

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Review of Auditor-General's Audit on Planning for Water Infrastructure in Victoria

Melbourne — 23 September 2009

Members

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Mr G. Wilson, Secretary,
Mr D. Downie, General Manager, Office of Water, and
Mr G. Turner, Director, Office of Water, Department of Sustainability and Environment.

The CHAIR — I declare open the Public Accounts and Estimates Committee hearing into the review of the Auditor-General's audit findings and recommendations 2008 addressing the following audit: *Planning for Water Infrastructure in Victoria*.

On behalf of the committee, I welcome Mr Greg Wilson, the new Secretary of the Department of Sustainability and Environment; Mr David Downie, who is the general manager, Office of Water, Department of Sustainability and Environment; and Mr Graeme Turner, director, Office of Water, Department of Sustainability and Environment. Members of the public and the media are also welcome. In accordance with the guidelines of public hearings, I remind members of the public that they cannot participate in the committee's proceedings. Only officers of the PAEC secretariat are to approach PAEC members. Departmental officers, as requested by the secretary, can approach the table during the hearing. Members of the media are also requested to observe the guidelines for filming or recording proceedings in the Legislative Council committee room.

All evidence taken by this committee is taken under the provisions of the Parliamentary Committees Act and is protected from judicial review. However, any comments made outside the precinct of the hearing — that is, outside the door of this room — are not protected by parliamentary privilege. There is no need for evidence to be sworn. All evidence given today is being recorded. Witnesses will be provided with proof versions of transcripts to be verified and returned within two working days of this hearing. In accordance with past practice, the transcripts and PowerPoint presentations will then be placed on the committee's website.

Following a presentation by the Department of Sustainability and Environment, committee members will ask questions relating to the audit findings and recommendations. Generally the procedure follows that relating to questions in the Legislative Assembly. I ask that all mobile telephones be turned off.

I now call on Mr Greg Wilson to give a presentation on *Planning for Water Infrastructure in Victoria*.

Overheads shown.

Mr WILSON — Thanks, Chair. May I first of all thank you for the opportunity to attend today's hearing regarding the committee's review of the Auditor-General's findings and recommendations in relation to *Planning for Water Infrastructure in Victoria*, and more specifically the department's actions to address the recommendations made by the Auditor-General.

The committee will be aware from the department's response to the report in December 2008 that we agreed with the auditor's recommendations, noting that in the case of the food bowl modernisation project a decision was yet to be made about the release of the business case at that time, and that in relation to the Central Region Sustainable Water Strategy the timing of the proposed revision would occur beyond 2011.

If I could just recap, in the decade prior to 2007 Victoria experienced record low rainfall with the inflows in 2006 being the lowest in history. You will see from the chart there that the average inflows in the decade prior to 2007 were 385 gigalitres with inflows of only 165 gigalitres in 2006 compared to a historical average of around 590 gigalitres. With that background, the government responded with Our Water Our Future, the next stage of its water plan, which involved the construction of a desalination plant which would provide 150 gigalitres to Melbourne and the regions surrounding Melbourne; modernise Victoria's food bowl irrigation system to capture lost water for farms, the environment and Melbourne; expand Victoria's water grid; upgrade Melbourne's eastern treatment plant to provide over 100 gigalitres of recycled water — that would commence in 2012 — and then make an assessment of a range of alternative uses for this water; and continue to support new and existing water conservation programs for homes and industry.

The audit report endorsed the process used to develop the Our Water Our Future white paper and the Central Region Sustainable Water Strategy and acknowledged the extreme circumstances of 2006. In doing so, the audit report stated that the same processes could not be used to formulate the next stage of the water plan. Accepting on the one hand the need to streamline these processes, the auditor recommended a series of actions to provide more information about the costs and benefits of these projects as this information becomes known and verified. I believe that the department has made significant progress towards implementing the auditor's findings which, in the interests of time, I will summarise into three categories: those that relate to the provision of information to the community about costs and benefits of projects, those that relate to the improvement of internal tracking and reporting of water strategy actions, and those that relate to governance arrangements and in particular the department's role in reviewing water authority plans.

If I can turn to the provision of information, the department and its related agencies have made significant advances in this area across the board. The department launched a consolidated Our Water Our Future website in mid-2008 which provides a comprehensive set of information on water management planning and projects. There are numerous site pages on projects with fact sheets, reports, questions and answers and links to external sites — for example, the NVIRP website and the Melbourne Water website. These websites also include registration and submission-type facilities where people can sign up to get regular updates on the progress of projects.

As I understand it, this website is updated frequently — every week — to track resource conditions, progress of projects and programs. I should also mention that the government in 2004–05 established the Essential Services Commission which included a framework whereby that commission would assess pricing proposals on a five-year basis in the case of the regional water authorities and four years for the Melbourne water authorities, and also produce performance reports each year which would report back on progress against major capital investments and commitments. Finally, and perhaps most importantly, I should point out that there has been extensive community consultation across a range of these projects in various forms from high-level steering committees to one-on-one discussions with irrigators, landowners and so on, depending on the particular project.

If I turn to the second area, the audit report also made a number of recommendations relating to improvements in the way in which the department tracks and reports on projects internally. In response to those findings and as part of our aim to continuously improve the way we do things we have made a number of improvements in this area. The department has established a central database which allows project managers to submit periodic updates in relation to actions identified in the central region sustainability water strategy. Data is stored on a secure Web-linked external database, allowing for greater accountability and ease of tracking and reporting. This system will be used to track and report on progress against the subsequent northern, western and Gippsland sustainable water strategies.

Finally, I have certainly noted the auditor's view that the reporting back in the 2006–07 annual report was too brief and high level. My predecessor had improved the level of detail in subsequent annual reports, and I will continue to do so. The final category of recommendations goes to matters relating to governance of the industry and the processes between the department and other agencies, including Treasury and the Premier's department. There has been a major effort to improve processes and information flows between the department, various water authorities and corporations and central agencies. As noted in the audit report we are looking at differences in the provisions of the Water Act and the Water Industry Act as they relate to governance arrangements in response to the Victorian Competition and Efficiency Commission recommendations also.

In terms of evaluating water authority plans we have a new three-tiered capital investment threshold that we introduced in November 2008 and we are also noting the recommendations of the auditor. We have implemented new arrangements for managing Melbourne's water supply system to take account of the new augmentations as they come through.

If I can conclude, in my view the department, having agreed to the audit report's findings, has made significant progress in implementing a number of the recommendations. But having said that, we will still continue to look for further opportunities to improve our performance in these areas. With that, I am happy to take questions.

The CHAIR — Thank you very much for that, Secretary. The committee will ask questions in follow-up to the audit report on planning for water infrastructure in Victoria. I will probably start off by asking you much the same question I asked the Auditor-General. On a reading of the executive summary, there is quite a difference of view in terms of understanding the scope of the audit, in terms of information being provided or not being provided, and also some conclusions in respect of issues. I might, for example, compare water losses, estimates of water savings and updating sustainable water strategies. It is something that comes before the Parliament as a report, and the robustness, if you like, of the disagreement is reasonably striking. You have only been there three weeks, but would the department like to make any comment in terms of the matters of difference which are set down in the audit? I do understand that in the Minister for Finance's report to Parliament DSE did accept virtually all the recommendations, but we would appreciate a commentary on this audit and the degree of difference.

Mr WILSON — From my view as the new secretary, as you would know, I read the report and the background material with interest. My sense is that it is both a balanced and constructive report. It is balanced in the sense that it did acknowledge the extreme — I think that was the word used — circumstances of 2006 and the need to streamline processes and so on, and constructive in the sense that it did lay out a number of recommendations which, as you say, we agreed to. So with that as background as I look through what might appear to be areas of difference, I think they may not be as great as they appear on a first read. When you consider the central region strategy, for example, and the auditor's recommendation that that should be updated, my sense is that we are doing all the sorts of things necessary to update that strategy. We are continuing to monitor inflows, we are continuing to refine strategies and we are pressing on with all of these various projects and so on. So in that sense I think there is updating of the document, which we have agreed we should do, and then there is responding with strategies that are revised to take account of the differences that the auditor has acknowledged. I do not see there being a huge difference there. I note the reference in the audit report that once these augmentations are completed the system will look quite different and that strategy ought to be updated to take account of that. I think personally that is a matter of timing rather than a strong area of difference.

To me the other thing in terms of what might appear to be differences is really saying we ought to quickly get out there with information on cost and benefits and things like water savings where the auditor noted that there is a lot of concern about the numbers and the ability to deliver those savings. But at the same time the auditor also noted that business cases are developed up over time and there are various levels of precision, and noted the circumstances that meant there were different levels of robustness around some of those numbers, and the auditor also I thought quite constructively said we should get on and get that information out there.

We are doing that. We are committed to releasing a summary of the business case around the food bowl modernisation project. We have released a summary of the eastern treatment plant business cases. We have myriad different fact sheets and so on around the water grid and all the sorts of things we are doing. From my personal point of view as the new secretary, having been a deputy secretary four or five years ago, the amount of information that is now available to the community on our website and from water authorities generally — and let's face it, they were not regarded as the most open in the early days — is enormous.

As I said, I thought it was balanced and constructive and we are getting on with the implementation. There are some things where I would like to be further advanced, but I think we are getting onto the recommendations and we are making good progress.

Dr SYKES — Greg, I refer to the written response by DSE to questions from the Public Accounts and Estimates Committee, in particular your response no. 3, which relates to recommendation 1.3. In that response you have indicated somewhat firmly that a business case for stage 1 has been completed and that a summary of the business case will be published in 2009. My question just for starters is: when will that be published?

Mr WILSON — I would hope within the next month or two.

Dr SYKES — If you only say 'Within the next month or three', we will get to the end of 2009.

Mr WILSON — Put it this way: I am not suggesting that it will be put out on Christmas Eve. I would want it to be out there in late October, or November. The reason I say that with some caution is that it is prepared by NVIRP, which as you would know is pretty busy with the winter works and those sorts of things. It is one of those areas where I would have liked it to have been done sooner, but we will certainly be onto it as a matter of urgency.

Dr SYKES — Will the full business case be made available to the public?

Mr WILSON — I would say three things about the full business case. One is that, as you would appreciate with projects of this kind and this magnitude and scope, business cases are basically prepared for cabinet consideration. There is a cabinet-in-confidence dimension to that that I need to be extremely mindful of. The view taken and held to date is that that is cabinet in confidence. The second thing I would say is with these business cases there are varying levels of things that may go to commercial in confidence or things that may reduce the government's ability to get best value for money. The third thing I would say is that in embracing the audit findings from my point of view the main thing is to get the detail out there in a form that people can understand.

Noting those first two considerations, the decision has been made, and we will get the detailed cost benefits and detail around water savings out in the public domain as soon as we can. I would hope it will be early November or something like that.

Dr SYKES — But the full business case is not available to the public.

Mr WILSON — No.

Dr SYKES — Unless we go through FOI?

Mr WILSON — I should just say that that is the subject of a VCAT case, so I will not say too much about that. That is the logic behind it. It is really to get the information out there in a form that people can understand and satisfy their concerns about the level of detail and the rigour consistent with the auditor's findings.

Dr SYKES — Completing my question on your response no. 3, you also make reference to the water savings protocol, which I have seen a copy of. Am I correct to presume that that is now a functional document and that water savings have been audited against that protocol?

Mr WILSON — That is my understanding, yes. That is a public document: the protocol, the process, the roles and the responsibilities. It is all out there as a completed protocol.

Dr SYKES — Will water savings be subjected to external audit before they are transferred somewhere? Secondly, will those audited savings be audited on an individual project basis — for example, against the reconfiguration project for Central Goulburn 1, 2, 3 or 4?

Mr WILSON — I would have to follow up the last part of your question. Certainly the intention is the savings created by works will be audited independently. That would take place before any of those conversions take place, in accordance with the principles outlined in the protocols, which of course were informed by high-level committees and so on that are fed into that process.

Dr SYKES — So the minister's announcement of transfers of water — whatever the process was — that he did in early September, that is still dependent on independent audit and confirmation of that water being there; is that correct?

Mr WILSON — There are transfers of water, which I need to confirm for the specific transfers you are talking about. There are works done on the NVIRP project which will get onto lost water and create savings, which will be converted into some form of entitlement in accordance with that protocol.

Dr SYKES — There are some works that I am referring to — —

The CHAIR — Next question.

Dr SYKES — This is very important, because there is an issue — —

The CHAIR — You will get a chance for some follow-up questions later.

Dr SYKES — I will finish up on this one, Chair. We have had interactive discussions, and some other discussions have gone for some minutes. The issue is there is the NVIRP project — or what was the food bowl modernisation — and then there were a number of projects that preceded that, of which one I think is referred to as the reconfiguration project and others are Central Goulburn 1, 2, 3 or 4. They, as I understand it, are not NVIRP projects; they are projects that preceded NVIRP. I am asking the question: will the savings from those be audited and tagged individually?

Mr WILSON — The advice I have got is that they, being part of the Living Murray initiative, would be audited under the Murray-Darling Basin Authority arrangements. In that sense, there will be independent audits as well.

Dr SYKES — Not the same auditing process as via this water savings protocol; is that what you are saying? It will be a different auditing process.

Mr WILSON — My understanding is that because they are separate projects and they predated the food bowl and they come under that MDBA — correct me if I am wrong, Graeme — they will be audited under those projects, which I assume in part is because they have been funded under those projects and the investors would want to see that audited. Whereas over and above that in terms of the food bowl project, because of the sorts of concerns and the importance of actually getting all that right, it will have its own independent audit process.

Dr SYKES — But a number of savings from those projects, as I understand it, are being transferred to Melbourne in the first year; is that correct?

Mr WILSON — Yes. The minister has foreshadowed that in terms of the first 75 gigalitres in the first year.

Dr SYKES — So we are taking savings from other projects that were funded by other sources who want an independent auditing by their process.

The CHAIR — I think we are getting a bit outside the audit here. It may be something that you may wish to take up with the minister in Parliament. Perhaps just concentrate on the audit arrangements. You might want to think about that, and I will ask Ms Munt to ask a question.

Ms MUNT — I would just like to do Bill's seventh follow-up question.

Dr SYKES — In the spirit of interactive discussions today it has proceeded very well, and I welcome you to do the same.

Ms MUNT — That is very generous. Dr Sykes spoke briefly about the audit process and mentioned to you that the independence of the process is critical. Could you just explain to me what sorts of measures and what sort of mechanisms will be put in place to ensure that it is an independent process? How will the selection be done? What will be the actual make-up? Will it be a panel? Could you explain it to me?

Mr WILSON — I might ask Graeme Turner, who has managed that process, to give the details.

Mr TURNER — The water savings protocol was developed over about a year in conjunction with the NVIRP and Goulburn-Murray Water based on all the technical data that they had available to them over that period of time. We had that protocol or that technical manual that underpins the water savings estimates independently reviewed by Dr Don Blackmore, who is the ex-CEO of the Murray-Darling Basin Commission. Dr Blackmore confirmed that it was the best-practice process that we used. In fact I think it was probably the first case where we have had a manual like this, and I think it has been used elsewhere. We had that manual reviewed. We then set up a process to select an independent auditor. We advertised and took expressions of interest from interested consultants who had the capability to do that. We had 11 consultants express interest. We established a panel chaired by Mr Paul Baxter, who is also on the Murray-Darling independent group. He is an ex-KPMG partner. He chaired that panel to select from the 11 to ensure that we did meet the criteria for independence and competence and that there were no conflicts of interest. From those 11 we selected 2 to be on the panel. We asked each of them on that panel to give us an estimate of what it would cost to do the audit, and we have taken the cheapest one of those. That happened to be Cardno, which is a Brisbane-based consultant, which has no significant interest in Victoria.

Ms MUNT — That process has been completed?

Mr TURNER — That process is running.

Ms MUNT — It is running; it is in place?

Mr TURNER — It is running now; it is in place. The auditor is doing his job now and will be finished in mid-October.

Dr SYKES — In relation to the food bowl modernisation project stage 2, what commitments have been made to the commonwealth in relation to savings from stage 2, given that it has been often said that there will be an extra 200 gigalitres of savings? Are you proposing a business case?

The CHAIR — Where does it relate to the audit report?

Dr SYKES — It is following on from stage 1.

The CHAIR — We are looking here at selecting and prioritising water supply strategies. It is not a fishing expedition on current water projects or whatever. You may wish to rephrase. We have to produce a study here, so look at what DSE should be doing in terms of planning for water rather than details of particular projects which fall outside the audit.

Dr SYKES — I will change my question, thank you, Chair. In establishing the potential water savings for stage 1, which was the subject of the audit report, the system was originally allocating about 1600 gegalitres of water. That amount of water that has been allocated has progressively decreased as a result of sales out of the irrigation district. It was 165 gegalitres out at the end of 2006–07, and maybe another 200 gegalitres have gone since then. What impact will those sales of water out of the irrigation district have on losses and therefore potential savings?

Mr WILSON — I think your question goes to the impacts of those factors and the reliability and robustness of the estimates, given those factors and what has changed since. The audit said that we should get those costs and benefits and details of water savings, and go through that process of finalising a business case and get those details out, and that is what we have committed to do. I cannot speculate or go back and look at figures thrown at me in that sense; all I can say is that the department has embraced the audit's conclusion that the details and the rigour around those costs benefits and water savings should be published, and they will be published.

Dr SYKES — I will just clarify that, because that is a general sort of response, which I guess is what I expect from someone in your position. Perhaps Mr Downie would have more knowledge and be able to indicate whether in the business case that has been prepared as a result of the recommendations from the Auditor-General there has been a consideration of the impact of transfer of water out of the irrigation district on the actual losses and the potential savings? Is that a consideration in the business case?

Mr WILSON — I can respond to that. I think with business cases, as the auditors point out, they need to look at value for money and they need to look at risk and a whole range of things — amongst other things the Financial Management Act. All those different factors have been considered. From my point of view once a decision has been made then it will be put out and made public. It is appropriate to rely on that document when it comes out, and that will be scrutinised and no doubt, discussed. I cannot be seen to be talking about bits and pieces of a business case, which we have said is cabinet in confidence, but we note the need to get that information out there and we will get it out there, as I said, as a matter of urgency.

Mr NOONAN — I want to ask a question about recommendation 1.7 in the Auditor-General's report, which deals with the Victorian Water Trust. It was also the subject of a response that you provided to this committee on 15 September under item 7. The Auditor-General in part in his assessment of the Victorian Water Trust talked about the objectives of the trust being consistent with government policy and the planning processes being clear and sound. Where there seems to be a point of difference is in the information that is available publicly about the progress of some of those projects that have been funded. I note from your response that you indicate there is a level of information available there. If I pick up on your last paragraph in item 7, you talk about examining the possibility of publishing further updates and reports on the progress and outcomes of projects funded by VWT.

I am sorry to be longwinded, but if you go back to the top of page 16 of the Auditor-General's report, it defines fairly clearly details about the programs that the VWT was funded for and some things that people understand pretty clearly. My question is about the quality of information provided as opposed to just the quantity or the general information and whether or not in any new role you look at the sorts of issues that the Auditor-General has raised and whether or not it becomes something you look more closely at going forward.

Mr WILSON — It is, and as I said in the introduction, continuous improvement is something my predecessor was keen to do and there has been a lot of progress made in that regard. I am looking at all of those things and so are my staff. In terms of the water trust itself, in my view it has been a great success. I was involved in the establishment of the advisory council and the objective of expanding things like re-use, recycling, river health, environmental considerations, innovation and that type of thing.

I think it is pleasing to note that the audit found that the advisory council did use clear and sound planning processes, I think the terms were, in relation to the recommendations that it had made and also praised the effort

of the advisory council in terms of getting out there and conducting workshops and doing a lot of consultation not only to get ideas and so on and to get a sense of the issues but also to promote the importance of the work they were doing and the importance of the investment.

We have an update on the various programs on our website: water smart homes and gardens, water smart farms, healthy rivers, strategic research initiatives, water conservation, country towns water supply and sewerage, Werribee Plains, Macalister, Sunraysia upgrades, the Goulburn Broken program, Gippsland Water Factory and alpine resorts recycling. I am quite satisfied to read that the auditor is endorsing the quality of the work of the advisory council, and it is quite satisfying to see such a wide range of different projects across the water spectrum, if you like, towards meeting those objectives. But I take your point, and I take the Auditor-General's point that we need to continue to look for better ways to get that information out, so I am happy to consider that suggestion.

Mr NOONAN — Is there some difficulty in coming back to the simplistic nature of the statistics that are in the Auditor-General's report? I am not an expert in how you measure these things on an ongoing basis, but in part is it a difficulty for you in terms of publishing this? You have so many projects going on, is it actually quite difficult to provide simple statistics like those on page 16?

Mr WILSON — It is. If you take the amount of money and say, 'Where has it gone in meeting our commitments?', that is one thing. But if you look at, for example, improving river health and the range of various actions and how we are tracking on that, that will come from the Victorian Water Trust. There would be various river health strategies, and there is a white paper. There is a range of different funding sources for a range of different actions that go to achieving a similar set of objectives. I note the recommendations are about databases and things we need, which is one thing, but I guess to report these things in a clear and concise way you end up with hundreds of actions and all sorts of different strategies, and it could become a bit unwieldy.

It is a challenge we face. We are always looking to get the substance of what we are doing and the outcomes out in the public domain. We are also keen to ensure that where there are separate sets of funds provided, like a \$320 million water trust, there is proper reporting on how that money has been spent. As I say, we have made a lot of improvements, but we do not rest on that. We still want to consider ideas to better communicate these things to the broader community.

The CHAIR — On page 49 the Auditor-General talks about evidence of impacts of the water trust projects. Do you have a view of what is meant by impact reporting?

Mr WILSON — In government generally there are inputs and outputs and there are outcomes. I think you could say that if we invest a certain amount of money, we can eradicate a certain amount of — I do not know — willow trees or something, or we can build a pipeline from A to B, or we can put in fish ladders and all sorts of things. The harder bit then is the actual monitoring of the outcome, because a lot of these things take time. They are part of ecological systems and so on or various other adjustment processes where these things may take time to measure. If you look at the investment in things like water conservation, recycling and all those rebates and so on, there is behaviour change that goes with that as well.

There are multiple factors having a bearing on an outcome, so it does get a bit difficult to do, I guess, a simplistic one-on-one mapping of one particular action amongst a whole heap of other actions and to determine what impact it has had on a final outcome like river health or water conservation and so on.

The CHAIR — There is a very strong drive now, especially from this committee, in terms of reporting on performance outcomes.

Mr WILSON — Yes.

The CHAIR — Are you saying it is difficult to report performance outcomes because of time lags?

Mr WILSON — No. I think the outcome is fine. The way I read the audit report was the mapping back to the contribution of — —

The CHAIR — The impact evaluation.

Mr WILSON — Yes, the contribution of a couple of hundred different strategies, a lot of which are in a similar space going towards one goal; it might be irrigation efficiency, productivity or improving river health. How do you actually link a particular outcome like improved ecological benefits or behaviour change back to one particular strategy? That is the difficult bit. I fully support reporting on outcomes as well as the inputs and where the money goes. It is just the linking that can sometimes get difficult.

Mr DALLA-RIVA — I refer to the recommendations on page 3 and to some of the comments from the Auditor-General. I will just highlight some of them. Recommendation 1.2 is that the DSE should inform the community about the costs and benefits of projects; recommendation 1.3 is that it publish the detailed analyses. Recommendation 1.4 — explain to the community the level of rigour underpinning project costs et cetera; 1.6 — it should provide regular, consolidated reports on progress against actions, 1.7 — publish information on the progress, 1.8 — make the CMAs operating and compliance reports available to the community, 1.9 — regularly make available, to the community, information about how well the department has met its environmental flow obligations and 1.10 — that its projects and initiatives meet value for money criteria

We heard earlier today from the Auditor-General a bit of a discussion about the responses by the then secretary, and if anything they were not complimentary of the Auditor-General's report and caused him to take the unusual step of replying.

The CHAIR — The response to the response.

Mr DALLA-RIVA — The response to the response. Some of those were comments by the secretary. For instance, he said he had a number of significant differences with the report. On page 5 he said he was disappointed with the report. On page 6 he commented that the logical conclusion to be drawn from this does not feature in the report, and on page 7 he said that they found the comments on the department's annual report to be unbalanced. There was some quite heated toing and froing, back and forth.

I am somewhat surprised, and you might want to explain. Has there been a change in the department's view about taking on the recommendations, given your statements before about being more open with the information? I have just gone through your submission to us on 15 September, which is almost contra to what the secretary said when he basically had a go at the Auditor-General, whereas you are now saying through these and your statements today that there needs to be more information and in a sense we agree with the recommendations.

I am trying to get a balance in terms of what has occurred. The original response from the department, the secretary, is now, in my view, different to what the response has been today in your evidence, plus what you have provided here. I just want to get a feel for what has occurred, bearing in mind that I am aware there is a VCAT hearing and maybe you want to give me those figures. I am just getting some clarification as to what has been the change.

The CHAIR — I think you will find that the department's response is actually in line with the response by the Minister for Finance, WorkCover and the Transport Accident Commission.

Mr DALLA-RIVA — I just want to have a look at that. Is that the department's secretary? No, it is not. Sorry, I thought I asked the question of the department's secretary. That is all right; I will put my glasses back on.

The CHAIR — You just left out one document, which is the one in the middle, which is the responsibility of the Minister for Finance, WorkCover and the Transport Accident Commission.

Mr WILSON — Without speaking on behalf of the former secretary, when I read those comments, and noting that the December 2008 response was where it was articulated that the department actually agrees, which was the view of former secretary as well, the way I reconcile it is that the response is an agreement to the actual findings and the need to embrace those and to get on with things: subject to issues around timing and what have you. Most of the comments, as you pointed to, in the executive summary appear to relate to the actual write-up of the report and the weight attached to different things and some conclusions along the way. In that sense I would regard those comments, on my reading, as comments about the way in which those conclusions might have been reached in the write-up of the report, as distinct from fundamental disagreements about the need to

get on with the things that the Auditor-General is saying we need to get on with, without putting words in the former secretary's mouth.

Mr DALLA-RIVA — But fundamentally the recommendations — that is why I read them out — were all about providing information to the community. You are saying you are now going to be more open, honest and transparent.

Mr WILSON — I would not say that.

Mr DALLA-RIVA — Exactly.

The CHAIR — The secretary might wish to explain himself.

Mr WILSON — I do wish to explain. I was going to say that is one of those questions that lawyers ask you when they ask whether you are still doing something that you have never done, because I do not accept the original proposition that the former secretary was not open. So when you said, 'Are you going to be more open?', I think we were open as it was and we recognise the need to — —

Mr DALLA-RIVA — Reminds me of my old police days.

Mr WILSON — The auditor himself said that he uses words when these things become known and verified and so on. I read it more as a forward-looking thing; that you had to do things quickly. The former secretary would say, 'Of course we had to', 'There is no use making comparisons back to white paper processes' and so on, which is the point he was making, which as I said goes to the way things were written up. But I do not think, as you see from the December 2008 response under the former secretary, that there was any dispute about openness and the need to provide information. That is why I said no to the way you put that question. It certainly was not intended to suggest that he was not being open, and it is certainly not suggesting that I will not be.

Mr SCOTT — I would like to draw your attention to the Auditor-General's recommendations as outlined on page 3 of the report. Recommendation 1.10 states that DSE should —

strengthen the processes it uses to review water authority plans to verify they conform with government policy objectives and that their projects and initiatives meet value for money criteria.

I would like to deal with the first half of the recommendations and ask: what steps has the department taken to ensure that water authority plans conform with government policy objectives?

Mr WILSON — There is a range of things at a high level in terms of assessing water authority plans. As I mentioned, there is the department's role in terms of governance generally and looking at the cycle of annual plans, business plans and so on. There are government guidelines in looking at consistency of proposed investments. A plan might include a proposal to undertake a project for a certain amount of money at a future time. That would still be assessed and when it came time to get on with that project it would then go through a series of processes through the department and Treasury. Over and above all of that there are plans produced to justify prices which are set for five-year periods. The government has actually designed a framework with the Essential Services Commission that needs to go through a public process of assessing those plans, investment proposals and the subsequent prices and service improvements that they are seeking to get.

In that sense there are three different categories, or three different processes, where those investments and plans get scrutinised. In terms of our own processes, I think we have recognised the need to have a hierarchy of different capital programs, which we have mentioned here in our response: tier 1, \$50 million and over; tier 2, \$20 million and over; and tier 3, \$10 million and below. That, in a sense, guides the level of rigour and so on that we place on these projects. It also important to note that these water corporations have boards and a range of statutory responsibilities with their own engineers and consultants and so on and we need to tailor our scrutiny — noting the auditor's findings that it needs to be improved — but still make sure that in pursuing value for money and risk mitigation we are not going too far and creating too many costs on the authorities to comply. We have deliberately designed this three-tiered approach with that in mind. The bigger projects will get more scrutiny relative to the smaller ones; nevertheless, they are all scrutinised.

Mr SCOTT — With the Chair's indulgence, give an example of how that scrutiny would differ between, say, a tier 1 and a tier 3 project.

Mr WILSON — I think in terms of a typical tier 1 project, most of them would be going through what are called gateway review processes through Treasury, so they tend to have much more of a stand-alone particular process to those projects. With the smaller ones, looking at this list here, if East Gippsland Water is replacing a water main in Bairnsdale, I would argue that we should not have it producing a whole heap of work, coming into the city, going through consultants and what have you and making presentations to the department. But we would still look at those projects to say, 'If you are replacing water mains, have you looked at the repair versus replace trade-offs?', and, 'What are the service standards around burst water mains?'. Those things are done more as a matter of course year on year and they are picked up by the Essential Services Commission because, collectively, they all flow through to pricing decisions, as I say, compared to the \$50 million projects, which will be the stand-alone assessment.

Mr DALLA-RIVA — In relation to that, because we have an interest, where do PPPs fit into that tier level?

The CHAIR — The tiers refer to the organisations; is that correct?

Mr WILSON — Yes.

The CHAIR — The projects done by those organisations.

Mr WILSON — The PPPs are basically, my understanding is anyway, governed under a Partnerships Victoria-type policy by Treasury, so we are guided by it in that instance.

Mr DALLA-RIVA — So how much is the desal costing us?

Mr WILSON — We have a commitment to get that out in accordance with that framework, the public sector comparator. I think, from memory, the financial close was 2 September, and that policy requires that to be published within three months. That will also be out in the public domain within that end-of-year time frame.

Mr DALLA-RIVA — Good.

Ms PENNICUIK — I think the take-home messages from the *Planning for Water Infrastructure Report* by the Auditor-General were that some of the cost benefits or messages were less than robust and that there is a lack of information in the public domain. I would have to say that this is an important review we are doing, and the committee agreed to do it, but it is difficult for us to really do a good review of what the Auditor-General has said and what the department has said when we still do not have any business case for the major projects that the government has decided to do, or the public sector comparator, which you have just referred to, which most people who are watching these issues would rather have seen a long time ago for us to make our own decisions on whether the public money is going in the right direction with these projects. I think we are sort of working with one hand behind our back in terms of this committee being able to look at what the Auditor-General said, what you said, and whether we are still getting value for money, because we do not have all the information in front of us.

The CHAIR — The question?

Mr DALLA-RIVA — Good statement.

Ms PENNICUIK — On pages 27 to 29 the report goes into what the government decided to commit to the very large augmentation projects and says that the department had four months to make a decision and develop a plan and there was minimal consultation with the major stakeholders outside of government, let alone the community as a whole. My question is: given the significant community disquiet about the wisdom of the decisions that go with these projects — so basically, to depart from the white paper and concentrate on those projects and that process that I just outlined — what work did the department do in terms of a cost-benefit analysis and comparing the desal and the food bowl modernisation, which are basically the major costs in the \$4.9 billion — they make up \$3.9 billion of it — to other alternatives? That is the problem for the community. We do not know what work the department did, if any, on comparing the costs and benefits of doing these projects with others, such as stormwater capture, upgrading the eastern treatment plant and using that water, more conservation et cetera. What work did the department do? Is that publicly available? And is it ongoing?

Mr WILSON — Yes, just noting, for me to go back and recollect what was done at a particular time may not be strictly in accordance with the finding that we ought to get on and do more. But if I can just say a few —

The CHAIR — Some of the answers are in the audit report, but go on.

Mr WILSON — To me I think you expressed the view that this was like a departure from the white paper, where I think the white paper itself was more on the policy documents and so on and the framework and then the central region strategy. There was work done, I think from memory, in 2004-05 on dams and various other options and there was, from memory again, a recycled water strategy that looked at various options around Melbourne and costings. There was a lot done in 2003, 2004 and 2005, from memory. I know those reports were around. In that sense this is almost like an extension of an approach in the white paper that said that you need to be doing a lot of different things.

When you say, should you do desal versus recycled water or stormwater capture or all these other things, the view expressed, from memory, in the white paper was that governments, water authorities and the community need to be doing a whole lot of different things to manage the impacts of lower inflows and to use water more wisely whether it is at homes, industries, schools, farms et cetera.

My sense is that it is not as black and white as ruling things in or out. That sort of strategy was on the agenda, and as the audit report notes, the extreme circumstances of 2006 meant that action needed to be taken early and quickly to get these major projects under way as well as the water conservation efforts, the recycling efforts, the eastern treatment plant projects and the interlinking of a grid. There was a whole range of those things that I think would still stack up in terms of the framework around the white paper and how these things ought to be looked at.

In that sense, as I said in the introduction, and I accept your view, it is difficult to assess the information because it is still being prepared and verified and the public sector comparator has not been produced. The department has done a lot around the preparation of those business cases and those various other projects, the investment and getting information out there and more will continue. I guess that is all I can really say at this stage. But we are committed to getting more information out there progressively. As the Auditor-General said, once it becomes known and verified, we are committed to continuing to do that as a department.

Ms PENNICUIK — Will that include the business case for the eastern treatment plant upgrade?

Mr WILSON — There is a summary. The government made a decision that it should put the summary out there. So there is a summary on our website which goes through the major options and the dollars against each. That is an example, I guess, of putting something out there that at least says, 'Here are the orders of magnitude that we are looking at in terms of the two different options that were examined in terms of use of that recycled water'.

Ms PENNICUIK — Chair, am I able to do a follow up on that?

The CHAIR — Okay. Very quickly.

Ms PENNICUIK — It is just about the summaries because we are going to get a summary of the food bowl modernisation business plan. What is the summary? What is in and what is out?

Mr WILSON — I do not think there is a simple rule for that, noting my earlier points around the duty I have around cabinet and in-confidence material, and there are duties also in relation to commercial-in-confidence information. There is not a simple formula for that. My sense is that we would want to provide sufficient detail for people to understand the rigour behind the costs and benefits and savings and so on. That is what we are committed to doing, and as a matter of urgency.

The CHAIR — Thanks very much for that.

Ms HUPPERT — In the department's response to the governance issues raised in the Auditor-General's report you refer to the work that is being done in relation to the metropolitan water retailers and bringing them under the same governance arrangements as the water authorities. I wonder if you could give us a progress report on where that is at.

Mr WILSON — The water industry at one stage had a number of different corporate forms and different governance arrangements. Melbourne Water had its own act. There is a Water Industry Act that governs the three retailers and then the Water Act that governs all the regional urban water authorities and the rural water authorities. The aim of that task is basically to go through and try to harmonise the different arrangements as much as possible. From memory, you had things like different dates by which to submit business plans and prepare annual reports. There were slightly different objectives and so on, sort of meaning the same things but not quite the same. Duties of boards, directors and so on. It seemed that there was a case to at least align those things. The department is looking through that now and would hope to make recommendations shortly on the way forward in that regard.

It has been one of those things that was created in 1995. They are incorporated companies with their own corporations law issues. But the main aim for us would be to develop recommendations for the government where we end up with best practice frameworks and they are quite streamlined and modernised and reflect the duties and obligations of a modern-day water corporation.

Ms HUPPERT — Although there is quite a big difference, as you pointed out before, in the size of the project between the size of some of the regional catchment management authorities and the water authorities in the metropolitan area.

Mr WILSON — Yes, size is an important consideration when you are designing governance arrangements, particularly the compliance aspects of those things. If you are a Melbourne Water or a Yarra Valley Water, you are quite large with lots of resources. You have company secretaries and all sorts of people to help with producing reports and what have you. We are always mindful of the need to streamline those processes for the smaller authorities because at the end of the day those sorts of costs flow through to prices that customers have to pay in country towns and so on. We are mindful of those issues as well.

The CHAIR — I want to follow up on some questions people have asked in respect of community engagement. Mr Dalla-Riva mentioned a range of issues. What has been done specifically within the department in terms of following the audit report's recommendations of better consultation processes and engagement processes with the community in developing and implementing major water projects?

Mr WILSON — It is one of those things where, having been involved in consulting with the community in various roles over the years, it is very difficult to get a magic formula that pleases everyone all of the time. The first thing is to get the information out there, and I mentioned fact sheets, reports, updates and so on. At the end of the day, to do this successfully, you need a variety of different forms for different projects for different communities.

The food bowl modernisation project has established modernisation committees which mirror the very successful water service committee structures that they have in rural Victoria. You would have them as a group feeding in input from their district and feeding back issues and so on for resolution. You also get down to one-on-one engagements where someone from NVIRP goes out to have discussions with individual farmers about the layout of their farm and their off-takes. You have a similar arrangement for the desalination project: engagement with all sorts of community groups down to consultation with landowners.

There is no magic formula, so our response is to do more of it in as many different forms that work. We look for our delivery partners — Melbourne Water, NVIRP, the water authorities and so on — to embrace that. We have established a framework to develop pricing proposals and so on as a mandatory requirement that they must consult with the community, so we are doing a lot of it. As I said in the introduction, there are always areas for improvement, but in my experience in water, which has been quite a few years, there is so much more information and so much awareness and so much more admittedly debate, but there is a hell of a lot more consultation occurring with the community at all levels.

The CHAIR — So for a particular project you develop consultation and communication strategies?

Mr WILSON — There are a couple of different levels. There is the communication where people want to know what is going on — when will things get completed; what stage you are at — and communication in terms of telling people about the project and providing information. Then there is more deliberate consultation around issues — 'We are going to modernise a large irrigation district in the Goulburn Murray', so we can put messages out and fact sheets and all sorts of information to the broader community. We can talk to customer

committees and so on, but at the end of the day the success of that project and a lot of savings are delivered by individual farms — down at that level. We rely on NVIRP and those committees to get down to the actual implementation of off-takes and meters and so on. There is a combination, as I am suggesting, from getting info out there to actually getting input to help with the design and the rollout of projects as they affect individual stakeholders.

Dr SYKES — I would like to make the comment that there have been some good upgrades done and there are some happy chappies out there. I would also make the comment that there has been substantial communication.

Relax, Wade; the sting is in the tail!

Mr NOONAN — I was thinking about the happy chappies and Hansard.

The CHAIR — Two thousand farmers had \$2 billion spent on them.

Dr SYKES — Farmers who supply food for the people of Melbourne; it is not just for the benefit of the farmers, but for the benefit of all Victorians.

The CHAIR — I understand that; that is true.

Dr SYKES — There has been substantial advertising in that well-known local publication, the *Shepparton News*; you might read something into that at some stage. However, if we look at the issues that were raised by various community groups on page 33 of the report — Swan Hill Rural City Council, Campaspe Irrigation Water Services Committee, municipalities of the Goulburn–Murray irrigation district et cetera — an underlying issue which has not been picked up on is: what savings are being made and at what cost per megalitre of saving? A lot of money is going into communication, and it is generally going whoosh out that way, but you are not answering the most fundamental question. People want to ask you those fundamental questions. Do you really have an effective communication strategy?

Mr WILSON — I think they are separable issues, but let us take the first point. The auditor has gathered a range of comments that he has categorised — I think quite correctly — as concerns about estimated savings and so on. I guess that has been acknowledged by the department, to the extent that we have said, ‘We agree that we need to get more information out about those savings, the costs and the benefits’. The vehicle for doing that is the business case and the subsequent extract of the details from that in a summary to the community which goes to this question in the first instance of: are there enough savings there for the money? — which I think is what you are saying; will the dollars per megalitre be there. That would be picked up there.

The other concern you pick up — and I am not sure if they are explicitly here — is concern about particular savings works, how we know they are there when the works are done, and who is going to tick off. I think the VFF said there should be an independent audit and so on. Again, we would say we accept that and there will be an independent audit. As Graeme Turner just went through before, we have gone through that process, we have got a protocol and a lot of the issues of principle and so on are picked up from feedback from farmers themselves in terms of some of those issues of principle. We have had that protocol independently audited, and we are going to actually then apply it or embody an independent audit within that. We note those comments and we note what those comments led to, amongst other things, in terms of the finding that we need to do more to get that information out there. As I said earlier in answer to another question, we will be doing that through that summary of a business case, the costings and the details in that and the independent framework to have these savings verified and audited.

Dr SYKES — This 16 or 17 months after the Auditor-General’s report now, and you are saying that this information will be available in another couple of months. I am not sure that that is good communication.

Mr WILSON — There is the communication, but I think what you are pointing to is the time taken to do that.

Dr SYKES — That is communication. I think communication has a timeliness component to it, does it not?

Mr WILSON — Yes. There are a couple of things. I would not suggest that there has been poor communication in terms of the department, NVIRP and the modernisation committees. I think there has been a

hell of a lot of work done and a hell of a lot of issues discussed, and there is that last piece of the whole puzzle, which is firming up some of the estimates.

Dr SYKES — That is the first piece of the puzzle, not the last piece. You have not addressed the first piece of the puzzle.

Mr WILSON — It is the last thing to come, and your point is that it should have been done first.

Dr SYKES — It is the first piece of the puzzle.

Mr WILSON — But it will be done, and we have made that commitment. The other thing the Auditor-General points to in his references to the Financial Management Act is the importance of actually developing these business cases and the level of precision and making sure you identify all the risk and so on. Unfortunately with a project like the food bowl project that has taken time. It is more a signal of the commitment to actually do it properly and to cover all of those things off than some sort of tardiness around communication.

Dr SYKES — But you made a commitment to spend a billion dollars when you still have not got the business case out there. Can I just do a quick calculation to answer my own question about — —

The CHAIR — I think we would prefer the secretary to answer the — —

Dr SYKES — I am dying to do this, because I have asked the Minister for Water for two years — —

The CHAIR — No, no! If you want to make a statement, make it in Parliament, Bill. You make them often enough. Secretary, have you got any more to add?

Dr SYKES — No, there is a very simple answer to the question: if you are spending a billion dollars and you are getting 225 000 megalitre savings, I think the cost per megalitre is about \$4500, and no-one has been prepared to answer that.

Mr WILSON — I cannot fault your arithmetic, although I would point out that there are a range of different benefits and costs and so on. There are similar costings you can do for the Wimmera–Mallee pipeline. I am not disputing one number divided by another in your calculation, but I think I would exercise a bit of caution in the simplicity of those calculations when you are talking about all the costs and all the benefits of a project of this scale.

Dr SYKES — I would hope we see more, but there is a starting point.

Ms MUNT — With the continued drought, our rivers and streams are under great stress. I refer you to the Auditor-General's recommendation 1.9 that says DSE should, 'regularly make available, to the community, information about how well the department has met its environmental flow obligations'. How are you going to implement that recommendation?

Mr WILSON — My understanding around environmental flows generally is that the water accounting framework, the basin reporting, is the vehicle to do that. Again, all of those things are on our website. In relation to the emphasis since the white paper on properly accounting for water flows basin by basin, producing statewide reports on the state of resources, compliance, metering and all of those things, there has been an enormous amount of effort in that area, and these sorts of flows are no exception. That is something that we see as important, and we will be subjecting those flows to the same regime that applies to all other flows around the system.

Ms MUNT — Did you mention if that information is already there or if it has been rolled out progressively or some information is there?

Mr WILSON — There is a comprehensive array of information around water accounts basin by basin on our website. In terms of the specific issue, I might have to get back to you on that one.

The CHAIR — On the environmental flows.

Mr WILSON — On the environmental flows. I know it is quite technical and there are all sorts of rules built into bulk entitlements and so on and processes to tick that off and verify it. That is a general response to that. I am assuming that these particular flows would be captured by that regime as well.

Ms MUNT — So you do intend to make that information available?

Mr WILSON — Yes, and we are continuing to work on these issues and refine and so on. We are happy to provide the committee with an update on that specific issue if that would help.

Ms MUNT — Thank you. That would be good.

The CHAIR — We look forward to your annual report; there is going to be a lot in it!

Dr SYKES — I am not sure if this is a question or a clarification, but I will try it as a clarification. In relation to environmental flows — —

Ms MUNT — Are you doing a follow-up question for me this time?

Dr SYKES — This is teamwork, in the spirit of cooperation. And with my batting partner here. In relation to the environmental flows, what flows will be required to flow down the Goulburn River past the Killingworth pump station to enable the pump to operate at desired capacity?

Mr WILSON — I would have to take that on notice.

The CHAIR — I am not sure it actually fits very well within our audit follow-up, but I am sure the secretary would be delighted to take it on notice.

Dr SYKES — There was a lot of discussion on environmental flows and this is the absolute starting point: taking water out of the river. Will there be sufficient water?

The CHAIR — Just take that one on notice.

Dr SYKES — All right, I will move to another question.

The CHAIR — Perhaps a more comprehensive question related to the audit.

Dr SYKES — At the top of page 27 the Auditor-General's report says:

By February 2007 the department had adopted the lower average inflows between 2004 and 2006 as the basis for the Victorian water plan.

Mr WILSON — Sorry, where? Page 27, was it?

Dr SYKES — Page 27.

Mr WILSON — Oh, you are reading the text not the heading.

Dr SYKES — So Melbourne's water needs have been based on the average inflow into Melbourne water storages in 2004 and 2006, which were the driest years.

The CHAIR — That is the three-year scenario.

Dr SYKES — Three years. If we go then to page 6, the Auditor-General comments:

A major concern, repeatedly noted in the stakeholder submissions to the food bowl steering committee, was the use of long-term inflows as the basis for estimating water losses and savings.

He then goes on to say:

The final report of the food bowl steering committee did not address this concern.

Here you have the establishing of Melbourne's needs on the basis of three low years of inflow, and you are working on the water availability based on long-term averages which are higher than the last three years. How do you reconcile that as sound procedure?

Mr WILSON — Two things, I guess. One, this is actually recording the concerns of people. I think you said that we used a particular methodology or whatever.

Dr SYKES — And the Auditor-General reflected those concerns, so he sees it as an issue.

Mr WILSON — That is right. As I said in my last answer, we acknowledge that the Auditor-General had captured those concerns, and then we are into his recommendations saying that we ought to get a business case finished and release the cost and benefits and the robustness around those water savings. We are back to my earlier answer that those particular issues will be communicated through that summary of the business plan and the release of that detailed information.

In relation to the second bit around Melbourne, I think from a planning point of view when you have the prospect of lower rainfalls for a city, looking at and recalling the 165 gigalitre-year against 385 over 10 years against 588 over the long term, you have basically got a floor under that. You have got a certain demand for a city that needs an amount of water versus, as you would know, allocations and losses and so on and a range of different factors that occur in rural water in an irrigation system, whereby if the system does not operate or you get low allocations, the savings in any given year will vary with all those factors, up and down. I think they are both important for different reasons. Responding to the points that the auditor raised about the extreme scenario of 2006, the consequence of not planning for that is potentially the city running out of water. The consequence of different assumptions about inflows and allocations and weather and so on is that your savings year on year through losses will vary, so they are different things and they are both important.

Dr SYKES — They are different things, but rain generally comes from the west and if you do not get rain in the Thomson catchment, it is a monte that you are probably not going to get rain in the Eildon catchment; therefore, to run the proposition that when Melbourne is dry and needs water, which we agree with, that you can work on long-term averages — —

Mr WILSON — I am not running that proposition.

Dr SYKES — You have not answered it. Sorry, continue and answer it then.

Mr WILSON — I have made a distinction between the two. In relation to the former, the 100-year averages and the different flow scenarios and different projections about climate change — those sorts of things — and the concern noted by the Auditor-General, I had said we have noted those concerns and that the business plan will need to address those concerns in terms of the development, the cost and the benefits, the details around that and the articulation of that to the community. Then in relation to the second one, which was your question — why would you use a three-year thing? — I am just saying it is a different context.

Dr SYKES — I have great difficulty in understanding how Melbourne's need is based on one context and water in the area from which it is being proposed to be taken is different, in the context that the irrigators are on what allocation at the moment in the Goulburn system?

Mr WILSON — I think they were looking at 15 or something, were they not?

Dr SYKES — No, 7, and the Broken at zero and I think the Campaspe is zero. It is difficult to comprehend how you can make savings when the water is not there, and therefore the Auditor-General's issue remains valid. Mr Downie is shaking his head; perhaps he would care to make a comment.

Mr WILSON — I think I have answered this. I note your point about these concerns, and I note the fact that the Auditor-General has echoed them in his report and that has led to him saying, 'You better get out more details to satisfy those concerns about the robustness of the planning, the assumptions, the water savings and the costs and benefits', and we are going to do that. If we talk about Melbourne and rainfall, the point I was trying to make is, yes, it is the same inflow scenario, the same weather in the same state, but they are two different projects, two different activities, two different sets of consequences.

Dr SYKES — It is dry in Melbourne and it is dry in the north, and they are different?

Mr WILSON — The consequences of being dry in Melbourne will be restrictions and so on and the need to accelerate projects et cetera. The consequences of dry in the north will be low allocations, which will have an influence on levels of savings.

Dr SYKES — And that is a lesser consequence; is that what you are saying?

Mr WILSON — I did not say any — —

Dr SYKES — No, I am asking the question to clarify. Is it a lesser consequence given that you are proposing to take water from the north during dry years to meet Melbourne's needs for Melbourne to be able to function?

Mr WILSON — I am not into making value judgements like that at all. It is not what you asked me. You asked me — —

The CHAIR — It is probably something in terms of policy that you can ask the minister.

Dr SYKES — It is rather a significant issue, and I understand — —

Mr WILSON — It is a significant issue — —

Dr SYKES — You are saying it is different but it is not lesser. Would you like to explain 'different' versus 'lesser'?

Mr WILSON — I did.

Dr SYKES — Could you explain it to me again, please?

The CHAIR — I think he has explained three times so far, Dr Sykes. We will move on.

Mr NOONAN — Right towards the tail end of the Auditor-General's report, under 'Stewardship', 5.4.6 at page 65, it says that 'the department has recognised the need to review and revise the arrangements for managing Melbourne's water', and that this has led the department to initiate an integration working group. By the way, the Auditor-General's report outlines the key deliverables of this particular group, and they are fairly substantial, I would have thought. I wonder whether the department can advise the committee on the role and current activities of the integration working group in implementing the next stage of the Our Water Our Future plan?

Mr WILSON — If I could make the general comment, I think the auditor did refer to and suggest more communication with central agencies, in particular. Noting that I was actually at DPC prior to this job, if I can make a general comment that that is working well, that we have had engagement on a range of different issues in relation to water — and I must say including DPI and other government stakeholders. It is actually the immediate work in those areas. I referred to the system augmentation operating arrangements. When these new sources come on line, to make sure that the existing arrangements are amended to reflect the roles and responsibilities between Melbourne Water and the three retailers — and then there is eventually Barwon Water and the regional water authorities in West Gippsland — the arrangements are put in place so that they tie in with desalination water and water from the Sugarloaf pipeline. There is a lot of work being done and a lot of cooperation and collaboration between the departments, so I am pleased that that is occurring.

Mr NOONAN — In a practical sense, how often does the group come together and who controls the agenda, if you like, just the sort of practical arrangements?

Mr WILSON — It has varied quite a bit. It does come together. When it needs to come together, it is more frequent. We have talked about the urgency of getting a business case completed for the food bowl modernisation project. There was quite a lot of dialogue around that to make sure all of that was getting done. If there are issues around system augmentation, we do a lot of that — the tracking of projects. There are various other more senior meetings with ministers and so on so that we make sure they are well briefed on and have all the right information to make informed decisions, so it meets quite regularly and it will meet more frequently as and when required around the issues.

Ms PENNICUIK — The Auditor-General's recommendation on 1.4 said that DSE should 'work with the central agencies and the relevant portfolio minister to explain to the community the level of rigour underpinning project costs and benefits when publishing information on committed projects'. In your response that you provided to us you went to the first part of that — how you were communicating with central agencies and the relevant portfolio minister — and you also told us about your meeting with contractors, which I would presume was a given anyway, that you would meet with them. But you did not go to the second part: 'to explain to the community the level of rigour underpinning project costs and benefits when publishing information on committed projects'. How is that working?

Mr WILSON — It is essentially — I hate to use a bureaucratic term — a committee-type scenario where, as information is put out, noting there is a lot to come, that group would get together and work through those issues and the rigour of the analysis and so on. More often than not that may mean the minister, Premier and Treasurer basically making some of those decisions. We are all keen to work together to make sure that the level of information and the quality of it meets the government's objectives in that regard.

Ms PENNICUIK — So that future thing is not happening yet?

Mr WILSON — There are things like, from memory, the Tarago or the eastern treatment plant summaries and so on, where there would be that similar dialogue, which I referred to in the previous answer, that would occur around the release of information in relation to those projects. But it is as and when they come up that we do that.

Ms PENNICUIK — Given that the auditor was saying that there was less rigour in some areas than in others, is that the sort of information that would be released? Would you be saying that on this committed project there was this level of rigour, and on the other there was more or less?

Mr WILSON — I would hope that the audit recommendations about the lack of rigour were specific to the circumstances which he described as being 'extreme', such that in subsequent information that goes out we would not be communicating that this is not rigorous; we would be doing what we can to respond to the findings, to provide the details of those costs and benefits, as I mentioned. I think that was quite specific, and the message is that we need to get out there more, and you should talk to the central agencies about that in future. I think we are working well together on these things and hope to continue to do so.

The CHAIR — I think there is the additional point the Auditor-General made, given the emergency situation he described, that the community should be informed of this emergency situation; therefore, we are doing it quickly in order to meet that, and therefore, there will be certain amounts in terms of cost benefits and the normal rigour would be not as detailed. That is the message I would put.

Mr SCOTT — I would like to return to recommendation 1.10. The second half of that recommendation states that DSE should ensure that 'projects and initiatives meet value-for-money criteria'. What steps has the department taken to ensure that water authority project initiatives meet value-for-money criteria?

Mr WILSON — It ties back to the earlier question about the assessment of capital works, the three-tiered approach that we adopt, the business plan and the assessment more generally and the role of the Essential Services Commission in doing that assessment in quite a public way before prices are set, noting that these sorts of investments do ultimately flow through to prices for water consumers across the state. In terms of the value for money by water authority proposals, there are different dimensions to these things. Often water authorities need to undertake investments for, say, water quality requirements of a drinking water quality regulator or environmental improvements to satisfy EPA compliance, or they might have to undertake investments to improve services to customers — things like the condition of assets and burst water mains and so on. Or they might have investments around IT and so on that would be expected to deliver more improved efficiency down the track. They are the sorts of value-for-money considerations of the sorts of things that water authorities put up for approval.

By and large with the ones driven by the EPA or drinking water quality regulators or dam safety — the actual must-do type requirements — the value-for-money is really an assessment of how you achieve the objectives that you must achieve in relation to those things, which are quite often compliance, most efficiently, which gets into things like risk management and efficient use of competitive processes and those types of things. Then you get through to investments that might go to improving customer service standards and so on. That process, the

value-for-money bit, is essentially put back to the community by the Essential Services Commission. If you want to increase prices by, say, 10 per cent to get the response times to a burst water main down by 20 per cent, that would be a matter where the government would set up a framework where it would consult with customers on that. It is really in view of customer preferences and those sorts of things. There are different projects for different authorities, with different drivers. They are the sorts of processes that we use to examine value for money.

Mr DALLA-RIVA — The department's response to the committee of 15 September — point 11, which is on page 7 of your submission — relates to governance issues raised by the Auditor-General's report. You have advised:

The government is currently examining the governance and operational provisions used by the metropolitan retailers ...

Could the department please advise the committee on the status of the review and when it is expected to be finalised?

Mr WILSON — If I could just go back to the earlier answer just to be clear on that, when we say difference between governance and operational provisions, I have mentioned some of the sorts of features that are different in the Water Act and the Water Industry Act, which we think could be aligned and streamlined, so I will not go through that again. In terms of the timing, I think this is one that we would like to make recommendations for later this month, but I might just take that one on notice and confirm that, if that is acceptable.

Mr DALLA-RIVA — It will be this year; is that what you are expecting?

Mr WILSON — Yes.

Ms HUPPERT — Some of the questions you have been asked have been quite extensive. You have talked a lot about the amount of information that is provided to the public. Your response has been that the department has put the information regarding the matters raised in the Auditor-General's report on its website. Obviously you will have to take this on notice, but I am interested in the level of interest from the public in the information that is on the website and whether that changes with information that is put out in the general media about reductions in flows and reductions in the amount of water in the water storage. I am really interested in how the public is responding to the information that is being placed on the website.

Mr WILSON — It is a good question. I am not sure whether we record the hits on the website. Presumably we do; it is something I might take the opportunity to follow up on after the event. Just generally in relation to water issues and so on, if the level of discussion and debate and awareness is anything to go by, and if our website and other information put out contributes to that, I think that is a good thing — more robust debate and awareness more generally. I think I might take the opportunity to have a look at the volume of hits and whether we record that. Certainly as a new secretary I turned to it just for background information for this committee meeting. I looked through it, and I was really surprised about the breadth of information on it.

I think it was mid-2008 we took the view that all of the water stuff ought to be consolidated in the Our Water Our Future website, which is linked to our department. When I went to the NVIRP websites or the Sugarloaf pipeline website I was pleased to see the facilities where people can register for updates. It was good to see not just what can be quite dense reports that are technical but also a whole range of things: facts sheets, Q and As, updates, interactive graphs and things on storages that you find on Melbourne Water's website. I think the information provided has come a long way in the last 5 to 10 years, which is a good thing.

Ms MUNT — Could you please give me an update on the progress of the works on the eastern treatment plant?

Mr WILSON — I will refer to my notes here. As I mentioned, there was a summary of the business case that was put out, which examined the two big options for the recycled water to be used, and the conclusion was that they were too expensive. Nevertheless work will be steaming ahead with upgrades. The government, through its water authorities, is keen to actually exhaust as many recycled water opportunities as it can.

Ms MUNT — As are the local councils — trust me!

Mr WILSON — Local councils, community groups, golf clubs, sporting grounds — there is a range of things on the go. There is the Boneo recycled water project for market gardens; the Casey residential project, which involves 2.8 gigalitres for dual pipe systems; the Dandenong recycle scheme, another 800 000 litres for industry, households, public space and offices; Berwick South, another 1.3 gigalitres for dual pipe systems; the Mornington recycle project, another 300 000 litres to irrigate the racecourse and public open space; and another project down at Frankston, with a further 700 000 litres. The aim is to maximise the use of that water. The audit noted that the strategy is to continue to look for alternative uses. South East Water and Melbourne Water, as I understand it, have identified potential projects for up to 30 or 40 gigalitres over the next 20 years or so. It is a long process when it is a small scale, but I think the main thing is that we are following up on the objective of actually finding alternative uses for recycled water.

Ms MUNT — When will that upgrade be completed, do you know?

Mr WILSON — I think it is 2012, correct me if I am wrong. It will have a range of benefits also in terms of the environment at the outlet and what have you. That is another strategy identified in the water plan, and that is one that the government, the water authorities and the department are pressing on with.

Dr SYKES — My question relates to the issue of the water savings protocol and the rigour of some of the assumptions that seem to be in that. Given that Mr Downie has been around for a long time, I am going to ask some specific questions. He may be well placed to answer them. First of all — just a very simple clarification — in relation to the end-of-channel outfalls, is the 100 per cent lessening of those outfalls considered to be a savings or not?

Mr WILSON — I am not sure; I am happy to take that on notice. I am not sure — —

Dr SYKES — I am sure Mr Downie could answer it just with a yes or a no.

Mr WILSON — We could answer a lot of different things, but my concern is whether it relates to an audit finding that we need to get more information out and the need to verify.

Dr SYKES — You have got a protocol there, and you have spoken quite widely about it. I am just asking a simple question: in relation to that protocol and in relation to the outfalls and the savings associated with reducing the outfalls, is it assumed that a 100 per cent reduction is a savings? Mr Downie can answer it, I am sure.

The CHAIR — The secretary, as it relates to the audit.

Mr DOWNIE — I would take it on notice.

Mr WILSON — I think we will take that on notice.

Dr SYKES — I wish to record that I am truly amazed that you are choosing to take on notice a simple question that underpins the water savings rather than referring it to someone who has been in the organisation throughout the period of this process, and that you are declining to answer. Can I ask another question that you may be able to answer?

The CHAIR — You can ask another question, but we will have Mr Noonan ask his first.

Dr SYKES — No, this is in relation to the rigour of water savings, and I asked for one example; I am now asking for another one under the question of the rigour in the water savings.

The CHAIR — You can do that after Mr Noonan's asks his question.

Dr SYKES — It is a shutdown.

Mr WILSON — Mr Chair, if I could?

The CHAIR — Yes.

Mr WILSON — I did consult with Mr Downie, and we agreed that we ought to take it on notice. It is technical matter about a report that is on a website, but we will get back to you on that.

Dr SYKES — You mean Mr Downie does not know the answer, is that what you are saying?

Mr WILSON — His advice is to take it on notice — —

Dr SYKES — Mr Downie does not know the answer.

Mr WILSON — It is a technical matter — —

The CHAIR — Dr Sykes, I think we might have dealt with that.

Mr WILSON — Sorry, Chair.

Mr NOONAN — My question relates to recommendation 1.8. It specifically goes to your response to this committee dated 15 September under the last paragraph of recommendation 1.8 which in fact is over the page just before recommendation 1.9. I wonder whether you can give us some greater detail regarding what you have submitted to the committee in relation to this recommendation? The paragraph starts:

Following on from this project the department has also prepared bulk entitlement metering program guidelines ...

It makes the statement that this will contribute to improved accountability and transparency for water resource management in Victoria — —

Mr DALLA-RIVA — He has the answer for this one.

Mr NOONAN — I wonder whether you can provide us with some greater detail on that particular project, and just elaborate on that in terms of supporting the statement you have made.

Mr DALLA-RIVA — Just table the answer. It would be easier.

Mr WILSON — Sorry?

Mr DALLA-RIVA — Table the answer. It would be easier.

Ms HUPPERT — I think you should treat the witnesses with a bit more respect.

Mr DALLA-RIVA — He would not answer his question. He has asked a question and he has the answer there.

The CHAIR — The secretary is answering — —

Mr RICH-PHILLIPS — The problem is that Bill was not asking questions given to him by DSE.

Mr NOONAN — You have got to be kidding!

Dr SYKES — We are not kidding. This is a sham.

The CHAIR — The secretary to answer please.

Mr RICH-PHILLIPS — If you ask questions written by the DSE you get much better answers.

Mr NOONAN — Perhaps you should read the response that DSE sent us.

The CHAIR — Okay. The secretary to answer. Ignore the commentary from members.

Mr NOONAN — That is why I am asking the questions.

The CHAIR — If you wish to discuss it with each other go outside. Thank you.

Mr WILSON — The member has asked a follow-up question about more clarity around these guidelines. Again, it is something that I might get back to you on with further information. I will take that one on notice.

Mr NOONAN — Richard, I accept your apology.

Mr DALLA-RIVA — He has got it there, but — —

Dr SYKES — Very good play!

The CHAIR — Dr Sykes, you may wish to follow up on your question about the water savings protocol.

Dr SYKES — Yes, I would like to follow up. It is another question in relation to the rigour of the water savings protocol, and it relates to the assumptions that underpin the view that the Dethridge meter wheels understate the actual water delivered by 8 per cent. My understanding of the history is that initially the estimate of under-recording was 10 per cent, based, as I understand it, on the testing of 12 Dethridge wheels. When a further 40 or 43 were tested, the underestimation was revised down to where the figure is now determined to be 8 per cent. But given there are 18 000 Dethridge wheels, can you provide some comment on the statistical significance and confidence limits in that figure that you have come up with?

The CHAIR — Secretary, I not sure it relates specifically to the audit, but insofar as you can.

Mr WILSON — I can say outright that I cannot, because I have not got — —

Dr SYKES — Mr Downie might be able to answer the question. Ask Mr Downie.

Mr WILSON — I am not sure that he has the statistical significance and confidence limits — —

Dr SYKES — I would love to hear Mr Downie's dulcet tones. Mr Downie, could you answer the question?

The CHAIR — Dr Sykes — without assistance.

Mr WILSON — I do not have that level of analysis with me.

Dr SYKES — There is your man. There is your water expert.

The CHAIR — Thank you, Dr Sykes.

Mr WILSON — I am not sure that anyone here does. I am happy if you want to make a comment in general on what you do know about that issue around the protocol.

The CHAIR — Dethridge wheels, yes?

Mr WILSON — And statistical limits of confidence around estimates and assumptions in a protocol. I have not come prepared for that.

Mr DOWNIE — It is a very complex technical issue, and I think it needs to be — —

The CHAIR — The protocol is subject to external audit, is it not?

Mr DOWNIE — Yes, and the issues about the savings or the efficiency or the accuracy of Dethridge wheels is looked at from a number of perspectives. It starts with all Australian governments agreeing that they do not need national metering compliance standards, and then when we go to do the savings, we will be monitoring them and auditing them. The issue in relation to Dethridge wheels is one of second or third-order significance, but they are all outmoded by Australian federal standards. We need to replace them, and that is taken into account. The savings generated from the total are taken into account. I am not sure of the significance of a particular meter or a number of the samples of meters. It is indicative; because it is indicative, it does not tell us what the outcomes are.

The CHAIR — All right. The specifics then of what Dr Sykes is after you can take on notice and provide us with the information.

Dr SYKES — With respect, Chair, as I understand it the savings associated with the metering concerns about the Dethridge wheel constitute a significant proportion of the water savings in the food bowl modernisation stage 1 upgrade. I think they might have been 66 000 megalitres or some figure. That figure actually had to be revised down when the believed inaccuracy was dropped from 10 per cent to 8 per cent. It seems to me to be a very significant issue.

Then, of course, there is a separate issue, as you would be aware, Mr Downie. There is a separate debate running about whether that under-measuring, if it is correct, whether that water is going for productive use and therefore is not a loss. In other words, by correcting the Dethridge wheel inaccuracies, whatever they are, you do not actually make a saving; you provide a more accurate way of charging for the water.

Mr WILSON — Again, I think noting David Downie’s answer, the detail behind those estimates and the assumptions and anything which led to views about water savings will come out in that summary business case and the subsequent audit and so on. My view is that that is the decision that has been made. There is a commitment to get that information out there. I am not in a position to answer these technical sorts of questions, but we note your point about the importance of those issues and the confidence in the data. As I said, we have got a summary of a business plan and an independent auditor to go through those matters. I think that is all I can say really on that topic.

Mr SCOTT — I draw your attention to page 5 of the Auditor-General’s report. There was a fairly lively disagreement between the previous secretary of the department and the Auditor-General about the Victorian government interdepartmental committee. It would be useful to get some information on the role the interdepartmental committee played in that period of emergency response.

Mr WILSON — Without reading through it here again, I think the former secretary was making the point that there was an interdepartmental committee comprising secretaries that oversaw the development of the water plan and was expressing the view that that could be better acknowledged in the report. From memory, the Auditor-General did report the existence of that committee. Again, in terms of what is captured in the report I think it is an example of the former secretary suggesting that more weight and explanation could have been given to the existence of that committee.

In terms of your question about how those things work, we mentioned the integration working group — I think that is its title — and more officer-level integration between the Premier’s Department, Treasury, DSE and other departments, but secretaries and deputy secretaries continue to have dialogue around water issues. There are issues that we deal with in terms of commonwealth negotiations and so on, so water features high on the agenda of a number of secretaries, including those of the Department of Treasury and Finance and the Department of Premier and Cabinet. We do have those processes in place and we continue to rely on them to get the collaboration and so on that we need to make sure our respective ministers are well informed for decision-making purposes.

Ms PENNICUIK — I did not entirely hear what happened with the question you asked and then the answer you gave in regard to recommendation 1.8, which was that the DSE should validate the flow-compliance information provided by catchment management authorities and make the CMAs’ operating and compliance reports available to the community. In your answer to us about that recommendation you go to the first part but not to the second part about releasing the information to the community. Can you update us where you are with that?

Mr WILSON — My recollection of the question was to update on where the actual work is. You are asking, given the work, when will it actually be communicated?

Ms PENNICUIK — I did not quite — —

Mr WILSON — Unfortunately, I am not as prepared as I would like to be, hence I took the first question on notice as to where the work is, and I am happy to include an update as part of that on when that information will be made available to the community as well.

Mr NOONAN — At least they were not rude to you, Sue.

The CHAIR — Is that clear? The question was — —

Ms PENNICUIK — The whole thing has been taken on notice

The CHAIR — Will you make the CMAs’ operating and compliance reports available?

Mr WILSON — Yes.

The CHAIR — Bill, have you got a question?

Dr SYKES — Just one last one.

The CHAIR — As long as it is in relation to the audit, that is all.

Dr SYKES — I will be very quick. In relation to the rigour of the water savings protocol, it is my understanding that a key component of the reconfiguration and moderation is that the change of water will now be delivered to the irrigator at the time it leaves the backbone channel instead of remaining the responsibility of GMW until it gets down the spur channel, then goes through his wheel; is that a correct understanding?

Mr WILSON — I would have to defer to my colleagues; Graeme Turner?

The CHAIR — You have not got a copy of the protocol here, have you?

Mr DOWNIE — At a general level, and Graeme could comment too, what we are trying to do is make this system more efficient so that there is a focus on creating a solid backbone. Then NVIRP will be sitting down with each of the farmers and negotiating with them, working out what kind of connection there will be to that backbone, if possible. So all of the details of that have not been finalised, but in general terms obviously the more efficient we make it, the less channels we have, the smaller channels, the less leaks, the fewer meters, the fewer outfalls, we will get a better result.

Dr SYKES — But just a basic principle is the change — it is not ownership. Is the irrigator going to take delivery of the water at the point that it leaves the backbone in future? Is that a fundamental principle of the modernisation strategy?

Mr TURNER — The answer is no, they will continue to take delivery at their farm off-take. Whether their farm off-take has moved as a result of the connections program — it could have moved back towards the backbone — it will always be at the meter off-take to the farmer.

Dr SYKES — If you continue to be on a spur channel and there is a loss of it along that spur channel until it gets to your metering point, who has responsibility for those losses?

Mr TURNER — Those losses remain with the water authority until the point of meter moves. If it does not move, it remains at that point.

Mr DOWNIE — So the farmer is only responsible from the point of the connection; it is formally recognised for the farmer to the off-farm system.

Mr TURNER — Which is their meter off-take.

Dr SYKES — So it is not fixed in concrete that the farmers will take delivery of the water at the backbone; they may take delivery down the spur channel for some time in the future or forever?

Mr TURNER — That is correct.

Mr DOWNIE — Depending on the configuration that is agreed between NVIRP and the farmers, and those negotiations will be extensive over the next few years. But obviously there is an interest and there is an incentive in minimising the numbers of connections beyond the backbone.

Dr SYKES — But Goulburn-Murray Water continues to wear the losses down that spur channel whilst he is continuing to be delivered by the spur channel.

Mr DOWNIE — Goulburn-Murray Water will continue to wear the losses for any connection outside the farm gate.

The CHAIR — I thank Mr Wilson, Mr Downie and Mr Turner for their attendance today. It has been an interesting session. Where questions were taken on notice — and there are a number of those — the committee will follow up with you in writing at a later date, but that should not stop you from preparing them in the meantime. The committee requests that written responses to those matters be provided within 30 days.

Committee adjourned.