LEGISLATIVE COUNCIL

STANDING COMMITTEE ON FINANCE AND PUBLIC ADMINISTRATION

Fourth Report to the Legislative Council

INQUIRY INTO DEPARTMENTAL AND AGENCY PERFORMANCE AND OPERATIONS

REPORT ON GOULBURN-MURRAY WATER’S PERFORMANCE FOR 2007-08

JUNE 2009
LEGISLATIVE COUNCIL
STANDING COMMITTEE ON
FINANCE AND PUBLIC ADMINISTRATION

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JUNE 2009

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STANDING COMMITTEE ON FINANCE AND PUBLIC ADMINISTRATION

Committee Members

Mr Gordon Rich-Phillips – Chairman
Member for South Eastern Metropolitan Region

Mr Matthew Viney – Deputy Chairman
Member for Eastern Victoria Region

Mr Greg Barber
Member for Northern Metropolitan Region

Ms Candy Broad
Member for Northern Victoria Region

Mr Peter Hall
Member for Eastern Victoria Region

Mr Matthew Guy
Member for Northern Metropolitan Region

Mr Peter Kavanagh
Member for Western Victoria Region

Substituted Members

Ms Wendy Lovell for Mr Matthew Guy

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ESTABLISHMENT OF THE STANDING COMMITTEE

On 21 November 2007, the Legislative Council resolved to appoint a Standing Committee on Finance and Public Administration with a Membership of seven Members. The Council’s resolution came into operation on 1 April 2008 and the Committee’s inaugural meeting was convened on 7 April 2008.

In accordance with the establishing resolution, the following Members were appointed to the Committee:

- Mr Greg Barber - Australian Greens,
- Ms Candy Broad - Australian Labor Party,
- Mr Peter Hall – Nationals,
- Mr Matthew Guy - Liberal Party,
- Mr Peter Kavanagh - Democratic Labor Party,
- Mr Gordon Rich-Phillips - Liberal Party, and
- Mr Matthew Viney - Australian Labor Party.

At its inaugural meeting the Committee elected Mr Rich-Phillips as Chairman, and Mr Viney as Deputy Chairman.

The establishing resolution provides the Committee with a wide range of powers. Some key features of the Standing Committee include:

- The Standing Committee exists until the Parliament is either prorogued or dissolved.
- Members of the Committee may be substituted by another Member from the same political party.
- The Committee has the power to inquire into any matter or thing relevant to its functions, which is either referred to it by resolution of the Legislative Council, or determined by the Committee.
- The power to appoint sub-committees to inquire into matters.
REPORT

1. Inquiry Background

1. Pursuant to Legislative Council Sessional Order No. 22, the Standing Committee on Finance and Public Administration may inquire into any proposal, matter or thing that is relevant to its functions which is referred to it by resolution of the Council or determined by the Committee.

2. On 28 October 2008, the Committee resolved to inquire into and report on Victorian departmental and agency performance and operations for the previous financial year. It is the Committee’s intention for this Inquiry to be ongoing for the life of the Standing Committee.

2. Goulburn-Murray Water Hearing

3. On 13 November 2008, the Committee resolved to invite Goulburn-Murray Water (GMW) to give evidence at a public hearing with respect to the agency’s performance and operation for the 2007-08 financial year.

2.1 Witnesses

4. On 25 March 2009, the Committee received evidence from the following GMW representatives:

- Mr Craig Cook - Deputy Chairman
- Mr David Stewart - Managing Director
- Mr Ian Moorhouse - General Manager Operations
- Mr Peter Guy - General Manager Corporate Services
- Ms Lindy Nieuwenhuizen - Manager Stakeholder Relationships
2.2 Role of Goulburn-Murray Water

5. On 1 July 2007, Goulburn-Murray Water (GMW) was established as the trading name of Goulburn-Murray Rural Water Corporation, which was constituted by Ministerial Order from 1 July 1994. The Corporation is the responsibility of the Water Minister, with its power to provide, manage and operate an irrigation district, a water district and a waterway management district provided for in the *Water Act 1989* (Vic). The GMW board consists of eight Members.

6. GMW services a region approximately 68,000 square kilometres in size in north-eastern Victoria, to a range of customers including irrigators, domestic users, recreational users. As such GMW is divided into six management areas:

   - Shepparton,
   - Central Goulburn,
   - Rochester-Campaspe,
   - Pyramid-Boort,
   - Murray Valley, and
   - Torrumbarry.

2.3 Key matters raised in the hearing

7. The following issues were discussed during the public hearing with Goulburn-Murray Water:

   - Treatment of $40 million Government grant as revenue received rather than as a prepayment.
   - Involvement of Goulburn-Murray Water in the Early Works component of the Northern Victoria Irrigation Renewal Project.
   - The basis of the increase in fees charged to farmers for grazing licences.
   - The effectiveness of the FutureFlow alliance model for the Shepparton modernisation and Central Goulburn 1-4 projects.
• Occupational Health and Safety matters including targets for hours worked without a Lost Time Injury and WorkCover premium rates.

• Reintroduction of Lake Boga into the Murray water supply system as part of the Lake Mokoan decommissioning project.

• Impact of Victorian Government rebate funding of fixed water charges to customers as part of the drought relief package.

• The effectiveness of the new unbundled water arrangements that took effect from 1 July 2007.

• Explanation of water share allocations including storage evaporations and channel distribution losses; and rules relating to bulk entitlements.

• Details as to why a referral under the *Environment Protection and Biodiversity Conservation Act 1999* was not sought for various irrigation works.

• Participation of former chairman of Goulburn-Murray Water, Mr Don Cummins, on the food bowl modernisation steering committee.

• Explanation for increases in management and administration costs of Goulburn-Murray Water during 2007-08.

• Work undertaken by the Goulburn-Murray Water’s Financial and Management Audit Committee.

• Impact of the 2003 and 2006-07 bushfires on water inflows.

• Extent of completion of the Total Channel Control (CG1234) project.

2.4 Documents tabled at the hearing

8. Goulburn-Murray Water provided an opening presentation at the public hearing. A copy of the slide presentation is provided in Appendix 1.

2.5 Questions taken on notice

9. The following questions were taken on notice by Goulburn-Murray Water at the public hearing (page references refer to the transcript in Appendix 2):
•  The basis on which dividends were paid or required to be paid in the past (p. 9);
•  Details (including documentation and assessments) as to why a referral under the Environment Protection and Biodiversity Conservation Act has not been sought for various irrigation works (p. 18-9);
•  Whether Mr Don Cummins, former Goulburn-Murray Water Chairman, made any presentations to the Goulburn-Murray Water board regarding the foodbowl modernisation project and if so provide copies of the minutes of Board meetings where such presentations were made (p. 20);
•  Copy of the minutes of the Financial and Management Audit Committee for 2007-08 (p. 21);
•  Assessments by the Murray-Darling Basin Authority on the impact of 2003 and 2006-07 bushfires (p. 23); and
•  Clarification as to why the total channel control project was reported as being 78 percent complete in the 2006-07 annual report and then reported as 30 percent complete in the 2007-08 annual report (p 24).

10.  A copy of Goulburn-Murray Water’s response to questions taken on notice is provided in Appendix 3.

Committee Room
23 June 2009
APPENDIX 1 – GOULBURN-MURRAY WATER’S PRESENTATION

Legislative Council Standing Committee on Finance and Public Administration

25 March 2009

G-MW Representatives

Craig Cook - Deputy Chairman
David Stewart - Managing Director
Peter Guy - CFO & General Manager Corporate Services
Ian Moorhouse - General Manager Operations
Linda Nieuwenhuizen - Manager Stakeholder Relations
To deliver sustainable water services that meet customer and stakeholder needs and support regional economic growth, while balancing social, economic and environmental considerations.

G-MW’s Mission

G-MW Guiding principles

(a) manage water resources in a sustainable manner; and
(b) effectively integrate economic, environmental and social objectives into its business operations; and
(C) minimise the impacts of its activities on the environment; and
(d) manage risk to protect public safety, quality and security of supply; and
(e) operate as efficiently as possible consistent with sound commercial practice; and
(f) manage its business operations to maintain the long-term financial viability of the Authority, and
(g) undertake continuous review, innovation and improvement; and
(h) collaborate with other public authorities and government agencies to take account of regional needs.
G-MW’s core activity - water delivery

G-MW delivers water – a logistics business

*Deliver water how, where and when it is needed, as efficiently as possible*

G-MW Values

- **Human safety, the environment and customer service** are our highest priorities
- **Sustainability** is our commitment to future generations
- **Cooperation** based on involvement of people is the key to progress
- **Openness** builds trust, knowledge and understanding
- **Integrity, respect and pride** are valued characteristics of our people.
- **Continual improvement** is essential and underpins our future.
G-MW Customers – the Environment

Environmental Managers
DSE
3 Catchments Management Authorities (CMAs)
• Goulburn-Broken,
• North Central
• North East

G-MW Customers – Urban Water Corporations

Coliban
Goulburn-Valley Water
Lower Murray Water
North East Water
Central Highlands Water
Grampians Wimmera Mallee Water
G-MW Irrigation Customers

<table>
<thead>
<tr>
<th>Category</th>
<th>Details</th>
<th>Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gravity irrigation</td>
<td>Irrigation areas</td>
<td>13,761</td>
</tr>
<tr>
<td>Pumped irrigation</td>
<td>Purpose-built schemes at Nyah, Tresco &amp; Woorinen</td>
<td>652</td>
</tr>
<tr>
<td>Surface water diversions - regulated</td>
<td>Direct access to regulated rivers and streams</td>
<td>3,563</td>
</tr>
<tr>
<td>Surface water diversions - unregulated</td>
<td>Direct access to unregulated rivers and streams that are not serviced by the storages</td>
<td>7,516</td>
</tr>
<tr>
<td>Groundwater</td>
<td>Irrigation and commercial bores</td>
<td>4,867</td>
</tr>
<tr>
<td>Domestic and Stock Schemes</td>
<td>Include Tungamah, Normanville, Catumnal, East Loddon and West Loddon Water Districts</td>
<td>1,049</td>
</tr>
</tbody>
</table>

Customers inform G-MW Operations

178 members of G-MW customers committees,
Water Services Committees
Catchments Committees
Reference Committees

Approximately 1 representative for every 179 customers
G-MW Board and Management attended more than 50 Committee Meetings during the year
Financial Snapshot

**G-MW distribution networks**

**Unregulated rivers and streams**

**Storage**

**River**

**Off take into an Irrigation Area**

**Channel network within Irrigation Areas**

**Drainage network**

**Outfalls**

---

### Financial Snapshot

<table>
<thead>
<tr>
<th>Financial result</th>
<th>2007/08</th>
<th>$’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting Standards profit</td>
<td>17,417</td>
<td></td>
</tr>
<tr>
<td>Less Gov’t grants rec’d in advance</td>
<td>-40,000</td>
<td></td>
</tr>
<tr>
<td>Adjusted accounting result</td>
<td>-22,583</td>
<td></td>
</tr>
<tr>
<td>Add back depreciation - Statutory</td>
<td>31,127</td>
<td></td>
</tr>
<tr>
<td>Deduct depreciation - Regulatory</td>
<td>-3,343</td>
<td></td>
</tr>
<tr>
<td>Pricing Policy Profit</td>
<td>5,201</td>
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</table>

### Revenue

<table>
<thead>
<tr>
<th></th>
<th>2007/08</th>
<th>$’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charges for water</td>
<td>78,691</td>
<td></td>
</tr>
<tr>
<td>Other revenue</td>
<td>89,220</td>
<td></td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>166,411</td>
<td></td>
</tr>
</tbody>
</table>

### Expenses

<table>
<thead>
<tr>
<th></th>
<th>2007/08</th>
<th>$’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operations</td>
<td>57,306</td>
<td></td>
</tr>
<tr>
<td>Maintenance</td>
<td>39,822</td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>31,127</td>
<td></td>
</tr>
<tr>
<td>Other Expenses</td>
<td>20,739</td>
<td></td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>148,954</td>
<td></td>
</tr>
</tbody>
</table>

**Accounting Standards Profit**: 17,417
Financial Snapshot

• 1st Year of 5 year regulatory Water Plan
• Consumptive revenue shortfall of $7m due to lower water allocations
• Revenue shortfall partly offset by operational savings (redeployment and cost saving initiatives)
• Advanced Maintenance Program (AMP) expenditure reduced due to the modernisation renewal program

• Capital Expenditure of $76.1mill was $15.4mill less than budget with Lake Mokoan water Savings Project being largely offset by unbudgeted Alliance and Foodbowl projects

G-MW Assets

Infrastructure Assets
Headworks - current replacement cost $3.1 billion *
Distribution - current replacement cost $2.7 billion
Total $5.8 billion
* $1.6 b MDBC
Key Asset Facts

<table>
<thead>
<tr>
<th>Asset Category</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Dams Managed</td>
<td>17 Dams (includes 4 MDBC Dams)</td>
</tr>
<tr>
<td>Largest Dam Managed</td>
<td>Dartmouth Dam (3906 GL)</td>
</tr>
<tr>
<td>Smallest Dam Managed</td>
<td>Hepburn Lagoon (3 GL)</td>
</tr>
<tr>
<td>Oldest Dam</td>
<td>Newlyn Reservoir - Constructed 1871</td>
</tr>
</tbody>
</table>

- **Number of Bulk Water Assets**: 3,400
- **Number of Retail Assets**: 76,000
- **Total Length of Channels**: 6,737 km
- **No. of irrigation structures**: 23,312 (bridges, culverts & regulators)
- **No. of Meter Outlets**: 20,588
- **Total Length of Drains**: 3,123 km

Regulatory Environment

- G-MW Statement of obligations
- WIR Order
- Water Act
- Financial Management Act
- MDBC/A
- DHS
- EPA
- EWOV
- Enterprise Agreements
- GSERP (remuneration)
- Legal contracts
Water Trading

Murray System
System cap 10%
- Lower Murray Water Cap 4% pa
- Torrumbarry Area Cap 4% pa
- Murray Valley Area Cap 4% pa

Goulburn System
System cap 10%
- Pyramid-Boort Area Cap 4% pa
- Rochester Area Cap 4% pa
- Central Goulburn Cap 4% pa
- Shepparton Area Cap 4% pa

Diversion customers

System Operations - Allocations

- Low Reliability Water Shares (LRWS) owned by customers – irrigators, urban water corporations & the environment
- High Reliability Water Shares (HRWS) owned by customers – irrigators, urban water corporations & the environment
- Reserves for next season
- Water required to operate the distribution systems in the irrigation areas (Channel network losses)
- Water required to operate the river systems (losses incurred in and from the storage to the Area’s offtake)
- Carryover

100% HRWS allocation
100% LRWS allocation
Starting point for allocations
STANDING COMMITTEE ON FINANCE AND PUBLIC ADMINISTRATION
Report on Goulburn-Murray Water’s Performance 2007-08

System Operations
2007/08 Allocations

- Low Reliability Water Shares (LRWS) owned by customers – irrigators, urban water corporations & the environment
- High Reliability Water Shares (HRWS) owned by customers – irrigators, urban water corporations & the environment
- Water required to operate the distribution systems in the irrigation areas (Channel network losses)
- Water required to operate the river systems (losses incurred in and from the storage to the Area’s offtake)
- Carrying over

Broken System = 71%
Goulburn System = 57%
Murray System = 43%
Campaspe, Loddon and Bullarook Ck Systems = 0%

Sharing Limited Water Resources
Goulburn System 2007/08

Commitments:
- Delivered Inter Valley Trade
- Channel Distribution Losses
- Storage Evaporation
- River Loss to Goulburn Weir
- Goulburn Weir Release
- Delivered
- Carry over to 08/09 (stored)
- End of Season Stored Volume

Resources:
- Inflow
- Carry over from 06/07 (stored)
- Initial Stored Volume

Goulburn Resources
Goulburn Distribution of Resources

Gigalitres (GL)

- Delivered Inter Valley Trade
- Channel Distribution Losses
- Storage Evaporation
- River Loss to Goulburn Weir
- Goulburn Weir Release
- Delivered
- Carry over to 08/09 (stored)
- End of Season Stored Volume

Gigalitres (GL)
Sharing limited water resources
Murray System 2007/08

Key Achievements
Pumping the Waranga Basin provided 7% for Goulburn System Customers

FutureFlow delivers $120 million works program

15 May to 15 August

- Completed works for CG 1-4, Shepparton Modernisation and NVIRP Early Works
- installed 1,529 channel regulators,
- lined 28 km of channel
- remodeled 4.5 km of channel and
- rationalised 10 km of channel
Irrigation renewal delivers results

Channel control improves water delivery efficiency

- Majority of 6,300km channel network is manually operated
- Channel automation improves control along the network

Delivering results
- CG1-4 outfalls reduced to 25ML from 1850 ML
Reconfiguration streamlines the irrigation network

Cairn Curran Dam Safety Project

• $12.5 million project
• Delivered two months ahead of schedule
• $2 million under budget.
G-MW Wins Engineering Excellence Awards

- Each year more than 22,000 tonnes of salt is kept out of the Murray River
- Engineers Australia (Victoria Division) Environment and Sustainability Award as well as the Overall Excellence Award 2007
APPENDIX 2 – TRANSCRIPT OF EVIDENCE
STANDING COMMITTEE ON FINANCE AND PUBLIC ADMINISTRATION

Inquiry into departmental and agency performance and operations

Melbourne — 25 March 2009

Members

Mr G. Barber  Mr P. Kavanagh
Ms C. Broad  Mr G. Rich-Phillips
Mr M. Guy  Mr M. Viney
Mr P. Hall

Chair: Mr G. Rich-Phillips
Deputy Chair: Mr M. Viney

Substituted members

Ms W. Lovell for Mr M. Guy

Staff

Secretary: Mr R. Willis
Research Assistant: Mr A. Walsh

Witnesses

Mr C. Cook, deputy chairman,
Mr D. Stewart, managing director,
Mr I. Moorhouse, general manager, operations,
Mr P. Guy, general manager, corporate services, and
Ms L. Nieuwenhuizen, manager, stakeholder relationships, Goulburn-Murray Water.
The CHAIR — I declare open the public hearing of the Legislative Council Standing Committee on Finance and Public Administration. Today’s hearing is in relation to the inquiry into departmental and agency performance and operations. I welcome representatives of Goulburn-Murray Water. In particular I welcome Mr Craig Cook, the deputy chairman; Mr David Stewart, the managing director; Mr Ian Moorhouse, the general manager, operations; Mr Peter Guy, the general manager, corporate services; and Ms Lindy Nieuwenhuizen, the manager, stakeholder relationships.

All evidence taken at this hearing is protected by parliamentary privilege, as provided by the Constitution Act 1975 and further subject to the provisions of Legislative Council standing orders. Any comments made outside the precincts of the hearing are not afforded parliamentary privilege. All evidence is being recorded by Hansard. Witnesses will be provided with a proof version of the transcript in the next couple of days. For the information of witnesses and the committee, I point out that Ms Wendy Lovell is today a substitute for Mr Matthew Guy.

I now ask that all witnesses and committee members ensure their mobile telephones are switched off, so that they do not interfere with Hansard’s recording equipment. I invite you, Mr Stewart or Mr Cook, to make an opening statement if you wish, and we will then proceed to questions.

Mr COOK — Thank you, Chair. I am Craig Cook and I am the deputy chair of Goulburn-Murray Water. Can I start by apologising for Stephen Mills, our chairman, who could not be here today. Shortly I will ask David Stewart, our managing director, to provide a presentation on our operations and our performance for 2007–08. I am happy to take questions during this time, as are the rest of us here.

As you would be aware, the past 12 years of drought, and the past 5 in particular, have been severe. It is within this environment that we have strived to meet our performance targets, including a number of critical environmental, social and economic considerations, and it is within this environment that we are planning for the future, and it will be a future with less water to deal with. David Stewart will outline these factors in more detail, but in amongst these difficult operating conditions there is much that we can be proud of, including the progress that has been made to improve the future operation and performance of our irrigation network.

Whether or not you believe in climate change or drought, or a combination of them, we have had a season that has broken all records. The fact that it occurred means it can happen again, and our forecasts are not too bright for the future. David will go into detail on some of those drought predictions, if you like, later on. I am pleased to see that Goulburn-Murray Water is already applying the knowledge and experience of 2007–08 to inform our operations in the current season and to assist in planning for a future hotter, drier season with even less water. Perhaps at this stage David might want to go into some of the details.

**Overheads shown.**

Mr STEWART — Thank you, Craig, and thank you, Chair, and members for the opportunity to present to the committee today. I would like to run through a PowerPoint presentation. We have tabled two documents before you. One is a hard copy of the presentation that we will show on the screen; the second one is a single sheet, which is a quick reference guide to useful information and where it can be found in our report. Today we propose to provide an overview of our operations and activities that were detailed in our 2007–08 annual report, and in doing so walk through some of the very important outcomes our region achieved during what was the 12th consecutive year of drought, and a year when allocations to customers were amongst the lowest, if not the lowest, on record.

I would like to begin just by reintroducing Goulburn-Murray Water’s representatives here today. Craig Cook, as indicated, is the deputy chair of Goulburn-Murray Water’s board. I am the managing director, and I was appointed in May 2008, during the 2007–08 year. Joining me is Peter Guy, who is our chief financial officer and general manager of corporate services. Ian Moorhouse is our general manager of operations; and Lindy Nieuwenhuizen is our manager of stakeholder relations.

At this stage I intend to make an opening statement on behalf of Goulburn-Murray Water, and, as Craig indicated, we are happy to take questions along the way. As detailed in our annual report, Goulburn-Murray Water’s mission is to deliver sustainable water services that meet customer and stakeholder needs and support regional economic growth, while balancing social, economic and
environmental considerations. This mission recognises the critical importance of water and its management to the health and livelihoods of our communities, businesses and the environment. The next slide details our guiding principles, and they are as detailed in our statement of obligations. All activities, services and business strategies are developed with reference to these principles. The 2007–08 annual report clearly demonstrates our efforts to fulfil these principles across all aspects of our business operations. The simplest way to describe the bulk of Goulburn-Murray Water’s responsibilities is to recognise that Goulburn-Murray Water does not own water, nor does it sell water. Obviously that is quite different from the role of an urban water corporation. Our role is to deliver water, and in this capacity we are effectively a logistics business.

The 17 dams that represent 70 per cent of Victoria’s water storage capacity are our warehouses, if you like; our weirs at Nagambie, Yarrawonga and Torrumbarry are our distribution centres; and our rivers and channels are our trucks and rail distribution. Obviously the analogy is slightly different for our groundwater and unregulated services, where to ‘deliver’ means we work with local communities and customers to equitably manage access to available resources now and into the future. Our mission and guiding principles are reflected in our business values, as shown here.

Our region covers most of northern Victoria, an area of approximately 68 000 square kilometres, which for reference is roughly the same size as Tasmania. Across this region are 17 water storages, with four of these owned by the Murray-Darling Basin Authority and which we manage on its behalf. The storages can hold 12 million megalitres of water, with Dartmouth, Eildon and Hume each built to hold in excess of 3 million megalitres. Collectively they represent 10 of the 12 million megalitres of storage in our region.

Around 14 000 of our customers, or about half of our customers, are located in our six irrigation areas. The key feature of irrigation areas is that customers are serviced by a channel network. Customers outside of the area draw directly from rivers, streams and groundwater. Irrigation areas represent the most asset-intensive delivery systems. Within these areas there are more than 6300 kilometres of channel, around 3000 kilometres of drain and over 900 kilometres of pipeline.

In northern Victoria water is owned by our customers. Our customers include environmental managers, namely DSE and the three catchment management authorities — North Central, Goulburn Broken and North East. The environmental managers determine how best to use their available entitlements, and Goulburn-Murray Water delivers these requirements in accordance with the agencies’ instructions to enable planned environmental watering of key environmentally significant sites. Last year, with low allocations across the board, we worked with DSE and the CMAs to achieve multiple benefits from the delivery of water resources. For example, we routed deliveries intended for the Murray via the lower Campaspe River, thereby benefiting environmentally sensitive sections of that river.

We deliver water resources to six water corporations across our region. In a normal season this would involve around 50 000 megalitres of water, or about 2 per cent of our region’s consumptive resources. As appendices A2 and A3 of our report show in greater detail, total deliveries to urban water corporations were below this level as local urban corporations responded to lower allocations and took steps to manage urban customer demand. By way of background, each water corporation determines whether and to what level water restrictions are required in their service region.

Goulburn-Murray Water undertook a range of initiatives during 2007–08 to address local issues, including working closely with Coliban Water to enable the start-up of the goldfields super-pipeline. The super-pipe draws water from the Waranga western channel at Colbinabbin. During the year the minister qualified rights in the Goulburn bulk entitlement to allow 10 000 megalitres of water from the water quality reserve to be made available to Coliban Water to supplement its existing supplies and meet critical water shortages in Bendigo and Ballarat. Coliban paid commercial rates for access to this additional water. We worked with Central Highlands Water to enable emergency pumping operations at Tullaroop Reservoir near Maryborough. Goulburn-Murray Water is closely working with North East Water and the North East CMA and DSE to improve water management in the Ovens and King valleys.
This next slide provides a snapshot of the bulk of our customers. However, I would like to clarify that this data and the data that appears on page 37 of our annual report represents the number of serviced properties. Some customers may access more than one service. For example, customers in the Murray Valley irrigation area may access gravity irrigation along with groundwater from the local Katunga deep lead aquifer. We estimate our total customer base is in excess of 30,000.

In total Goulburn-Murray Water offers more than 41 rural water services, including gravity irrigation, pumped irrigation, surface and subsurface drainage, service and groundwater diversion, domestic and stock water supply and flood protection. Our services are designed to meet the needs of our diverse range of rural, irrigation, commercial and bulk water customers while also managing, and where possible mitigating, the impact of irrigation on our local environment. For example, irrigation customers also make use of drainage networks to mitigate the impact of off-farm run-off on local waterways and ultimately the rivers across our region.

Goulburn-Murray Water services represent a comprehensive and integrated range of services that evolve with the need of customers and in response to the operating environment. For example, in past seasons where farm irrigation run-off and local rainfall run-off has been significant, we have initiated programs that allow customers to apply for drainage diversion licences. These are not entitlements and are quite simply an opportunity to make use of run-off water if and when it is available in the drains. However, as our irrigation customers have reduced on-farm irrigation and improved on-farm irrigation practices to reduce run-off surfaces, such drainage diversion licences have come under significant pressure.

In a season of record low supplies our customer consultation framework was vital to understanding our customers' needs and enabling customers to make informed business decisions. Goulburn-Murray Water service committees were instrumental in providing regular and ongoing input into Goulburn-Murray Water's water management strategies. As a result Goulburn-Murray Water more effectively tailored the supply of water to meet critical demand periods for the wide range of irrigation agriculture industries across our region. The community has also participated in a range of industry forums and meetings, and their leadership was key to Goulburn-Murray Water achieving its lowest ever operating requirements. Goulburn-Murray Water has 12 water service committees and 10 catchment committees, and a further two reference committees that engage 178 customers. Members of the water service committees and catchment committees are elected annually, and the committees represent irrigation areas, surface and groundwater diversions, flood protection and water districts.

This slide illustrates the different services provided along one river system and the range of customer needs and services required. Goulburn-Murray Water also manages approximately 50 per cent of Victoria's entire groundwater resources. Within our six water supply protection areas and known groundwater management areas there is a total of more than 423,000 megalitres of groundwater entitlement. During the year Goulburn-Murray Water worked with customers to enable ongoing equitable access to and long-term sustainability of their local groundwater resources.

Since 2000 Goulburn-Murray Water has been progressively reviewing and revising groundwater management plans for all aquifers, beginning with the most intensively used aquifers. Like surface water customers on our regulated system, once groundwater management plans are in place, seasonal allocations ensure equitable access to and sustainable sharing of available groundwater resources. We then show a snapshot of our financial result for 2007–08. I just draw your attention on the right-hand side to the accounting standards profit of $17.4 million, while on the left-hand side — if we remove funds received and depreciation based on our regulatory pricing models — our operational profit in accordance with our pricing policy model is $5.2 million.

The 2007–08 period was the first year of our five-year regulatory water plan. Our consumptive revenue shortfall was $7 million due to the lower water allocations. The revenue shortfall was partly offset by operational savings of redeployment and so on. We did modify our advanced maintenance program to recognise the requirements of irrigation modernisation renewal. And there were adjustments in our capital program that related to unbudgeted projects which came in on the modernisation project. If we move on to our asset base, it includes more than 76,000 individual
assets, from the major storages and pump stations through to the local culverts and bridges that enable access to and across our channel network.

If I can just return to the logistics business analogy for a moment, I would like to point out that, unlike any other logistics company that can take a fleet off the roads during a period of low activity, Goulburn-Murray Water cannot simply remove sections of channel or consolidate our stock into fewer warehouses. For this reason our capital and maintenance programs cannot be substantially changed during years of low supply. It is also a factor driving our modernisation and reconfiguration programs that are detailed in our annual report, where we are looking to reduce some of the asset intensity to improve service flexibility and contain future capital, maintenance and operation costs. This slide provides a further breakdown of the asset base. In short, we are an asset-intensive organisation. Our assets generally have a long life and are spread over a wide geographic area.

Effective asset management is a very complex process. Goulburn-Murray Water relies on ageing infrastructure, some of which was constructed over 100 years ago. To replace like with like, the current asset replacement value is $5.8 billion. Replacing with modernised infrastructure — the replacement value would be considerably more.

Goulburn-Murray Water operations come under regulatory oversight of a large number of agencies. Goulburn-Murray Water operates on the basis of full cost recovery, effectively as a not-for-profit entity, and we do not pay dividends to government or other agencies. The operating approach is reflected in a number of ways. Firstly, our water delivery services are priced in accordance with the requirements of our economic regulator, the ESC, and with considerable customer committee consultation and review.

Importantly, Goulburn-Murray Water aligns or is aligning its business with the COAG principles of no cross subsidies between services or service areas. For example, while the Torrumbarry and Murray Valley irrigation areas and Murray River diverters are all part of the Murray system and share a number of common assets, the prices for the services in each irrigation area and for the river diverters are determined separately. This ensures current and future customers receive accurate pricing signals regarding their current and future costs for the services on which they rely.

The second major component of Goulburn-Murray Water operation is our bulk water business. This involves the maintenance, improvement and operation of 17 storages across northern Victoria. Our operations are guided by a number of dam safety and construction requirements — for example, our dam improvement program has seen Goulburn-Murray Water, in partnership with the Victorian state government, invest more than $100 million over the past decade in improving the safety standards for eight storages across our region. The dam improvement program is based on risk assessment, which provides the framework for setting priorities for the works, and in doing so ensures prudent and justifiable investment of funds to progressively reduce risk across the whole portfolio of dams.

Secondly, Goulburn-Murray Water undertakes a range of works on behalf of other agencies, including catchment management authorities and the Murray-Darling Basin Authority, on a fee-for-service basis. This relationship was formalised with the Murray-Darling Basin Authority, where we are the nominated constructing authority for the works in Victoria and continue this arrangement with the newly formed MDBA — sorry, in the annual report period it was the Murray-Darling Basin Commission; it is now the authority.

Finally, where Goulburn-Murray Water has initiated projects in partnership with customers to improve supply arrangements or where such projects will generate water savings, we have worked with other state and federal agencies and departments to obtain external funding. For example, our modernisation projects in the Shepparton irrigation area and the Central Goulburn nos. 1 to 4 channels have been funded through a combination of sources, including the Living Murray initiative, Water for Rivers and the Victorian Water Trust. The basis of these agreements has been that the agencies provide the required funding and in return receive the agreed water savings. They are in no way entitled to any existing customer entitlements.

Funding received in anticipation of projects and services to be delivered after 30 June 2008 is the key reason for Goulburn-Murray Water’s financial surplus, and this is further detailed in the financial statements and notes, as well as on pages 15 and 16 of the report. As indicated earlier, Goulburn-Murray Water customers own their water entitlements. The entitlement framework was
established in the early 20th century and is designed to provide security, reliability and certainty for all water users. Entitlements can take a number of forms, including licences for surface and groundwater, supplies by agreement and private rights to rainfall or riparian flows. From 1 July 2007 regulated water entitlements in northern Victoria were unbundled. This followed the introduction of water trading in the early 1990s and represents the most significant change to the water entitlement framework since the establishment of statutory water rights in the early 20th century. Unbundling saw the ownership of the water entitlement separated into a water share, a delivery share and a water use licence. Broadly speaking, the three of these can be described as a right to irrigate — the water use licence determines the volumes of water than be applied to an area of land and is important to the management of potential salinity and other threats to sustainable irrigation; rights to have water delivered through the irrigation network — delivery shares entitle the owner to have water delivered to their property; and rights to receive an allocation — water shares provide the basis for determining seasonal allocations and for sharing available water resources amongst entitlement-holders. Unbundling recognises that water is a critical farm and business resource and provides more flexibility and choice for customers on how they own, use and manage their water in line with their business strategies. To support the new unbundling framework a statewide water register was established, and Goulburn-Murray Water undertook a number of major business systems changes to enable improved communication between our data and customer information systems and the state water register. Throughout the year we continued to work with our water service committees and DSE to address emerging issues and to inform our customers of the new unbundling arrangements. Goulburn-Murray Water processes and approves water trading and transfer applications, and in 2007–08 our water administration team processed more than 3417 water share and 13 596 surface and groundwater allocation trades. That is approximately 40 trades each and every day of the 2007–08 year, including weekends.

Seasonal allocations represent the amount of water available to be delivered to customers in a regulated system in that season. Each regulated system allocation is expressed as a percentage of that system’s total water entitlement. Goulburn-Murray Water updates allocations for each of the six regulated systems on the 1st and 15th of each month or the next business day thereafter. This slide illustrates the basic allocation process and how Goulburn-Murray Water shares the available water resource between entitlement-holders. You will see that there are three components of resource — carryover, water required to operate the river systems, and water required to operate the distribution systems — that must be in store before an allocation can be made. The year 2007–08 was the second consecutive season in which allocations on the Murray, Goulburn, Loddon, Campaspe and Broken regulated systems remained below 100 per cent of high-reliability water share, and you can see them there. In these very difficult conditions, Goulburn-Murray Water worked closely with customers to identify and implement ways to reduce our channel distribution operating requirements, and that included not running 20 to 30 per cent of our irrigation network, delaying system fills where possible, and tankering in supplies rather than running minimum flows in channels, running channels at lower levels, which compromised flow onto farm, and delivering customers’ orders within a day either side of order rather than on the day. As a result, operating requirements were kept to an all-time low of just 183 000 megalitres on the Goulburn system and 189 000 megalitres on the Murray system. Obviously those measures are not acceptable under normal operating conditions.
This slide is provided based on Murray-Darling Basin Authority information and shows a similar picture for the Murray system. It includes our interstate commitments for the Murray system in Victoria, bearing in mind the overall management of the Murray system comes under the Murray-Darling Basin Authority. The Murray-Darling Basin Authority advises that this information is based on a combination of operational, hydrographic and model data which will be subject to change as new information arises.

I would like to finish by briefly touching on just five of our many notable achievements for 2007–08. In April we commenced pumping water from the Waranga Basin to access nearly 90 000 megalitres of water that cannot be released under gravity. The supply represented 7 per cent of allocation to Goulburn system customers, with the $2.6 million exercise funded by the Victorian government’s drought relief package. A community open day was held at the site, with approximately 100 members of the public visiting Australia’s largest irrigation pump station.

In early 2008 Goulburn-Murray Water established its FutureFlow alliance to deliver $173 million worth of works in 2008 and 2009 as part of the Central Goulburn 1–4 channel and Shepparton modernisation projects. The projects represented a significant increase from Goulburn-Murray Water’s previous $15 million to $20 million annual expenditure on improvements to its irrigation network. The alliance model was considered to be the best option given the uncertainty of scope and urgent delivery requirements, and it took into consideration the limited regional resources.

In March 2008 NVIRP, the northern Victorian irrigation renewal project, called on Goulburn-Murray Water to deliver the early works component of its project, and Goulburn-Murray Water scaled up the FutureFlow program to accommodate approximately $103 million of additional work. Over the works period from 15 May to 15 August, and hence completed outside the reporting period of this 2007–08 annual report, FutureFlow installed 1529 channel regulators, lined 28 kilometres of channel, remodelled 4.5 kilometres of channel and rationalised 10 kilometres of channel. The program involved more than 900 individual work sites with around 300 operating on any one day, employed more than 400 people at its peak and saw FutureFlow’s consultation staff meet with more than 3500 thousand customers across Goulburn-Murray Water’s irrigation areas.

FutureFlow’s work program nearly tripled the number of automated regulators and doubled the number of automated sites along the network. The red dots on this diagram show the number of automated sites prior to the start of the 2008 works program. The green dots show the sites automated during FutureFlow’s three-month winter work period. The earlier sites were automated over a period of more than five years, which further highlights the scale of works of the program delivered by FutureFlow.

In the majority of the 6300 kilometres of channel distribution network the movement of water is controlled by water officers visiting individual regulators to add or remove drop bars and increase or reduce the flow of water in line with customers’ orders. Channel automation is progressively replacing these labour-intensive practices. To capture the full value of the expanded channel automation network Goulburn-Murray Water continues to scale up its operations support centre in Tatura, with six staff now engaged as what might be described as e-bailiffs.

Goulburn-Murray Water is extremely pleased to report that we are already seeing the benefits of our early modernisation efforts. In 2007–08 Goulburn-Murray Water delivered 1533.4 megalitres of water to customers on our now modernised CG1–4 channel for every 1 megalitre of outfall. In 2002–03 — the last season in which allocations were also 57 per cent — Goulburn-Murray Water delivered 30.7 megalitres for every 1 megalitre of outfall. To put this simply, last year we delivered around 50 times the volume of water for every 1 megalitre of outfall.

Importantly, reduced outfalls do not impact on Goulburn-Murray Water’s existing environment or passing flow requirements along the rivers. Reducing outfalls also reduces the outfall of nutrients and salinity from the drainage system, which ultimately impacts on downstream river health. During 2007–08 Goulburn-Murray Water’s reconfiguration working groups in each of our irrigation areas led the way in identifying opportunities to reduce the number of assets that make up the irrigation network. Goulburn-Murray Water accelerated the project in response to customer interest, with the reconfiguration team increasing from 7 to 17 staff. Over the course of the year more than 67 kilometres of channel, 362 meter outlets and 195 structures were decommissioned.
Goulburn-Murray Water paid $6.5 million in compensation that primarily reflects the operating and maintenance costs that Goulburn-Murray Water will not have to incur into the future. Since the program began in 2004, more than 400 meter outlets have been decommissioned. On average the program has installed one new electronic meter for every 3.7 decommissioned meter outlets. The program is voluntary and offers significant opportunities for local farmers to bring their water delivery arrangements into line with their on-farm plans. This slide shows a reconfiguration arrangement from our central Goulburn irrigation area. The farmer wanted to bring his supply point back to the main channel, which meant that Goulburn-Murray Water could rationalise four existing Dethridge wheels and 600 metres of channel. The farmer inherited the wheels as a result of farm amalgamations. He estimated his largest supply point would allow him to irrigate his farm in two days instead of four days, improving both water and labour efficiency.

In January 2008 Goulburn-Murray Water officially opened the Cairn Curran Reservoir upgrade. Goulburn-Murray Water completed the $12.5 million upgrade two months ahead of schedule and $2 million under budget. The Cairn Curran upgrade is the eighth in an ongoing program that has seen the Victorian government and Goulburn-Murray Water invest around $100 million since 1997 to improve the integrity and safety of dams and reservoirs across northern Victoria. Finally, the Pyramid Creek salt interception scheme is the first of its kind to include the commercial harvesting of salt from plastic-lined evaporation ponds. Through the scheme more than 22 000 tonnes of salt is kept out of the River Murray, which is a terrific result for the environment and all water users around Pyramid Creek and downstream. The scheme followed extensive technical investigations and community engagement programs by Goulburn-Murray Water, with the Goulburn-Murray Water’s Kerang team undertaking the construction works. The scheme is the first in the Murray-Darling Basin where ongoing scheme operations and maintenance costs are fully recovered through private funds. In 2007 the program was awarded the Engineers Australia (Victorian division) Environmental and Sustainability Award, as well as the overall excellence award for Victoria. These results follow the Engineers Australia National Salinity Prize in 2006. That concludes my address.

The CHAIR — Thank you very much. That was a comprehensive overview of what is quite a comprehensive annual report that was published for 2007–08. I want to take you back to one of your slides for some clarification. It is the slide on sharing limited water resources for both the Goulburn and Murray systems. In terms of the resources column, could you explain the difference between initial stored volume and carryover stored volume?

Mr MOORHOUSE — On the left-hand side?

The CHAIR — Yes.

Mr MOORHOUSE — You have communal carryover — that is how much is in the dam that is run in, that is allocated — and carryover is water that individual customers have already been allocated. It is privately owned and they carry it over in the dam from one season to the next. We cannot allocate that; it is privately held by customers.

The CHAIR — Basically it is unallocated and allocated?

Mr MOORHOUSE — Yes.

The CHAIR — I will go to the financial results first. If we turn to the operating statement on page 62 of the annual report, you have noted, and indeed commented on in your presentation, the fact that the net result is not representative of operations because of the $40 million government grant contribution. Can you explain why that is accounted for as a revenue and not as a prepayment? Why are the accounts being distorted in that way?

Mr GUY — I can answer that. Accounting standards require us to treat any revenue received of that nature in advance in our accounts for 2007–08. It is purely an accounting standard. We do not necessarily agree with it, but accounting standards drive us to treat that as revenue received.

The CHAIR — Even though you have not yet incurred the obligation to supply?
Mr GUY — Yes. The matching principles do not apply when it comes to the accounting standards for a public authority, and therefore we have to treat those as revenue received in the year incurred.

The CHAIR — Right.

Mr GUY — In most instances you would treat it as income in advance and hold it in your balance sheet, but we have direction that we cannot treat it like that, and that is a direction ordered through the Auditor-General as well. We get tested on that pretty thoroughly.

The CHAIR — Is there a matching liability that appears against that?

Mr GUY — What you will see is the income received which goes to our reserves, and then in the following year we anticipate a loss — an expense to match that revenue received in the prior year. Our next year’s budgets and targets will allow for a loss which effectively will be taken out of our reserves.

The CHAIR — A person reading the accounts without necessarily having the notes would not see in the balance sheet a matching liability against that $40 million revenue?

Mr GUY — No, but we make it pretty clear, and we are very careful and mindful of this when we do our statements, that we note that it was income received in advance of the programs and that the expense will be incurred in the following year. There is a cross-reference with that in regard to our statements to identify that. Clearly, we put in there what the program relates to. An item of $40 million in nature is material and therefore we treat it with respect through the reader’s eyes, I guess you could say, so they can interpret it that it will be an expense in the following year on that particular program.

The CHAIR — Can I just clarify a point made by Mr Stewart. You referred to the corporation not paying dividends. I note you have not paid dividends for a number of years, but previously Goulburn-Murray Water was paying dividends under the State Owned Enterprises Act?

Mr STEWART — We are not under the State Owned Enterprises Act.

The CHAIR — So there is no capacity for the Treasurer to require a dividend component?

Mr STEWART — I do not believe so.

Mr GUY — We did not pay a dividend last year. I started in December 2007, so I do not know the history behind it.

Mr STEWART — I do not believe we have.

The CHAIR — I thought there was a history of dividends being paid, in 2002.

Mr MOORHOUSE — We have paid dividends in the past. That would be some time ago.

The CHAIR — On what basis were they paid or required to be paid?

Mr STEWART — We would have to take that on notice.

The CHAIR — The reason for the question is that I am wondering whether having booked a profit is liable to be the basis for a requirement for a dividend to be paid, or tax-equivalent payments to be made, given that you have an accounting profit of $17 million. Has there been any advice or any direction from Treasury to that effect?

Mr GUY — No, it certainly has not been highlighted to us that there will be a dividend payable on that surplus for the financial year.

Mr COOK — It has not been done for the last five years anyway.

The CHAIR — But in the last five years you have booked losses.

Mr COOK — Yes.

The CHAIR — But this year you actually have an accounting profit.
Mr COOK — I would not have thought it was possible, but we had better take that on notice.

The CHAIR — Allied to that is the issue of tax-equivalent payments, whether your book profit will give rise to a tax liability.

Mr GUY — No. We have extensive tax losses — in excess of $300 million — so we do not expect a tax liability.

The CHAIR — Not to be paid, but assessed on this year’s. Although you have the losses to offset it, whether this $17 million still gives rise to a tax liability to offset against your other losses.

Mr GUY — Yes. What we have allowed for in the statements is a tax liability. It is written through the statements that a tax liability has been created, and we have a separate tax balance sheet to support that, in actual fact.

The CHAIR — And that is the standard 30 per cent?

Mr GUY — That is right, yes.

Mr STEWART — Chair, I will clarify just one point: we are constituted under the Victorian Water Act, not under the State Owned Enterprises Act.

The CHAIR — Your understanding is that under that act there is no dividend payable?

Mr STEWART — Correct.

The CHAIR — As far as capital works programs go, could you just in general terms clarify the relationship between Goulburn-Murray Water and NVIRP? I understand from your report and your presentation that you effectively act as a contractor for some of that NVIRP work through FutureFlow?

Mr STEWART — Last year we were invited to deliver on behalf of NVIRP a package of work called the Early Works program, which was the $103 million program that I mentioned. That is our relationship with NVIRP. It is a separate organisation. We have seconded and transferred a number of staff into NVIRP and we do some work on a fee-for-service basis, but NVIRP is running its own capital program.

The CHAIR — And the staff secondments are on a fee-for-service basis?

Mr STEWART — Correct, yes.

The CHAIR — Is there any coordination between NVIRP’s capital works program and your capital works program?

Mr STEWART — Absolutely.

The CHAIR — How does that process work? How are the projects identified and allocated between the two?

Mr STEWART — There are a series of formal and informal coordinating mechanisms between the two organisations. We have a formal relationship agreement between the two organisations, which clearly outlines roles and responsibilities. There is also a joint board subcommittee between ourselves and NVIRP for the highest level coordination, and regular meetings between the full boards. So there is a complete suite of coordination from board right through to project management level. We have made a number of decisions in terms of future maintenance and capital works programs on areas where we know NVIRP will be working in the future. We have deferred maintenance or moved away from areas where we know they are going to be working.

Mr COOK — The reason for that is that Goulburn-Murray Water or any succeeding body to us would inherit what is being done by NVIRP at the moment.

The CHAIR — Inherit in the sense of it will be a — —

Mr COOK — NVIRP is set up for a limited time, so when they have finished their capital works we would inherit what they have done.
The CHAIR — Will that be in the form of a contribution by government which will add to your asset base or will you be required to purchase those works? How will that work?

Mr GUY — That will flow through to us as contributed capital and therefore the asset creation will equal the contributed capital by value. So we will have assets created on our balance sheet and an offsetting contributed capital.

The CHAIR — One issue I would like to ask about is grazing licences. That has been raised in relation to the escalation in fees that have been charged for grazing licences with the new licences that were negotiated last year, with substantial increases in the fees charged to farmers; I understand it was in the order of 250 per cent from previous negotiations a decade ago, so roughly 14 per cent per annum. Can you just outline what was the basis of the escalation in charges for those grazing licences?

Mr STEWART — The board took a policy decision, I think early in the 2007–08 year, of commercial rates for all services provided, including grazing licences. A lot of the responses that we had — and the valuation of licences was independently checked — were in many cases relating to inquiries from neighbours, unsuccessful licence-holders, who saw their neighbours getting a preferential deal, particularly in a time of poor availability of stock feed and large areas of reservoir bed exposed. So there were a number of factors with the licence fees. Whilst I cannot verify whether the percentages you mention are correct, I believe the magnitude is consistent with normal commercial rates.

The CHAIR — That was independently assessed?

Mr STEWART — It was.

The CHAIR — It is a fairly unusual thing to get an independent assessment on.

Mr STEWART — In terms of talking to the market about what other licence fees would be for grazing and agistment.

The CHAIR — They will now escalate at the CPI; is that correct?

Mr STEWART — I believe so.

The CHAIR — The FutureFlow alliance, is that ongoing or is it only for the package of works that you refer to?

Mr STEWART — Yes, the FutureFlow alliance was established between the four entities: ourselves, Transfield Services, Comdain and Sinclair Knight Merz, with the task of delivering the Shepparton modernisation and Central Goulburn 1-4 projects scheduled to be at completion at the end of this calendar year, 2009. It was a two-year entity established purely to allow Goulburn-Murray Water to increase its resources quickly to deliver the project.

The CHAIR — Has that been an effective model?

Mr STEWART — Tremendously so.

The CHAIR — Have you looked to doing that moving forward, that type of — —

Mr STEWART — We have had a successful alliance in the past with the Eildon project. We went through a comprehensive review of alternate delivery models over a period of about six months before we determined an alliance was the best — a true alliance. There are a number of variances of alliances; a true alliance was the best way to deliver these two major projects, and it has demonstrated that by delivering the works program it set out to do and an additional $103 million worth of works. It was established as a $173 million program; it is now close to $300 million that it will deliver, both in asset quality and in terms of stakeholder acceptance of the work that it has done.

The CHAIR — I want to ask you about WorkCover and OHS matters, which are covered on page 35 of the annual report. You established a target of 500 000 hours without a lost-time incident. Can you tell me the basis of that target being established, and why you had that type of target rather than a reduction in lost-time rates?
Mr MOORHOUSE — Yes, the 500 000 hours is not an industry benchmark. Goulburn-Murray Water works about a million hours a year. Our previous record — the period of time between lost-time injuries — had been 434 000 hours. So the organisation set a stretch target saying, ‘We got up to 434 000 hours; let’s go for the 500 000 hours’. That is where that target came from. It was in addition to the lost-time injury frequency rates and the normal industry standards. It was set just to be a stretch; unfortunately we did not meet that. Our actual was 235 000 hours, unfortunately, between lost-time injuries.

The CHAIR — Your lost-time injury rate has been increasing over the last couple of years; are there systemic reasons for that?

Mr MOORHOUSE — If you look at page 48, it has been trending down.

The CHAIR — Yes, you had a good improvement, and then it started to rise up.

Mr MOORHOUSE — And then we kicked up. That is disappointing and we have really doubled our efforts on that. But going into 2007–08 we had over a $100 000 reduction in our WorkCover premium because our track record was improving, and in 2008–09 we have doubled our efforts to concentrate on our OH and S issues.

The CHAIR — What premium rate are you paying now?

Mr GUY — I do not know the exact per cent but I know that the actual premium dropped by $140 000 last year. That is inclusive of the WorkCover premium rate itself dropping a little bit, but $140 000 was saved from the prior year.

I want to add further to Ian’s comments with regard to the increase or the spike with the LTI. I think that is an outfall from educating our workforce. We have poured a lot of energy into no acceptance of harm in the workplace and reporting incidents better. Our reporting system has actually driven out a kick up with regard to the LTI because we are a lot stronger in reporting these incidents. Before it might have been practice to try to manage through and not send people offsite. We are saying, ‘No, let us sit back, assess the situation, get the treatment required, report it as an incident, and let us work and learn from those practices going forward’. We have seen a hike and a spike go up, but now we are starting to see the downward spiral of that benefit, I guess you could say.

The CHAIR — You indicated in your annual report that in the performance this year there were 13 LTIs but only four of them were classed as serious, yet your lost-time rate seems quite high.

Mr MOORHOUSE — Yes, that is an issue I think that — the severest cases we did have had a fairly long lost-time injury.

The CHAIR — One was a fatality?

Mr MOORHOUSE — Yes, unfortunately there was a field — —

The CHAIR — A road fatality?

Mr MOORHOUSE — Yes, in a road accident. That was tragic. A field operator, the first one we have lost that year — which was an impact on the business. But we have got an ageing workforce and it is a very manual system right at the moment that people operate, and it is hard on people’s backs, putting in drop bars and operating structures. So you get a lot of cumulative injuries. Somebody will go off and they will be off for quite a period of time before we can bring them back. You are right, the average lost-time rate has gone up as well. But the vast majority of our lost-time injuries are trips and slips and sprains where we can get the people back to work quite quickly. We have a very proactive return-to-work program.

The CHAIR — That lost-time rate is skewed by those serious — —

Mr MOORHOUSE — Yes.

The CHAIR — I am conscious of the time. I have some other questions I would like to ask, but in the interests of the committee I had better move to our next committee member, Ms Broad. Ms Broad represents the area.
Ms BROAD — Yes, I am one of two MPs here today from Northern Victoria Region. Can I put on the record my thanks to Goulburn-Murray Water representatives for your presentation today. As large as the area is that you are responsible for, the Northern Victoria Region is even bigger and Goulburn-Murray Water is a very important organisation, obviously, in the region. Under the unprecedented challenging conditions, I would also like to commend the organisation for the significant achievements under those conditions, which have been and continue to be very challenging for families and businesses in northern Victoria as well as for Goulburn-Murray Water.

I would like to go, firstly, to page 54 of the annual report and a very important project in northern Victoria that Goulburn-Murray Water is responsible for, which includes the decommissioning of Lake Mokoan. There is a small town in north-west Victoria, Lake Boga, which sits next to a lake that it is named after, which is bone dry at the moment, and that town is vitally interested in this project, because another part of the project that is eagerly anticipated is the connection of Lake Boga to the Murray water supply system, which would mean that when water is available there will again be water in Lake Boga. I would like some comment on how that project is performing. I note there is some information about it in the annual report.

Mr STEWART — Firstly, thanks very much for your comments on Goulburn-Murray Water. Secondly, with particular reference to Lake Boga, it is an integral part of the Mokoan return to wetlands project and a key part of the Snowy offset. That element of the project has now been integrated with the Torrumbarry reconfiguration and asset modernisation strategy known as TRAMS, which has been running for some time. That has been a customer and community driven assessment of the future needs of irrigation and water management, including the Kerang lakes, of which Lake Boga is part. The original intention with the Lake Boga component of the so-called mid-Murray storage project within the Mokoan return to wetlands project was to construct a connection channel between Lake Boga and Little Murray River not far away at significant cost and impact to the local community. There is now consideration in the TRAMS project of rethinking the way that Little Murray River is operated, including the future of the Little Murray weir, and potentially removing the Little Murray weir, so changing the way the water management system works in that area.

The Mokoan return to wetlands project, including the mid-Murray storage, could continue as previously designed and be delivered, but along with DSE and others we think it is a much better outcome to integrate what happens in all the Kerang lakes, including Charm, Kangaroo and Boga, as part of an overall regional strategy which delivers both outcomes, both the intent of modernisation, efficiency of irrigation, in that part of the region and also the Snowy benefits from of the Mokoan project. The project has been delayed, but we think for a much better outcome to get a better regional result.

Ms BROAD — Could you then indicate in terms of how you expect it will perform and what the proposed timing is for the project?

Mr STEWART — I understand work is being undertaken under the TRAMS project. This is a project which has now been transferred to NVIRP, so I cannot comment on how it is running, but this is another example of key integration between NVIRP’s development work and Goulburn-Murray Water’s obligations and future operation. I will just refer to some notes here. We are looking with DSE at some interim measures this year which will involve using Kow Swamp as part of that project, and that will allow the Snowy targets to be met with a renegotiated time frame for delivery of late 2009 for delivery of that Snowy water. That will allow NVIRP and the TRAMS projects to end up with an ultimate solution for what the mid-Murray storage would look like. So it is this calendar year.

Ms BROAD — Could I also turn to another very important program that Goulburn-Murray Water is responsible for, which is referred to on page 16 of the annual report? That is the funding provided by the Victorian government for the rebate of fixed water charges to customers. Again, under these extreme drought conditions this drought relief package has been of enormous importance to Goulburn-Murray Water customers, families and businesses in northern Victoria. Could you comment on the performance of that rebate program and its effectiveness in terms of managing the customer base?

Mr STEWART — It has certainly been extremely well received and very useful. Ian might want to comment on that.

Mr MOORHOUSE — Yes. It was well appreciated by all customers. We delayed our billing. We normally would have billed our fixed charges in July. We delayed that until October when the government made the
announcement, and we were able to put credits on the bills directly, and that meant that that flowed straight through to customers. It was a good way to get that benefit to customers directly and quickly. There were some exclusions, I suppose, and there always have to be, so we will have to deal with that together with the DSE and the government as to where that line was. But that program has been very well received and very much appreciated by our customers.

Mr GUY — I think the delay was very well received, but also we applied the instalment payment scheme on top of the delay so that it was not a burden for people when they suddenly got an account; where they expected to see it in July, they actually received it in December. We actually did a staggered payment arrangement on top of that as well, so I think the final process for that would be May. We tried to massage it and imagine it the best way we could to manage customers’ needs.

Ms BROAD — So, understanding that a lot of customers are under a lot of stress as a result of the conditions, are you able to have a view about how effective that has been in assisting customers of Goulburn-Murray Water to manage in these conditions?

Mr MOORHOUSE — Yes. The feedback we get is that it has made a significant difference to our customers, to their cash flow and their viabilities at this difficult time. They are now in the 12th year of a drought. A lot of the cash reserves are gone now. A lot of people are going on monthly hand-to-mouth-type arrangements, so it has assisted significantly. In 2007–08 Goulburn-Murray Water received $35.9 million under that program, which a significant injection into that regional community.

Ms BROAD — A further very major change that occurred that is referred to in a number of places in the annual report, including in the highlights starting at page 2, was the unbundling of water arrangements which took effect from the start of the financial year covered by this annual report. That was a huge change coming out of the national water reforms which had to be managed both by Goulburn-Murray Water and its customers. I am aware that it certainly was a large project to manage, so, again, I would like some comment on the performance of that change and how that change is viewed in terms of its effectiveness from both the point of view of Goulburn-Murray Water and its customers?

Mr MOORHOUSE — Yes, as you pointed out, it was a major change. It was probably the most significant change in water entitlement management in the last 100 years. It was clearly a big change for our customers and it was also a big change for Goulburn-Murray Water, because with the central water register we had to replace all our business systems to interface with that, so there was a big change there. It is consistent with COAG principles that water is separate from land and we have those products. It was a difficult year to introduce it, because unfortunately customers were already stressed and dealing with drought in their enterprises. It was another added issue for them to deal with on top, but I think it sets up the framework into the future to give them a much more flexible product. It gives them a lot of opportunities now with leasing and quick transaction times. I think it was a difficult year, 2007–08, in introducing it, but it is a change that sets us up for the future in how the water markets are going to operate going forward and streamline all of these administrative processes.

Ms BROAD — Perhaps last, but not least, Goulburn-Murray Water is a very significant employer in northern Victoria. At page 45 of the annual report there is reference to the seriousness with which Goulburn-Murray Water takes opportunities to promote diversity for women in the field, for young people and indigenous communities. There are very significant indigenous communities in northern Victoria, so I would invite you to comment on how those efforts are performing in terms of including particularly those groups that I have referred to.

Mr STEWART — The first thing, on the indigenous communities, there is active engagement through a lot of our construction and maintenance activities and certainly through the Future Flow alliance, with the engagement of indigenous resources as available for particular projects in helping us with the various requirements of the Cultural Heritage Act.

In terms of other groups, for young professionals and young staff we have a number of training programs, traineeships and cadetships in the professional world and student programs looking primarily at opportunities for country kids for country jobs, where we find a greater success rate for attracting professionals into our region. That has been a program that we have been running for five or six years now — very successful — and recognising also the particular needs for development of women in the workforce. We have established a number of initiatives, including as reported on page 45, our professional women’s development network, and we are seeing a net increase in
participation of women in the workforce and flexible working arrangements for women and return to work for young mums.

Ms BROAD — The drought deployment program is also referred to in terms of the connection with the North Central CMA. Again, in these challenging conditions that has been, I think, a very significant program, so are you able to comment on the performance of that?

Mr MOORHOUSE — Yes, we are very pleased with that. There were some really good environmental outcomes achieved on woody weeds on our land and public land and fencing, so I think we gained a lot out of that. The quality of the people who were on that program exceeded our expectations. We were happy and we would be more than happy to continue to engage in those sorts of programs. I think it was a real win-win for us, for the environment and for those people on the programs.

Mr BARBER — This is a very useful chart in relation to the Goulburn system. It is a mixture of storages and flows, so I was wondering if you can explain to me how the rules of the bulk entitlement get converted into the actual shares that you create and issue? Also, in terms of this final outcome, I guess in predicting what is going to go on here there is some sort of exercise of linear programming or some such because some of these things interact with each other, can you explain to me a little bit about how that process works?

Mr STEWART — I might just go back a couple of slides if I can to explain how the water is allocated. For dummies!

Mr STEWART — Before an allocation can be made of individual private rights we need to get over a threshold or a hurdle in any system and we put in the system operating requirements. Building up from the bottom, we have the private carryover, which we have discussed before. We have an allocation that we have to set aside to operate our river system and then a further allocation we have set aside to operate our irrigation channels. You may recall in my presentation I mentioned at one stage maximising the availability of water during the drought. We ran 20 to 30 per cent less of our irrigation system. That took that slice of the pie. It made it a bit smaller, so it lowered the hurdle before we could operate the system. Once we then have enough water to operate the system we then start allocating available water in accordance with the defined rules under the BE for all the entitlement holders. So from the customer’s perspective, the high reliability water share is then allocated to irrigators, customers, urban water corporations and the environment. Once that hits 100 per cent of the high reliability water share then we start putting aside reserves for next season. Then when we have sufficient reserves for starting next season we then would look at allocating what is called ‘low reliability water shares’. We have not seen that in northern Victoria for many years. The old terms were ‘allocations and sales’, so the unbundling has changed that. That is how the bucket fills up and is then passed out in terms of the bulk entitlement.

If we move on to the particular question Mr Barber raised — and I might ask Ian to try and explain a little bit more about the detail of bulk entitlements — what this diagram shows on the left is how the bucket filled up during the year with what was initially in storage prior to the carryover and then what flowed in. And then on the right it is really just an account balance of how that water was then allocated across the various entitlement holders and commitments. You will see there that there are allocations for losses and evaporation and distribution loss and so forth. Have I missed the point of the question?

Mr BARBER — I suppose I could ask a few little ones. Channel distribution losses, evaporation, river loss to Goulburn Weir and Goulburn Weir release — they themselves are all a function of the amount of water that is either in storage or is being moved around?

Mr STEWART — Yes.

Mr MOORHOUSE — It is a combination of things.

Mr STEWART — Storage evaporation is a function of the area of the storage, essentially.
Mr MOORHOUSE — There are some losses there that are in the nature of the physical system or there are some commitments we have made for the physical system, and there are some commitments under the BE. We have to maintain minimum flows at a number of key points through the system.

Mr BARBER — Which one of those slices is that?

Mr MOORHOUSE — That is river loss to Goulburn Weir, Goulburn Weir releases — —

Mr STEWART — Goulburn Weir releases would be the passing flow at McCoys Bridge, which is a measurement down there.

Mr BARBER — So they are kind of set from the beginning?

Mr MOORHOUSE — Yes. We have to maintain Goulburn Weir. Unless it has been qualified by the minister, we have to maintain, I think, 350 megalitres a day released into Goulburn Weir, and then we have to have another set figure down at McCoys Bridge before the Goulburn goes into the Murray. We have to meet those commitments before we can allocate water. The BEs define those minimum requirements and then define how we share out the water.

Mr BARBER — Storage evaporation and channel distribution losses I guess are derived by the amount of water that is either in storage or is going to be delivered.

Mr MOORHOUSE — Storages losses — we have to allow for those over summer. Over summer this year we were losing 400 megalitres a day released Eildon when we had that two weeks of 40 degrees. So we have to make provision for that because we reckon that is going to happen. We allow for how much water we are going to lose off the storages. We have to allow for how much water it is going to take us to run the rivers and meet our minimum flow requirements. Then, if we are going to operate the irrigation areas, we have to allow water to operate the irrigation systems and meet all those fixed losses of running the system before we can start delivering water and allocating water.

Mr BARBER — And the delivered water, is that roughly equivalent to the billed water, or are there further allowances?

Mr MOORHOUSE — The delivered water is what we have metered on the farm, which is billed water.

Mr BARBER — When is the decision made? We end up with 440 stored volume at the end of the season. Who makes the decision of how much storage you are going to have at the end versus what could have been allocated through any of these other sources?

Mr MOORHOUSE — When we are operating in a sub-100 per cent year, basically we were allocating everything out of the storage. So the storages could be — —

Mr BARBER — Inflow equals outflow in one year.

Mr MOORHOUSE — Yes. We have an obligation to meet all our commitments. We allocate everything out of that.

Mr BARBER — It did this year.

Mr MOORHOUSE — Yes. For the last several years we have been basically bumping along on empty at the end of the season, having very little water left in the storage.

Mr BARBER — So the 400 or the 440, what is that? Just dead water?

Mr MOORHOUSE — Part of it, yes.

Mr BARBER — I understand you have simplified it for us, and now I am asking complicated questions.

Mr MOORHOUSE — What we also do is stop allocating on 1 April. So any inflows after that date — this is as at 30 June. We have already gone through the autumn–winter inflow period, or part thereof of our winter flow. The storages are typically drawn down to lowest in the middle of May when the irrigation season finishes, and
then, if we are not in drought, we start getting recovery. This is a snapshot of 30 June. We have already gone through autumn and part of the winter inflows. So we are starting recover, hopefully to start allocating again on 15 August.

Mr BARBER — High reliability water shares are shares of this available water, but I have also heard them defined in terms of the probabilities that they will be delivered. Is that just simply a descriptor based on past experience?

Mr STEWART — That is the difference between the allocation and the entitlement. An individual may have property ownership of 100 megalitres of high reliability water share. If that individual were on the Goulburn system this year, where the allocation is 32 per cent, they would have 32 megalitres of water available. One is the entitlement of the property and the other one is, in accordance with all the sharing rules, what is available for you this year.

Mr BARBER — But I have also heard high and low defined as — —

Mr STEWART — What is set as the high — —

Mr MOORHOUSE — What we do though is give season outlooks and projections for the year forward, and we give them the wet, dry and average scenarios. We will also as part of that give them a 9-in-10 chance or a 5-in-10 chance. What does the modelling show about the probability of achieving that?

Mr BARBER — For the coming year?

Mr MOORHOUSE — Yes, for the coming season.

Mr BARBER — You have referred to, on page 5, the CSIRO modelling about future surface water availability, and you have talked about the info that is being put into the northern region SWS. Are you able to translate from that to a new probability that high-reliability water is delivered?

Mr MOORHOUSE — We have modified the models, and we have done that this year based on the CSIRO work and the SWS work. It was not in 2007–08. Say, for example, based on the outlook for this year, 2008–09, the most probable outcome on a dry scenario was 30 per cent for the Goulburn and Murray systems, and it looks like they are going to come out pretty close to 32 and 35. But we have subsequently in this last year adjusted the models, so the predictions for 2009–10, the following season, are based on the drier modelling scenarios that are coming through. We have got 116 years of records, and that is not necessarily a dry — —

Mr BARBER — No.

Mr MOORHOUSE — But what the modellers do is they look at the previous years and if we are in a dry sequence, they say, ‘You can’t assume that average’, so they will actually take a drier sequence average, because if you are in a drought sequence, you are saying the chance — —

Mr BARBER — You are saying a moving average over 10 years rather than 150.

Mr MOORHOUSE — You bias the data to a drier sequence if you are in a drought, because you have got a reasonable expectation based on those 116 years of records that you are not going to get the average immediately — in the following year.

Mr BARBER — Sure, but not on the basis of the downward moving target of a climate change scenario.

Mr MOORHOUSE — No.

Mr BARBER — Another question: the 4 per cent trading cap which you refer to on page 2, the number of irrigation areas if they are capped; is that 4 per cent of the total entitlements that were issued that year?

Mr MOORHOUSE — It is not the allocation; it is the entitlements held, both high-reliability water shares and low-reliability water shares. So there is a 4 per cent annual cap on the trade out within that year of the high-reliability water shares that are on issue that year.

Mr BARBER — That year; so if it is 20 per cent or 32 per cent as it — —
Mr MOORHOUSE — No, this is not allocation. There is a table at the back if you want to refer to it. It is based on the number of water shares held regardless of the allocation against them, because you are permanently selling them.

Mr BARBER — Okay. That was my question.

Mr MOORHOUSE — An allocation is an annual thing, whereas if you are permanently selling your water share, you are also selling the ongoing stream of allocations that come from it.

Mr BARBER — So how many gigalitres was that that were traded out of your system or across systems when you hit the 4 per cent cap?

Mr MOORHOUSE — For 2007–08, if you go to page 110, appendix B7, that gives you that breakdown, and you can see that Shepparton, Pyramid-Boort, Murray Valley and Campaspe hit their 4 per cent cap for high-reliability water shares in 2007–08, whereas Central Goulburn, Rochester, and Torrumbarry in the pump districts did not hit their cap in 2007–08, although they came close.

Mr BARBER — How much of that volume was traded completely out of your system as opposed to between these irrigation areas?

Mr MOORHOUSE — The appendix is in the back. I will just find that one. I will give you that information, where it has gone to. You have got to sit down and study them.

Mr BARBER — That is okay.

Mr MOORHOUSE — Change of ownership — so that is the series, say, on page 107, appendix B4. You can see where it has come from or where it is going to.

Mr BARBER — Okay, I will study that. Just a couple more — —

Mr MOORHOUSE — Just on that, sorry, that information is produced by the water register and is publicly available on their website, so — —

Mr BARBER — I tried to look at their website, but I cannot understand it. Thank you for summarising it. You noted at page 20 that for the CG1–4 project you reduced your unplanned outfalls in 2002–03 from 1800 megalitres to 25 megalitres in 2007–08. Is that an estimate or is it actually formally measured?

Mr STEWART — That is an actual measured number that we can do because of the channel automation and accurate measurement devices that have been installed on that project.

Mr BARBER — On the outfalls?

Mr STEWART — Correct.

Mr BARBER — As long ago as 2002–03?

Mr MOORHOUSE — Yes.

Mr STEWART — Yes, because the first part of CG1–4 was a pilot project in 2002, so they are accurate measurements.

Mr BARBER — How many points is that; how many outfalls?

Mr MOORHOUSE — How many outfall points? It is about four or five. Will I give you the exact — —

Mr BARBER — No, that is all right. Are they automated measurements and continuous, or does someone just go and stick a stick in there and measure the drop?

Mr MOORHOUSE — No, all the major ones are automated and continuous recording. There will be one or two minor ones that are very small that have a meter on them and you have got to go and read them.
Mr BARBER — Sure. You have had a large number of these projects: the Shepparton irrigation one as well, some reconstructions, and you are carrying out the NVIRP early works. Why is it that you have not sought a referral under the Environment Protection and Biodiversity Conservation Act for those works?

Mr STEWART — I do not know that we have not.

Mr MOORHOUSE — We have, and I think we did not require one. We went through this — —

Mr STEWART — I do not believe we required one. I think we did go through the process, and we can confirm that.

Mr MOORHOUSE — We have gone through that process.

Mr BARBER — Sorry, for CG1–4?

Mr STEWART — For CG1–4 and Shepparton I think, but we will take that on notice. I am sure we did.

Mr MOORHOUSE — Shepparton, yes. We have gone through the state processes, and I am pretty sure we wrote to the commonwealth and asked if we were a — what is the terminology?

Mr BARBER — Controlled action.

Mr MOORHOUSE — Controlled action or not, and we were given advice that we were not a controlled action, but we can confirm the details for you. The issue is we are retrofitting an existing system, and the environmental impacts — because the works are on regulators in the channel system.

Mr BARBER — Yes, but it is the operational changes such as these outfalls at the end of it that become the final impact.

Mr STEWART — But if we go back to the general slide of the system operation that shows the outfall.

Mr BARBER — The documentation for those referrals is public in any case, but if there is additional, you would have assessed it in-house. If there are documents that were published or unpublished which actually describe that, and you can send those over — —

Mr MOORHOUSE — Yes. We went through that process. I was not personally involved, but I understand we were not a covered action.

Mr STEWART — Can I just explain the environmental benefits of reducing the outfall? This diagram shows surplus water. Under this diagram water not provided for irrigation would re-enter the river system through those purple arrows. What we are talking about is vastly reducing and controlling the amount of water that returns back to the river there. As a consequence that water stays back up in the dam and can be released down the full river system at a time appropriate for the environment, and in doing so more water is available to the river compared with the water that would otherwise be lost in the irrigation network before it got back to the river.

Mr BARBER — The NVIRP group has a document seeking a referral from the state minister, essentially for the same sort of work. I was not aware that you had actually been through the same exercise.

Mr MOORHOUSE — The difference you see on the CG1–4 is that in that project the outfall went into a drain and then into the Murray. It did not hit any species of national significance, whereas if you go to another system — if you were discharging into the Broken Creek, which is a breeding ground for Murray cod — you will hit that trigger, and you could well be a controlled work. It is also geographic specific.

Mr BARBER — It is the same with the early works which you guys carried out for NVIRP. There was a referral, or was it their responsibility — —

Mr MOORHOUSE — It was their responsibility. It was all under the same referral. The majority of those early works were in central Goulburn, which once again discharged into the drain network and then into the river. When channels outfall into drains they pick up nutrients and salinity and there is a downstream water quality impact on the receiving water. There is a benefit in the equation as well.
Mr BARBER — There is an evaluation. You have metered the savings in this case and they simply get back into one of these coloured slices in the following year or two?

Mr STEWART — Those savings will be eventually returned to the investor.

Mr BARBER — To the investor? That was a question I wanted to ask. The Water for Rivers project and the Victorian Water Trust funded a lot of these works. Is the water allocated to them as a share, because I have also noted that sometimes the actual bulk entitlement is altered to give that water to the Minister for Environment and Climate Change?

Mr STEWART — Each investor is returned a defined amount of water. For example, in Shepparton the Living Murray initiative is investing $87 million for 30 gigalitres of water, and similarly the water trust and the Water for Rivers project and others have a defined benefit from their investment that once audited will be returned via amendment in the entitlement.

Mr BARBER — Not a water share?

Mr STEWART — It becomes a water share under the bulk entitlement.

The CHAIR — We will move to Ms Lovell, who is also a member for Northern Victoria Region.

Ms LOVELL — I refer to page 5 of the annual report which notes that the system losses for the 2007–08 year were 380 000 megalitres. Given that losses last year were only 380 000 megalitres, and also recent reports from senior Victorian water officials that savings may be only 30 gigalitres per year in the future, I am interested to know whether Goulburn-Murray Water remains confident that stage 1 of the food bowl modernisation project can deliver 225 gigalitres of water savings, and, if so, how?

Mr COOK — In terms of calculations DSE will be doing those for us. They will be the ones who will calculate what the savings are going to be. Anything to do with the pipeline, if you are talking about that, really is to do with DSE and Melbourne Water, not us. We will be involved in the savings but not in anything else other than that.

Ms LOVELL — But are you confident that 225 gigalitres in savings can be achieved?

Mr VINEY — Chair, are we doing a water inquiry or a performance audit? We are moving — —

The CHAIR — The question relates to what is in the 2007–08 annual report, so it is in order.

Mr VINEY — The question that has been asked relates to future savings under another project.

Mr COOK — Under NVIRP.

Mr VINEY — I fail to see how we can expect the people before us to answer questions in relation to that.

The CHAIR — I think you wanted to make a response, Mr Stewart? If you are not able to answer it we can move on.

Mr STEWART — I might pass on the question.

Mr MOORHOUSE — One of the underlying assumptions of the 225 gigalitres is 85 per cent efficiency. We believe that is achievable. In normal times we operate at 70 per cent. That is achievable in other irrigation schemes around the world. Our experience would be that that assumption of 85 per cent is an achievable objective with an open channel irrigation scheme and with the investment that is being made.

Ms LOVELL — I refer to page 2 of the report which notes that the then chairman of Goulburn-Murray Water, Don Cummins, was appointed as a committee member on the food bowl modernisation steering committee. I ask whether during and following that committee’s work did Mr Cummins give any presentations to the board regarding that project?

Mr COOK — Regarding the food bowl project itself?

Ms LOVELL — Yes, from the steering committee.
Mr COOK — I cannot recall it, put it that way. I do not know whether David can. I cannot recall him giving a presentation on that at all.

Ms LOVELL — Is it possible for you to take that on notice and, if he did, could we have copies of any presentations or minutes of the board meetings of those presentations?

Mr COOK — We can have a look at that. You are talking about in his role on the food bowl committee that he came to the board and gave a — —

Ms LOVELL — He was appointed as Goulburn-Murray Water’s representative on the food bowl modernisation steering committee.

Mr COOK — Let us have a look. I cannot recall.

Ms LOVELL — At page 62 the report lists your management and administration costs, which have been increasing markedly over the past few years. In 2005–06, which is not listed on this sheet, they were $11 554 000. They increased by 17.5 per cent in 2006–07 to $13 575 000 and then increased again by 19 per cent in 2007–08 to $16 156 000. Can you just explain to us how this is justified, and can you please explain the jump?

Mr GUY — Those increases are relative to the business dynamics that we need to change with. The introduction of the unbundling system in the water register and the introduction of the modernisation works needed us to scale up to meet those demands. We are also doing quite a number of recoupled works programs that are fee-for-service-type activities, which demand a lot of management and administration-type functions. Therefore, to meet those demands, we have an increase in management and administration costs for those.

As an example, I can give you some stats with regard to the increase in EFT from one year to the next, which is relative to what you are talking about with that. In water administration, we had 12 more employees, due to the unbundling. For modernisation, we had to scale up by 22 people to feed FutureFlow, the alliance project. With these, we had to backfill as well. With regard to the backfilling, the staff seconded to the alliance were covered on a fee-for-service basis, but it all increases our net costs. Even though we might have revenue to offset and compensate for part of that, what you see is increasing costs. It does not necessarily mean that we are spending more money. We are recovering money to offset the increase in costs with the FutureFlow or the alliance agreements, but the unbundling certainly put a heavy burden on us with regard to scaling up resources.

Ms LOVELL — Referring to the financial and management audit committee, which is on page 13 of the report, can you please explain what this committee does, what audits it undertook in 2007–08, and can you provide us with a copy of minutes from that committee?

Mr GUY — On the function of the financial and management audit committee, it oversees all financial management, the financial management frameworks we work around. It also deals with the corporate risk and the risk functions of the organisation, the compliance functions and meeting our regulatory requirements with regard to compliance management. It sets the framework for us to be able to monitor and report on. With regard to the minutes, yes, we can present those. There is not a problem there.

With regard to the audit, it is quite an extensive audit process we go through. We have an internal auditor who I think undertook — I would be off the top of my head here — in excess of 16 independent audits for the year. I can have that confirmed as to the internal audit process and what they did report on and hold us accountable to. So it is a quite extensive audit committee, and I understand they meet six times per year.

Ms LOVELL — Also, on page 12 of the report it is noted that Mr Cummins was the chairman of the authority for three months of the year. It has been reported elsewhere that Mr Cummins inappropriately claimed money for expenses when he was the chairman of Goulburn-Murray Water. It appears that he double dipped with one of his other board positions — Mr Cummins was chair of Goulburn-Murray Water at the same time he was a member of other government boards, including the Goulburn Broken Catchment Management Authority. Has Goulburn-Murray Water undertaken an audit of Mr Cummins’s expense claims, given his now public indiscretion? If not, why not? If so, can we see the details of that audit, and was it undertaken by an independent auditor?
Mr GUY — I can facilitate that. Yes, Goulburn-Murray Water was involved with the investigation. That was done independently of the bodies named there. We provided the investigator with all records with regard to Mr Cummins’s claims and activities, and the findings were that there was nothing to do with Goulburn-Murray Water. All claims were legitimate for our purposes; the claims were not relevant for our organisation. I think the claims were found to be relevant for other organisations, in cross-subsidies, or whatever the finding was.

Ms LOVELL — On page 79 of the report there is a note about a possible contingent liability of $5 million. What does this $5 million contingent liability relate to, has the matter been settled, and if so, what was the cost and who will bear it?

Mr STEWART — I can say that we received a claim for in the order of $5 million in relation to the trial of new channel automation technology, the claim was settled without us admitting any liability, and the terms of the settlement are confidential.

Ms LOVELL — So it was CG2?

Mr STEWART — It did relate to CG2.

Mr GUY — The contingent liability had to be recorded for our financial accounts. Because of the unknown nature of the claim and the investigation that was happening at the time, we put in what we believed was a maximum allowance on that. We did not believe that the claim was of that nature. Regardless, through our audit process and seeking advice, we put in what we believed would be the maximum nature of that claim.

Ms LOVELL — On page 75 of the report, at the top of the page, under cash and cash equivalents, there are investments listed of $109 million. Given the current state of the markets, it would be useful for us to ask where that $109 million is invested.

Mr GUY — Sure. I would love to say that we still have that $109 million, but we do not. That was money advanced to us for a number of projects, obviously those we listed: the $40 million, the reconfiguration program. We also had very strong funding deeds with the alliance and the modernisation projects that gave us milestone advance payments. They have since been drawn down against those milestones, as the project has been delivered. We currently have around $33 million invested, and that is invested now with the Treasury of Victoria. The board has taken a position to ensure that those funds are protected by state. They were at that stage invested with major Australian banks, and we did not see a security risk at that time, but obviously the global financial crisis has made us rethink our policy, and now any surplus funds greater than $1 million are invested with the Treasury of Victoria.

Ms LOVELL — Were there any losses from that investment at all?

Mr GUY — No, they were all with fixed-term deposits on fixed interest rates. There have been no financial implications or investment downgrades.

Ms LOVELL — Page 77 refers to a deferred tax liability. The balance sheet of the organisation lists a deferred tax liability of $27,570,000. This liability was not included in the 2006–07 balance sheet. Why is it there this year, and why has the liability increased from $22.3 million in 2006–07 to $27.6 million in 2007–08 when the note on page 77 says that GMW does not expect to be in a taxpaying position in the foreseeable future?

Mr GUY — I think that might have been answered in the previous part of the presentation with regard to the Chair’s question. We do not believe we will be in a taxpaying position in the future because of our significant tax losses that will be carried forward. So any tax liability that we do incur through trading activities will be offset against those tax losses. If we were to project forward under the profits that we derive this year, it would be many years before we would even be in a taxpaying position. Purely the financial operating results of the year demanded an increase in our tax liability, but it is certainly not going to turn into a taxpaying position.

Ms LOVELL — Given that major bushfire events occurred in 2003 and 2006–07, can you advise of the estimated reduction of inflows during the 2007-08 year caused by these events? And has any work been undertaken to estimate the effects of the most recent Victorian bushfires in February 2009?

Mr MOORHOUSE — We did not bring those figures. You are referring to the 2006 fires?
Ms LOVELL — There were major bushfires in 2003 that probably had an impact during this year as well, but also in 2006–07. Can you advise of what the impacts were of those two events and any work you have done on the more recent fires of 7 February?

Mr MOORHOUSE — What happens after bushfires is that the catchment yields go up initially but then go down as revegetation occurs. That can happen over decades — possibly 50 years or 80 years in the case of alpine climates. There have been some assessments done on that. Can we — —

Mr STEWART — I might say that the great alpine fires in 2003 and 2006 were of significant interest to the then Murray-Darling Basin Commission and now authority. So I imagine a lot of work is being done by it and we will be contributing to that.

Mr MOORHOUSE — It is very difficult to predict at times, because it depends on the intensity of the fire. Some of the fires in 2006 did not have huge impacts; they were fairly low-heat fires so there was a lot of regrowth and a lot of recovery. These recent fires have been very intense, so that will have a different impact and the like.

Just on the recent fires, we had fires in three complexes — in the Kilmore East-Murrindindi fire complex, and that is in the Goulburn catchment, where 184 000 hectares were burnt. That is 18 per cent of the total Goulburn catchment above Goulburn Weir. We are very fortunate that it is not a big component. The other fire complex that we dealt with this year was the Beechworth complex fire. There were 32 000 hectares of the Ovens and King catchments burnt in that fire, but that represents, fortunately, only 3 per cent of the catchment. Finally the other complex was at Redesdale and around Lake Eppalock. There were 10 000 hectares of that catchment burnt, which represents about 5 per cent of the total catchment. We were very fortunate with these last fires. The impacts on the catchments are relatively small compared with the size of the catchments.

Ms LOVELL — But I would think those in 2003 and 2006-07 had significant impacts.

Mr MOORHOUSE — Yes, they did.

Ms LOVELL — Given that they were in the north-east CMA area, where we get 38 per cent of all inflows into the Murray-Darling Basin — these latest ones were in the Goulburn, where we get 11 per cent of inflows into the Murray-Darling Basin — they are fairly significant and will have a fairly significant impact on our inflows.

Mr MOORHOUSE — There is work being done on that by the Murray-Darling Basin Authority. Can we provide that information to you?

Ms LOVELL — That would be fantastic.

Mr STEWART — The Murray-Darling Basin Authority acts as the resource manager on the Murray system so it is particularly concerned with what is happening there. Of those three fires that Ian just mentioned, the Kilmore East-Murrindindi north complex was in here, the Beechworth fire was in the Ovens there, and the Redesdale fire was just above Eppalock.

Ms LOVELL — I refer you to appendix A1 on page 95 of the annual report, which relates to the Eildon–Goulburn bulk entitlement. This records that there have been no amendments or new BEs in relation to the Goulburn. Given that the government has committed to allocating a bulk entitlement to Melbourne Water for its share of water savings resulting from the food bowl modernisation project, when do you anticipate that this new entitlement will be finalised?

Mr STEWART — We have written to the minister requesting the amendment, and that is currently before the minister.

Ms NIEUWENHUIZEN — It is for water savings; it is not an entitlement to Melbourne.

Mr STEWART — Sorry, that is not the Melbourne bulk entitlement; that is to allow a provision of water savings from the entitlement. It is a setting aside of water recovered.

Ms LOVELL — When do you envisage the Melbourne bulk entitlement being settled?

Mr STEWART — That is a question for the minister.
The CHAIR — Thank you.

Ms LOVELL — On page 58 of the report there is reference to the total channel control project being approximately 30 per cent complete. But the same project was listed in last year’s annual report as being 78 per cent complete. How can the same project go from being 78 per cent complete in one year to 30 per cent complete in the following year? And is this a function of the difficulties in completing this project to the satisfaction of irrigators?

Mr STEWART — I would have to take that on notice, but there is a significant change of scope of work during the reporting period and that does note that it is part of the FutureFlow works.

Mr KAVANAGH — Thank you all for attending today to give evidence to the committee. I want to ask you about the market in entitlements. You have mentioned them. They are the same as water shares, is that right? You mentioned water shares.

Mr STEWART — That is right. The tradeable product is a high-reliability water share or a low-reliability water share.

Mr KAVANAGH — This comes about from when people were granted rights, you said, in the early 20th century. Is that right?

Mr STEWART — That is right.

Mr KAVANAGH — Those rights were given permanently, weren’t they — forever?

Mr STEWART — I believe so.

Mr MOORHOUSE — There are two things. If you are looking at the irrigation areas, they were given water rights. If you go outside the irrigation areas onto the rivers, they are 15-year licences and groundwater licences. But if you are talking about the irrigation areas, they were allocated as water rights in perpetuity.

Mr KAVANAGH — And they are being sold now to third parties, is that right, in some cases?

Mr MOORHOUSE — Originally when they were allocated they were tied to land and they had no value other than with the land. With tradeable water entitlements, they are a separate product that is owned by the customer and they can sell it on the market.

Mr KAVANAGH — What is the origin of a tradeable water entitlement? It is not irrigation and it is not taking water from the river; is that right?

Mr MOORHOUSE — Sorry?

Mr KAVANAGH — What is the origin of a tradeable water right? You said irrigation ones were tied to a particular piece of land.

Mr MOORHOUSE — Water rights started to be allocated in the 1920s. In the early 1990s they became a separate, marketable product and they could be sold, and that is when they gained a commercial value.

Mr KAVANAGH — Typically, how much do the water rights go for?

Mr MOORHOUSE — If you are talking about permanent, on a high-reliability water share on the Goulburn-Murray system it is something like $2200 to $2400 a megalitre. The market sets that. Goulburn-Murray Water does not set that.

Mr STEWART — We are not involved in that process, other than the transfer.

Mr MOORHOUSE — That is for the permanent sale with transfer of ownership. That can be sold on an annual basis, which is allocation sale, and on most of the main systems where water is allocated — so on the Goulburn and the Murray — the price is sitting at a little bit less than $300, at $290 a megalitre or something like that. That reflects the level of scarcity.

Mr KAVANAGH — Do you have any idea what was paid for them originally?
Mr MOORHOUSE — It depends on when you acquired your water. Originally they were allocated at no cost, if you go back in history. Irrigation first started in Victoria in the 1890s as an extension of social policy to settle people on the land and close to settlements, so there were different government objectives at the time. When water first started to be traded in the 1990s, I think it started off at about $200 a megalitre, but that was a wetter time, and it has worked its way up to the $2200 to $2400 a megalitre at this point in time.

Mr BARBER — I have one point of clarification. In answer to that earlier question about CG1–4 and the Shepparton irrigation area, you said they were converted into bulk entitlements. I presume they went to our state minister for the environment and not Water for Rivers, the public company.

Mr STEWART — The adjustment has not yet been made. That will be a matter for DSE, which manages the investors and the allocation of the return on investment.

Mr BARBER — So the works get done. I guess in some cases when you are talking about outfalls, you also have leakage and metering in there and it is probably not until the following year that you are able to verify that those savings actually occur.

Mr STEWART — Yes. There is a defined process for actual measurement of savings, which can happen in the winter period with what is called a pondage test — isolating a section of channel — or during a season for meters. There is a defined period to pick up what the actual savings are and compare them back to the estimated savings.

Mr BARBER — Is that done in house or is it verified by a consultant?

Mr STEWART — The assessment of the data is done in house, and it will be independently verified in accordance with the minister’s forthcoming guidelines on water savings.

Mr BARBER — So once that is done you are in a position to make a recommendation to the minister on a formal change to the bulk entitlement that actually locks it in, yes?

Mr STEWART — Correct.

Mr BARBER — And that has not happened yet — —

Mr STEWART — It has not happened yet.

Mr BARBER — In the case of those two projects I mentioned.

Ms LOVELL — David, in your opening remarks you made the comment that the water in the storages in the system is owned by your customers. If that is the case, how has it been possible for Melbourne Water to strike a deal to transfer 75 gigalitres of that water to Melbourne without consultation with your customers?

Mr VINEY — Chair, I am just interested to know how that relates to the agency’s performance.

The CHAIR — I accept your point of order, Mr Viney, that that is outside the scope of what we are discussing here today.

Ms LOVELL — Good timing!

Mr KAVANAGH — Just perhaps on that business of selling the water rights, you said the price is now about $2300 a megalitre. Typically, how many megalitres were involved in that sale?

Mr MOORHOUSE — How many would be in a sale?

Mr KAVANAGH — Yes.

Mr MOORHOUSE — That is up to the individual; he is the one selling the entitlement. There are trading details in the appendices at the back of the report of what volumes are involved. Is that what you were asking?

Mr KAVANAGH — Yes. What typically would be a volume, though? Would it be more like 100 megalitres, or 1000 megalitres?
Mr COOK — I think that would depend on whether they were getting out wholly or they were selling water. You can sell it on a temporary basis and you can sell it on a permanent basis, but if a dairy farmer had 500 megs and was getting out, he would sell the lot.

Mr KAVANAGH — So it could be around a million dollars?

Mr COOK — Easily, and a little bigger than that; many, many millions more than that.

The CHAIR — Flowing from that question, is it typical for permanent rights to be sold off separate to the property? To use your example, if a dairy farmer is getting out of the business, are they likely to sell the water rights separate to selling the property?

Mr MOORHOUSE — That is an option now. We have separated water from land, so they can either transfer the property and transfer the water to a new purchaser, or they can sell the water to another purchaser and the property to, say, the neighbour who does not want the water. They have those two choices.

The CHAIR — Obviously if you are looking to sell a farm as a going concern you would want to package the water with the property?

Mr MOORHOUSE — It depends on what they want to do. If they were selling all the water, it might be that they want to go to a less intensive use. They might want to go out of dairy to beef, so they will sell some of their water and keep that farm and keep farming there, or go to dryland farming. People are going to much drier farming operations and selling the water but keeping the farm.

Mr STEWART — I would like to make a comment on water trading.

The CHAIR — Yes, certainly.

Mr STEWART — The introduction of unbundling and water trading in the last decade has been a tremendous risk management tool for irrigators and communities in northern Victoria to be able to manage through low allocation, and people to be able to manage their own businesses and have the flexibility to gear up or gear down on the product. I think many of our customers have survived because of the opportunities that are afforded by unbundling and trading.

The CHAIR — Thank you. If there are no further — —

Mr COOK — Thank you, Chair, very much for that. That was interesting. We have some items to get back; is it two weeks?

The CHAIR — We do have some items on notice that the committee secretary will follow up on. We do appreciate your attendance here today in Melbourne and your very comprehensive presentation and answers to questions have been most informative. In the next couple of days we will have a draft transcript for your consideration and to make any corrections that you wish to make. Thank you for your attendance here today. We will adjourn this hearing until a future date.

Committee adjourned.
APPENDIX 3 – RESPONSE TO QUESTIONS
TAKEN ON NOTICE

Mr Richard Willis
Secretary
Council Committees
Parliament House
Spring Street
EAST MELBOURNE Vic 3002

Dear Mr Willis,

Inquiry into Departmental and Agency Performance and Operations
– Public Hearings

Thank you for your letter of 26 March, 2009 to Mr David Stewart, Managing Director of Goulburn-Murray Water, in relation to the above Inquiry. Mr Stewart has asked me to collate information in response to your request, and I would refer you to the dot points on the first page of your letter.

1. (p. 9) The basis on which dividends were paid or required to be paid in the past;

   Please be advised that Goulburn-Murray Water made payments to consolidated funds as a result of a Treasurer’s determination under the Public Authorities (Dividends) Act. Payments were made every year from 1994 until 2005.

2. (p. 18-9) Details (including documentation and assessments) as to why referral under the Environment Protection and Biodiversity Conservation Act has not been sought for various irrigation works;

   Please see Attachment 1

3. (p. 20) Whether Mr Don Cummins, former Goulburn-Murray Water Chairman, made any presentations to the to the Goulburn-Murray Water board regarding the foodbowl modernisation project and if so, provide copies of the minutes of board meetings where such presentations were made.

   Please note that no presentation on foodbowl modernisation is recorded in the minutes as having been made by the named Chairman. However, a presentation was made to the Board on 25 July which has been included in Attachment 2 for information. At that meeting, the Board formed the following position on the modernisation project -

   Board statement of position, 25 July 2007

   That the Board of Goulburn-Murray Water:

   • Welcomes and supports the announcement of Foodbowl Modernisation Project.
- The Board will work with a range of parties including the Foodbowl Group, VFF, WSCs, Local Government, and State and Federal Government in order work through a range of detail which will impact on the project.

- Develop a process with WSC Leadership group in order to ensure WSC input.

- We accept that a range of institutional structures are under consideration by the Government.

- Confirm our preparedness to evaluate all options, knowing the importance of G-MW involvement in appropriate decision making and roles and to work with the agreed outcome.

- Welcome the appointment of Don Cummins and John Brooke as members of Government appointed Steering Committee.

- Require Managing Director and Steering Committee appointees to agree on a process by which G-MW policy positions are agreed by the full Board, including process for regular briefings.

4 (p. 21) Copy of the minutes of the Financial and management Audit Committee for 2007/08; (which I have taken to mean financial year 2007/08)

Please see copy minutes in Attachment 3.

5 (p. 23) Assessments by the Murray-Darling Basin Authority on the impact of 2003 and 2006/7 bushfires;

Please see the following weblink to information on the 2003 bushfires. G-MW has no written publications on the fires prepared by the Murray-Darling Basin Authority that I can locate.


6 (p.24) Clarification as to why the total channel control project was reported as being 78% complete in the 2006/07 annual report and then reported as 30% complete in the 2007/08 annual report.

Please be advised that the CG 1-4 Total Channel Control Project has three stages

Stage 1: Channel automation on the CG 1, 2, 3 & 4 channels
Stage 2: Leakage and seepage remediation of identified areas
Stage 3: Meter replacements or rationalisations

For reporting in the 2006/07 Annual Report, Stage 1 was delivered largely (78%) in the 2006/07 year.

For reporting in the 2007/08 Annual Report, Stages 2 and 3 were included within the scope of G-MW's Alliance Futureflow, which was established January 2008 and 30% of the stage 2 works were completed by 1 July 2008.
In hindsight, it is an omission (in terms of transparency) on G-MW's part that the project was not reported as a total project (stages 1, 2 and 3) in these annual reports and this will be rectified in future reports.

With respect to clarifying points recorded in the transcript, I have enclosed corrections made by Mr. Stewart and signed by him on the front page. Mr. Moorhouse made one correction to his statement on page 23 of the same transcript copy and he has signed adjacent to his amendment. This is contained in attachment 4.

I trust the above, and the information in the attachments, is of assistance to the Committee.

Yours sincerely

Russell Barnier
General Counsel & Corporate Secretary

3 April, 2009
Attachment 1

1. Copy of letter of June 2008 to Ms Deb Neumann from Dr Jane Campbell, Director Victoria/Tasmania Section, Department of the Environment, Water Heritage and the Arts, Australian Government.

2. Statutory Requirements Matrix – Commonwealth Legislation: Environment Protection and Biodiversity Conservation Act
Ms Deb Neumann  
Planning and Environmental Approvals  
Future Flow – A Goulburn-Murray Water Alliance GPO Box 7377  
SHEPPARTON VIC 3632

Dear Ms Neumann,

Thank you for your letter of 12 May 2008 concerning the Shepparton Modernisation Scheme and Central Goulburn Modernisation Scheme,

I note that Future Flow has been engaged to help the Goulburn-Murray Water Alliance deliver modernisation works in the Shepparton Irrigation District and the Central Goulburn region over the next two years.

Responsibility for examining the potential for an action to have a significant impact on a matter protected under the Environment Protection and Biodiversity Conservation Act 1999 (EPBC Act) lies with the person or organisation responsible for taking the action. Your letter advises that the Alliance has assessed the environmental impacts of the early works associated with the Shepparton Modernisation Scheme and the Central Goulburn 1,2,3,4 Modernisation Scheme and considers that they will not have a significant impact on any matter protected by the EPBC Act. On this basis you have decided that a referral for the early works is not required. The early works consist of the replacement of the existing Dethridge wheels and their associated infrastructure with upgraded metering systems and automated gates and channel remediation,

I note that your letter advises that further assessment will be undertaken to determine whether, in the view of the Alliance, the installation of the pipelines associated with the Shepparton Modernisation Scheme requires referral for a determination to be made as to whether that action requires assessment under the EPBC Act. You should be aware that without submitting a referral to the Department of the Environment Water, Heritage and the Arts the Alliance has no legal certainty that taking the action is acceptable under the EPBC Act.

I will maintain your advice in this matter in the department’s records,

Yours sincerely

Dr Jane Campbell  
Director  
Victoria/Tasmania Section  
June 2008
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<tr>
<th>LEGISLATION</th>
<th>ENVIRONMENTAL TRIGGER</th>
<th>REQUIREMENTS</th>
<th>DECISION MAKER</th>
<th>CURRENT STATUS / TIMING</th>
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<tr>
<td><strong>COMMONWEALTH LEGISLATION</strong></td>
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<tr>
<td>Environment Protection and Biodiversity Conservation Act 1999</td>
<td>Under the EPBC Act, the Department of Environment, Water, Heritage and the Arts (DEWHA) has responsibility for protecting matters of national environmental significance (protected matters). DEWHA administers the environmental assessment and approvals process for actions that may impact on protected matters. There are seven for matters for consideration: 1) World heritage 2) National Heritage Places 3) Wetlands of International Importance 4) Listed threatened species and communities 5) Listed migratory species 6) Protection of the environment from nuclear actions 7) Marine Environment Consideration must also be given to commonwealth land and/or commonwealth actions.</td>
<td>0</td>
<td>An assessment to determine whether a referral under the Environment Protection and Biodiversity Conservation Act 1999 is required.</td>
<td>Federal Minister for Environment, Water, Heritage and the Arts (DEWHA)</td>
</tr>
<tr>
<td>Native Title Act 1993 and Native Title Amendment Act 1998</td>
<td>Will the project be conducted on vacant Crown Land or waters over vacant Crown Land?</td>
<td>0</td>
<td>Notices of intent to undertake the project may need to be served on local aboriginal groups and/or Native Title Claimants if Native Title has not been extinguished.</td>
<td>Minister for Environment, Heritage and the Arts</td>
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<tr>
<td>Aboriginal and Torres Strait Islander Heritage</td>
<td>Is the project likely to impact Aboriginal cultural property, including any places, of objects that &quot;are&quot;</td>
<td>0</td>
<td>Consultation with the local Aboriginal community should be undertaken.</td>
<td>Minister for Environment, Heritage and the Arts</td>
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## Statutory Requirements Matrix

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<th>LEGISLATION</th>
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<tbody>
<tr>
<td>Protection Act 1984</td>
<td>of particular significance to Aboriginals in accordance with Aboriginal tradition?</td>
<td>N</td>
<td>Council / Minister for Planning</td>
<td>within the study area at this stage. CG1234 (Stage 3)</td>
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<td></td>
<td></td>
<td>Further action unlikely to be required for this trigger under this Act.</td>
<td></td>
<td>No action required as this legislation applies to Commonwealth land and no such land has been identified within the study area at this stage.</td>
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<tr>
<td>VICTORIAN LEGISLATION</td>
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<tr>
<td>Environment Effects Act 1978</td>
<td>Will the project have significant adverse environmental impacts?</td>
<td>Y</td>
<td>Minister for Planning</td>
<td></td>
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<td></td>
<td></td>
<td>A letter may need to be written to the Secretary of DPCD seeking a determination as to whether a referral under the Environment Effects Act is required.</td>
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<td>If a referral is made, the Minister for Planning will determine whether an Environmental Effects Statement (EES) is required to be undertaken. The process for the EES will be determined in consultation with the Environment Unit of DPCD.</td>
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<td>N</td>
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<td></td>
<td></td>
<td>Further action unlikely to be required for this trigger under this Act.</td>
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<tr>
<td>Planning and Environment Act 1987</td>
<td>Will the project require buildings to be constructed or works carried out, including significant earth works and water diversions?</td>
<td>Y</td>
<td>Council / Minister for Planning</td>
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<td></td>
<td></td>
<td>Need to determine planning approval requirements and mechanism.</td>
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<td>N</td>
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<td>Further action unlikely to be required for this trigger under this Act.</td>
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<td></td>
<td>Does the local Planning Scheme for the land on which the project will be conducted contain a Floodway or Land Subject to Inundation Overlay?</td>
<td>Y</td>
<td>Planning Approval may be required from the relevant Council.</td>
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<td>N</td>
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<td>Further action unlikely to be required for this trigger under this Act.</td>
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**Shepparton Modernisation Scheme**

- On the 1 May 2008 letter sent to Mr Yehudi Blacher (Secretary of DPCD) the early works do not have the potential to harm to the environment with regard to the relevant referral criteria as set out in the ‘Ministerial guidelines for assessment of environmental effects under the Environment Effect Act 1978’ and as such, a referral to the Minister for Planning for an Environment Effects Statement (EES) is not warranted.
- Written advice received from DPCD on 28 May 2008 accepting FutureFlow’s advice re the early works and identifying that the DPCD Environment Unit will work with the Alliance to confirm future referral requirements.
- Further assessment will be undertaken of the proposed pipelines pump station and channel rationalisation to determine whether an EES referral is required for these works. If this is required, the relevant documentation will be prepared and lodged for assessment by DPCD.
- A draft Desktop Flora and Fauna Assessment has been completed for Shepparton East. Listed threatened flora and fauna species unlikely to occur in project area. A referral and/or assessment under the Act are unlikely.
- A meeting is scheduled with Trevor Black (Environment Unit) of DPCD on 3 September 2008 to discuss draft desktop results and determine any referral and/or assessment requirements of Act. CG1234 (Stage 3)
- On the 6 May 2008, letter sent to Mr Yehudi Blacher (Secretary of DPCD) the early works do not have the potential to harm to the environment with regard to the relevant referral criteria as set out in the ‘Ministerial guidelines for assessment of environmental effects under the Environment Effect Act 1978’ and as such, a referral to the Minister for Planning to determine whether an Environment Effects Statement is not warranted. DPCD have advised that the letter is still being considered and they will provide written advice in due course (status of letter to be confirmed at meeting on 3 September 2008).
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<tr>
<td></td>
<td>Does the local Planning Scheme for the land on which the project will be conducted contain an Environmental Significance Overlay?</td>
<td>☐ N</td>
<td>Planning Approval may be required from the relevant Council.</td>
<td>Investigations of potential pump station sites (2) and channel rationalisation have been completed. The process of rationalisation requires further assessment to be undertaken to define the works. In addition, if channels are to be rationalised and sold to adjoining land owners and the land is within a public use zone, a process of rezoning these channels to a more appropriate zone is likely to be required. Rationalisation works likely to result in removal of existing channel banks which could alter flood regimes of land abutting northern bank of Broken River. Further flood studies and amendment to overlays maps may be required. Futureflow have engaged an environmental scientist who will work underneath Dustin Lavery to conduct the detailed investigations. A draft Desktop Flora and Fauna Assessment has been completed. Field investigations of the Shepparton East area have been completed. Work required to satisfy the Victorian Native Vegetation Management Framework 2002 will commence when the extent of works are confirmed. A meeting has been held with CoGS and DPCD (Benalla Office) on 12 August 2008 to discuss the project and potential planning approval requirements. Permit requirements generally limited to earthworks in a Farming Zone and removal of native vegetation. The Shepparton East Pressurised Pipeline Project area is not affected by an ESO. CoGS/DPCD generally supports 20(4) Ministerial amendment to Greater Shepparton Planning Scheme subject to appropriate studies and management plans. Planning Scheme Amendment should seek to amend the schedules to the Farming Zone and Native Vegetation Provisions to allow for earthworks and removal of vegetation associated with the project. A section of freehold land zoned PUZ1 should be amended to a more appropriate zone (e.g. Farming Zone). CG1234 (Stage 3) Comments as per above.</td>
</tr>
<tr>
<td></td>
<td>Will the project involve the removal, destroying or lopping of native vegetation (including any roadside vegetation)?</td>
<td>☒ Y</td>
<td>A Planning Permit may be required from the relevant Council.</td>
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<td></td>
<td>Further action unlikely to be required for this trigger under this Act.</td>
<td>☒ Y</td>
<td></td>
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<tr>
<td></td>
<td>Will the project involve the removal, destroying or lopping of native vegetation (including any roadside vegetation)?</td>
<td>☐ N</td>
<td>Further action unlikely to be required for this trigger under this Act.</td>
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<tr>
<td></td>
<td>Will the project involve the removal, destroying or lopping of native vegetation (including any roadside vegetation)?</td>
<td>☐ N</td>
<td>Further action unlikely to be required for this trigger under this Act.</td>
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<td></td>
<td>Approval is required for buildings and works and to occupy permanently or temporarily reserved Crown land (on a permanently or temporarily basis). Crown Land (Reserves) Act provides for reserved crown land whilst the Land Act provides for unreserved crown land. There are different processes for the occupation of land under these Acts.</td>
<td>☒ Y</td>
<td>Need to determine if Crown Land is impacted upon and its status. A Crown Land Licence may be required from DSE or other Crown Land Managers</td>
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<td></td>
<td>Further action unlikely to be required for this trigger under this Act.</td>
<td>☒ Y</td>
<td>Secretary to DSE</td>
<td>Shepparton Modernisation Scheme. Land Tenure assessment is being completed using titles obtained by SKM’s Melbourne survey team for Shepparton East. An assessment of these titles is to be undertaken to identify existence of any encumbrances, restrictions or registered agreements. Crown Land has been identified and was referred to DSE for confirmation of status and land manager. DSE have confirmed that the identified Crown Land is unreserved set aside for channel purposes. The current land manager is GMW and they will not require a licence to use, occupy or construct a pipeline. However licence 2015884, part of Channel 10, is currently in the process of sale and is with Greater Shepparton City Council for rezoning. DSE understand that the channel has been backfilled and is being used as part of an adjoining subdivision. This is to be confirmed with Greater Shepparton City Council. At this stage, we understand that there are 11 channels to be rationalised, where the adjoining land owners are interested in purchasing the channels. CG1234 (Stage 3) Comments as per above.</td>
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## Statutory Requirements Matrix

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<tr>
<th>LEGISLATION</th>
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</table>
| **Road Management Act 2004**         | Consent is required from either VicRoads or the relevant Council to undertake works in road reserves. Approval of works within the road reserve/traffic management plans required from VicRoads and Council. | ☒ Y Need to determine if Roads are impacted on and who manages them. Approval may be required. | VicRoads / Council (depending on the responsible authority) | Shepparton Modernisation Scheme  
A number of the pipeline work sites have been identified as impacting on land managed by VicRoads (Road Zone Category 1) or to affected by a Public Acquisition Overlay to be acquired for the Shepparton Bypass and other major road upgrades.  
It appears that approximately half of the sites which may impact Vic Roads present vegetation issues. These sites have been identified to present native vegetation or have been noted by flora and fauna assessment that disturbance to vegetation may need to be avoided in these areas.  
Preliminary discussions have commenced with Chris Dacks, VicRoads North-East Region.  
Approvals will be required from VicRoads for any works which impact on land managed or to be acquired from them.  
CG1234 (Stage 3)  
No work sites have been identified which impact on land managed or to be acquired by VicRoads. |
| **Environment Protection Act 1970**  | Will the project involve  
- discharge of waste to the environment  
- increase in, or alteration to, an existing discharge  
- change in the way waste is treated or  
- change in the way waste is stored. | ☐ Y An EPA Works Approval and waste discharge licence may be required | Secretary of DSE / Minister for Environment and Climate Change / Minister for Water (dependant on process / action) | No action is required under this Act however compliance is required with the EPA Guidelines relates to construction sites etc. |
<p>|                                      |                                                      | ☐ N Further action unlikely to be required for this trigger under this Act. |                                                                      |                                                                                      |
|                                      |                                                      | ☐ N Further action unlikely to be required for this trigger under this Act. |                                                                      |                                                                                      |
|                                      | Is the land on which the project will be conducted on sites as a contaminated site by the EPA? | ☒ Y Notify the Environmental Coordinator as the EPA may need to be informed depending on the level of contamination |                                                                      |                                                                                      |
|                                      |                                                      | ☐ N Further action unlikely to be required for this trigger under this Act. |                                                                      |                                                                                      |
|                                      | Has FutureFlow been served with an EPA notice with respect to contaminated land? | ☒ Y The conditions of the notice must be complied with. |                                                                      |                                                                                      |
|                                      |                                                      | ☐ N Further action unlikely to be required for this trigger under this Act. |                                                                      |                                                                                      |
|                                      | Will the project involve discharge or emission of wastes to air? | ☒ Y An EPA Works Approval and waste discharge licence may be required for the development and operation of a scheduled premise |                                                                      |                                                                                      |
|                                      |                                                      | ☐ N Further action unlikely to be required for this trigger under this Act. |                                                                      |                                                                                      |</p>
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<td></td>
<td>Will the project involve discharge or emissions of wastewaters?</td>
<td>☐ Y An EPA Works Approval and waste discharge licence may be required. A Trade Waste Licence may be required.</td>
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<td></td>
<td>☐ N Further action unlikely to be required for this trigger under this Act.</td>
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<td></td>
<td>Will the project involve storage, treatment, reprocessing, transport or disposal of prescribed wastes</td>
<td>☐ Y An EPA Works Approval and waste discharge licence may be required. A Waste Transport Certificate may be required for transport of prescribed wastes.</td>
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<td></td>
<td>☐ N Further action unlikely to be required for this trigger under this Act.</td>
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<td>Water Act 1989</td>
<td>Will the project involve construction of new drains or works in a waterway?</td>
<td>☐ Y Requirements under the Water Act may need to be investigated.</td>
<td>Minister for Water</td>
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<td></td>
<td>☐ Y Catchment Management approval for works on waterway may need to be investigated.</td>
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<td>☐ N Further action unlikely to be required for this trigger under this Act.</td>
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<td></td>
<td>Will the project involve the construction of a farm dam (to gain soils)?</td>
<td>☐ Y A Farm Dam Licence is required.</td>
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<td></td>
<td>☐ N Further action unlikely to be required for this trigger under this Act.</td>
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<td></td>
<td>Will the project involve surface water diversions from a regulated or unregulated stream (inc. construction of dams)?</td>
<td>☐ Y A Take and Use Licence and a Surface Works Licence are required. An Operating Licence may be required if an on-stream dam is to be constructed. Licences are obtained from G-MW Water Administration Licensing Team.</td>
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<td></td>
<td>☐ N Further action unlikely to be required for this trigger under this Act.</td>
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<td>LEGISLATION</td>
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<td>CURRENT STATUS / TIMING</td>
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<td></td>
<td>Does the project involve the construction of ground water bores?</td>
<td>N</td>
<td>Further action unlikely to be required for this trigger under this Act.</td>
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<tr>
<td></td>
<td>Y</td>
<td>A Groundwater Licence and Bore Construction Licence are required. A licence is obtained from G-MW’s Water Administration Licensing Team</td>
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<td></td>
<td>N</td>
<td>Further action unlikely to be required for this trigger under this Act.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water Industry Act 1994</td>
<td>Will the project involve works on a dam or existing structure on a waterway, or constructs a new structure on a waterway?</td>
<td>N</td>
<td>Further action unlikely to be required for this trigger under this Act.</td>
<td></td>
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<tr>
<td></td>
<td>Y</td>
<td>FutureFlow must consider that: - the dam or structure that is renewed or constructed does not pose a barrier to native fish movement - environmental risks from water releases through variations of temperature, dissolved oxygen, sediment, nutrients or other substances are minimised - adequate off takes are provided for environmental flows</td>
<td>Minister for Water</td>
<td></td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>Further action unlikely to be required for this trigger under this Act.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Flora and Fauna Guarantee Act 1988</td>
<td>Will the project involve the damage or disturbance of protected species or communities, or the undertaking of a “threatening process” as listed in schedules to this Act?</td>
<td>N</td>
<td>Further action unlikely to be required for this trigger under this Act.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Y</td>
<td>A permit may be required.</td>
<td>Secretary of OSE / Minister for Environment and Climate Change (dependant on process)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>Further action unlikely to be required for this trigger under this Act.</td>
<td>Shepparton Modernisation Scheme, CG1234</td>
<td>An environmental constraints analysis has been conducted to identify areas of native vegetation. This information is now being fed into the design to avoid native vegetation. If native vegetation cannot be avoided, habitat hectare and net gain assessments will be undertaken on only these sites.</td>
</tr>
</tbody>
</table>
## Statutory Requirements Matrix

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<tbody>
<tr>
<td>Statistical Requirements Matrix</td>
<td>Will the project be undertaken on land or waters that are the subject of an Interim Conservation Order?</td>
<td>☐ Y Compliance with notices designed to protect the critical habitat of listed threatened species is required.</td>
<td>Y Analysis has been conducted on the available DSE mapping; however as this is a highly disturbed area little survey data exists to date. Futureflow have engaged an environmental scientist who will work underneath Dustin Lavery to conduct the detailed investigations. Field investigations of the Shepparton East area have been completed. Work required to satisfy the Victorian Native Vegetation Management Framework 2002 will commence when the extent of works are confirmed. Further action unlikely to be required for this trigger under this Act.</td>
<td>TBC</td>
</tr>
<tr>
<td>Fisheries Act 1995</td>
<td>Will the project activities destroy or injure fish (other than declared noxious species, such as carp) and that these project activities would not be authorised under the Water Act 1989?</td>
<td>☐ Y A permit may need to be obtained from Department of Primary Industries</td>
<td>Secretary of DSE / Minister for Environment and Climate Change (dependant on process)</td>
<td>Permit required for tortoise relocation. Permit application still to be completed and provided to DSE. Further action unlikely to be required for this trigger under this Act.</td>
</tr>
<tr>
<td>Wildlife Act 1975</td>
<td>Will the project involve damage, taking or destroying indigenous animals?</td>
<td>☐ Y A permit may be required.</td>
<td>Secretary of DSE / Minister for Environment and Climate Change (dependant on process)</td>
<td>No further action is required</td>
</tr>
<tr>
<td>Conservation Forests and Lands Act 1987</td>
<td>Is it likely that the project will:</td>
<td>☐ Y A plan of works may need to be submitted to the DSE for comment.</td>
<td>Secretary of DSE / Minister for Environment and Climate Change (dependant on process)</td>
<td>No further action is requested</td>
</tr>
</tbody>
</table>
| Heritage Act 2006                        | Are any places or object associated with the project listed on the Victorian Heritage Register? | ☐ Y A Heritage Permit may need to be obtained from the Heritage Victoria.                       | Executive Director of Heritage Victoria / Minister for Planning                                      | Shepparton Modernisation Scheme
On 2 May 2008, Deb Neumann and Vanessa Edmonds meet with Jeremy Smith and John Hawker. (Heritage |
<table>
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</thead>
<tbody>
<tr>
<td>Aboriginal Heritage Act 2006</td>
<td>nominated for registration or the subject of an Interim Protection Order?</td>
<td>□ N</td>
<td>Victoria</td>
<td>Letter was sent on 9 May seeking a written response from Heritage Victoria as to the scope of the proposed baseline heritage assessment. A written response has been received from Heritage Victoria dated 3 June 2008. This letter recommends activities and initiatives which should be included within the scope of the proposed heritage assessment. Vanessa Edmonds has had further discussions with Julia Cusack of Heritage Victoria, who is managing the Victorian Water Supply Heritage Study. The study is investigating the heritage values associated with Victoria’s water supply systems. One of the aims is to support planning processes associated with the upgrade and renewal of existing water supply systems. Julia has been trying to contact GMW to discuss projects such as Shepparton Modernisation Scheme and other upcoming irrigation works. In addition, at least one of the work sites has been identified as impacting on land listed on the Victorian Heritage Register (1975 - Calder Woodburn Memorial Avenue, Goulburn Valley Highway Arcadia and Kialla West and Kialla and Arcadia South). An assessment needs to be undertaken as to the impact of the works on this site and whether it can be considered as minor. If it is deemed to be minor, a letter should be sent to Heritage Victoria requesting them to exempt the works from requiring a permit subject to Section 66 of the Heritage Act 1985. If the works are identified as being significant by the Alliance or by Heritage Victoria, a permit application will need to be prepared and lodged with Heritage Victoria for assessment. A detailed Heritage Assessment has commenced for the Shepparton East Pressurised Pipeline Project area to determine any heritage permit requires. CG1234 (Stage 3) A Cultural Heritage Assessment was completed for CG1234 Channel System in January 2005 by Archaeological Consulting Services. It has been agreed with Heritage Victoria that no further action required for these works.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>□ Y</td>
<td>A Cultural Heritage Management Plan is required</td>
<td>Secretary of AAV</td>
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<td></td>
<td></td>
<td>□ N</td>
<td>Further action unlikely to be required for this trigger under this Act.</td>
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<td></td>
<td>Is all or part of the activity area for the activity is in an area of cultural heritage i.e.</td>
<td>□ Y</td>
<td>A Cultural Heritage Management Plan is required</td>
<td>Shepparton Modernisation Scheme</td>
</tr>
<tr>
<td></td>
<td>• registered cultural heritage place + 50m</td>
<td></td>
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<td>The Cultural Heritage Team has advised the following:</td>
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<td></td>
<td>• waterway + 200m unless significant ground disturbance (sgd)</td>
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<td>- Katandra – voluntary CHMP should be prepared as there are no areas of cultural heritage significance in this area</td>
</tr>
<tr>
<td></td>
<td>• prior waterways + 200m unless sgd</td>
<td></td>
<td></td>
<td>- Shepparton East – Mandatory CHMP to be prepared as the works constitute a high impact activity and there are areas cultural heritage significance i.e. waterways.</td>
</tr>
<tr>
<td></td>
<td>• ancient lakes +200m unless sgd</td>
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<td></td>
<td>Deb Neumann and Vanessa Edmonds had a teleconference with Rochelle Johnston (Manager Hume Region of AAV) on 4 June 2008 re this, where it was generally concluded that CHMPs should be prepared for all the works as part of a risk management strategy. In addition, it was agreed that some heritage permits may be required and as such consultation should be commenced with the Yorta Yorta as soon as possible as there are no statutory timeframes associated with the AAV’s issuing of permits under this legislation.</td>
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<td></td>
<td>• permanent or semi-permanent waterhole + 200m unless sgd</td>
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<td></td>
<td>A site visit was conducted in the week starting 30 June 2008 by Chris Kaskadanis. A detailed Cultural Heritage Assessment has commenced. A Notice of Intent has been sent to to AAV and landowners within the project area.</td>
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<tr>
<td></td>
<td>• permanent or semi-permanent natural spring</td>
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<td>CG1234 (Stage 3) A Cultural Heritage Assessment was completed for CG1234 Channel System in January 2005 by Archaeological Consulting Services. No further action required.</td>
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<td>+ 200m unless sgd</td>
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<td></td>
<td>• declared Ramsar wetland + 200m unless sgd</td>
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<td>• (National) Park unless sgd</td>
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<td></td>
<td>• Greenstone outcrop area unless sgd (Bendigo sheet SJ55-1)</td>
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<td>• Lunettes (as specified) unless sgd</td>
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<td>• Dunes or source bordering a dune (as specified) unless sgd</td>
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<td></td>
<td>also Coastal Crown Land, Coastal Land, High Plains, Stony Rises, Volcanic Cones of Western Victoria, Caves and sand sheets.</td>
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<td>Does the project require an Environmental Effects Statement?</td>
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<td>Y</td>
<td>A Cultural Heritage Management Plan is also required</td>
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<td></td>
<td>N</td>
<td>Further action unlikely to be required for this trigger under this Act.</td>
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<td>Will project activities be carried out on land that contains, or is likely to contain, aboriginal relics (including “canoe trees”). Areas that contain relics include floodplains, areas near waterways and any previously undisturbed areas.</td>
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<td>Y</td>
<td>A permit to deface, damage or interfere with those relics may be required from the Director of Aboriginal Affairs Victoria. To determine whether a permit is required an archaeological survey may be required.</td>
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<td>N</td>
<td>Further action unlikely to be required for this trigger under this Act.</td>
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<td>Dangerous Goods (Storage and Handling) Regulations 2000</td>
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<td>Will the project involve the use, storage or handling of dangerous goods?</td>
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<td></td>
<td>Y</td>
<td>A Dangerous Goods Licence may be required</td>
<td>Governor in Council</td>
<td>No further action required.</td>
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<td></td>
<td>N</td>
<td>Further action unlikely to be required for this trigger under this Act.</td>
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<td>Will the project involve storage, treatment, reprocessing, transport or disposal of prescribed wastes?</td>
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<td></td>
<td>Y</td>
<td>An EPA Works Approval and waste discharge licence may be required. A Waste Transport Certificate may be required for transport of prescribed wastes.</td>
<td>Minister for Environment and Climate Change</td>
<td>No further action required</td>
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<td></td>
<td>N</td>
<td>Further action unlikely to be required for this trigger under this Act.</td>
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Attachment 2

Presentation to Board on 25 July, 2007 –
Proposal for implementing
FoodBowl Modernisation Project
Proposal for implementing

FoodBowl Modernisation Project

Date: 3 July 2007
Introduction

This paper describes how Goulburn-Murray Water (GMW) proposes to manage the Food Bowl Modernisation project, which is in itself a series of 11 separate projects. These projects relate to a complex irrigation system that operates at capacity for nine months each year, and is available for maintenance and modification during the three month winter shut-down period.

Background

The GMW Reconfiguration Program was initiated in 2004 as an outcome of the Victorian Government’s first round of Water Reform - ‘Our Water Our Future’. The program was supported by $6M for the initial planning and establishment of Infrastructure Reconfiguration Plans and $50M funding contribution for 25GL of water savings to be delivered by May 2009.

Whilst it was recognised that asset modernisation was a key component of the six gravity irrigation districts’ Reconfiguration Plans, it was clear that the amount of funding available under the Reconfiguration Program could only achieve the rationalisation component.

With additional government funding becoming available for water savings for the environment, GMW took the initiative in 2006 to commence developing modernisation projects for each of the six districts, with the first being the Shepparton Modernisation Project. The Shepparton Project, was presented to DSE in January 2007 for funding approval, with an estimated cost of $188M to produce 50GL of water savings.

The Foodbowl modernisation project has now boosted the water savings program and funding will now enable GMW to complete all components of the Reconfiguration Program including the modernisation of a significant part of the remaining irrigation infrastructure that has not been rationalised.

The flow chart below shows how the original reconfiguration concept ties all modernisation aspects together.
The status of the six Reconfiguration Programs is detailed in Attachment 1. To facilitate development of the reconfiguration process Stakeholder Working Groups have been established for each of the six gravity irrigation districts (see Attachment 2). To date more than 80 stakeholders have been elected to working groups and 48 meetings have been held to determine the future of the irrigation infrastructure. Members represent a broad cross section of stakeholders and it is critical that the momentum for change built up through these groups is not lost to ensure that the project can proceed in the required timeframe.

The Reconfiguration Stakeholder Working Groups are a major resource to provide local knowledge, articulate service requirements and provide community leadership for the project.

**Scope**

The total project budget has been announced at $2.2 billion, with Stage 1 funding of $1 billion. The overall objective is to modernise ageing irrigation infrastructure to create a world class irrigation system, reduce water losses in the system. A specific objective for Stage 1 of the project is to secure 225 Gl of water savings, including 75 Gl of water for Melbourne by 2010.

The objective for Stages 1 and 2 of the project is to save a total of 450 Gl by 2015.

An indicative scope of works associated with delivery of these objectives is set out in Attachment 3.

**Key Issues**

**Capability**

GMW already has the necessary business systems and management infrastructure in place to allow the initiation of the project. In addition, GMW has developed enhanced business systems over the past 12 months such as
- a new financial systems that will improve project based reporting
- adoption of the Prince2 project delivery system
- introduction of tailored project management training;
that further enhances GMW's project delivery capability.

**The Affected Community**

The project will require very close interaction and the cooperation of a large proportion of GMW's more than 15,000 gravity irrigation customers (all small businesses), the general community across Northern Victoria and key stakeholders. GMW knows these stakeholders intimately and has established networks that are being used to cooperatively develop concepts for the project that will facilitate the smooth implementation of works. GMW's Water Service Committees for each irrigation area provide a vital link that facilitates two way communications with its customer base. Around 1 in every 250 customers is represented on the Water Service Committees.

The well developed relationships between GMW and its stakeholders means that it can continue to work quickly through difficult issues associated with project delivery, with resultant reduced risk of delay.
Working on Operating Channels

The project does not involve a complete rebuild of the system, but is a collection of projects affecting parts of the system. Therefore, an extremely important constraint is that the works must be undertaken while maintaining irrigation water supply. The irrigation season is from August to May each year, providing a limited period to undertake work in channels.

While there will be elements of the project that will be able to be undertaken off channel alignments, the majority will not.

On average, GMW delivers approximately 1.6 million ML of water to irrigation and urban authorities across the gravity irrigation system supporting both farm gate produce valued at $1.5 billion and cities and towns throughout the district. GMW processes more than 350,000 individual orders for water each year. Management of the supply risk is best handled by GMW as both water delivery and project delivery will be managed in-house.

Given the scale of the project for Stage 1, an average expenditure of more than $6 million per week, innovative practices will be developed with the close cooperation of customers and channel operations teams to provide opportunities to do essential work within channel alignments during the season.

There are two major risks associated with the project:
• Risk to project delivery through the need to work on an operating system
• Risk to project cost and time from claims associated with failure to delivery water

GMW is in the unique position to be able to most effectively work through this issue and manage these risks to ensure efficient project delivery.

Rationalisation
Rationalisation (reduction) of the channel system is a major component of the project.
Rationalisation involves closure of parts of the system not required on the longer term. In many cases this will require on farm redevelopment to enable supply from alternate sources. This involves social change and impact on communities across the region. An approach sensitive to the needs of local communities will be required and will need to bring together an understanding of rural water delivery, water entitlements, delivery costs and on-farm water management practice in order to develop the lowest cost integrated solution. GMW is best placed to manage the risks associated with this activity, through an intimate knowledge of the system and a close relationship with its customers.

Start Up
Through GMW's unparalleled knowledge of modernisation techniques, appropriate business systems, established systems for development of modernisation plans and understanding of the requirements to integrate the project with an operating irrigations system, a rapid start up of the project can be facilitated. GMW also has existing physical bases that can be used to work from.

Contract Model
Selection
Based on experience from previous major projects that have been successfully delivered, GMW considered how best to deliver such a large program of works over a sustained period, whilst not adversely impacting on its other business operations. Advice has been sought from external project management experts, consultants, Evans & Peck with experience in developing delivery arrangements for projects such as CityLink, EastLink, Grampians/ Wimmera Mallee Pipeline, Gippsland Water recycling project and the ANZAC Frigate project.

Some of the key issues to consider include the availability of skills and resources both internally and externally in a very tight and competitive engineering market, financing and governance arrangements and stakeholder management.

At a high level there are a number of possible delivery models which could be considered including:
• Traditional investigation, design and hard dollar contract delivery;
• Design/ Construct contracts;
• Traditional Private/Public/ Partnerships (PPP) with a “tolling” charge point;
• Alliance contracts.

The Alliance model with GMW as the client has the following advantages over the alternatives in delivering the project:
• Will facilitate the rapid start up required
• Is the best method to deal with the risks associated with complex stakeholder interfaces, work on an operating system and the need for owner involvement
• Clear accountability for delivery
• Clear customer interface
• Most efficient use of resources
• Provides a whole-of-life focus for project delivery
• Builds in coordination links at all levels.

Learnings from the Eildon Project
The Eildon project involved the upgrade of the Eildon dam to a contemporary safety level. GMW was provided a scope and a preliminary estimate of $30 million for the project by engineering consultants SMEC Victoria. GMW proceeded with planning for the project based on this information.

During detailed design and investigations by the Alliance, including a comprehensive hydraulic model study, a serious deficiency in the scope provided by SMEC was identified. The necessary increase in scope to achieve the project objectives was confirmed by GMW’s independent expert panel and the Alliance prepared a cost estimate based on the revised scope. This Alliance estimate was independently checked by GMW and after intensive negotiations, which resulted in the estimate being reduced by more than $10 million. A final cost estimate of $52.5 million was agreed between GMW and the Alliance and approved for construction.

The project was finally completed two months ahead of program and 10% below the agreed budget. A review of the final cost outcome showed that the cost reductions achieved were directly attributable to innovation improving on business-as-usual approaches.
Through the Alliance delivery process, GMW was able to significantly increase its capital program whilst still being able to carry out its business as usual activities. The process of “scaling-up” is known to GMW and can be repeated with the Modernisation project.

The Eildon project was the first full public sector alliance in Victoria. It was subsequently awarded a high commendation by the Institution of Engineers Victoria at its 2005 Excellence Awards.

The Alliance also provided significant benefits to the project in the following ways:
• A quick project start up
• Dealt seamlessly with an unexpected increase in scope that would have resulted in significant contractual difficulties under normal contracting arrangements
• Provided integrated community relations
• Minimised impact to GMW’s day to day business, but provided for strong coordination with GMW’s business allowed for uninterrupted water supply operations
• Allowed sharing of complex risks
• Provided for specialist input from GMW

GMW’s specialist knowledge in current developments in channel automation and lining is particularly important in developing the modernisation project, since these are new developments and the skills are not readily available in the general market place.

GMW will be able to build upon the experience gained through the Eildon Alliance to ensure that the project objectives are delivered.

**GMW’s Proposal for Alliance Project Delivery**

Given approval to proceed, GMW would take the following actions to establish the Alliance all with advice and monitoring of a probity auditor, and input and involvement with Department of Treasury and Finance and Regional Development Victoria:

**Expressions of Interest**
An expression of interest (EOI) document detailing objectives for the project, project scope, preferred delivery strategy, program and the proposed selection methodology would be prepared. The EOI would be advertised widely and would provide the market with adequate time to form partnerships and respond.

**Shortlist**
A selection panel would be formed, including key stakeholder members. The panel would shortlist from the EOI responses, based upon the written submissions, in accordance with a pre-agreed selection methodology.

**Interviews**
The shortlisted teams will be interviewed under a structured arrangement to ensure that all parties are treated equally. The teams will be evaluated against pre-agreed criteria by the selection panel and the best two teams will be selected to proceed to the next stage.
Workshops
Intensive two day workshops will be held with each of the two teams to evaluate which will work best with GMW to deliver the project.
Commercial Negotiations
Negotiations will be held with the preferred alliance partner to determine the commercial arrangements between the parties and to establish the Alliance Agreement.

Initial Staffing
An Alliance Board will be established from senior representatives of each of the Alliance Partners. The Board will appoint the Project Manager and initial Alliance Management Team (AMT) for the Target Cost Estimate (TCE) phase.

Target Cost Estimate
The AMT will then progress the designs to the stage where a target cost estimate (TCE) can be determined. Once determined, GMW will separately cost the works and then enter into negotiations with the commercial partners to the Alliance with the aim of agreeing the TCE.

Works
Once the TCE is agreed, construction work can commence on the project.

Governance
Attachment 4 shows the proposed Governance arrangement for the project.

An independent Project Control Board will be established with membership drawn from the proposed government-lead Steering Committee for the Foodbowl Project. The Control Board will overview progress and expenditure and provide a conduit for information to key stakeholders and provide strategic guidance to GMW on all elements of the works, determine works priorities and relate stakeholder concerns that should be taken into account during delivery of the project.

GMW will deliver the project in accordance with the Department of Treasury and Finance’s (DTF) “Gateway Review” process for Alliance Projects.

Projects to be Managed
The overall Modernisation project will involve the delivery of 11 sub-projects in total across the six Areas that make up GMW’s gravity irrigation system. Initially, individual modernisation cases for each of the districts will be prepared that will lead to detailed designs and then subcontracting of work packages.
Reconfiguration Scope of Works

<table>
<thead>
<tr>
<th>Asset Solution</th>
<th>Goulburn Murray Water</th>
<th>Goulburn System</th>
<th>Murray System</th>
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<tbody>
<tr>
<td>Rationalisation km</td>
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<td>500</td>
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<tr>
<td>Automation</td>
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<td>Channels km</td>
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<td>km</td>
<td>380</td>
<td>250</td>
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Therefore for the scope of works above (from Attachment 3) there will be six modernisation cases prepared, then five separate sub contracts for the physical works packages of pipelines, channel lining, meters, channel automation and rationalisation.

**CONCLUSION**

A project of this scale requires a specialised delivery process and dedicated resources.

GMW is best placed to deliver this project on time, with quality outcomes at lowest costs.

Key advantages G-MW can offer are;
- An established organisation with high quality business processes and supporting business systems already in place
- Access to a unique, world class knowledge/skill base on the application of emerging technologies (eg. TCC, new channel lining systems) for irrigation system modernisation
- Established and tested customer committees and reconfiguration working groups which are community based structures that can provide strong leadership to the project delivery and intimate knowledge of customer/community issues as they emerge. Development of these types of networks and establishing their profile in the community takes many years
- Coordination processes can be built in at all levels of project delivery. This will;
  - Maximise successful project delivery in a complex, operating channel system
  - Minimise risk of customer supply problems, complaints and disputation
- Value for money alliance model that can manage project risk and complexity and ensure the lowest overall lifecycle cost of the project.
## ATTACHMENT 1

### Reconfiguration Program – Status

<table>
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<tr>
<th>Area</th>
<th>Rationalisation</th>
<th>Modernisation</th>
<th>Working Group Established</th>
<th>Working Group Meetings</th>
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<td>Case studies developed and being implemented.</td>
<td>Final Business Case submitted to DSE Jan 2007. Community meetings held.</td>
<td>December 2006</td>
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<td>Not started</td>
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<td>Rochester/ Campaspe</td>
<td>Overview of Area including trends completed. Case studies developed and being implemented</td>
<td>Suitability of and extent of modernisation techniques being assessed before preparing Business Case</td>
<td>February 2007</td>
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<td>Pyramid/ Boort</td>
<td>Reconfiguration Plan completed. Extensive community consultation has occurred. Approx 350 rationalisations identified and 100 being implemented</td>
<td>Final draft of Business Case being reviewed before submitting to working group July 2007</td>
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<td>Torrumbarry</td>
<td>Overview of Area including trends, infrastructure options and environmental impacts completed. Case studies developed and being implemented. Community meetings held</td>
<td>Suitability of modernisation techniques being assessed in areas not identified for rationalisation before preparing Business Case</td>
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### ATTACHMENT 2

#### Central Goulburn Reconfiguration Working Group

<table>
<thead>
<tr>
<th>NAME</th>
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<tbody>
<tr>
<td>Jeff Odgers</td>
<td>Water Services Committee</td>
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<tr>
<td>Ross Crawford</td>
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<tr>
<td>Kelvin Bratke</td>
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<tr>
<td>Noel Plunkett</td>
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<tr>
<td>Jenny Neather</td>
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<tr>
<td>John Edwards</td>
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<td>John Lyle</td>
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<td>Athol McDonald</td>
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<tr>
<td>Chris Nicholas</td>
<td>Department of Primary Industries</td>
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<td>Colin Kelms</td>
<td>City of Greater Shepparton</td>
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<td>Richard Whitling</td>
<td>Campaspe Shire</td>
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<tr>
<td>Russell Pelt</td>
<td>Environment/Community</td>
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<tr>
<td>Graham Smith</td>
<td>G-MW Manager Central Goulburn</td>
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<td>Vacant</td>
<td>G-MW Reconfiguration Coordinator</td>
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#### Torrumbarry TRAMS Working Group

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<tr>
<th>NAME</th>
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<tbody>
<tr>
<td>Andrea Joyce</td>
<td>G-MW Reconfiguration Coordinator</td>
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<tr>
<td>Daidee Schiliz</td>
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<td>Margot Henry</td>
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<tr>
<td>Grant Davies</td>
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<tr>
<td>Rosanne Kava</td>
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<td>Roger Griffiths</td>
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<td>Charlie Callingham</td>
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<td>John McNeil</td>
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<td>Lester Haw</td>
<td>G-MW Manager Torrumbarry</td>
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#### Pyramid-Boort FMS Working Group

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<td>Neville Miller</td>
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<td>Alan Mann</td>
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<td>Sandy Schroen</td>
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<td>Damian Wells</td>
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<td>Craig Dyrston</td>
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#### Shepparton Reconfiguration Working Group

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<tr>
<td>Peter Bicknell</td>
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<td>Chris Clark</td>
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<tr>
<td>Jamie Craig</td>
<td>WSC / Horticulture</td>
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<td>Barry Hitchcote</td>
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<td>Phil Hoare</td>
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<td>Alan Strang</td>
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<td>Chris Tomison</td>
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<td>John Wenske</td>
<td>WSC/Dairy</td>
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<td>Helen Reynolds</td>
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#### Rochester-Campaspe Working Group

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#### Murray Valley Working Group

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ATTACHMENT 3

CONCEPT LEVEL SCOPE OF WORKS FOR MODERNISATION OF SIX IRRIGATION AREAS ACROSS GOULBURN AND MURRAY SYSTEMS

Reconfiguration Scope of Works

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<thead>
<tr>
<th>Asset Solution</th>
<th>Goulburn Water</th>
<th>Goulburn System</th>
<th>Murray System</th>
<th>Murray Valley</th>
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<td>Large users - Full Automation</td>
<td>3,730</td>
<td>1,310</td>
<td>2,420</td>
<td>540</td>
<td>770</td>
<td>530</td>
<td>1,000</td>
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<td>Moderate Users - Local Control</td>
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<td>1,630</td>
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<td>770</td>
<td>530</td>
<td>1,000</td>
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<td>Pipelines</td>
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<td>Pressure Pipeline</td>
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<td>Gravity pipelines</td>
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<td>Domestic &amp; Stock</td>
<td>130</td>
<td>50</td>
<td>80</td>
<td>10</td>
<td>40</td>
<td>10</td>
<td>20</td>
<td>10</td>
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<tr>
<td>Channel lining</td>
<td>380</td>
<td>250</td>
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<td>190</td>
<td>60</td>
<td>30</td>
<td>70</td>
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</tbody>
</table>

Total Channel length 6,300 km
Total number of Dethridge Meters 18,700
ATTACHMENT 4

Governance Model

Live System
Eg Rural Water

- Ongoing operation requirements
- Customer acceptance and interface
- Limited access (3 months per year)
- Reconfiguration plans
- New Technology (no precedent)
- Understanding of Risks?

GMW

Ongoing Operations

Ongoing Maintenance

Northern Victorian Modernisation

Alliance

Project Control Board

Communications and Coordination
Attachment 3

Copy of minutes of meetings of the

Goulburn-Murray Water

Financial and Management Audit Committee

For the year 2007/8
1. Minutes of previous meetings
The Committee requested an amendment to the minutes of meeting 84, item 8. The last line referring to Trevor approaching Government regarding the interest rate policy will be reworded to match the wording in the Board papers.

The Committee then approved the minutes of meetings 84 and 85.

Moved: Des Powell
Seconded Jean Sutherland

2. Business arising from the minutes
Jean reported on her conversation with John Majerczak of the Victorian Auditor Generals Office. John reported that the audit had gone more smoothly than the previous year, and the preparation of a set of shell statements had been of assistance with this. The long service leave liability issue reported last year had been resolved, but excessive leave balance numbers reported last year were higher this year and would be flagged as a moderate issue in the management letter. Other items to be raised were the need to revalue some new buildings to standardise the valuation base, the calculation of a deferred tax liability and a number of IT audit issues raised in a separate IT audit. The Committee congratulated the finance team on the good result.

3. Update of audit issues
The Committee expressed satisfaction with progress and noted the report.

4. Internal audit reviews
The Committee was pleased with the improvements in the general ledger management processes, and with the positive results of each of the three reviews.

5. Financial checklists
It was agreed that item 4.2 needs rewording to be more clear. The Committee then discussed in turn the items on the FMAC checklist and, having agreed a positive response to each, resolved that the Chair sign the FMAC checklist.
6. Preliminary management letter from the Auditor General
Jeff described the issues and draft management responses to each of the items in the preliminary management letter. The Committee asked for internal audit follow up for the purchasing authorisation issue in item 1 and the induction checklist use. The procedure for the authorisation of Directors expenditure reimbursement was amended to be:

- Managing Director - authorised by Chair
- Chair - authorised by Managing Director
- Other Directors - authorised by Chair

7. Finance Report
Noted

8. Capital projects report
Noted

9. Risk management
The report was noted. The results of the peer review process will be provided to Directors at the Board meeting tomorrow.

10. Treasury report
Noted

11. Project reports
Noted

12. FMAC action list update
The report on the continuity of works program from David Stewart is to be provided to a future Board meeting.

13. Any item that the Chair of this Committee should report to the Board
The results of the audit of the financial statements.
The improvements with the audit issues report.
The satisfactory internal audit reviews.
To note Jean Sutherland's contribution to FMAC.

14. Forward agenda
The meeting scheduled for December will be brought forward to November.

2 Next meeting
4 pm on 27 November 2007
## Actions arising from the meeting

<table>
<thead>
<tr>
<th>Agenda item</th>
<th>Action Officer</th>
<th>Action</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Jeff Huddle</td>
<td>Amend minutes of meeting 84, item 8, as discussed.</td>
</tr>
<tr>
<td>6</td>
<td>Jeff Huddle</td>
<td>Amend management response to item on authorisation of Executive and Board member expenditure reimbursement as agreed by the Committee.</td>
</tr>
<tr>
<td>9</td>
<td>Russell Cooper</td>
<td>Provide the results of the risk management peer review at the Board meeting.</td>
</tr>
</tbody>
</table>
1. **Minutes of previous meetings**
The Committee then approved the minutes of meeting 86.

   **Moved:** Des Powell  
   **Seconded:** John Brooke

2. **Business arising from the minutes**
No specific item.

3. **Auditor General management letters and audit strategy**
Michael referred to the management letters and responded to questions by advising the Committee on the expected frequency of IT audits, with audits each year in recent years. He explained that with the reliance needed on software systems some audit was necessary to validate system controls, and this would be more important this year because of the changes of software. Specific issues raised were:
- **Buildings revaluation** - FRD 103C is the guidance and provides that indexing can be applied by the valuer general between full revaluations, and should be carried out whenever testing shows a material movement.
- **Deferred tax liability** - a tax balance sheet will need to be completed to enable calculation of the liability needing disclosure.

In reference to the 07/08 audit strategy Michael informed the Committee that the two key issues to be examined in greater detail during the audit would be payroll systems and the effectiveness of systems set up to ensure legislative compliance.

Des asked what consideration would be given to the controls and processes established through the risk management framework that G-MW have established.

John responded that audit have examined the risk management procedures in the past and do rely on aspects where relevant.

Russell asked whether audit were aware of issues with the new water register being implemented by DSE, and the impact this was having on G-MW customers.

Michael responded that his office could commence a review of this function under its normal mandate to audit areas of high public interest. Members questioned whether this approach would be timely enough to trigger early resolution of the problems G-MW customers were experiencing. Des offered to discuss the issue with Mike Scrafton and try to highlight the issues and get some commitment to additional resources. Russell may contact Michael if he feels there is a need for AG action.
4. **Audit and Directors discussion**  
Management left during this discussion.

5. **Update of internal audit issues**  
Directors stressed the need to monitor items and ensure actions were timely.  
The report was noted.

6. **Internal audit reviews**  
Graeme referred to his summary of the internal audits being reported at this meeting and asked if there were any specific concerns. Directors raised issues concerning credit card use, GL reconciliations and payment file authorisation, and Jeff provided further explanation of issues involved and management actions. The reports were noted.

7. **Finance Report**  
Cathy queried the impact long term of the statutory losses shown in the P&L, and whether this might impact on asset values. Jeff noted the need to review asset values, particularly in response to the potential impact of the Foodbowl Modernisation proposal, but that G-MW's not-for-profit status protected us from the normal commercial asset impairment tests. After some discussion of forecasting revisions, variance explanations and debtor balances the report was noted.

8. **Risk Management**  
Russell tabled an independent peer review of the risk management framework for members. After discussion of the framework, the review process and mention of the good work of Darren Nabbs in progressing the risk management processes, the Committee requested a presentation to a future Board meeting. The report was noted.

9. **Treasury report.**  
Jeff tabled page two of the report which had been accidentally omitted. He then advised that cash balances at 11 December were almost exactly the same as shown in the report for October 31, and that he was pursuing early finalisation of the rates rebate deed and the payment of a substantial portion of the funding to enable early repayment of borrowings.

10. **Project reports**  
The Committee was impressed with the good result from the implementation of SAM.

11. **Annual Review of Charter**  
The Committee considered the current charter satisfactory for the current functions. There were wide ranging discussions on the potential crossover of issues between a compliance or risk committee and FMAC, and possible review of compliance with the statement of obligations (SoO). This will be further discussed at the Board meeting. Russell offered to include a compliance section in future Board meeting papers, including review of compliance with the SoO. Cathy and Stephen requested a copy of the three year and current year audit programs.

12. **FMAC self assessment**  
Members will forward their completed surveys to Jeff well prior to the next meeting.
26. FMAC action list update
Noted

27. Any item that the Chair of this Committee should report to the Board
The discussions with the internal and external auditors.
The review of the finance report.
The discussion of risk management.
Preliminary discussion of the proposed compliance or risk committee and crossover issues.

28. Forward agenda
Noted

2  Next meeting
4 pm on Tuesday 12 February 2008

Actions arising from the meeting

<table>
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<th>Agenda item</th>
<th>Action Officer</th>
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<tbody>
<tr>
<td>3</td>
<td>Des Powell</td>
<td>Contact Mike Scrafton of DSE to discuss issues with the implementation of the new water register.</td>
</tr>
<tr>
<td>8</td>
<td>Russell Cooper</td>
<td>Schedule a presentation on risk management at a future Board meeting.</td>
</tr>
<tr>
<td>11</td>
<td>Jeff Huddle</td>
<td>Provide copies of the three year and current year audit plans to Cathy Clark and Stephen Mills.</td>
</tr>
<tr>
<td>12</td>
<td>Committee members</td>
<td>Forward completed surveys to Jeff.</td>
</tr>
</tbody>
</table>
The meeting commenced with John Brooke absent due to the concurrent Remuneration Committee meeting, with Cathy Scott Chair in John's absence. The order of items was altered to suit.

1 Update of internal audit issues
The Committee noted the report and requested that emphasis be given to items 9 and 10 relating to succession planning in light of the organisational demands of the future works program. Peter Guy advised of the emphasis given to this issue in the recent risk management workshops, and undertook to advise the HR manager of the request.

This meeting was temporarily adjourned, and recommenced with John Brooke now present.

2 Minutes of previous meetings
The Committee approved the minutes of meeting 87.

3 Business arising from the minutes
No specific item.

4 Internal audit reviews
The reports were tabled but will not be considered until next meeting.

5 Finance Report
Jeff tabled an amendment to page 2 showing corrected totals at G-MW Statutory Result. Peter asked for some specific information on aged debtors to be available at the Board meeting and Des asked that the previously available prior year comparative be added to the debtors report.

Noted.

6 Treasury Report
Noted.
7 Capital Projects Report
Noted

8 Project Reports
Noted

9 FMAC Self Assessment
Deferred to next meeting.

10 FMAC action list update
Jeff tabled an updated report which was noted.

11 Forward agenda
Noted.

12 Next meeting
4 pm on Tuesday 8 April 2008

Actions arising from the meeting

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<tr>
<td>1</td>
<td>Peter Guy</td>
<td>Ensure progress with succession planning issues (items 9 and 10 of audit issues update).</td>
</tr>
<tr>
<td>5</td>
<td>Jeff Huddle</td>
<td>Arrange extra comparative column on debtors report and information on aged debtors for Board meeting.</td>
</tr>
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</table>
Minutes of Meeting

Meeting: 89  Future Flow meeting room, Shepparton

Date and time  4.00 pm Tuesday 8 April 2008

Present  Members  John Brooke (Chair), Peter Fitzgerald, Claire Penniceard, Des Powell, Catherine Scott, Management  Peter Guy, Jeff Huddle (Secretary)

Visitors  Steven Mills, Graeme Stewart (AFS)

1  Minutes of previous meetings
The Committee approved the minutes of meeting 88.  

Moved:  Catherine Scott
Seconded:  Des Powell

2  Business arising from the minutes
Nil

3  Update of audit issues
There was general discussion on the number of outstanding audit issues and the timeframes given to address them. Catherine Scott questioned how the delivery date on projects was determined, in particular reference to outstanding items 1 & 2 on the issues list relating to the Auditor Generals management letter for 2004/05.

Further discussion on how this can be best demonstrated on the action list which would identify the date the issue was originated, the expected delivery date, and also a date identifying any slippage of this delivery. An additional status indicator identifying the progress of the issue, similar to project reporting, was preferred to highlight any exceptions.

Des Powell requested that any issues due for April to be detailed as closed, with the appropriate outcome, or updated at the next meeting (examples issues no.’s 12 & 13).

4  Internal audit reviews
Peter referred to the summary of internal audits being reported. Directors raised issues concerning:

Inventory management at Shepparton site - Peter detailed the response to this audit findings and it was agreed that a follow-up internal (GMW) audit be conducted to ensure compliance to the standard procedures are in place.
Revenue & Accounts Receivable - Content of Bills. The Committee asked for clarification on payment options, and agreement to the Charter and Rate Payments and Debtor management Policy. Held over for the June FMAC meeting.
5 Modernisation funding and cost recovery
John Brooke advised that the Modernisation Cost Recovery document did not give any details and procedures to ensure adequate cost recovery. The committee accepted Peter's verbal update of the development of the process which is still under development due to the lack of detailed information. Funding deeds are being finalised and the process of identifying overheads and oncosts to be recovered is underway. A high level process was provided to best describe how this is likely to be introduced.

The committee accepted this progress and resolved that detailed procedures are to be documented and the committee need to be confident with this process for next meeting.

6 Risk management
The committee expressed disappointment in the absence of Martin Kyzywak and requested that Martin attend the next meeting to discuss the extent of change in the corporate culture regarding risk management. There is also a need to prepare a plan to address the key points and recommendations of the peer review of the risk framework, prepare a quarterly update of the risk register and discuss the relevance of safety case management at G-MW. The report was noted.

The committee agreed that GMW seek further legal advice to ensure that the total risk plan meets the relevant legislative requirements.

7 Treasury Report
The committee expressed concern at the potential for cash management issues arising from timing differences between payments to Future Flow and milestone payments from DSE, and financing costs that could arise as a result. Management will request an increase in the short term borrowing limit for next financial year, and have any known instances of cash flow timing deficits reflected in the Treasury report cash flow forecast. Peter explained the policy governing investment assuring that the guidelines were strict and gave protection against the type of losses currently being sustained by other organisations.

The committee agreed to distribute to members the relevant treasury policy on funds placement.

A paper is to be provided to the June meeting for recommendation to the Board on borrowing limits for 2008/09. The short term limit for 2007/08 is $20m.

The report was noted.

8 Capital projects report
Peter Fitzgerald asked about reports of a large increase in the cost of the Mokoan project which were not reflected in the report given. The amount was from a media report which could not be confirmed.

The report was noted.

9 Finance report
Peter Fitzgerald asked about the 90 day debt levels for Central Goulburn, Murray Valley and Groundwater customers. Jeff will provide this information with the minutes.
Catherine Scott noted that table 4 variances were incorrect, a revision of this table is required for future reports.

The report was noted.

10 Project Reports
The reports were noted.

11 FMAC self assessment
The Committee adopted the recommendation arising from the self assessment.

The timing of the report on compliance with the Statement of Obligations will be dependant on the ESC reporting timetable and will be provided at the next FMAC.

12 ReTender of internal audit services
After discussion of the timing and method of tendering the internal audit service the committee agreed that tenders be invited from a range of potential service providers including AFS. A list of invitees will be provided to committee members. A short list of no more than three possible appointees will be provided at the June meeting for discussion/decision.

13 FMAC action list update
Noted

14 Any item that the Chair of this committee should report to the Board
That management review compliance with inventory procedures and provide a report to the next FMAC meeting.
That FMAC was satisfied that costs to be assigned to the foodbowl and other modernisation projects are properly accounted for.
That a report and discussion on risk management will be scheduled for the next FMAC meeting, to be followed by some legal advice.
That G-MW is in the process of tendering the internal audit service for the next three years.

15 Forward agenda
The committee requested that the risk managers attendance be scheduled for future meetings.

16 Non-executive directors discussion item
No meeting required.

Next meeting
9 am, Wednesday 11 June 2008.
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<tr>
<td>3</td>
<td>Jeff Huddle</td>
<td>Insert an additional status indicator in the update of audit issues to indicate progress.</td>
</tr>
<tr>
<td>4</td>
<td>Brian Coustley</td>
<td>Arrange a review of inventory management at the Shepparton office to ensure compliance with procedure.</td>
</tr>
<tr>
<td>4</td>
<td>Ruth McGrath</td>
<td>Clarify payment options, agreement to the charter and rate payments and debtor management policy.</td>
</tr>
<tr>
<td>5</td>
<td>Alex Marshall</td>
<td>Provide details of the cost recovery and billing procedures with the Alliance and other modernisation projects.</td>
</tr>
<tr>
<td>6</td>
<td>Martin Kryzwak</td>
<td>Prepare a plan addressing the key points and recommendations of the peer review of the risk framework. Investigate the provision of legal advice on the extent to which the risk plan meets relevant legislative requirements.</td>
</tr>
<tr>
<td>7</td>
<td>Jeff Huddle</td>
<td>Prepare a paper for the June FMAC meeting recommending borrowing limits for 2008/09, for approval by the Board prior to submission to the Treasurer.</td>
</tr>
<tr>
<td>9</td>
<td>Jeff Huddle</td>
<td>90 day debt levels at Central Goulburn, Murray Valley and Groundwater are not significantly different to the same time last year. Normal debt management processes are being followed and it is expected that there will be improvement once the legal recovery processes are initiated with the less responsive customers.</td>
</tr>
<tr>
<td>11</td>
<td>Jeff Huddle</td>
<td>Advice the timing of the report on compliance with the Statement of Obligations.</td>
</tr>
</tbody>
</table>
1 Minutes of previous meetings
The Committee approved the minutes of meeting 89.

Moved: Claire Penniceard
Seconded Cathie Scott

2 Business arising from the minutes
Deferred to next meeting

3 Update of audit issues
Deferred to next meeting

4 Internal audit reviews
Graeme referred to his key issues reports and dealt with each of the reviews in order.

The Other Income review was noted.

Motor Vehicle Fleet - there was discussion on the range of vehicles available for selection by staff, with Des noting that the broader the range the more complex administratively, leading to a need for sensible restrictions. This will be one of the areas covered by the current (John Mapson) review.

Inventory Management - disappointment with the inventory discrepancies - audit to follow up with new review late this year.

Occupational Health and Safety - the issue of driving safety was discussed, with the view that the management comment addressed the audit recommendation, but not necessarily the issue. The organisation will need to review its approach to working long hours in conjunction with driver safety, particularly senior management.

Contract Management - there are still issues with the discipline of attaching all required documents to files. Graeme noted that most documents were available, but some would be found at the last minute indicating that following the procedures was not seen as a high priority. With the approaching high workload there will be a need for a more thorough approach. There is some new software designed to address some of these issues, another audit review within the next year will test progress.

Infrastructure Management - noted

General Ledger - there was dissatisfaction with the level of compliance with reconciliation completion, Jeff will include a report on compliance at the December meeting.
Board Management Reporting - many of the issues of reporting will be addressed as part of an overall review of management reports initiated by David Stewart. Directors also recognised the need to specify the Board reporting requirements, and consider issues of report timeliness and meeting dates.

Succession Planning and Executive Remuneration - concern was expressed that the Manager HR was not involved in some executive salary reviews as noted at 5.1.2, and directed that he be involved in future. Graeme described the succession planning system referred to as not an IT system but a management system structured to ensure the succession planning requirements are followed.

Due to time constraints the remaining three reports were deferred to next meeting.

5 Risk management
Martin attended and made a presentation on risk management and the current position on implementation of the Whole of Business Risk Management Framework, and the responses to previous reviews of risk management. During discussion on the Safety Risk Case Management Cathie Scott offered to provide a rail industry contact name to Martin to further this investigation. During discussion on reporting Des asked whether G-MW was subject to DTF quarterly reporting, which Jeff undertook to investigate.

Martin's presentation included the schedule for roll out of the framework to the organisation and further detail on the Enterprise Risk Management model adopted. His recommendation included that the Board consider the most appropriate governance and reporting method.

6 Treasury report
Deferred to next meeting

7 Capital projects report
To be discussed at the Board meeting to follow.

8 Finance report
To be discussed at the Board meeting to follow.

9 Project Reports
To be discussed at the Board meeting to follow.

10 Appointment of internal auditor
The Chair described the process and evaluations made during the interviews with the three short listed tenderers at Seymour on June 4. The sub-committee of John Brooke, Claire Penniceard and Des Powell had come to the unanimous conclusion that AFS should be reappointed for a three year term beginning 1 July 2008. Although it was considered that all tenderers could have adequately performed the audit the sub-committee considered that AFS had better linkages in other relevant water industry areas and were well placed to be able to add value during the course of the audit. Graeme expressed his gratitude for the opportunity to be the internal auditor.
11  **FMAC action list update**  
Deferred to next meeting

12  **Other Business**  
Craig Cook joined the meeting as the Committee discussed the CG2 claim and received an overview of the draft report from Graeme Stewart.

13  **Any item that the Chair of this committee should report to the Board**  
The appointment of AFS as internal auditor  
The discussions on risk management  
The discussions the CG2 claim draft report

14  **Forward agenda**  
Noted

15  **Non-executive directors discussion item**  
No meeting required.

**Next meeting**

Teleconference to be arranged during week commencing 4 August to discuss financials.  
Meeting 8 am 13 August 2008.

**Actions arising from the meeting**

<table>
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<tr>
<th>Agenda item</th>
<th>Action Officer</th>
<th>Action</th>
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<tbody>
<tr>
<td>4</td>
<td>Jeff Huddle</td>
<td>Provide a report on compliance with GL reconciliation to the December FMAC meeting.</td>
</tr>
<tr>
<td>5</td>
<td>Cathie Scott</td>
<td>Provide Martin with a rail industry contact name for further discussion on safety risk case management.</td>
</tr>
<tr>
<td>5</td>
<td>Jeff Huddle</td>
<td>Investigate whether G-MW is subject to DTF quarterly risk management reporting.</td>
</tr>
</tbody>
</table>