional Economic Diversification Program, which was a pool of \$100 million from the then federal minister for regional development, Simon Crean, to assist communities where water was leaving those communities and helping them create jobs in the future. Victoria successfully negotiated \$25 million from that pool of money, and \$15 million of that has gone to the program of Peter Ryan, the Minister for State Development and Minister for Rural and Regional Development,

to get natural gas into those Murray River communities. Again that is something we were able to negotiate which I think will deliver a good outcome for those communities in northern Victoria.

There has been a lot of hard work by our department officials who have constantly taken that plane trip to Canberra to negotiate on our behalf to achieve a good outcome. Jane Doolan, who was the deputy secretary, and now Emily Phillips, who is the deputy secretary, have both done a great job on behalf of Victoria in achieving some good outcomes, knowing there was always going to be a basin plan, but how do you work to get the best outcome for Victoria, and I think we have achieved a very good result.

Mr PAKULA — Minister, I want to ask you about the Office of Living Victoria. I do not need to go back over some of the allegations that have been made in regard to that office; we have been through them in this committee over the last hour. When these reports first surfaced the government's response was to announce an investigation into who leaked the revelations, and I am wondering if either the minister or the secretary can provide the committee with details about the resources that have been applied to that leak investigation — how many hours that investigation has consumed, what the cost of it has been and how many individuals have been working on it.

Mr WALSH — Thank you, Mr Pakula. Again, I suppose in some ways we are answering a question based on speculation in the media, because there has been no government information or factual information out in the public arena about what may or may not have happened. It is always interesting responding to newspaper articles that there is no source to.

Mr PAKULA — I did not mention a newspaper article.

Members interjecting.

The CHAIR — Order!

Mr WALSH — As I understand it, under the code of conduct for the VPS, people are supposed to treat confidential information as confidential.

Mr PAKULA — There is a supplementary. Sorry, Minister; if you say I am wrong, and you want to tell the committee that there has not been a leak investigation taking place, this would be an opportunity for you to do so. Alternatively I would be interested if you could provide me with information about what resources have been applied to it.

Mr WALSH — I think across governments — and it would have occurred when your side of politics was in government — where people inappropriately put confidential information out in the public arena, various departments have inquiries as to who has done that.

Mr ANGUS — Minister, on slide 5 of your presentation you talked about the Right Water campaign. Can you explain to the committee how the government's Living Victoria policy is reshaping the way in which water is being used by consumers?

Mr WALSH — Thank you, Mr Angus. The Right Water program is an educational program to work with households as to how they can maximise particularly rainwater around their property. During the drought we saw a high uptake of tanks being put on houses. With the return to more normal seasonal conditions, the number of people putting tanks on has dropped off, although I am informed it has increased a bit in recent times. The Right Water campaign is about information for households as to how they can have what is called 'the right water for the job'. You do not need potable water for flushing your toilet; you do not need potable water for watering your garden.

The Right Water house is a small house with a button you press, and the kids — wherever it is put up — love going along and pressing this. It has the noises and tells the story about what you can actually do to collect rainwater to increase your water efficiency in your own particular household. The Right Water house was originally based down at Southern Cross station for a while; it was then relocated to the flower and garden show for a period of time, and more recently it has been up at Ballarat, in the botanical gardens up there, near the glasshouses. One of the best ways of educating parents is through their children, so it is an opportunity for families to understand that if they put a tank on their house, and particularly if they plumb it through their toilet

system or through their hot-water system, they can save a significant amount of water. There are cheaper versions than having a tank; if people just want to set up some diversions to run their rainwater out to water their garden, they can save a significant amount of water there. It is about increasing the livability of the urban environment and reducing the demand on the potable water supply for non-potable uses.

Mr SCOTT — Minister, I ask you to turn to page 114 of budget paper 4, the state capital program. That is existing projects for South Gippsland regional water corporation. There are two projects I would like to draw your attention to. One is a project with a total of \$15.7 million, which is for ‘Melbourne supply connection works — construction (Lance Creek/Korumburra)’. The other one is 3.41 million for ‘Melbourne supply connection works — construction (Korumburra/Poowong)’. Can the minister confirm these works are to connect the Lance Creek-Korumburra system and the Korumburra-Poowong system to the desalination plant pipeline?

Mr WALSH — Can I just seek some advice for a minute, because I am not sure about these projects? Can I take that on notice, please? I know that the Loch Nyora sewerage scheme, which is the one above, is definitely going ahead, but I do not have any information on those two particular projects. I am happy to take it on notice.

Mr SCOTT — If you are taking it on notice, by way of supplementary, the information I would also seek on notice is if there are any other water catchment systems that are planned to be connected to the desalination plant pipeline.

Mr WALSH — Happy to take that on notice.

Mr O’BRIEN — I would like to ask you, Minister, in relation to budget paper 3, page 14, which contains references to the Sunraysia modernisation project, which will improve the efficiency of irrigation delivery infrastructure in the Mildura region, can you outline the benefits of the Sunraysia modernisation project for irrigators and the local community?

Mr WALSH — Thank you, Mr O’Brien. I think I touched on this before, but the Sunraysia modernisation project is a project that Sunraysia has been trying to get up for quite a few years. It was announced in principle in 2008 by then Premier John Brumby and then federal water minister Penny Wong, but it was very difficult to get a business case that could be supported by the commonwealth to actually get this project to happen. As part of the negotiations over the Murray-Darling Basin plan, in discussions with the then federal water minister Tony Burke, we were able to get some criteria for this project that were achievable. I particularly commend Anne Mansell at the Mildura Development Corporation for the work that she led in preparing the business case to get this particular project up.

It will modernise the infrastructure in the three irrigation districts up there: Mildura, Merbein and Red Cliffs. There are upgrades to the pump stations in each of those districts — the pump stations were getting old. It replaces 8 kilometres of main channel with low-pressure pipeline. It upgrades a bit over 2000 irrigation meters and installs 2500 domestic and stock meters, which includes real-time, remote sensing on those particular meters. It decommissions 17.8 kilometres of redundant pipeline in the Mildura irrigation district where urban encroachment has actually gone out into some of the irrigation areas there and installs channel automation in the remaining 37 kilometres of open channel in the network.

More importantly, it actually increases the number of irrigators who will have access to water 365 days of the year. Some of the areas in the Sunraysia only get water through the irrigation season; they do not actually have winter water. What this will lead to is the potential for changed crop types, particularly for those people who grow citrus — they need access to water through winter, more so to have the capacity to manage frost than to irrigate trees over that particular time. If there is a frost coming, they can run their overhead sprinklers so the citrus is not damaged by the frost.

Again, for those people who have been to Mildura, through the drought, through some of the issues around, particularly the wine grape industry, there have been a number of blocks up there dried off — the farms were relatively small. With this project up and running and particularly the business case focused on the Merbein area where there are some of the better soils up there, there is the opportunity for redevelopment of those areas back into irrigation and into cropping up there. Milestones 1 and 2 have been completed and 3 gegalitres of the water savings have been transferred back to the commonwealth. It is anticipated that that will all be done and completed by 2016.

The project is being overseen by an independent project control group that is chaired by Dane Huxley, who is the CEO of the Mildura hospital. We have adopted a similar governance model for this project that was put in place for the Wimmera–Mallee pipeline project, so it does not put undue workload on the water authority, which has its day job to run the water business. You have got this project control group with an independent chair that will oversee the spending of this money to get the best outcome on behalf of the community up there.

Mr PAKULA — You will be pleased to know, Minister, that this question is not about the Office of Living Victoria. You have made reference already to the rebate to consumers, and that goes to the matter of dividends from Melbourne Water. Budget paper 5, page 23, relates to the question of dividends by entity and shows a \$116.1 million take from Melbourne Water over the next four years. It has been well reported that the managing director of Melbourne Water, Mr Shaun Cox, resigned from the board over a restructure and about the question of these dividends. My simple question, Minister, is did you express to the chair of Melbourne Water a lack of confidence in Mr Cox prior to his resignation?

Members interjecting.

Mr O'BRIEN — On a point of order, that question as asked contained no information about the budget estimates and it is not proper for this committee to speculate on all sorts of — it is a public accounts and estimates committee.

The CHAIR — The Deputy Chair may wish to rephrase slightly.

Mr PAKULA — Chair, I gave some background in regard to the question of dividends and the question of payments, but my actual question, which was a very simple one, was: did the minister express a lack of confidence in the managing director of Melbourne Water prior to his resignation. There was only one question there, and I say that that is within scope because the question of the way these payments are made, the question of the way the government has provided a rebate as a consequence of the way they are treated is absolutely germane to the budget, and the fallout from that is as well. So I am asking a simple question of whether or not the minister expressed lack of confidence in the managing director prior to his resignation.

Mr ANGUS — On the point of order, I still believe that, despite the way the Deputy Chair has tried to couch his question and weave it in and out with different references back to the budget papers, the essence of the question is not a budget matter that should be dealt with by this committee at this time.

The CHAIR — I will rule on the point of order.

Mr SCOTT — On the point of order, there are significant dividends paid to the general government sector by water boards and therefore the government's entities are germane and their success or otherwise and their effectiveness as government instrumentalities directly impacts on the budget.

The CHAIR — I have some sympathy for the views expressed, particularly by Mr Angus, but it is pretty hard for me to say that a question about Melbourne Water is not related to the water portfolio, so I will allow the question.

Mr WALSH — I will answer that, but could I come back to the question from Mr Scott. We will confirm this but is my understanding that Korumburra is going to be connected to the South East Water system; it is not about being connected to desal. But we will clarify that when I get further.

The question from the Deputy Chair was around the issue of dividends.

Mr PAKULA — No, I clarified it.

Mr WALSH — No, you have asked a question and I am answering.

Members interjecting.

Mr O'BRIEN — On a point of order, the preamble is part of the question and in his preamble he explained exactly the matters that the minister was — —

The CHAIR — I am not about to rule on that matter. The point is the minister has the floor. If further clarification required, that is why under these circumstances we allow supplementary questions.

Mr WALSH — Mr Pakula asked a question with a preamble talking about dividends. It is interesting to look at the size of dividends that respective governments have taken from the Melbourne water businesses. Both sides of politics take dividends from the water authorities; it is part of the national competition policy about competitive neutrality, as I understand it. If you go back to the previous Labor government, they actually took \$2.4 billion in dividends from the Melbourne water businesses over their time in government, a lot of money taken. If you look at the averages, there is a significantly higher average dividend across the life of the previous Labor government compared to since we have come to government. They had a high in 2002–03 where they effectively took \$353 million in dividends from the Melbourne water businesses.

The honourable member couches his questions around dividends to cast some aspersion on us about the amount of dividends we take. The previous government took substantially more in dividends than we are taking out of the water authorities. He finished his question with a question to me about whether I had expressed any views about the managing director of Melbourne Water and his ability to do the job to the chairman, and no, I did not.

The CHAIR — Thank you, Minister. That concludes the hearing for the water portfolio. I think with the further information we have had from the minister there were no questions on notice. I thank the minister, the secretary and Ms Jackson for their attendance today. That concludes the hearing.

Committee adjourned.