

TRANSCRIPT

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Budget Estimates 2019–20 (Water)

Melbourne—Friday, 14 June 2019

Members

Mr Philip Dalidakis—Chair

Mr Richard Riordan—Deputy Chair

Mr Sam Hibbins

Mr Gary Maas

Mr Danny O'Brien

Ms Pauline Richards

Mr Tim Richardson

Ms Ingrid Stitt

Ms Bridget Vallence

WITNESSES

Ms Lisa Neville, Minister for Water,

Mr John Bradley, Secretary,

Ms Phuong Tram, Executive Director, Financial Management, and

Ms Helen Vaughan, Deputy Secretary, Water and Catchments, Department of Environment, Land, Water and Planning.

The CHAIR: All right, everybody. For the last session of this morning I declare open this hearing of the Public Accounts and Estimates Committee. On behalf of the Parliament, the committee is conducting this inquiry into the 2019–20 Budget Estimates. Its aim is to continually scrutinise public administration and finance to improve outcomes for the Victorian community, something that I am assured that we are doing with all of the social media feedback that we are getting. The committee will now begin consideration of the portfolio of water, and I welcome the Minister for Water, the Honourable Lisa Neville, and officers from the department. I thank you for appearing before the committee today.

All evidence given is protected by the Parliamentary Committees Act. This means that it attracts parliamentary privilege and is protected from judicial review. Witnesses found to be giving false or misleading evidence may be in contempt of Parliament, subject to penalty and be sent to live in New South Wales.

Minister, I invite you to make a very brief opening statement or presentation of no more than 10 minutes, followed by questions from the committee. Minister?

Visual presentation.

Ms NEVILLE: Thank you very much, Chair, and it is great to be here with everyone today and have an opportunity to take you through the water portfolio. If you have a look at this graph that is up there, this is showing you what it has been like the last pretty much 12 months in Victoria. We have seen some of the hottest and driest and certainly well below average rainfall in large parts of the state—well, really in most of the state; we have got a few average areas—and that obviously puts pressure on both our agriculture industry as well as on our storages in Victoria. Just to give you a sense, rainfall in January this year was 72 per cent below average, 29 per cent below average in February, 33 in March and 79 in April—below average. Of the last 20 years, 18 have been below average rainfall figures in Victoria. In places like Geelong—and we may talk a bit more about Geelong a little bit later—storages are currently at about 35 per cent. We are tracking at worst case scenario in that region at the moment, so we are looking at particular contingencies there.

So we were all obviously hoping for a break, an autumn break, but we did not get an autumn break. We are waiting for a winter and spring break, but if we have a look at what the bureau is predicting over the next period of time, that it is likely to be drier than average, with daytime and night-time temperatures during winter likely to be warmer than average. Of course every time I say this it rains for a little bit, but unfortunately it is not actually really touching our storages. It is helping with reducing daily water use, but it is not actually helping to fill our storages. So the ENSO outlook by the bureau has us at ‘watch’. This means the chance of an El Niño developing is approximately 50 per cent—a bit each way—but that is double the normal likelihood so we are preparing for a warmer and drier winter and spring period.

So if we then move on and have a look at some of our dams, as you can see Melbourne is sitting at—it is actually as of today—49.9. Goulburn-Murray—we have seen actually the biggest reduction in storage levels occur in northern Victoria during this period. That is obviously where we have got the Murray-Darling Basin issues as well, so it is all linked in to both reduction in overall allocation available but also storages continuing to decline. This year we have had 100 per cent allocation along that area, but if we continue with these storages, that will be different. For example, if those dry conditions continue as it is, places like the Murray and the Goulburn areas will be at zero allocation when the season opens. If that continues right through, it would be in February that we would be at 45 for the Goulburn and 64 for the Murray. If we get an average season, by

February we could get to 100 per cent, but those figures are obviously incredibly concerning for the dairy industry in northern Victoria at the moment.

In terms of Southern Rural Water, again some places like Macalister have had this year 100 per cent allocations. But again we could face, if we have got declining storages, very low levels and we may need to invoke the Thomson drought strategy that occurs when we reach certain storage levels for the Macalister so they can start their season.

If we just go back to the Melbourne storages, this is Melbourne storage levels that have been trending down in recent years. Just to give people a sense, the Thomson Dam has not been full since 1996. I do not think anyone is really predicting it is ever probably going to be full again, given the trends that we are seeing. So you have got that trend. And then I would like to just show you what the trend would be. That is the trend without desal. Let me show you what the trend is when we have added desal. As you can see, we have added desal from 16 through and that has kept our storages just a little bit of a buffer up there, so they have provided quite a substantial buffer, and of course we have got the 125 gigs that we have ordered that will come into play as well. So you can see it has made a substantial difference. Without it we would be continuing—and obviously the further we get down—so in one year we dropped from 60 to 40 during the millennium drought. When you start to get down much lower than that, about 30, you are starting to look at quality issues with your water, your lack of ability to deliver it, so you just never want to find yourself in that position that we had last time where we dropped down from 60 to 40, in a one-year period. And I think if you look at the trends over the last summer, that is where we were heading. We were heading for a significant drop, and if we had not added desal in, we would definitely be in a much worse position.

Just out of interest, desal, the 125 gigs, is starting to be delivered. It started from Monday, and we have put in 677 megalitres since Monday. The plant is only working at a third of capacity at the moment while they ramp up the other two parts of the plant, and at its capacity we will be able to deliver 444 more litres a day as they deliver our order. The 125 equates to about a quarter of Melbourne water use, so again just that buffer on our water use.

If we then move on, obviously one of the other parts to the narrative, when we talked in *Water for Victoria* about what we needed to do around securing our water security for Victoria, how did we work in a scenario where we were going to have a new norm of a future with less water? Desal is obviously one critical part of that, but it is not the only part, so we have extended the grid across a number of parts of Victoria. This has not just been a Melbourne strategy. Whether you are in the south-west Loddon area, connecting that into the Wimmera–Mallee pipeline, whether you are in Geelong, where you have connected the pipeline to Melbourne, or whether you are in South Gippsland and connected into the Melbourne system, we have been investing in that. We also investing in how we use the water trade market, particularly in the north, but we are also trying to build that capability in the south to provide ability for irrigators particularly to use the market to get them through difficult times.

We are also looking at recycled stormwater management, and part of that is Target 155. This is a target we reintroduced. To give you a sense of it, Victorians, or Melburnians, have reduced their water use from 245 litres per day per person in 2000 to 161 litres per day per person. That is the average. At the moment we are running at 133 as of the last week. But to get us from 161 to 155 would save us 11 gigs—more than what we save in, say, stage 1 water restrictions. We already, from the drop from 245 to 161, save 150 gigs a year. Melburnians have saved that through those water savings. All our water authorities have a strong focus on reaching Target 155.

Interestingly most of our water use occurs now in our home—almost 70 per cent—so there is not a lot of savings left from gardens, unless you are at the really severe end when no-one can water anything, anywhere, at any time, which we know has a massive economic impact. Most of our work now needs to be looking at indoor use, so Target 155 comes into that—what are the messages, what is easy for people to change their behaviours on, but also how we ultimately look at urban development. We have got some great examples across the state. Aquarevo is one of those out in the sort of Cranbourne-type area, where I went out to launch that. They have been able to design a community out there that has reduced potable water use by 70 per cent. So they are using stormwater, they are using recycled water for everything in that house apart from, basically, showers and drinking. That shows you we can do it. It can be embedded in the design of homes et cetera, and that is some of

the work that we need to start looking at more seriously in a more systemic way in order to make changes around indoor use, household use and industry use going forward to, again, reduce the demand on potable water as we get less water over time.

If we can then just go on, I just wanted to focus a little bit on what the budget has allocated. I will take you through this in a moment, but most of the water allocation has been the environmental contribution levy combined with some other appropriations. But this budget completes the spending of the environmental contribution levy for tranche 4 and contains funding for some of our iconic waterways. Everyone will remember that we had a really strong focus on the Yarra River and have also announced some other changes or some other similar ministerial advisory committees on the waterways of the west and in the Barwon region. Some of this money—the 12.1—is going into those iconic waterways with the first *Yarra Strategic Plan* development, a Waterways of the West action plan and engagement of traditional owners in waterway planning and management. Of course that is on top of the \$222 million we have invested over the last four years, which continues to roll out this year, in waterway health—the 37 key priority waterways. There is also investment in the smarter use of water in our cities and towns, so \$6 million for integrated water management. We have 16 across the state, and these are about bringing together all the players, from local government for planning issues right through to water authorities to developers et cetera, to look at how we better plan and use and manage stormwater and recycled water. Some of the examples that we have already been funding are things like drought-proofing the Casey Fields multisport precinct, which now uses recycled water and groundwater, saving the equivalent of 400 Olympic-sized swimming pools, and the Living Rivers program run by Melbourne Water, which funds a whole range of stormwater management projects across rivers to try and reduce stormwater run-off and the quality implications it has for our waterways. We have also done things like the Johnstone Park Raingarden in Geelong, again drought-proofing that and stormwater re-use to keep the garden going. Similarly there are the Bendigo Botanic Gardens, and the Melbourne Cricket Ground sewer mine, which uses 18 megalitres per year of recycled water for irrigation of Yarra Park and toilet flushing. So they are just some of the examples, and there are over 100 significant projects that have come out of that integrated water management process that we will now be progressing as we move forward. There is also in the budget money for access to emergency water supply points, particularly in the East Gippsland area.

Just finally, Chair, to take people through the broader output on the water portfolio: since 15–16 we have invested \$705 million into supporting our water security and healthy water environment, and that includes \$151 million for water and irrigation infrastructure, which includes last year's commitment towards the East Grampians and the Mitiamo project; \$222 million to improve waterway and catchment health; \$60 million to strengthen water entitlement and planning processes; and \$20 million to respond to challenges of climate change. As I said, we have got this additional 12.1. But if you have a look at the average spend now across our water spend, you can see that we have completely expended the environmental contribution tranche 4. There will obviously be a process around tranche 5, which needs to be part of the next budget process. As we have always committed, we collect and then spend what we collect. When we came to government we had \$105 million that was left from unspent the environmental contribution levy of tranche 3, so that money was not going into delivering water security or healthy waterways. I think you will see, 19–20 is a bit lower, because that is the full expenditure of tranche 4, and then we will see the 20–21 increase as we implement tranche 5 of the environmental contribution levy. So I will leave it at that.

The CHAIR: We will move to questions now.

Mr RICHARDSON: Thanks, Minister, for that presentation on our water security. Minister, I want to continue that theme on. I refer you to budget paper 5, page 99, table 3.2.6, and the reference to the Victorian desalination project. Can you outline for the committee the most recent water order in securing Melbourne's future?

Ms NEVILLE: Yes. Thank you, Tim, for that. Obviously I touched a little bit on it, but you will have seen from that graph how absolutely significant the orders have been up until this point. We are now ordering our biggest order ever, 125 gigs, and the water authorities, through analysis, have given me a non-binding order of 100 next year and 125 for the next one. Now, they are non-binding, and we will see how the spring and winter rains go in terms of our storages. But 125 gigs represents a 6.9 per cent increase in our storage levels, and when you combine it with what we have already put in, over 11 per cent in our storages have been increased because

of desal. As I said, it represents around about a quarter of Melbourne's water consumption. So 125 gigs can play a really big part of providing that really crucial buffer and ensuring that we do not get to those emergency levels that we saw back in the millennium drought period.

So why do we need to do this? Well, there is no question when you look at the trends—not just the last 12-month trend but the trend that we are seeing over the last 20 years—we are well below 30-year averages in terms of rainfall. That is why the Thomson Dam has not been full since 1996, and as I said earlier, probably will not be. That is our biggest source of water supply to Melbourne; we have got a number of dams, but that is by far our most important and most significant one. And it is not just that we have a dry period; we are also planning for population growth. As we all know, Victoria is the fastest growing state in the country, so we need to continue to look at these issues. So this is an immediate injection. We probably will need to continue to do these desal orders going forward to keep us out of these emergency levels, and then we need to continue to focus on those other issues I touched on: so how do we reduce potable water use in households, how do we do that in industry, how do we use recycled better, how do we use stormwater better to achieve that?

Mr RICHARDSON: And obviously affordability is really important. Can you outline to us how we are keeping bills more affordable?

Ms NEVILLE: So just to give you, firstly, a sense of the cost of water, say, out of Sydney desal. So Sydney are using their desal. This time they ordered it in January because they have a trigger: once you reach 60 per cent you turn the desal on. Their desal only delivers 90 gigs. The average cost of desal for that 90 gigs for Sydney householders will be \$45. Ours would be at 125 gigs. Without the sort of assistance that we are providing, it would be about \$37, but we have been able, through the use of renewable energy certificates, through some of the money that has been held in trust because of the failure to deliver the full order back in 2016 by AquaSure and through some efficiencies with our water authority, to bring that down to an average of \$10 per household for the year. So that will be about \$3 on a bill, basically, on each quarter of your bill.

Even despite that, Melbourne still has the lowest bills in the country. So we are \$111 below Sydney—and this is not from me; this is from the Bureau of Meteorology national performance data; this is what they report on each year—we are \$153 below Canberra, \$255 below Adelaide, \$804 below Darwin, \$400-odd below Perth. Now, some will argue our kilolitre per dollar is higher than the other states. That is absolutely right, and we do that for a good reason—because it enables people through their usage to reduce their bills. And they are able to do that. You know, the cost of turning on your tap and getting the water to your place is cheaper in Melbourne than it is anywhere else in the country, and that is what is most important for communities. The essential services commissioner when they set these prices said this is one of the biggest declines in water that they have ever seen and the most substantial and sustainable decline in water prices.

Mr RICHARDSON: Thank you, Minister. What other measures is the government putting in place to drive better use of water?

Ms NEVILLE: Look, I touched a little bit on this. So Target 155 is a really important strategy to get us there. This does require a little bit of ownership of community to play their role. They have done an enormous amount since the millennium drought—150 gigs saved by the reduction in their water use. That is a really big behaviour change; it is not insignificant—and that has been sustained, which is I think the most extraordinary thing. We have got in people's minds that water is precious and you need to take care even if it is raining. So that saved 850 gigs. If we get people to average down from 161 to 155, we will be able to save another 11 gigs. We need to remember Victoria has in place permanent water restrictions anyway. We have that in place to help encourage people's changing behaviours. So you can never water your driveway—you know, those sorts of things that people do. And we continue as part of Target 155 to remind people of some of those rules, because people often say, 'Look, really?', when you remind them that you cannot water your driveway. So we have got some really sensible commonsense approaches to when you can use water and when you should not use water, so a mix of that.

Every year the water authorities will assess whether we need more severe water restrictions. So as I said, 155 will deliver more than stage 1 water restrictions. We want to avoid where we can really severe water restrictions. We know when we had level 3A back in 2006–07 the Productivity Commission indicated it was somewhere at a cost to our economy of about \$500 million to about \$1.1 billion because it put jobs out, stops

growth in industries, nurseries—obviously all of that impact. But then there is also the health and wellbeing impact, because if you recall, municipalities had to pick one or two ovals that they watered. So kids sport, health and wellbeing—all of that was impacted as well.

One of the things that we need to be careful of in an environment of climate change is that we do need green spaces. As we have got a heating effect we do need to be able to keep our trees alive and our green spaces alive in order to assist in reducing that heating effect that climate change will cause, and that is one of the changes I think in terms of when we think about water restrictions that we still need to be able to keep gardens and trees alive in order to deal with that. So this is going to be a multifaceted way of trying to deal with this, but we will have some work that we need to do particularly around recycling and stormwater management in the future to further reduce potable water use.

Mr RICHARDSON: Minister, I want to take you now to regional water security, and I refer you to budget paper 4, page 59, and the table outlining some of the water security projects underway. Can you please provide some detail on their progress and some of the benefits we can expect to see when these projects are completed?

Ms NEVILLE: We have been investing quite significantly in regional water infrastructure. Just last year we committed to the East Grampians project and the Mitiamo water project, and look, it is great that the commonwealth have now committed funding for both of those projects. So we will be able to get on and start doing those projects. The East Grampians one, which if people think about it, there are a lot of wineries in that region and piggeries—there are a whole lot of agricultural industries in that region—and when we did the business case for this project it showed us that it could have a great result for jobs, protect about 1500 rural enterprises in the region, it will cover about 530 000 hectares of land. So this is about how do we connect this into the Wimmera–Mallee pipeline, get rid of the old channel system, stop water losses and actually ultimately have a sustainable rural industry in that community.

Similarly with the Mitiamo project, which actually now is one of our projects for the Murray-Darling Basin as well to get water savings out of that, that will improve security and quality of water to Mitiamo and the surrounding farming district: 75 000 hectares, 375 kilometres of stock and domestic pipeline, replacing channels for about 180 properties that at the moment lose approximately 80 per cent of the water that flows into them. So that is a huge loss, and those savings can go both into our savings that we need to find for the Murray-Darling Basin but also into growing that region and opportunities for new rural businesses. So construction, depending on the contracts with the commonwealth, should start early next year and for Mitiamo take about 12 months.

Mr RICHARDSON: Thanks, Minister. I want to draw your attention to the Connections Project. Where is that up to in terms of water infrastructure and modernisation?

Ms NEVILLE: For those who are not aware, the Connections Project is a massive investment in modernisation in the Goulburn-Murray irrigation district. In fact we did, way back under John Brumby, the first stage of that Connections Project, the food bowl project it was known as, and it was to, at that point, provide water savings that would be ultimately distributed back: one, to Melbourne—now things have changed in terms of Melbourne water security, but a certain part back to Melbourne—a certain part back to irrigators, a certain part back to the environment. There were some issues when we came to government that this project was way behind schedule. There were massive issues around legacy issues, people who had been waiting years to get their part of the modernisation done on their properties, and we were well over budget. So we set about doing a reset of that project. We now have that project more than 80 per cent completed, and it will be done by October 2020.

The legacy issues are now down to small numbers of more difficult ones, and we have resolved many of the ones that seemed unable to be resolved previously. Just to give you a sense, this investment has seen 928 jobs in the region doing all this construction work. It has seen the treatment of 14 000 meter outlets, decommissioned 1200 kilometres of channel, remediated or modernised 2400 kilometres of channel. The independent research that we have had done up there shows that we can increase the value of irrigated agriculture in the region, because of this project, by \$42 million, and obviously it is critical in an environment of a less water future.

We have got at the moment underway the annual winter works program, which is \$200 million of work that is doing 50 regulators and 500 metres of channel that is being installed. So this is a really significant project for that region, for the future of that region, but also an important part of our delivery of the Murray-Darling Basin requirements as well.

Mr RICHARDSON: On that theme, Minister, what about other irrigation districts and the work underway? Are you able to update us on the progress of that?

Ms NEVILLE: The South West Loddon rural water supply project, this is for communities around Wedderburn basically, who, when I went and visited them not long after becoming minister said to me they did not at the time join the Wimmera–Mallee pipeline, because at that time they felt that they would never not have enough water to run their businesses. This is a dry farm area, so it is not an irrigated area, and what has turned out is that that is not the case. So when I went up to visit them in that 15–16 period drought they were carting water, and not only is that expensive, it is also quite soul-destroying for farmers to have to cart large quantities of water. So we committed to build the extension basically of the Wimmera–Mallee pipeline into those communities to provide them access to secure water into the future. That project will be delivered by later this year, probably about September the full completion.

People have come on as it has been completed as well, so I have been up there a couple of times to see the launch of a particular segment of it, a section of it, where farmers have been able to connect. So some have had the benefit of that during this dry summer period. We have also got modernisation works across Macalister, Werribee and Bacchus Marsh irrigation districts. Unfortunately, despite three attempts now to get some commonwealth investment in Werribee and Bacchus Marsh, we are yet to do that. This is the biggest vegetable-growing area in Victoria, and it is in a dry spot.

We are on track to deliver all of those by 2021. Yes, the commonwealth has put some money in, which is great, into the next phase of Macalister, and we put in that expression of interest for that money, so we are now working with the commonwealth and the final parts of the business case around the final costings of this.

Mr D O'BRIEN: So you got their money, but you put none up for yourself.

Ms NEVILLE: Sorry?

Mr D O'BRIEN: The MID. You have got commonwealth money, but there is no state money.

The CHAIR: Mr O'Brien, at 11.42 you will get your chance.

Ms NEVILLE: Can you just let me finish my answer? We put in the expression of interest because we support this, and it is great to see the commonwealth money put into the Macalister phase 2. We are currently working with the commonwealth about that and when it flows, but we still have to finish all the detail of the business case with full costings of it to work out our contribution. I think the member may have raised this in Parliament the other day, and in my adjournment response I indicated that we strongly support this program. We think it is around \$10 million, but let us go do that work as we are finishing off the other stage.

I should also just say, the other important investment that we made was in the South Gippsland region where we connected to desal, and we were also successful in attracting \$10 million commonwealth funding to support on-farm storages for farms around the Lindenow Valley, which is a really important area for fresh vegetables as well. For some of those farmers who are in that East Gippsland area this potentially has some opportunity to support some water security measures there.

Mr RICHARDSON: Well, given Mr O'Brien's excitement, let us go to South Gippsland. What about the work connecting South Gippsland to the grid, and what are some of the social and economic benefits for these communities?

Ms NEVILLE: The Lance Creek water connection project, which was \$43 million—we put in \$30 million for that—connects it into the Melbourne water system, so it enables either directly from Melbourne or directly from the desal plant. This is an area that has up till now been regularly on water restrictions because they have got very small storages that empty quickly. They do fill quickly, but they empty very quickly as well. It is

towns like Korumburra, Poowong, Loch—townships that have often been on water restrictions at this time of the year that have not had to because of this project. But also importantly it is a dairy area, so it provides water security for our agriculture industry down there as well, but also for companies like Burra Foods, which employ 165 staff, and GBP Exports, with about 185 staff. Again, when I went to visit them before we committed to this project, these are not only big providers in our market but exporters—massive exporters—great job creation and that sort of wealth-creating-type jobs and industries that were contemplating their future and whether they could continue because of the increasing level of water insecurity in that region. So, again, this now secures their future and also gives them an opportunity to continue to think about growing.

Mr RICHARDSON: Minister, I want to change the pace to urban waterways. I refer you to budget paper 3, page 39. Could you please provide some details on how the initiative ‘Next steps in reimagining Melbourne’s iconic waterways’ outlined on table 1.9 will improve the health of Melbourne’s waterways?

Ms NEVILLE: Yes, so this is really focused on a number of things. I started off in our presentation saying that we put \$222 million into waterway health that went via CMAs when we first came into government when we had the EC4 tranche—a really significant investment in that—and that continues to roll out. But we have also had a couple of areas where we have thought differently about how we support waterways. One of them was the Yarra, and with the Yarra, if people recall, we had an opportunity to do that in Parliament. This is about taking that to the next step—the Yarra strategic plan. This is: how do we bring together all those councils? What are the investments? What are the iconic areas? Where do we need to look at vegetation? It is all of those issues that are about improving the quality of the Yarra, so a really specific focus around that. Similarly we have got the Waterways of the West, so this is something that the planning minister and I established last year. We have had one meeting with the ministerial advisory council, who are just starting all their preliminary work around what their action plan will look like, and that includes the Maribyrnong, the Werribee and the Moonee Ponds Creek and the various tributaries that run off that. We have also established the Barwon River one, which will cover the Barwon River and the Moorabool River—and the Moorabool River is in fact Victoria’s most stressed river, so this will be really important work. Given the water security issues in the Geelong region, there is probably no more important a time to be looking at how we protect the future of those two rivers.

Mr RICHARDSON: Just in your opening remarks on this section you talked about the Yarra River. The Yarra River Action Plan, where is that up to?

Ms NEVILLE: Yes, so we are developing the strategic plan at the moment, to be completed next year. We have already had over 3300 individual contributions towards that first strategic plan. The Birrarung, the Yarra area, is managed by the Wurundjeri and 15 public entities. So part of this is bringing all of those together in order to have a strategic intervention to protect the river and its health and improve it, and to see it as a single integrated living entity—not to see it as the bit of the Yarra that this council has, or this bit of the Yarra there or the bit that is down near Southbank, but to see it as one and treat it as one and understand how different parts of the catchment and other parts upstream impact on the quality of the river. So it is a big task, and it will bring together all the different local government strategies—there are 40 that exist along the river—various different local plans and management, again so that you have one plan, one action, one intervention that we all agree to. The legislation that we passed in the Parliament—that sort of historic moment when we had traditional owners on the floor of the Parliament with the second-reading of the bill—brings that to light. That is all provided for in that legislation to enable us to do this.

Mr RICHARDSON: In the 30 seconds we have remaining, what is the government doing to ensure traditional owners really drive that work?

Ms NEVILLE: Yes, a couple of things. Firstly, we have committed and are legislating for acknowledgement of traditional owner rights and entitlements to water—that is both cultural and economic. That is our overall frame, but within that we also now have an opportunity through all of these measures to be having traditional owners around the table, and they are at the ministerial advisory committees. With the Yarra they are at the table in terms of the strategic action plan and the ongoing management. We have also funded water policy officers in traditional owner organisations that will enable them to build their capacity.

The CHAIR: Thank you, Minister. I am happy for you to take the remainder of that answer on notice.

Mr D O'BRIEN: Good morning, Minister and officials. Minister, thank you for your presentation. Would you do me a favour and show that first one with the rainfall deficiency to the Premier, because he still really has not come and visited Gippsland, given the drought there, and it is becoming critical. So thank you for providing that. I want to go to water bills, which you talked about in your answer before. You referenced the Bureau of Meteorology figures. Do you now acknowledge that Melbourne has the second most expensive water in the country?

Ms NEVILLE: Look, I have heard this argument, Danny, and it is not true. So when you turn on the tap—

The CHAIR: Minister, can I just ask for the benefit of Hansard that you refer to members by their surname.

Ms NEVILLE: Sure. Sorry, Mr O'Brien. Sorry about that. My apologies. I do not accept it. We have the lowest bills. When you turn on the tap in Victoria and you get your water and your sewerage and all the other parts that make up your water bill—so not just the water—we have the cheapest in the country.

Mr D O'BRIEN: Minister, you referenced the Bureau of Meteorology figures. They show that Melburnians pay \$6.90 per kilolitre, which is the second most expensive in the country.

Ms NEVILLE: Well, they do not pay that.

Mr D O'BRIEN: So how can you be looking at the figures and saying it is cheaper when you turn on the tap? It is cheaper because we use less water, and we acknowledge that. But in terms of the actual price of water—

Ms NEVILLE: I think I may have said that in my contribution actually, that, yes, our kilolitre is more expensive than the other states.

Mr D O'BRIEN: So how can you claim that it is cheaper?

Ms NEVILLE: Okay, because water bills contain a whole lot. There is water, there is sewerage and with all the other costs—the infrastructure, the capital, all that—combined we are cheaper. Now, the cost of water: we have said, I think rightly, to Victorians, 'You can pay even less for your water by using less. We're giving you a tool to do that'. Other states, even when you calculate their lower kilolitres, are paying more. They are still paying more. And the figure of \$6 is incorrect for a start.

Mr D O'BRIEN: Six-ninety, I said.

Ms NEVILLE: So Melbourne, City West—it is \$2.69. Melbourne Yarra Valley is \$2.66. So \$6 does not exist.

Mr D O'BRIEN: Six dollars ninety, I said.

Ms NEVILLE: But do I think we do our water bills properly? Yes, absolutely. We give people the tools to reduce it. We are still way by far the cheapest in the country when you take account of everything, and even when you add in desal and take that into account, we are still way cheaper.

Mr D O'BRIEN: Minister, you said before in your answer to Mr Richardson—and partly reprised it then—that prices per kilolitre are deliberately high so that if people reduce their water usage, they reduce their water bills. Isn't that still true if you are the cheapest in the country or the second most expensive in the country?

Ms NEVILLE: No. There is no incentive to do it.

Mr D O'BRIEN: There is an incentive. If you are paying \$6 or \$2, if you reduce your water usage, you are still going to reduce your bills.

Ms NEVILLE: Well, let us turn that around. So what is your point then? I do not understand your point. When you get water to your property, it is cheaper than anywhere else in the country; right?

Mr D O'BRIEN: That is not what the figures say.

Ms NEVILLE: Sorry. When you deliver water, it is not just the cost of the water that it enables; it is the pipes, it is all the infrastructure, it is all of that in that cost of water to get to your house. One component of it is the cost of the water per kilolitre—one component. We have made a decision with the essential services commissioner that that gives people an opportunity to play their part for behaviour change in water use. But it is one small component of the cost of water.

Mr D O'BRIEN: So have you given up on trying to reduce Melburnians' and Victorians' water bills?

Ms NEVILLE: No, not at all. In fact the last water—

Mr D O'BRIEN: What are you doing then to reduce bills?

Ms NEVILLE: The last ESC decision, which still applies to water bills now for another three years, is—let me get the quote from Ron Ben-David, the essential services commissioner, in June last year, when he set the prices: 'These are the most widespread price cuts we have seen in 20 years'. My commitment is we want to keep doing that. We want to drive efficiencies, absolutely, with our water authorities to deliver this water as cheaply as possible to Melburnians.

Mr D O'BRIEN: So, Minister, are those costs you are talking about—sewerage and pipes and everything—not built into the cost of water?

Ms NEVILLE: No. There is the cost of water, there is the sewerage and there are the pipes. The whole package is built in. That gives you your bill. So our fixed costs are cheaper than the other states.

Mr D O'BRIEN: So does the system that we have of uniform, fixed and variable costs reward water users who actually use less water?

Ms NEVILLE: Well, it does.

Mr D O'BRIEN: How?

Ms NEVILLE: Fixed costs are cheaper. The other states have very high fixed costs. You cannot do anything about your fixed costs. That is what you have got. So even if you are a really low water user, you are still going to have a really high bill, and that is what you see, and that is why the other states' bills are higher than ours.

Mr D O'BRIEN: Minister, given that you are still committed, apparently, to reducing water bills, why aren't you reducing water bills through the Melbourne water utilities instead of taking a \$338 million dividend out of them in the budget this year, which I might add is a 164 per cent increase on last year's dividends?

Ms NEVILLE: Okay. Let me have a look at—because I read this out from *Hansard* last week when you asked me this in Parliament. Let us get a really good picture of your four years. How much in dividends did you collect?

Mr D O'BRIEN: No, Minister, I am asking you about your budget.

Ms NEVILLE: No, no. In your four years, \$667.2 million.

Mr D O'BRIEN: No, Minister, this is the budget estimates hearings for 19–20. I would like an answer to what—

Ms NEVILLE: You are making a claim that somehow it is out of proportion. I am saying it is not out of proportion to what you took in your four years and what we are going to take.

Mr D O'BRIEN: No, Minister, I am asking you a simple question. You had the opportunity with the funds that are in the water utilities to either reduce water bills or to prop up the bottom line.

Ms NEVILLE: That is not true.

Mr D O'BRIEN: I am asking you whether you are taking the chance to reduce water bills.

Ms NEVILLE: That is not true. So we have a dividend structure that every government applies.

Mr D O'BRIEN: Yes.

Ms NEVILLE: It is written how you calculate it; right? You work it out. What you took is about the same as we are taking. Let us have a look at: has it impacted on capital; has it impacted on price; has it done any of that? It absolutely has not. So, for example, in 2018–23, \$8 billion of capital is being spent by our Melbourne water authorities on upgrading, improvements and all the things we need to do to continue to maintain our great quality water structure systems. We take 689 over the next four years in dividends compared to your 667, and given the fact that we have got massive population growth, massive urbanisation and significant improvements in the profits of our water authorities, it is a contribution that can be made to fund other things in the community, from hospitals to health.

Mr D O'BRIEN: Minister, you talked just then about population growth and the challenges before, and you mentioned why we have the desal plant. How much recycled water is currently being used between Melbourne's three urban water authorities?

Ms NEVILLE: Recycled is an interesting one, and I think it equates to, in Melbourne, about 13 per cent of our potable use being offset by recycled water. In Melbourne we have about 349 gigalitres of sewage that is treated annually, and this is one of the things I have—

Mr D O'BRIEN: Treated and re-used—what class?

Ms NEVILLE: Treated.

Mr D O'BRIEN: And what class?

Ms NEVILLE: And then of that about 17 per cent is re-used. And one of the things we have is again we have this perverse issue—and I have asked Melbourne Water to come back to me on this—that we do not have an incentive to use recycled water in times of good times. The price is such that it is too expensive to use when it is wet—when we have got enough. So it is good for dry times and you will see increased pick-up of it. We need to have a look at that issue of whether we drive greater use of recycled water. We have a lot of water authorities—I know, for example, in Barwon at the moment they have got a project around increasing the use of their recycled, so they have got a lot that is not used in wet times because people do not need to. This is a really big—

Mr D O'BRIEN: Minister, I am conscious of time.

Ms NEVILLE: And that is why we have set up the integrated water management systems, 16 of them across the state, to look at opportunities and projects that need support to increase recycled and improve stormwater.

Mr D O'BRIEN: Yes, I am conscious of time. So just to confirm: 17 per cent of 349 gigalitres of sewage is recycled.

Ms NEVILLE: Yes, 59 gigalitres.

Mr D O'BRIEN: Can I ask how much stormwater is being used?

Ms NEVILLE: I am not sure how you could even calculate that.

Mr D O'BRIEN: Is it any back into our water supply?

Ms NEVILLE: Yes, absolutely. So we have—

Mr D O'BRIEN: I am happy for you to take it on notice if you do not have it, Minister.

Ms NEVILLE: So let me give you a couple of examples of what we do. I gave you the example of Aquarevo, for example, at—

Mr D O'BRIEN: I do not want another example, Minister. I have got a very short amount of time. I just want to know—

Ms NEVILLE: Okay. So you do know that stormwater depends on how much it rains? So I cannot tell you how much is re-used because I do not how much stormwater is created each year.

Mr D O'BRIEN: Minister, all the water that we use depends on how much it rains except for the desal plant. Please do not give me that kind of condescending answer. It is a fairly simple question. If you do not have the answer, that is fine. I will take it on notice.

Ms NEVILLE: No, no. We do not have a collection system for stormwater.

Mr D O'BRIEN: Sorry?

Ms NEVILLE: We do not have a dam that collects—we have our dams of run-off in our catchments—

Mr D O'BRIEN: No, no, but as you will know—

Ms NEVILLE: but the stormwater through our cities, most of it, does run off. So what do we need to do differently? We need to have fit for purpose. So, for example, City West Water—a \$10 million stormwater harvesting fund offering local councils grants for projects. That is the stuff we are doing. Can I tell you how much? No, I cannot tell you that.

Mr D O'BRIEN: Okay.

Ms NEVILLE: I would have to go to each household. I would have to go to each industry. I would have to go to each water authority.

Mr D O'BRIEN: Minister, I will move on. You would be aware that your own agencies did some work a few years ago which was reported in the *Age* in July 2017 that suggested that Melbourne could run out of water at its current rate of growth by 2028. What work has been done to augment Melbourne's supplies? Will you be looking at building a new dam?

Ms NEVILLE: Can I take a step back? The last time the Thomson was full was 1996. Dams are not our solution here, Mr O'Brien.

Mr D O'BRIEN: Okay, I am just asking the question.

Ms NEVILLE: It is not our solution.

Mr D O'BRIEN: So, no? Okay.

Ms NEVILLE: So we have got a desal plant that is augmented. We have got work we are doing on stormwater and recycled water and how we reduce potable water use. And I am working—

Mr D O'BRIEN: How much can we expect to augment our supplies through the recycling and stormwater use?

Ms NEVILLE: No, I think what we need to do is reduce potable water use. That is what we need to do. My view: this is not about building some big stormwater plant.

Mr D O'BRIEN: I am not asking that.

Ms NEVILLE: This is about fit for purpose, changing planning rules, changing how we design communities, like the examples, where you can substantially reduce potable water use on site, at homes and in industries. So we would want to be seeking over time, over that period—and I am working with Melbourne Water about this now—to reduce potable water use significantly over the next 25–30 years.

Mr D O'BRIEN: So reducing, recycling, stormwater—I understand that. No dam. Will we need to augment the desal plant?

Ms NEVILLE: Look, I do not know. It was built so you could have 150, but that is the work that we need to—sorry, it is built for 150 now. We have got an ability to increase that to 200.

Mr D O'BRIEN: So when you say you do not know, in the progress report on Water for Victoria, your water plan, action 9.2 was to 'Plan for future grid augmentations'. So I am asking: given the report suggests that we could have a deficit of water in 10 years, are you intending to—

Ms NEVILLE: We have augmented it since then. So I am working intensively with Melbourne Water and with places like Barwon Water around the long-term projections on water security. What does that mean? That means right now our priority with Melbourne Water is on the recycled and stormwater. We do not believe—there is no evidence right now that suggests—we need any immediate increase in the desal. But we have the capability to do that, and we should not rule that out.

Mr D O'BRIEN: Okay, that is fine. Will you rule out taking any more water from irrigation communities to supply Melbourne?

Ms NEVILLE: Yes.

Mr D O'BRIEN: Speaking of which, you mentioned the GMID Connections Project. You talked about shares going to the environment, Melbourne and irrigators. I believe 75 gigs to each was the plan in the savings from that project. So will the irrigators' share of those savings be high-reliability water?

Ms NEVILLE: Under the agreement that was signed by Peter Walsh, the way that it works is that we are required to provide the 75 gigs for the environment by June of this year, and I have determined we should do that because, one, it is not available for irrigators anyway. If I made it available for irrigators, I cannot hold any other state to account. I have announced a consultative committee around the other 75 gigs, which is to go back to irrigators because there are a range of views in the community about how you best distribute that.

Mr D O'BRIEN: Okay. Well, do you know the answer then yet whether it will be high-reliability entitlements?

Ms NEVILLE: Look, I am going to let Paul Weller, who is chairing the consultative committee, come back to me with advice on how we best deliver this water back to irrigators. It is their water. They will get their water. I am also looking at interim arrangements by the end of next year if we can—if we can make some interim down payments, so not waiting for two seasons to test whether that water is there or not to do—

Mr D O'BRIEN: So you are not going to wait for those two years—

Ms NEVILLE: Well, I have asked the consultative committee to give me advice on some interim down payments on that.

Mr D O'BRIEN: When will the first of the 75 gigs be returned to irrigators?

Ms NEVILLE: That is right. I am aiming by the end of next year, if we can have some interim by the end of next year, but that is what I will ask the consultative committee to do.

Mr D O'BRIEN: Thank you, Minister.

Mr HIBBINS: Thank you, Minister, and your team, for appearing. My question is a bit similar to Mr O'Brien's first question, and it goes to—just reading off Melbourne's adaptive water security framework and the position that we are in now, in the medium zone, below 60 per cent storage, and one of the actions being longer-term plans for major water supply augmentation options being reviewed and brought forward. Can I get an understanding of what the options are and what is being currently reviewed?

Ms NEVILLE: I did not quite hear. I know you have got a cold. Sorry. I could not hear what it actually said. Sorry about that.

Mr HIBBINS: So the action currently being that the longer-term plans for major water supply augmentation options reviewed and brought forward—that is within Melbourne’s adaptive water security framework. So I am wanting to get some understanding about what the options are and what is currently being reviewed.

Ms NEVILLE: So they are doing that work now. They have had initial conversations with me about what they are looking at. Obviously all that stuff around the rules that apply to recycled water—when, how you use it. Urban development—we have made some changes to the stormwater planning rules, for example, in terms of non-residential capture of stormwater. So they have indicated that they have a strong commitment and preference to look at that side, that we need to do more in that space. So that will be one of the first preferences.

Obviously we keep looking at the issue of the water grid as well, so where are the opportunities to enhance that water grid and provide better connections? So for example desal now can provide to Western Water Sunbury, Melton areas, to parts of South Gippsland, to Wonthaggi and Inverloch areas. Obviously Geelong is connected. There are connections that are provided with Ballarat. So they are providing advice around that water grid as well. And certainly they are doing all the work they need to around what is the worst-case scenario in all of that. So the worst-case scenario with desal is still a fair way off. So we have got time to get this right, but it is a balance of desal, alternative water and reduction and changes in people’s behaviour.

Mr HIBBINS: Are you looking at logging in our water catchments at all? Obviously the regrowth there significantly limits the amount of water that actually goes into our water catchments.

Ms NEVILLE: Look, actually the last review, and I have asked for some work to be done on this, showed it was a very tiny percent, and that was in 2013. It is, I do not know, 1 per cent or something. It is tiny. In fact the Thomson fire probably has a bigger impact. So I know what you are saying, but the evidence so far does not stack up about that. We have protected catchments, as we should. There are parts that are logged, but there are significant parts that are not that go to the issue of run-off and water security.

Mr HIBBINS: Water quality and 1 per cent—it is probably not as small, although it is a tiny amount, given the significance of the issue.

Ms NEVILLE: Well, it is 1 per cent of catchments that are logged, I should say, sorry.

Mr HIBBINS: Okay, right.

Ms NEVILLE: So it is a tiny percentage of it that has very minimal, if any, impact on water run-off.

Mr HIBBINS: Okay, thank you.

Ms NEVILLE: Climate change is having the biggest impact.

Mr HIBBINS: Yes. Can I get—you may have addressed this in your opening remarks—just an understanding about why the expenditure in this particular year is the lowest on the bar chart at a time when we are probably facing the lowest rates in our dams, and facing drought.

Ms NEVILLE: So there are a couple of things. When you look at the appropriation end of it, some relate to the phase-in of the commonwealth funding for connections projects—so how that is phased, and how capital investment is phased as well. Because we did a massive boost spend of the EC—if you have a look at the back slide, it shows that we spent significantly on the EC in a couple of years. So now we are at the tail end of it. So on average we are still away above where we were, and we would expect tranche five, the next tranche, will get us back up again. So you will see. But we made a decision to do, for example, the waterway health in a massive package to get that out to CMOs quickly. So you are going to have that in one of those budgets.

Mr HIBBINS: Okay. And, Minister, just finally in the time I have got, will you now reverse your opposition to allowing irrigators to sell more water back to the Murray-Darling environment?

Ms NEVILLE: Absolutely not. So our socio-economic report—

Mr D O’BRIEN: Hear, hear.

Mr HIBBINS: ‘Hear, hear’ from the Nats.

Ms NEVILLE: Our socio-economic report said that you have got to have a look at the whole impact across the region. There might be willing sellers, but the impact of willing sellers is detrimental to everyone else in the region.

Mr HIBBINS: Thank you, Minister. No more further questions, Chair.

The CHAIR: Thank you very much to you, Mr Hibbins. That means that we are going to adjourn our hearings. I thank you very much for appearing today as the Minister for Water. The committee will follow up on any questions taken on notice in writing. Responses will be required within 10 working days of the committee’s request. I declare this hearing adjourned.

Witnesses withdrew.