

# VERIFIED VERSION

## PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

### Inquiry into budget estimates 2013–14

Melbourne — 23 May 2013

#### Members

Mr N. Angus  
Ms J. Hennessy  
Mr D. Morris  
Mr D. 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,  
Ms J. Doolan, Deputy Secretary, Water,  
Mr M. Clancy, Chief Finance Officer,  
Mr P. Sammut, General Manager Capital Projects, and  
Mr S. Want, Head of Office, Office of Living Victoria, Department of Environment and Primary Industries.

**The CHAIR** — The hearing will resume. I neglected to thank Mr O'Farrell for his appearance so, Mr Fennessy, if you could thank him for me I would appreciate that.

I now welcome, in addition to Mr Fennessy and Mr Clancy, Ms Jane Doolan, Deputy Secretary, Water, And Mr Simon Want, Head of Office, Office of Living Victoria. I now call on the minister to give a brief presentation of no more than 10 minutes on the more complex financial and performance information relating to the water portfolio.

**Mr WALSH** — Thank you, Chair. Could you add to that list Peter Sammut, who is here as well if there are detailed questions on the desalination project?

**Overheads shown.**

**Mr WALSH** — The first slide is just a breakdown of the Department of Environment and Primary Industries 2013–14 budget across effective water management and supply, public land, forests and parks, environmental programs, statutory activities and environmental protection, environmental policy, land and fire management, and development of primary industries. From the water portfolio point of view, the water output is guided by the objective of effective management of water resources to meet future urban, rural and environmental needs. The portfolio is overseen by DEPI and the Office of Living Victoria. The majority of funds are invested in government programs and projects delivered by service delivery partners such as catchment management authorities and the water corporations, and a small portion of funding is used for policy, modelling and technical work. The priorities for the water objectives are to secure an efficient urban water system that enhances productivity and livability; develop a basin plan that provides balance for the environment and social and economic outcomes; an efficient, productive and sustainable rural water and irrigation sector; healthy waterways that the community values and enjoys; high-performing, efficient and accountable institutions; and a resilient water sector that can respond to climate variability.

Improved efficiency of supply and use of water in our cities and towns is there to improve the livability of those towns and cities. This will be achieved through the Office of Living Victoria, the Melbourne integrated water cycle strategy, the Melbourne planning strategy, building and planning controls, and other initiatives such as the small town wastewater management program. Work already undertaken by the Office of Living Victoria is on track for the adaption to a new integrated water cycle management approach to the Victorian urban water system. Melbourne effectively will be the first city in the world to have an integrated water cycle strategy that aligns water cycle planning with metropolitan planning strategy. Currently regulatory impact statements are being done to look at cost benefits of building and planning controls in delivering that particular project.

The Office of Living Victoria was established in May 2012. Their business strategy was released in December 2012. There was initially \$10 million set up to establish and undertake the key strategy work, and in the budget there is another \$22.5 million to help embed generational water cycle reform in Victoria. That is the Melbourne Water integrated water cycle strategy, as I said. A project that has been funded is called Living Ballarat, where we have made a \$1 million commitment to work with the community of Ballarat on integrated water cycle management. Ballarat is one of the cities that suffered severely through the drought, and some of the thought process behind this whole integrated water strategy was actually started in Ballarat, led by a gentleman called Professor Tim Fletcher, who is now with Melbourne University. He started a lot of this discussion that has built up to what we have now. There is the \$50 million Living Victoria Fund, which is there to assist in the implementation of projects around integrated water cycle management. Applications for the first round of funding out of that program have closed and the assessments are being done as to which ones will qualify into the future.

The Melbourne integrated water cycle strategy aligns water cycle management and the metropolitan planning strategy. The systems analysis of that demonstrates a new approach will actually save on capital expenditure, reduce energy use in the water sector, reduce mains water demand and wastewater discharge, and particularly reduce stormwater run-off and nutrient discharge, which delivers a good environmental outcome into the future. Consultations are taking place with the major stakeholders — water authorities, local government, research institutions and environmental and business groups — to help us deliver this particular strategy.

On the transition to the Murray-Darling Basin plan that balances social, economic and environmental needs, one of the keys in the portfolio work that has been done in the last 12 months and will need to be done over

forthcoming years is having a basin plan that reflects Victoria's community and environmental interests. The basin plan was finalised in late 2012, as the committee would be aware, and a number of Victoria's key concerns were addressed as part of that. We believe that there is a better balance now between community and environmental needs, a stronger focus on environmental outcomes rather than just water volumes, and options to achieve those outcomes with more efficient use of water.

There are still a number of issues to be resolved in the basin plan, particularly the finalisation of the intergovernmental agreement and the national partnerships program that sits as part of that, but they are close to finalisation. I suppose the key outcome that Victoria was able to achieve in those negotiations was the sustainable diversion offset part of that particular plan where up to 650 gigalitres of environmental outcomes can be delivered through smarter use of water rather than just the purchase of water. There is additional money for the Goulburn-Murray Water Connections Project, the On-Farm Irrigation Efficiency project, strategic purchases such as the purchase of the entitlements from the Wimmera irrigators and trying to get finality to the Sunraysia modernisation project.

We believe our irrigators are some of the most productive in Australia, and we want to ensure they remain that way with the projects that we are actually delivering for them. This is part of the previous presentation for the agriculture portfolio about doubling the production of food and fibre in this state. Good and efficient water management is a key part of that, and we believe that the outcomes that were agreed under the basin plan will help to deliver environmental outcomes but also help to contribute to that outcome and ensure that we have productive and sustainable regional communities into the future. The \$2 billion Goulburn-Murray Water Connections Project delivers on that particular project, and it is on track to deliver the outcomes that were agreed, some by the previous government, some by us since we have come into government, over that particular time.

On the other projects that are funded this year, there is money in the budget for the Macalister irrigation upgrade stage 1: \$16 million from the state government to be matched with \$16 million from the customers in the Macalister. As I touched on before, we are close to finalisation of the business case for the Sunraysia modernisation, with \$103 million from the commonwealth. This money was announced in 2008 but it has been very difficult to get a business case that would be supported by the commonwealth. With the support of the federal minister, Tony Burke, we are close to having that finalised. The Lindenow Valley water security project is on track to have recommendations by later this year. There is still some money left in the Wimmera-Mallee pipeline project. We are also on track to getting a resolution with the commonwealth on how that money can be invested.

On improved environmental conditions of the waterways, improving the conditions of our waterways is one of the key government strategies. The Victorian waterway management strategy, which is due later this year, will set the policy for waterway management over the next eight years. It will include guidance on regional decision making, investment and the roles and responsibilities of agencies, and outline the framework for managing rivers, estuaries and wetlands into the future. The government will continue to deliver on-ground regional works and environmental water delivery over the next three years, and a \$100 million program was announced as part of last year's budget.

The four-year project has commenced, with on-ground works undertaken in 130 rivers and wetlands, with the aim of reaching 2000 kilometres of waterways by the project's completion. Some of the major projects are involved there. The Hattah Lakes project is nearly completed and ready for watering in mid this year. It is very close to being open. As far as I understand it, there is just the issue of having the power supply to the pumps finalised and that project will be ready to go. The Mulcra Island project, as part of the Lindsay-Wallpolla wetlands, is also due for completion and use in mid this year. The Gunbower Forest project will be completed and ready for watering in mid next year. So there is a significant number of projects that are coming to finality and a number of new projects will be starting to be planned for the future. The Victorian Environmental Water Holder now is coordinating the use of something like 600 gigalitres of environmental entitlements here in Victoria.

On improved governance arrangements for the water sector, the government is reviewing the Water Act here in Victoria. There has been a working group in place now for nearly 12 months. It has been working on the Water Act 1989. As the committee may be aware, when the Water Act was done in 1989 it was about 260 pages. It has now grown to over 700 pages. So that group is working through a review of the Water Act to simplify it, with

no significant policy changes but to make it a lot more user friendly for people who actually use it. Behind the Water Act there are also about another 1000 pages of regulation, which that working group believe they can also simplify considerably so that those in the water industry or those that enter the water industry can actually find it more useful rather than have to have been in the industry for 20 or 30 years to understand what sits behind it.

On improved capacity to respond and adapt to our variable climate, we are obviously committed to enable adaption to the climate changes that we do see over time. We all know the drought that we had and the subsequent floods that we had. The government had the Comrie report into the emergency response to the floods. Subsequently we have had the Environment and Natural Resources Committee of the Victorian Parliament looking at the issue of flood protection and now looking at the issue of drainage. There have been something like 25 flood studies started since the floods. There are updates to flood mapping and there is the creation of a flood intelligence platform. The first of those flood studies that has been finished is the Creswick flood study and implementation has actually started on that. I will leave it there and take questions, Mr Chair.

**The CHAIR** — Thank you, Minister. In the context of the 2013–14 budget can you outline to the committee examples of capital infrastructure projects in the water portfolio which will be either commenced or completed in the next financial year?

**Mr WALSH** — As I said in the previous presentation on the agriculture portfolio, our coalition government I believe has delivered a strong and financially responsible budget that delivers significant benefits for the state of Victoria. Over the past two years our government has strengthened the Victorian financial position to a point where we will be able to fully fund the state's infrastructure program without additional borrowings by 2015–16. The budget focuses on building for growth and delivering major infrastructure. In the portfolio area there are some significant projects that will help our communities in the forward estimates.

I suppose the first of those, which I briefly touched on in the presentation, is \$16 million in this year's budget for the Macalister irrigation district upgrade, stage 1 of that. This will be matched by \$16 million from the customers of Macalister to make a \$32 million project. If you match that with the bit over \$6 million that Southern Rural Water has also invested in early works as part of that particular project you will get about 14 500 megalitres of savings, which will go back into the productive water base of the Macalister system.

Everyone is very parochial about their particular part of Victoria, but I think we would all acknowledge that Macalister is one of our premium dairy areas here in this state. In having that additional water go back into the sector down there you can see that it would equate to about a 24-million litre increase in milk production, if it went into the dairy industry. We know that there is global demand for dairy products. Murray-Goulburn, who have a factory at Maffra, are very keen to get more throughput through that factory, so there is the opportunity for that to happen out of this project.

There is also \$4 million in the budget over the next three years to do some work on the state observation bore network asset — to do repairs, reline and renew some of those bores. There is a significant bore network right across Victoria. It has not had any significant capital injection for a number of years now. It is something that this budget actually addresses to make sure we can maintain that bore network. There were some emergency works done as part of the flood funding following the floods but this is the first time in a number of years that there has been a direct capital injection into maintaining that bore network.

There are a number of other projects that will be funded under the Office of Living Victoria. As I said, for round 1 of that fund applications have closed and assessments are being undertaken for that, which will see projects, particularly across urban Melbourne, giving good examples and demonstrations of integrated water system management here in this state and show that we are a world leader in that sort of technology.

**Mr PAKULA** — Thanks, Minister. You keep giving me opportunities to ask questions I had no intention of asking just by what you say. You made a comment in your introduction when you talked about the government's commitment to responsible budgeting and the intent to build capital projects entirely without going into further debt by 2015–16. I note that was one of the recommendations of the interim Vertigan report. I will ask you what I have asked a number of ministers, which is in regard to the final Vertigan report: have you read it?

**Mr WALSH** — No, I have not.

**Mr PAKULA** — Do you know anyone who has?

**Members interjecting.**

**Mr PAKULA** — You do not know anyone else who has?

**Mr WALSH** — Well, that is not something I normally talk about. We are actually here to answer questions on water, I thought.

**Ms HENNESSY** — The interim report makes some significant recommendations relating to — —

**Mr WALSH** — So obviously, Ms Hennessy, you have read it?

**Ms HENNESSY** — The interim report? I cannot get a copy of it.

**The CHAIR** — Order! We have had the question, we have had the supplementary. It is now time to give Mr Angus a go.

**Mr ANGUS** — Minister, your presentation made reference to the amalgamation of the Department of Sustainability and Environment and the Department of Primary Industries. This came up and I asked you about it in the last session on agriculture. From your perspective as Minister for Water can you inform the committee why this department merger has taken place?

**Mr WALSH** — Thank you for the question. The Premier announced on 9 April this year that in the machinery-of-government changes what was the Department of Primary Industries and what was the Department of Sustainability and Environment would merge to form the Department of Environment and Primary Industries. The old Department of Sustainability and Environment did land and fire, regional services, natural resources, environment, capital projects and water. DPI had agriculture, productivity and industry development, regulation and compliance, fisheries, game and business services.

I suppose one of the key aims in putting the two departments together was having a one-stop shop for land, environment and water management right across Victoria, particularly in regional Victoria. As I said before, I think there are some significant synergies in having the two departments together in the services that can be delivered. As our stakeholders come to interact with government that process will be simplified for them. The feedback on the merger has been positive from stakeholders right across Victoria.

**Mr SCOTT** — Following on from the Deputy Chair's question in the previous session relating to efficiencies and savings, which I think were Orwellianly described as 'existing resources' and then described as negative in the actual budget papers, what I am seeking is the information relating to question 12 in the questionnaire, which you will be familiar from the previous session shows \$180.5 million in savings targets for this financial year. By my count there is \$83.1 million of negative existing resources outlined on page 11 of budget paper 3. I am really seeking, as the Deputy Chair was about another area, the share for the water portfolio of these particular measures.

**Mr WALSH** — Thank you for that question. I might ask Matthew to take that one.

**Mr CLANCY** — In relation to the \$180 million in savings, about \$125 million related to the former DSE. I do not have the split between the water and environment and climate change portfolios. In relation to the reprioritisations of about 80 million, about 32 million related to the water sector.

**Mr SCOTT** — Could I seek on notice the split between them from the old DSE, the actual component that is related to the water portfolio, if the information is not available now?

**Mr O'BRIEN** — Referring to budget paper 2, 'Strategy and outlook', in relation to the solid economic outlook on page 2 it says:

The government is positioning Victoria to sustainably contribute funding to major infrastructure projects which can boost productivity and facilitate additional private sector investment. This is made possible by responsibly managing the state's finances and driving value for money in infrastructure delivery. The high-value, high-risk process places greater scrutiny on business cases and project delivery to protect the state from cost overruns on major projects.

One of the most significant items for the associated water portfolio is the desalination plant, or the Labor-John Lenders-Tim Holding desalination plant. I am wondering, Minister, if you could provide detail on the extent of this expenditure and the cost to the Victorian community of Labor's desalination plant?

**Mr WALSH** — Thank you for the question. As you have pointed out, it is probably the biggest single water infrastructure project in this state's history. It was built as a PPP, as you are well aware. There were significant cost blow-outs in the project, but they are something where there are still discussions between the builders and the financiers and the state government over the resolution to those particular issues. It is a project that is reported to be the largest desalination plant in the Southern Hemisphere.

There was never a debate, I believe, about whether there should be a desalination plant or not, because it was the coalition in opposition in 2006 that suggested that there should be a desalination plant in Victoria as a supply of last resort. At that particular time the then Premier, Steve Bracks, actually pooh-pooed the idea and called desalination a hoax. Seven months later he went out and made the announcement for what we see as a huge plant at Wonthaggi that is costing Melbourne Water customers a significant amount of money, whether water is taken or not.

The full costs of that project are borne by Melbourne Water customers. It has been managed by DSE capital, particularly by the leader of that team, Peter Sammut. I think in terms of Melbourne Water customers' interests and the government in general, he has overseen that project to protect the interests of Melbourne Water customers in that debate. There are still issues to be resolved as part of that.

As the committee would be well aware, the project was late and there were significant cost overruns for the builder of that particular project. It did finally meet full commercial acceptance late last year. The first water has been taken. The plant has now been put in stand-by mode. There was no need for a water order to be put in place because at that particular time the Melbourne storages were around 80 per cent full, which comes back to that whole debate as to whether we needed a desalination plant that was that big and that expensive. I think everyone was of the view that there was a need for emergency supply water, but not necessarily for a primary supply project that was as expensive as it was. It is going to saddle Melbourne Water customers with significant costs for the next 27 years. As I have said in other places, if someone purchased their first home now, they would pay off their mortgage before they would finish paying for the desalination plant. It is something that is saddling future generations with some major projects over that time.

It is something where we have said we will act in the best interests of Melbourne Water customers in any dealings we have over the desalination plant into the future. I reiterate that that capital project and the north-south pipeline, which was another significant capital project, were not good decisions that were made in the best interests of Victoria or Melbourne Water customers. There were better ways to secure Melbourne's water future. Some of those things are now playing out with what we are doing with the Office of Living Victoria.

**Ms HENNESSY** — Minister, I want to take you to budget paper 3, page 100. I want to ask a question about the change in the performance measure regarding river improvement works. I note that it has significantly dropped in respect of the length of rivers where works have been undertaken, and I note the note at the bottom. Is anyone in the department able to explain what the target would have been under the old measuring system?

**Mr WALSH** — Sorry, have you finished?

**Ms HENNESSY** — Yes, I have a supplementary, but I will start with that question.

**Mr WALSH** — Do that now, and then we will get both at once.

**Ms HENNESSY** — No, that is fine. You might in fact answer my question in your primary answer.

**The CHAIR** — A supplementary may not be required. You are exactly right.

**Mr WALSH** — Can I ask Jane Doolan to please expand?

**Ms DOOLAN** — The target would have been somewhat similar to last year's. What has been specified here is that it is now specifically looking at the length of rivers where works have been undertaken to improve just in-stream health. The sorts of activities that that includes are putting snags back in rivers. This measure now looks at only that length that has been treated in that way. The measure last year looked at broader measures.

The level of works that are being undertaken, the number of kilometres that are being improved in total, will be similar, but the one that is specific about in-stream health is now much more specific.

**The CHAIR** — There is a supplementary, I gather?

**Ms HENNESSY** — Sorry to disappoint you; a very quick supplementary. Why would you not measure what the downstream impacts are? If your evidence is that it will in fact be the same, why would you not measure it? What is the thinking behind that?

**Ms DOOLAN** — The thinking behind that is about a technical argument around how far fish are moving and therefore how far downstream the actual benefits are being able to be detected. It is quite a technical argument, and we felt it was better to move to something that was completely measurable and then be able to describe the downstream benefits as well as have measures that look at total length or area of river or wetland that has been improved, which is the first new measure. That has been changed to bring wetlands into it. Previously we only reported on rivers; now we are going to be reporting on rivers and wetlands.

**Ms HENNESSY** — And no change in activity, so the work is still being done?

**Ms DOOLAN** — No. The same level of activity is being maintained. It is slightly enhanced actually.

**Mr ONDARCHIE** — Minister, in budget paper 3, on page 11, there is a line associated with the Office of Living Victoria. You touched on it in slide 5 today of your presentation. There seems to be a shift away from the policies of the former government, which left us with projects like the desalination plant, the north-south pipeline and a suite of other stuff-ups as well. Could you outline the priorities of the Office of Living Victoria and explain how the role of the office has changed traditional thinking in the water sector?

**Mr WALSH** — Thank you very much for the question. This is a fundamental shift in thinking. As I have touched on already I think, it is getting Melbourne to become the world leader in integrated water cycle management. If you look at urban areas and at Melbourne in particular, more water runs off the roofs and streets of Melbourne into the bay every year than Melbourne consumes through its potable water system. In my view, and the government's view, that is a wasted resource that we should be utilising for non-potable uses. Instead of using drinking water for watering open spaces, instead of using drinking water for watering our parks and gardens and our sporting ovals, we should be utilising those other sources of water. The key focus of the Office of Living Victoria is to drive that generational change in how we view water.

As I touched on before, it was something that was started by my seeing a presentation from Professor Tim Fletcher, who ran a workshop in Ballarat a number of years ago in the height of the drought which was auspiced by the Committee for Ballarat. There was the same discussion in Ballarat: as much water runs off Ballarat in a given year as Ballarat actually consumes, so it was how Ballarat utilised that water to increase the livability of their city and take the pressure of their potable drinking supply. OLV is there to drive that generational change. I think you have seen some significant announcements from the office. I might ask Simon to say a couple of things after I have finished.

If you look at the announcement earlier this year by the planning minister, the then Premier, Ted Baillieu, and myself out at East Werribee, there is a whole new precinct out there. It will be the first suburb that is going to be fully designed with integrated water cycle management. You will see a significant reduction in the amount of phosphorus and nitrogen that runs off that particular area. You will see a significant reduction in the amount of soluble solids that run off the area. You will see a reduction in potable water demand based on 2006 levels, but you will have a great suburb because there are going to be waterways interspersed into the new development and greenery built into the urban environment, because you are going to utilise stormwater and recycled water in that particular precinct. It is something that is extremely exciting.

If you look at the presentation that the GAA did on what the opportunities are out there, we will see a world-class suburb leading the way on integrated water cycle management. There are similar projects that are happening around Melbourne, so it is not just about new greenfields sites; it is also about how you build it into the existing urban environment and increase the livability of our suburbs and take the pressure of the potable demand.

There is a concept around the heat island effect in urban areas. As you build up an urban and as you increase the amount of concrete and asphalt, you actually create a heat bank. If you can put more water in the urban environment, if you can put more greenery in the urban environment, you actually increase the livability of that. This is all part of this whole concept of integrated water cycle management, particularly how you use water more than once. I think we have a great legacy in Melbourne from our forefathers who built the reservoir system that we have, who actually protected our catchments so we actually have really good quality water, but we should be using that for human consumption, for potable supply, and we should be using other fit-for-purpose water and other sources of water for other uses over that time.

If we had started this concept a decade ago, there would not have been the panic decision around the desalination plant. The concept has been around for a long time. It has taken leadership by this government to grasp it and want to get on with it. Some members of the previous government are supportive of this concept, but they did not win the debate, and we now have the north–south pipeline and the desalination plant that are huge costs to future generations in this state but do not necessarily deliver the outcome that is needed. I might ask Simon to say a couple of words as well about what he is doing with OLV.

**Mr WANT** — The government’s policy clearly stated that there was a significant need for generational change in how Melbourne’s water supplies and water services were provided. It was in recognition of a broad body of work done from across Melbourne and internationally that water supply and water security is one part of the challenges facing the urban water cycle, and the construction of a desalination plant or large transfer pipelines only solved one part of the problem. The problem facing Melbourne is that we have a very rapid growth rate — 1.7 per cent each year — and that is putting a lot of pressure on water services that provide services to the city. We have got significant greenfield growth and infill growth, both on the edges and in the centre of Melbourne, and Melbourne needs to provide its services in a more sustainable, a more resilient and a more flexible manner.

What the policy seeks to do is capture the rainwater that falls on the city, use the stormwater that runs off our streets, reuse wastewater for non-potable purposes, such as for flushing toilets or watering public open spaces, and ensuring that we have enough water in our urban space so that the next time that we go through a significant dry period we have enough water in our urban environment to provide the services to the people of Victoria that they expect. The very exciting thing about the government’s policy is that the analysis shows that it can be done at or at less cost than the way in which the system is currently operated, so not only are we providing better amenity and better quality of life for the people of Victoria in the urban area but we are also doing it at least cost.

The government recognised that in order to do that we needed to change fundamentally how some parts of the system operate. As a result of that we are working with the water authorities and other government agencies such as the Growth Areas Authority to improve how our services are planned for at the start of the planning process. The minister mentioned East Werribee, which is a very good example. Because of the government’s initiative we are now working with the retail water authorities, the bulk water authorities, Melbourne Water and the local governments at the points of new growth to ensure that the appropriate water services are being planned for in those precincts at the start of the process.

Another important thing that we are trying to do is to provide greater clarity to all players in the system so that water authorities, developers, local government and other government agencies are clear on what services are required at the start of the process. One of the things that we have found is that the system did not have the appropriate resilience or understanding of how the whole cycle was working across Melbourne or how it was working in different parts of the city. What we are trying to do is bring together the best thinking, the best understanding and the best data that we have on what water services are required, where we need to provide water services and what opportunities are in place to capture rainwater, to capture stormwater and to reuse wastewater before it negatively impacts on the system.

**The CHAIR** — Thank you for that response.

**Mr PAKULA** — Minister, I just want to ask you about the environmental contribution levy. In terms of the income from that levy and where it might be reported in the budget papers, on page 94 of BP3 you have the start of the Department of Environment and Primary Industries performance statements. There is an ‘Income from transactions’ table, table 2.6, shows other income at 292 from 11–12 rising to 313.9 for the 13–14 budget.

I am just wondering: is the income received from the water authorities for the environmental contribution levy — —

**Mr WALSH** — Sorry, which book are you in?

**Mr PAKULA** — BP3, page 99, table 2.6. At the bottom of that table there is an ‘Other income’ item and it shows it rising from 292 up to 313.9. The levy payments received from the water authorities — is that included in that ‘Other income’ item? Is that where you find it?

**Mr CLANCY** — The actual income would not be in that line. It would actually be in ‘Output appropriations’ at the top.

**Mr PAKULA** — It is in ‘Output appropriations’ at the top?

**Mr CLANCY** — Yes.

**Mr PAKULA** — Mr Clancy, are you able to tell us, of those numbers — the 1099.5 rising to 1357.1 — how much the environmental contribution levy contributes to each of those numbers?

**Mr CLANCY** — Yes, certainly. The 12–13 amount would be \$69 million; the 13–14 would be \$112 million; the 14–15, \$112 million; and 15–16, \$112 million.

**Mr ANGUS** — Minister, I refer you to page 94 of budget paper 3 and the departmental mission statement, which contains various matters. One of the objectives, as outlined, is to provide efficient water services. Minister, could you tell the committee what you are doing to meet that objective, and what measures you are putting in place to mitigate the soaring water bills which are impacting adversely on families?

**Mr WALSH** — Thank you for the question. As the committee would be aware, the current water prices and service standards are independently regulated by the Essential Services Commission here in Victoria. The objectives of the ESC are set out in the Essential Services Commission Act 2001. Again, as the committee would be aware, we are currently concluding water plan 2. Water planning is done over five-year periods. Water plan 2 ends on 30 June this year. The water authorities have been working for 12 months now preparing for water plan 3. They submitted their draft water plans to the ESC earlier this year. The ESC has put out its draft response to those water plans and the water authorities are now responding back. He will put his final determination out sometime in June for the start of water plan 3 on 1 July this year.

I suppose the key thing from an urban point of view, the elephant in the room and what dominates the whole water plan process for work plan 3, is the cost of the desal plant. There are significant price increases for Melbourne Water customers so at this stage the draft response from the ESC was talking about water prices increases of up to 25 per cent across that time and the overwhelming majority of that increase is to pay the fixed charge for the desalination plant. As I said in the previous answer to Mr O’Brien, that is a major cost on Melbourne Water customers.

What we have said as a government is that as we have worked through the issue of the desalination plant, a contract that was signed by the previous Labor government, anything that we do we will do in the best interests of Melbourne Water customers so there has been some small savings in negotiation of the power supply for the plant. It is very difficult to find additional savings at this stage because of the contract that was signed, but the ESC will work through those particular issues.

Again, if I could reiterate what we were talking about before, what we are building with OLV and integrated water cycle management in Melbourne is making sure that we put in place the next major augmentation so there is not the need in the future for huge capital investments like the desalination plant or the north–south pipeline, and we can also make sure that major capital investment in drainage infrastructure can also be alleviated in some places as well by using water closer to the source of where it falls rather than having a system in place that just transports it to the bay as fast as possible.

The key thing from working on the cost of water in the future is making sure that we use all sources of water as close as possible to its source to save capital, to save energy and achieve the best outcome we can for Melbourne Water customers.

**Ms HENNESSY** — Minister, if I can just take you to page 100 of BP 3, which is the statement of cash flows. We have the statement of cash flows and my question relates to the statement.

**The CHAIR** — That is the wrong budget paper.

**Ms HENNESSY** — Sorry, I am looking at the wrong one. Let me just check. I have a question about the environmental levy on urban water authorities. My question is more a general one. In October 2012 you regulated to increase the environmental levy on urban water authorities to 5 per cent and 2 per cent for rural water authorities. Do you contest that?

**Mr WALSH** — There was no increase. That is what the rate was under the previous round of ECL. It was the rate that are set by the previous government.

**Ms HENNESSY** — But there is a 5 per cent levy on urban water authorities and a 2 per cent for rural water authorities.

**Mr WALSH** — There is, which is what was in place prior, for ECL 2.

**Ms HENNESSY** — And revenue has increased from that source from about 50 mill each year to about 117 mill?

**Mr WALSH** — There was an increase but not to that magnitude, would be my understanding.

**Ms HENNESSY** — I suppose my question is this: can you confirm whether all the revenue received to date, including the surplus from previous years, has been spent?

**Mr WALSH** — No, not all the money has been spent at this stage, and I think we had a similar question last year, and the answer then, which is applicable now, is that I do not believe it is responsible to allocate all the money now. It is a four-year program, and I think it is important to allocate some money each year as the priorities for the investment come up on an annualised basis. To sit down and allocate all the money in the forward estimates for four years when there might be something that comes up next year or the year after that needs funding, you need the budget capacity to be able to do that.

But the money, under the legislation that set this up, which was legislation that had the support of both sides of politics when it was introduced by John Thwaites a number of years ago, has to be spent on the purposes that are prescribed in the act, and the secretary of the day has to report annually on the spending of that money. The money will be spent on the purposes that are prescribed in the act that set it up.

**Ms HENNESSY** — A quick supplementary: what amount of money has not yet been allocated?

**Mr WALSH** — I might ask Matthew or the secretary to answer that.

**Mr CLANCY** — The amount yet to be allocated over the four-year tranche of the project is \$170 million.

**Mr O'BRIEN** — Labor are pretty good at spending money they have not received.

**The CHAIR** — Order! Just the question.

**Members interjecting.**

**Mr O'BRIEN** — What did you say, Martin?

**Members interjecting.**

**Mr WALSH** — That does not sound like a fox terrier!

**The CHAIR** — Order! Mr O'Brien, did you have a question?

**Mr O'BRIEN** — It is like shooting fish in a barrel to talk about the federal government. I will talk about significant infrastructure projects outlined in this budget, and the budget makes reference to the support and

co-contribution to the funding of the Macalister irrigation district upgrades — a project which has received positive responses from irrigators, industry and the community.

Minister, can you outline to the committee the main aspects of this project, which are referenced in budget paper 3 at page 11.

**Mr WALSH** — Thank you for the question. On 1 May I had the opportunity to be with the Deputy Premier and the local member, Tim Bull, to make the announcement down at Maffra of \$16 million from the state government to start stage 1 of the Macalister irrigation upgrade. That is going to be matched with \$16 million from Macalister customers, collected and managed by Southern Rural Water. There is also the \$6.6 million of early works that is being funded by the customers as well as part of that particular project.

As I think I said in my presentation, that effectively will generate about 14 500 megalitres of savings. Those savings will be sold back into industry to be used for the productive base there. As a northerner, I hate to admit that somewhere else is better than northern Victoria, but it is one of the premier dairy areas of the state and there is demand for milk product, particularly from Murray Goulburn who have a factory there at Maffra and there is international demand for that particular project. So the assets of the Macalister are old and do need upgrading. It is something that has been lobbied for, for a number of years. That project will do a number of things. It actually changes the regulators at Heyfield, southern Cowwarr and the eastern regulators. There is some significant capital cost for upgrade of regulators in that system. It also builds the southern Cowwarr balancing storage, and there is \$6.4 million for the design and construction of that storage to better balance the flows between the Thomson and the Macalister systems and \$4.3 million for some reconfiguration work on minor channels in that system. It also does some detailed planning for stage 2 of another part of the system to pipe some of that particular project.

It is something that has been sought after for a number of years by people in the Macalister region. Graeme Anderson, as chair of the water services committee there, has been a passionate supporter of this for a number of years. Like myself, Graeme shares a passion as a Geelong Football Club supporter, and he was asked the question on the day: which would he prefer to see, the money for the modernisation or another flag this year for Geelong? He could not split the two, so we decided we should have both.

**The CHAIR** — Excellent answer, Minister.

**Mr SCOTT** — Minister, I refer you to budget paper 5, pages 172 and 176. The question relates to the financial accommodation levy as it relates to the water industry. As you may be aware, there has been a change to the financial accommodation levy where the cap, in effect, on interest rates that government passes on to entities in the public non-financial and public financial sectors are charged, and there is an increase in revenue resulting from that removal of the cap. It is a very significant increase in revenue, and in the explanation on page 176 specific reference is made to the water industry and the fact that the substantial investment in water infrastructure is part of the reason for the increase in the amount of money garnered from the changes to the financial accommodation levy.

**Mr O'BRIEN** — Point of order, Chair. We have the Assistant Treasurer coming in tomorrow — —

**Mr SCOTT** — It is not the Assistant Treasurer's responsibility — —

**The CHAIR** — Order! Without responding to the Deputy's interjection, I think it is probably more appropriate to wait until the question is fully asked. Mr Scott.

**Mr SCOTT** — I am seeking information not on the change to the taxation rate per se but on its impact on the water industry and responses within your area of the portfolio if there are any. Are there going to be any steps undertaken to prevent the increased cost to water authorities — resulting from this change by the government — being passed on to consumers?

**Mr O'BRIEN** — Can I renew my point of order in relation to the Assistant Treasurer's portfolio responsibility for taxation changes?

**The CHAIR** — Order! The question, while it started out on the general premise of the financial accommodation levy, actually tied it back to the portfolio, so I will allow the question. Obviously it is up to the minister how it is answered.

**Mr WALSH** — Mr Scott, could you just ask it a little bit more succinctly so I understand what you are actually on about?

**Mr SCOTT** — I will try to give you some context, because I asked a similar question to the ports minister, who is also affected by it, and he had Dean Yates, who was intimately involved, sitting next to him who gave him some information to help him answer it. It is a technical question. The issue is with the amount of interest that is charged. In effect it is interest because the accommodation levy in effect raises the interest rate charged by an authority to put them on an equal footing with market participants outside the government sector. There was a cap previously which was introduced during the financial crisis; that has been removed, meaning organisations like water authorities now will pay higher interest rates in effect because they will borrow at the government rate, and then there is the financial accommodation levy placed on that. That creates cost and these businesses that recover their costs through charges to users, and therefore I am asking: are there any steps being undertaken to prevent those increased costs being passed on to users?

**Mr WALSH** — Can we take that question on notice?

**Mr SCOTT** — Okay. If you are taking it on notice, I will ask a follow-up to be fair: is it possible to quantify the amounts the various water authorities will face as an increased charge due to the uncapping of the financial accommodation levy?

**Mr WALSH** — We will take that on notice as well, but my understanding of the FAL is that it has not been uncapped; it has just been changed.

**Mr SCOTT** — It talks about the uncapping in that description.

**Mr ONDARCHIE** — Minister, in budget paper 3, page 11, there is an allocation to the Murray-Darling Basin Authority. Could you explain what this contribution is for and its impact on the basin plan?

**Mr WALSH** — There is a line item there. That money is in addition to the normal payments on behalf of government for contributions to various programs — in this case it is to the Murray-Darling Basin joint programs.

For the committee's benefit, the work that the Murray-Darling Basin Authority does on the basin plan was actually funded by the commonwealth government, but the joint programs are effectively what is called the river ops part of the Murray-Darling Basin business; it is the business that manages the storages in the system, manages the river flows, manages the locks and weirs in the system. So that is jointly funded by the states and the commonwealth. Those assets are the joint responsibility, again, of the basin states in the commonwealth, and there has been some to-ing and fro-ing around this particular budget.

I think all the states believe that there should be some more serious scrutiny of this budget. New South Wales has actually announced a reduction in their contribution; South Australia has announced a reduction in their contribution from the next financial year. From Victoria's point of view, we have given a commitment to maintain our contribution for this year, but we would like to see a review of the operation of that business and the oversight. One of the unforeseen consequences of the commonwealth Water Act 2007 was that prior to 2007, with the Murray-Darling Basin Commission, the states were sitting at the table at the commission and the officials at the table were actively involved in the oversight of the river ops part of the business. Post the commonwealth Water Act the river ops have reported directly to the independent board of the authority, and the states have not had the opportunity to have as much input and as much feedback.

That is something that I have raised with Craig Knowles, the chair of the Murray-Darling Basin Authority, and in fact I would like to see that the states are responsible, the states are paying the bills. We would like some more involvement and feedback on how that particular business works.

So the line item in the budget is the top-up from the normal operations payments that are there to make sure we keep our contribution going. I suppose one of the things that was put at risk through the uncertainty around this

was the freshwater research centre which is based at Albury and at Mildura. We believe it would not have been a smart decision by the authority to have stopped funding to that particular research institute. If you look at the work that has been done, and particularly the work that does need to be done in the future with the implementation of the Murray-Darling Basin plan, the freshwater centre will give good advice on the future use of environmental water and to measure the outcomes that are being achieved from that environmental water, particularly from a fish point of view.

This is our commitment to continue funding for this financial year. We do want to see a review of the governance in operation — the river ops part of the business — carried out so that we have more active involvement in the future. Our commitment is there for this year to make sure that the business can continue this year and make sure that the likes of the freshwater centre are funded for this year. But a clear message to the authority and to the commonwealth is there needs to be an independent review of the governance of the organisation.

**Mr PAKULA** — Minister, in budget paper 3, page 101, there is a performance measure, ‘Rebates approved for small business for improved water efficiency’. The 12–13 target was 3000, but the expected outcome is only 750, and the footnote says that the expected outcome is lower due to wetter weather. What I am really interested, though, is does anybody have information about not how many were approved but how many applications were actually received for those rebates for 12–13?

**Mr WALSH** — I do, when I can find the right page. Thank you for the question. The rebates are there. I suppose what we are seeing with the breaking of the drought is that people are not spending as much money on those sorts of appliances in their homes now, so the drop-off has happened. Up till 28 February this year there have been 26 726 Living Victoria rebates that have actually been approved.

**Mr PAKULA** — Sorry, I was asking about the small business rebates.

**Mr WALSH** — The small business ones?

**Mr PAKULA** — Yes. We can come to the households ones. Given that I am probably going to ask you about the households in the follow-up, you might as well just give us both now.

**Mr WALSH** — Give you both now? So for the small business ones there have been 471 small business rebates approved up to 28 February this year and, as I said, 26 250 home and garden rebates approved up till that same date as well.

**Mr PAKULA** — Sorry, I will have to do a follow-up, then, because what I asked was: do you know how many applications there have been rather than approvals?

**Mr WALSH** — Can I take that on notice? Because the information we have is obviously those that have been approved rather than those that have been applied for.

**Mr PAKULA** — Okay. If you could take that on notice, that would be great. Thanks.

**Mr ANGUS** — Minister, I refer you back to your presentation, where you noted that one of the ongoing projects for northern Victoria is the irrigation modernisation project for the Sunraysia region. Could you outline for the committee what the state government has been doing to support the development of a successful business case for the Sunraysia modernisation project?

**Mr WALSH** — Thank you for the question. The \$103 million that was set aside for the Sunraysia modernisation program was an announcement that was made in 2008 by the then federal water minister, Penny Wong, and the then Premier of Victoria, John Brumby. So it was a commitment way back then. The challenge was that it was an announcement without any detail about what had to be achieved to actually get the business case over the line, so that had not been able to be progressed any further for a number of years.

As part of the negotiations with the commonwealth over getting a conclusion to the Murray-Darling Basin plan at the end of last year — those discussions between myself and the commonwealth minister — the commonwealth minister took an active interest in getting some criteria set where it was actually possible to get a business case that would actually be achievable. That was around having seven gigalitres of savings for that money to be freed up to be spent in Sunraysia. We have then asked the Mildura Development Corporation to

work with the water authority and the irrigation community up there to develop a business case that would be able to be approved by the commonwealth and meet their criteria.

That work is being done. It is being finalised now, and the aim is to have that submitted to the commonwealth by 30 June this year. There has been active work in the development of it with the department in Victoria and with the commonwealth department, so that when it is actually submitted they will already be aware of what is in it, and any issues they may raise can be resolved in the finalisation before it is submitted. As you would be well aware, there will be a commonwealth election later this year, and once the commonwealth go into caretaker mode they will not be able to sign contracts, so the aim is to have it submitted by 30 June and get it approved in early July and signed off, if at all possible, so that there is no doubt cast on the project because of caretaker mode and the subsequent commonwealth election.

It is a project that will deliver very good outcomes for Sunraysia. The infrastructure there is older in quite a few areas. Lower Murray Water, in their capital projects in water plan 3, are also making a significant contribution to capital upgrades themselves, particularly the upgrades to the pumps and lifts, or pumps and rises, as they call them, where the water is actually pumped out of the river to the various irrigation districts around Sunraysia. It is a project the community up there has been wanting to have finalised. I think it is something we were able to achieve in the Murray-Darling Basin plan negotiations to actually get some criteria that were achievable. The unfortunate part is, as I said, that in the announcement in 2008 there was no detail as to how the project could actually be brought to finality to be approved.

That area has had some difficult times through the drought. There are a significant number of properties that have been dried off because people have exited irrigation there, and, as part of this, the Mildura Development Corporation actually went out and sought expressions of interest from some of the major horticulture producers. That if this project went ahead, would they be prepared to do new developments in the area? There are some confidential responses to those that are in a drawer in Mildura which say that if this happens, there will be people that will reinvest and do new developments. So I can see some exciting times for Sunraysia when this project has finally landed.

**Ms HENNESSY** — Minister, I just wanted to go back to page 11, budget paper 3. Are any of those — we call them cuts, you call them resource savings, so without getting into a semantic debate, are any of those savings achieved from greater efficiencies at catchment management authorities?

**Mr WALSH** — You are talking about table 1.3, yes? Which line items?

**Ms HENNESSY** — We have a negative under 'Existing resources'.

**The CHAIR** — Second-last line of the table.

**Ms HENNESSY** — Eighty-three point one mill.

**Mr WALSH** — None of these are to do with the CMAs.

**Ms HENNESSY** — Okay. None whatsoever?

**Mr WALSH** — Yes, as I would understand it.

**Mr FENNESSY** — My understanding is none of them would come from the CMAs. What we are doing in the meantime with CMAs is working closely with them in the new department, the new DEPI, so that any internal administrative impacts that they have in terms of reporting and administration back into the department, we have been streamlining that so that is taking pressure off them. But in terms of where we have identified reprioritisations, none have come out of the CMA part of it.

**Ms HENNESSY** — Okay, that is my question answered.

**Mr WALSH** — I think one of the challenges the CMAs have is the cut in commonwealth funding from the Caring for Our Country reductions that have happened there.

**Ms HENNESSY** — No cuts from you whatsoever?

**Mr WALSH** — That wasn't what I said.

**Ms HENNESSY** — Thank you. That is all I need.

**The CHAIR** — Thank you, Ms Hennessy, and thank you, Minister.

That concludes consideration of the budget estimates for the water portfolio. I thank the minister and departmental officers for their attendance today. Where questions were taken on notice in both sessions — and I think there were some three questions in agriculture and food security, and three in water — we will write to you with details of those. If at all possible, we would appreciate a response within 21 days to enable timely reporting to the Parliament.

That concludes the hearing. All broadcasting and recording equipment should now be turned off.

**Witnesses withdrew.**