

VERIFIED VERSION

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into budget estimates 2012–13

Melbourne — 17 May 2012

Members

Mr N. Angus

Mr P. Davis

Ms J. Hennessy

Mr D. Morris

Mr D. O'Brien

Mr M. Pakula

Mr R. Scott

Chair: Mr P. Davis

Deputy Chair: Mr M. Pakula

Staff

Executive Officer: Ms V. Cheong

Witnesses

Mr P. Walsh, Minister for Water,

Mr G. Wilson, Secretary,

Dr J. Doolan, Deputy Secretary, Water, and

Mr M. Clancy, Acting Chief Finance Officer, Department of Sustainability and Environment.

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

The CHAIR — I now welcome from the Department of Sustainability and Environment Mr Greg Wilson, secretary; Dr Jane Doolan, deputy secretary, water; and Mr Matthew Clancy, acting chief finance officer. I now call on the minister to give a brief presentation of no more than 10 minutes on the more complex financial and performance information relating to the budget estimates for the water portfolio.

Overheads shown.

Mr WALSH — Thank you very much, Chair. The department output that I am responsible for with DSE is effective water management and supply. The Minister for Environment and Climate Change is responsible for the other departmental outputs that are up there on the overheads.

Today I am speaking about the water portfolio, obviously. Water output has approximately \$278 million of funding in the 2012–13 budget. This provides for the funding for the Office of Water and water-related initiatives and projects, including the setting up of the Living Melbourne, Living Victoria program, environmental contributions 3, sustainable water strategies, the Northern Victoria Irrigation Renewal Project and various other water projects, including the management of the Victorian desal plant project.

If we go into more detail, there is \$10 million in the budget to invest over the next four years to set up our commitment to Living Melbourne, Living Victoria, and to establish the Office of Living Victoria as a stand-alone entity to work across government to improve integrated water cycle management in our cities — both in Melbourne and in our regional cities — so we make better use of all our water resources, including rainwater, stormwater and recycled water.

There is also money in the budget papers for managing the coordination of the development of the Murray-Darling Basin plan activities, which is a very vexed issue for the whole state of Victoria but particularly for northern Victoria, and also the contribution that Victoria makes to the running of the Murray-Darling Basin Authority.

There is approximately \$100 million in the budget for improving waterway health. Of that, \$59.3 million has been invested towards physical works to improve the condition of rivers, wetlands and estuaries, including construction of fencing along riparian areas on riverbanks and wetlands, the management of weed removal in those particular areas, erosion control and riverbank stabilisation. These works are carried out in partnership with the catchment management authorities and local stakeholders and land-holders. There is also \$40.7 million in the budget to invest in environmental water to ensure the effective management, monitoring and reporting of the environmental water reserve and making sure that achieves the best outcome.

There is \$66.3 million over the next four years to improve water management in Victoria, including improving surface water monitoring and data management, enhancing the Victorian water register, improving integrated water analysis and reporting, simplifying the bulk water entitlements framework — which definitely needs doing; it is a very complex structure at the moment — and improving water security for food producers while balancing the needs of the environment.

As far as the overall efficiencies of the department, there are some efficiencies within the portfolio to be met, including a change of focus in the head office and non-service delivery administrative area, changes and savings in professional services and contractors, employment agency staffing and the general running of the department far more effectively and efficiently to meet the department's share of the sustainable government initiative. I am happy to take questions, Chair.

The CHAIR — Thank you, Minister. The remaining time is allocated for questions on the water portfolio. In the context of your final slide on operational efficiency certainly you will be well prepared, I anticipate, to respond to my initial question, which is: given the key growth and efficiency initiatives announced in the budget, can you please outline for the committee the likely impact of the budget on enhancing service delivery, promoting productivity and achieving efficiency gains within the water portfolio? In responding, could you also indicate how you intend to monitor the portfolio's effectiveness in maximising improvements in this areas?

There are a significant number of individual initiatives in the budget in the water portfolio. There is a lot of work to be done to manage what is one of the most precious resources we have in this state, and that is the effective use of our water resources, whether it be for urban use or for rural use. It is about how the department spends its time and resources to make sure that is done.

There are a whole range of initiatives that will come through over the next hour, which we will actually talk to about those issues. The priority areas are Victoria's contribution to the Murray-Darling Basin plan debate, and there are budget allocations to assist with that work. As we have talked about, there are also issues around making sure we get a step change in Victoria as to how we manage all water sources that are available. There is the issue around integrated water cycle management and making sure that we not only have potable water in our cities but we also have fit-for-purpose water for non-potable purposes, where we can keep our open spaces, sporting ovals and so on green by the use of stormwater harvesting, rainwater harvesting and, in some particular cases, the use of recycled water. There are substantial initiatives to make sure the department fulfils its roles in those areas. There are savings to be met. Those savings will be met, as I outlined in the overhead in my presentation.

The CHAIR — Thank you, Minister. Could you elaborate, for the committee, on the likely impact on industry and the community in relation to initiatives within the portfolio?

Mr WALSH — Chair, are you talking about the outcomes that will be achieved by those particular initiatives?

The CHAIR — Yes.

Mr WALSH — Again, I believe that if we talk about two different streams of activity — no pun intended about issue of streams — it would be those issues in rural water use. If you segment the state into particular projects, obviously in northern Victoria the key focus is around the Murray-Darling Basin plan and the delivery of the NVIRP 1 and NVIRP 2 programs, which were started under the previous government but have been enhanced by some of the changes that have been made since we came to government, with the signing of a contract with the commonwealth for stage 2 and an additional \$1.2 billion to go in to finish the modernisation of that particular project. Work is being done in southern Victoria with Southern Rural Water about enhancing some of their irrigation programs and the opportunities in the longer term for the modernisation of some of those projects, and there are issues that the department is managing around looking after our precious groundwater resources. There is a lot to know about surface water, but there is even a lot more to learn about how we manage groundwater into the future, so there is a substantial work program in that particular area.

From an overall water perspective, we are coming to the conclusion of what is called Water Plan 2. The planning of water authorities in Victoria is done in five-year cycles. At the end of the 2012–13 financial year Water Plan 2 will finish and Water Plan 3 will be started. The water authorities, in conjunction with the department, are doing a substantial amount of work on the development of what is called Water Plan 3. Those plans are to be finished shortly for submission to the Essential Services Commission for them to then go out and consult with the community. A substantial amount of work is being done on that, particularly around community consultation so that customers of those individual water authorities have a good understanding of what the cost drivers are in those sectors and what the charges will be over the next five years.

As I have touched on, we recently announced the setting up of the Office of Living Victoria and the appointment of Chris Chesterfield, who is going to be the CEO of that organisation, to build on changes in community attitudes during and following the drought as to how we need to utilise our water resources more effectively here in Victoria. As I said before, this is about utilising not only the water that comes into our cities from our potable sources but also how we actually use stormwater, how we use recycled water and how we use rainwater for non-drinking purposes or for purpose use to improve the livability of our cities and deliver a good environmental outcome at the same time.

Just a point of clarity about the issue of stormwater and rainwater — the change between the two, because people have asked what the difference is. Rainwater is very much water that has been collected from a non-impervious surface — a roof particularly — into tanks or storage facilities, whereas stormwater is water that is actually running off open space and off roads and impervious surfaces other than roofs.

Mr PAKULA — Minister, I refer to page 171 of budget paper 5. At the top of the page there is table 4.3: 'Dividends, income tax equivalent and rate equivalent revenue'. It shows that in regard to dividends it has jumped from 243.3 in 2010–11 up to 767 up to 843.6 in 12–13. The note underneath does suggest that the 12–13 jump is primarily about the SECV, but I am interested in regard to water — of that 843.6 in the 12–13

budget, can you detail for us how much of that 843.6 comes from the water authorities and which water authorities are paying dividends at what rate — a breakdown of that?

Mr WALSH — I might refer to Matthew for a more detailed answer to that, but I suppose dividends from water authorities is something that has been a long-established practice of governments, including yourself when you were in government. There have been dividends paid by the water authorities over quite a few years, so this is not a new issue.

Mr PAKULA — I am just trying to ascertain the growth.

Mr WALSH — I will let Matthew give the detailed answer.

Mr CLANCY — The revised 11–12 dividend is 320 million for the water sector.

Mr PAKULA — Three twenty for 11–12?

Mr CLANCY — Yes, and 12–13 is 182.

Mr PAKULA — Just to follow up, are you able to provide the committee with a further breakdown in terms which particular water authorities are making up that payment?

Mr CLANCY — Unfortunately I do not have that detail here.

Mr PAKULA — Can you take that on notice and provide that to the committee?

Mr CLANCY — I will have to take it on notice.

Mr WALSH — We are happy to take it on notice, but I think there was a similar question last year, and it is principally the Melbourne water retailers and Melbourne Water. We are happy to take the question on notice.

Mr MORRIS — I want to go back to budget paper 3, pages 60 and 63, which reference the DSE output initiative ‘Securing priority waterways’. Minister, I am sure you would agree the government has a strong commitment to ongoing waterway health, but I am wondering if you can indicate to the committee what the outcomes of that particular initiative will be.

Mr WALSH — This is the program that is run in conjunction with the catchment management authorities, partnered with their implementation committees, to improve the health and management of our waterways, particularly our riparian zones. I think I touched on in my presentation the programs that are ongoing about fencing those streams off and management of that riparian zone to improve the health of those particular streams. One of the challenges you have as those streams are fenced off is making sure that the adjoining land-holder actually has a supply of stock water, so as part of that program there is also an ongoing program to assist with the ability to take water out of those streams and take to other sources — to troughs in particular — to supply livestock out of in the future rather than them actually going down to the streams for a drink. It is a program that is there in partnership with the catchment management authorities to deliver good outcomes in our streams and riparian areas around Victoria.

Mr SCOTT — I would also like to ask a technical question, so I understand that this may require some further breakdown. Budget paper 2, page 56, details the operating results for the non-financial public sector. There is a line item there for depreciation. What I would really like to know is: how much money have you allowed in this budget for the depreciation of dams? It is a specific, technical point, I understand.

The CHAIR — Is Mr Clancy able to assist the minister? Take it on notice?

Mr WALSH — The dams are managed by the relevant water authorities, so in the north of the state the storages are managed by Goulburn-Murray Water. Goulburn-Murray Water also contracts some services to the Murray-Darling Basin Authority for the management of those dams. In Melbourne’s case, Melbourne Water manages the storages. I suppose it is across a number of government instrumentalities where that would be recorded, so I think — —

Mr SCOTT — I understand that. That is why I said it is a technical question that I accept may not be at your fingertips, so I perfectly accept that. I just seeking that information. It is not in the general government sector but it is dealt with in the budget papers as an aggregate figure, so I was just seeking that detail.

Mr WALSH — I think Mr Scott will need to take that one on notice.

Mr SCOTT — I understand that.

Mr ANGUS — Minister, my question is in relation to the output initiative of ‘Enhancing the Victorian water register’, and I refer you to budget paper 3, pages 59 and 61 in particular. I note that the development of that register has been a significant improvement for the property rights of water-holders. Minister, could you outline why the government has allocated a further \$4.8 million over the four years, as noted in the table on page 59, for enhancing the water register?

Mr WALSH — Thank you very much for the question. The Victorian water register is a public register of water-related entitlements right across Victoria. As you have said in your question, there is \$4.8 million over four years to enhance that particular register. It is designed to speed up the time it takes to do transactions, to upgrade record quality, to improve access to information and to implement policy reforms. Some of this has actually been driven by COAG agreements where it was stipulated that 90 per cent of all allocation trades — as one of the examples — should be done within five working days, so we need the capacity to be able to manage those particular issues.

There are currently also something like 10 000 take-and-use licences that have not been properly renewed for many years, and this sort of information needs to be stored in the register in the future. It will facilitate the updating and the recording of those 10 000 take-and-use licences; cut the turnaround time in trade allocations being processed through it; put in place some refinements around the rules on water trading, particularly where there is carryover in the irrigation systems; improve market information; and provide catchment-level water accounts. As I understand it there is going to be a small team of about eight IT contractors who will actually be doing this work over the life of this particular project. There is a very well recognised property right process to water entitlements here in Victoria, and the work that is being done here will enhance the information around that, speed up the information transaction time and give people surety about their property rights being stored and handled appropriately.

Ms HENNESSY — Minister, if I could take you to budget paper 3 page 258. It is actually not a detailed question that comes from those particular budget paper pages; just more generally in relation to the effective water management and supply output. The Essential Services Commission draft price determinations for water are being progressively released — that is correct? Yes. My question goes to what profit levels have DTF required from the urban water authorities?

Mr WALSH — You are talking about the development of water plan 3?

Ms HENNESSY — Yes.

Mr WALSH — As I said in a previous answer, I think it was, water plan 3 is currently being developed by the water authorities. That will go to the Essential Services Commission, I think, at the end of this month as a draft for the essential services to go through and then release for public consultation. That process is happening. As I understand it, there is not a prescription as far as profit levels from DTF. Greg might like to add to that.

Mr WILSON — As the former chair I hope this is still relevant, but certainly the structure in place was to determine asset values and the profit question was then one of what is an appropriate cost of capital, to use the technical jargon. The water corporations themselves would propose that based on interest expense and other factors to the Essential Services Commission, and they would decide on that in determining total amount of revenue they should get. It is not really prescribed by Treasury, but there are clauses in the regulatory arrangements that require them to, obviously, finance their capital works and so on. That, again, is another one left to that process that the minister mentioned, through the Essential Services Commission.

The CHAIR — Minister, anything further to add?

Mr WALSH — No.

The CHAIR — You can come back to it if you need to.

Mr O'BRIEN — Minister, I would like to ask you about some groundwater initiatives. I refer to budget paper 3, pages 59 and 61. In doing so, I would also like to mention the groundwater atlas which I launched on your behalf in Bungaree, which shows the importance of mapping as best you can Victoria's groundwater reserves and also shows the particularly good aquifer under the town of Peshurst, as well as Bungaree. And I also pick up your comments, which are very pertinent, that it is very difficult to know what is under the ground at any particular instance without drilling, and that is why I would ask you, Minister, if you could please outline the importance of the funding of \$7.8 million for groundwater monitoring of the state observation bore network, and \$4.7 million for maintaining capability of groundwater management committed to by the Victorian government over the next four years.

Mr WALSH — Thank you for the question, and thank you for availing yourself on my behalf to launch the groundwater atlas. It is something that Southern Rural Water has actually had very, very positive feedback about. There is a lack of understanding of how our groundwater systems work by the wider general public. I know that particular document is well sought after by schools and school groups to give a good understanding of how the groundwater system actually operates. It is a very good document, and I commend it to anyone who has an interest in groundwater.

Ms HENNESSY — Where is it available?

Mr WALSH — It is available from DPI, sorry DSE — we have changed departments.

Mr O'BRIEN — I am happy to provide anyone with a copy.

Mr WALSH — Mr O'Brien has actually got my copy. I do not think I have ever received my copy.

Members interjecting.

Mr WALSH — Mr O'Brien launched the particular document. I suppose the issue of groundwater is an issue that is funded in the budget — \$7.8 million for the monitoring of the state observation bore network across Victoria. Over the four years there is money towards maintaining something like 2500 groundwater observation bores across the state and maintaining the quality of the data and information that is actually collected from those bores so we can measure extraction of water and make sure there is not overextraction on that particular thing.

There is also \$4.7 million to build capacity in groundwater management. This addresses again that issue of how you actually manage recharge and any potential overuse over time and includes a review of legislative instruments to remove any licensing anomalies and develop a refined planning and reporting framework. It is a key input into the government's work on law reform that is going to be done over the next four years — one of the other programs in here is a major review of the Water Act, which we will probably come to later in this discussion.

The CHAIR — Before I call the deputy, I have to remind the committee that the use of props is disorderly.

Mr O'BRIEN — It is not a prop; it is an atlas.

Ms HENNESSY — Okay, so all our props are now going to be atlases.

Mr O'BRIEN — I take your guidance, Chair, and a very good atlas at that.

The CHAIR — I wish you would take my guidance, Mr O'Brien.

Mr PAKULA — I want to ask you, Minister, about the Macalister irrigation district upgrade. I have a report here from October 2011 where Southern Rural Water was seeking feedback from irrigators on works totalling \$140 million as part of the first stage of the upgrade. The managing director of Southern Rural Water indicated that the Macalister customer consultative committee had been working with the authority to develop a proposal to government for upgrades to the district, and both yourself, Minister, and Mr Bull, the member for Gippsland East, had been encouraging irrigators to attend the sessions. I am just wondering if you could give the

committee some updates about where that is all up to, including whether there is any planning or feasibility money in the budget for those works?

Mr WALSH — Thank you very much for the question. The Macalister irrigation district is the largest irrigation district in southern Victoria. It is managed by Southern Rural Water, as you know. There is something like 53 000 hectares of land there, of which 33 500 hectares are actually used for irrigation. It secures the water resources to, particularly, a very strong dairy sector down there. About 95 per cent of the enterprises in the Macalister irrigation district are dairy. There are some vegetable growing and cropping industries but principally the dairy industry. The value of agricultural commodities produced in the MID is about \$150 million a year, so it is a significant contributor to the Victorian economy, and we touched on the dairy industry at length in our previous presentation from the Department of Primary Industries.

There has been a proposal by Southern Rural Water, called their MID 2030 proposal, where they plan to modernise the system and reduce water losses. They believe there is approximately 37 gigalitres of water to be saved in that particular project.

Mr PAKULA — Thirty seven?

Mr WALSH — Thirty seven is the number that I have. It will increase the reliability of supply, generate greater productivity and provide environmental benefits in reducing the amount of nutrients that will go into the Gippsland Lakes as well.

Southern Rural Water and its customers have committed to modernising the system, as you talked about in your particular proposal. They have actually started some of those works as I understand it — doing an early works proposal there. They have been in discussion with government about that particular project. There is not the budget capacity this year to support that project, but it is something that they will be coming back to government in the future about. One of the things they have sought from us is that their early works in this particular project can be counted towards the cost of the overall project. As you would know, you do not fund projects retrospectively in government, so they have asked for any early works they do to be considered part of the overall project, and we are happy to have that discussion with them.

Mr PAKULA — I hear what you say, Minister, about the capacity not existing in this year's budget to contribute, so I understand Southern Rural Water are funding the early works themselves. To the extent you are able to answer this, how far could they go without government assistance? Does the amount of work that Southern Rural Water could logically or properly do out of their own funds run out in the next 12 months or within this term of government? Will they need an injection of funds from government for any works beyond 2014?

Mr WALSH — That will be part of their water plan 3 discussions, which, as we talked about in answer to a previous question, is being developed at the moment. The issue around an injection of government money or no injection of government money effectively comes back to the prices they will have to charge their customers in the future. That is a discussion that is ongoing.

When I have been down and spent time with Southern Rural Water people, particularly with some of the irrigators in that area and Graeme Anderson, who is the chair of the customer committee — there are some very significant productivity benefits for the farmers in that area of having this modernisation take place. They can get significant increased flow rates to their irrigation, which leads to far more efficient irrigation. There is the opportunity for water savings, as we touched on previously, but there are also some significant on-farm productivity benefits by having the higher flow rates to those farms and how they manage those into the future to get better irrigation practices. It is a discussion that is ongoing. I cannot anticipate what may or may not be in future budgets.

Mr PAKULA — At the risk of setting Mr O'Brien off, that sounds a bit like food bowl modernisation, Minister.

The CHAIR — Enough interjections. We do not respond to interjections. Thank you.

Mr WALSH — In some ways, Mr Pakula — not in some ways; the technology is very similar, and it is about having the most efficient use of irrigation water both within Southern Rural Water's infrastructure and

how you deliver it in a timely manner and reduce any losses but also in actually how you have an improved on-farm service where people can get water at a shorter ordering period and can get higher flows so you get fast flows across your irrigation bays so you get increased pasture production. The technology is very similar.

The CHAIR — Thank you, Minister, for responding to the interjection. I refer to BP 3, pages 59 to 63, in relation to the management of environmental entitlements and on-ground delivery. I refer to the Victorian Environmental Water Holder, which was established by the government on 1 July last year. Could you please outline the Victorian government's ongoing commitment through this budget to environmental water management.

Mr WALSH — Thank you, Chair. The legislation was enacted, or started, under this government, but it is legislation that was introduced and passed under the previous government, so the setting up of the environmental water holder has been something that I think has had bipartisan support — as to how we manage our environmental water reserves better. There is \$40.7 million over four years to ensure the effective management, monitoring and reporting of environmental water reserves here in Victoria. If you look at the time frame from when this discussion first started to where we are now, we have gone from 27 gigalitres being held by the Victorian Environmental Water Holder — which was the water that was on the Murray River, if I remember rightly, that came out of the Sharing the Murray process back in the mid-90s — to where the Victorian Environmental Water Holder now manages 620 gigalitres of water.

The money in the budget is there to assist the Victorian Environmental Water Holder fulfil their obligations under the legislation of how they manage that water, how they actually report against the outcomes that will be achieved out of the use of that environmental water holder, how the environmental water holder engages with regional communities, particularly through the catchment management authorities in doing their water planning, and how many caps extraction at various times of the year are put in place to manage the water better through the sustainable water strategies. I think it is actually a very good outcome that is happening for the environment here in Victoria, setting up that legislation and the stand-alone entitlements that are going to be managed by the Victorian Environmental Water Holder.

One of the challenges for the discussions out of the Murray-Darling Basin plan will be how the synergies are captured between the commonwealth environmental water holder and the Victorian Environmental Water Holder, and making sure we do not have the commonwealth wanting to do their own thing to the detriment of getting some synergies between those two working together, over time.

Mr SCOTT — Minister, I draw your attention to answers to the questionnaire, which have been provided from the department to the committee, and again I draw your attention to question 4.2, which outlines the savings efficiencies that are required in 2012–13 by the department related to this budget and previous budgets in the budget update, which by my calculation come to a grand total of \$131 million.

I would like to seek your advice to the committee on what the impact will be in the areas of your portfolio responsibilities in terms of any reductions to program expenditure or outputs, employment within your areas of portfolio responsibilities, and any programs that have lapsed due to those savings and efficiencies.

Mr WALSH — I will ask the department secretary to give some more detail after I make some initial comments. From the Office of Water's point of view within DSE, there are always programs that are concluding and new programs that are being started. We have already had the discussion at length about quite a few new initiatives in the budget, which will deliver outcomes, whether it be for consumptive water users in the rural area, the urban area, or for the environment. Programs are not there forever, particularly in such a dynamic industry as the water industry, so there are concluding programs and there are new initiatives; there are both in this particular budget, but I ask the secretary to make some comment.

Mr WILSON — Thanks, Minister. You will see that the first three items there are effectively banked because they relate to the prior year's savings, so the key numbers there are 23 million, which I think was part of the budget update in December; and a further 30.3 million, going forward. So 53 million is basically a department figure for both the water portfolio and environment on, I think, 1.3 billion.

We are going through a process at the moment of working through the best way to deliver those savings in terms of the things that the minister mentioned before — external contractors, consultants, back office savings, IT-related savings — plus the actual things that have been announced regarding voluntary packages and the

non-renewal of fixed-term contractors that do not impact on service delivery. So at this stage we will be working through that over the next month or so in readiness for the 12–13 business planning processes that we are undertaking.

Mr SCOTT — Just as a follow-up, can you provide information on notice on the specifics? You have given a general answer, but the specifics in response to questions I asked about programs and employment.

The CHAIR — I take it that, Mr Scott, you are not seeking to anticipate decisions that are yet to be made —

Mr SCOTT — No. But the specifics that are available — —

The CHAIR — Any matters that are available at the moment.

Mr SCOTT — Yes, absolutely.

Mr WILSON — Yes.

Mr MORRIS — Minister, I return to DSE output initiatives generally, and there are a number of projects in the budget papers that are clearly the responsibility of the water portfolio, including surface water monitoring and data management, and improving modelling for water resource management. Can you indicate to the committee the anticipated impact of these initiatives on water management in this state?

Mr WALSH — Thank you very much for the question. There is \$10.4 million over the four years to provide core data required for the transparent and accountable water resource decision making in this particular state, so obviously there are a number of components that make that up so there are something like 770 statewide sites that are used for flood warning, for river health quality assessments and for resource allocation and forward planning. So it is for the maintenance of those particular sites.

The initiative also delivers information required for the long-term water resource assessments under the Water Act 1989 and any current and emerging Murray-Darling Basin requirements to monitor and report on resources and conditions of the basin. So there is an ongoing issue in that particular area.

One of the things it also does in managing the risks of water availability into the future — as part of the continuing participation in the South Eastern Australian Climate Initiative and Victoria's contribution to be part of that — is to understand the long-term trends in any climate variability and land use changes which may impact on the supply of water or the security of water into the future, whether it be for urban use or rural use. So it is very much about ongoing work that Victoria does.

One of the things that Victoria has a reputation for nationally is that we do have a very good management framework of our water resources here in Victoria. Some of that money will also be used for whole farm planning within the Goulburn-Murray irrigation district. We will fund something like 339 whole farm plans over the life of that particular project, and that is how you are actually getting the better utilisation of the food bowl project into the future — by linking the modernisation irrigation system with what happens on the farm as well. And in that particular initiative there is also money, as we touched on in our presentation, to simplify the bulk water entitlement framework.

One of the issues that will be addressed with this particular funding but also with the funding to review the Water Act is that, historically, although we have a very good framework, it is also very complex — something that is sometimes only known to those who have been in the industry for the last 20 or 30 years. What we want to do is modernise it and have it in a format where people can understand it easier so you do not have to have a lifetime of history in the water industry to come to grips with how you interpret it.

Ms HENNESSY — Minister, I refer you to budget paper 3, page 258. I want to ask you a question about volumetric water charges. It is my understanding that your water policy is for water charges in Melbourne to move from 20 per cent volumetric to 40 per cent volumetric. Is that still the case? Effectively I want to ask: has the regime commenced, and if not, when will it commence?

Mr ANGUS — Three questions.

Mr WALSH — In giving the clear signals to water customers that they get rewarded for more efficient water use, the thing that has been said historically is that the majority of a water bill is made up of the fixed charges and the consumptive part of it is only a small component, so if you are more efficient in your water use you do not see that much difference in your water bill. In the development of water plan 3 that is one of the issues of how you make up a water bill that is actually being looked at. It is about how you reward people for being more water efficient.

Ms HENNESSY — So I am assuming that Melbourne is going to move from 20 per cent to 40 per cent volumetric from your answer on water plan 3?

Mr WALSH — As we have said in answer to previous questions, the water authorities are developing their water plan 3. As part of that process they are out consulting with customers, and they are the sorts of issues that they are actually asking customers for feedback on.

Ms HENNESSY — Have you done any modelling around which categories of family or property owners and how that is likely to impact upon them?

The CHAIR — Thank you, Ms Hennessy.

Mr ANGUS — Six questions.

The CHAIR — I am not quite sure how many questions you wanted to ask today.

Ms HENNESSY — I am sorry I do not have an atlas to display and say, ‘Look at me’. I am simply trying to understand: where will the burden fall on Melburnian property owners around these changes?

The CHAIR — I think the minister has got the question; thanks.

Ms HENNESSY — Will it fall on a suburban quarter-acre block family more so than an apartment dweller?

Mr WALSH — I think I have already explained the process for the development of water plan 3 for the water businesses, so they are putting that together. They have been out consulting with customers; that is part of their responsibility under this process. That then goes to the Essential Services Commission to review, and the Essential Services Commission then goes out and consults with customers about what the proposals will be in water plan 3. Those particular numbers that you talk about are something that will be developed in consultation with customers. It is not something that will be directed on, so it is very important that customers are involved in this particular process.

Mr ANGUS — Minister, I refer you to budget paper 3, pages 59 and 62, and in particular the output initiative in relation to Living Melbourne, Living Victoria and the establishment of a new Office of Living Victoria. Minister, can you explain to the committee the significance of this initiative in relation to integrated water cycle management?

Mr WALSH — Thank you for the question. In the 2012–13 budget there is \$10 million for the setting up of the Office of Living Victoria. That will be set up as a stand-alone administrative office. As I think I said earlier in my presentation, Chris Chesterfield, who most recently was the manager of waterways for Melbourne Water, has accepted the position of CEO of OLV. I look forward to his knowledge of and previous contribution to the water industry being carried over to do the things that OLV is being tasked to do. The core function of OLV is to work across government departments and to work across water authorities to make sure that we have integrated water cycle management embedded into the water planning and the actual planning process here in Melbourne.

Currently there are four growth corridors around Melbourne where the Minister for Planning is having precinct plans drawn up for future housing development. The principles behind OLV and the work that it will be doing is making sure that in those growth corridors and in the precinct plans you are embedding better water management into the design so you are harvesting stormwater at source, you are using stormwater as part of the livability of those particular growth areas and you are, by managing stormwater at the precinct level, prolonging or maybe even stopping altogether the large expense on major water drainage infrastructure.

As we build our new suburbs we increase the impervious surface and increase the run-off of those areas in major rain events, so if you can manage that water at the local household level or at the precinct level, it is usually more effective and efficient and financially beneficial to do that. That will be embedded into the planning process. You can then utilise that water to increase the livability of those particular areas. By keeping your open spaces and your sporting and recreational ovals green, you have a positive environmental outcome.

One of the things that a lot of people do not realise is that as you increase those impervious surfaces with urban development you increase the water rush if you do not manage it correctly down our streams, which has an environmental degradation effect on those streams. If you can manage the water at the precinct level and manage it through the system, you have a positive impact on the livability of those communities, you have a positive impact on the demand on the potable water supply and you have a positive environmental outcome by having healthier streams, and you can maintain those streams and riparian areas in a more natural state than what is happening in some of our existing suburbs. From a Melbourne point of view you can have a positive impact on the bay, because you reduce the outflow of nutrients and particularly phosphorus and nitrogen into the bay, so a win-win all round.

There are challenges. There was a parliamentary inquiry by the Environment and Natural Resources Committee in the previous Parliament that looked at Melbourne's future water supply and the future. One of the things that came out of that inquiry was that when it comes to the issue of managing stormwater, depending on where it is in the system, there are different responsibilities. For private land-holders it is their responsibility. Once it leaves the private land-holder it is initially a local government responsibility. Once it leaves local government drains and goes into the big drains here in Melbourne it becomes Melbourne's water responsibility. One of the tasks of OLV will be to cut across those areas of responsibility and have it managed where it can actually be best managed from a financial point of view but also from an environmental and livability point of view as well.

Mr PAKULA — Minister, on page 59 of budget paper 3 under output initiatives you have a heading of 'Manage risks to water availability'. I assume the ways that management would occur would be many and varied. You have in recent times talked about some new water augmentation measures. My recollection is that you have discussed recycling and stormwater, and I would invite you to tell us if there are any others. Could you give the committee some indication of the time line, the cost and the water availability of the sorts of measures you have been discussing in recent times with regard to recycling and stormwater and any other augmentation measures — what you are proposing to implement, what it will cost and how much water it will deliver?

Mr WALSH — I suppose, to start off with, the line item you are talking about in the budget is an issue that I have already covered in a previous answer, that this is effectively the contribution to the South Eastern Australian Climate Initiative and how we are actually part of that particular process.

Mr PAKULA — It was a useful segue for me though, Minister.

Mr WALSH — The other part of the question, can you just repeat it, please?

Mr PAKULA — On the initiatives that you have talked about in recent times in terms of recycling and stormwater, and if there are any other water augmentation initiatives that you have in the pipeline — the time line, what types of initiatives, what they will cost and how much water they will deliver.

Mr WALSH — I think we have touched on this a bit already with the answers about the establishment of OLV. There are already projects that have been done or are well advanced. If you go to the northern area and look at the Kalkallo development out there, they are planning to harvest the water from that particular development out there to be used for non-drinking purposes. So there are some of those projects that are happening. If you go to the west of Melbourne and go to Toolern, which is an urban development out there in Western Water's footprint, with integrated water cycle management in that development you have effectively got a water neutral suburb. So there are examples of those sorts of projects that are happening.

What we want to achieve with OLV is make sure that is embedded into the planning process across all the new developments in Melbourne and across any major brownfield redevelopments in Melbourne. There is the Doncaster Hill project that has been talked about, which is a major redevelopment in the Doncaster area. Again from memory, once it is done it increases the number of people living in that particular area but reduces the water demand going into it by about 50 per cent and reduces the waste outflow, and particularly nutrients, to

Port Phillip Bay by about an equivalent amount. It is about planning on a precinct level to actually deliver those sorts of outcomes. It is something that will be done over a long period of time. We are very well aware of the costs that are being forced onto particularly Melbourne water customers by the desal plant project, and as part of — —

Mr PAKULA — We almost got there.

Mr WALSH — You had the segue. So there are already going to be significant price increases in Melbourne water customers bills because of the desal plant project, and I think that has been very well documented and debated at length, and we probably do not need to spend more than 10 or 15 minutes on it now.

Mr PAKULA — I think we said it when we announced the desal project.

Mr WALSH — This is about long-term planning, not something that is going to happen necessarily in the next one or two years. By doing this sort of work and by implementing it, it would be our view that you can potentially prolong the need for the next major water augmentation for Melbourne for possibly anything up to 50 years. There is also work being done whereby — as I talked about in answer to a previous question — if you manage stormwater at the precinct level you can effectively negate or prolong the need for probably one or two billion dollars worth of extra work in the drainage infrastructure in Melbourne as Melbourne grows. So it is as much about savings of future investment as it is about investment at this stage, by actually managing it in integrated management of water into the future and prolonging the need for major augmentation in the future by using those sources of water for non-drinking purposes.

Mr PAKULA — Just a follow-up so I can understand the funding profile for these projects. Is it that they are sort of off budget in the sense that they are funded by the water authorities out of their own profits, or are they projects that require separate line items from the government?

Mr WALSH — So in last year's budget there was \$50 million for the Leading the Way fund, which is money that will be available to assist water authorities with these particular projects, particularly helping new ones start — examples of projects to get started — so that other people and other water authorities can actually see the benefit of this sort of thing. As it is worked through I believe there will actually be savings in the water businesses rather than necessarily huge costs to the water business in doing some of this work.

I think there has been a step change in the way the people of Victoria and the people of Melbourne actually see water use into the future. The drought, I think, focused everyone's minds about these particular issues, and they want to see better usage made of stormwater, of recycled water and of harvested rainwater for fit-for-purpose use. It is not about large expenditure; it is about actually having integrated management of the whole water cycle.

Mr O'BRIEN — Just to follow on from that, it is a pity that the previous government did not understand that instead of proceeding with the desalination plant. I would like to ask you another question about a positive environmental outcome which coalition members have long campaigned for in relation to the Mordialloc Creek. I refer to the campaign by members Donna Bauer, Lorraine Wreford and Inga Peulich. I note that it has been well received and the locals are very thrilled with that announcement, which the government has committed to and was refused to be committed to by the previous government. The government's commitment is indeed \$2 million for the Mordialloc Creek. I am wondering, in your capacity as minister, could you outline what benefit will be associated with this monetary allocation?

Mr WALSH — In the 12–13 budget there is a further \$2 million for the City of Kingston to continue the dredging of the Mordialloc Creek, from the Mordialloc Creek boat ramp to the mouth of the creek. I have personally visited that area with the member for Mordialloc and had a look at that and met with the yacht club there one Sunday and saw the benefits this project will actually have. There has been substantial silting of the creek over time. There has not been in place a long-term management plan as to how it should be dredged and how it should be funded over time. So one of the commitments that we gave was to allocate \$6 million to go together with the money that the City of Kingston is also putting in to dredge the creek and improve the amenity and the boating opportunities for that particular area.

There are literally hundreds of boats that are moored at various places around the creek. There is a major positive amenity for that community. This will fulfil our commitment to that particular and I am sure the

member for Mordialloc, the member for Carrum and the member in the upper house will welcome this final commitment and I look forward to going back there when the project is finished to see how it has improved the amenity for that boating community there, because it had got silted up. One of the challenges in delivering this project is how the dredging is actually done but particularly the management of the spoil out of that area and taking away and handling it in a safe and appropriate manner.

Mr SCOTT — Minister, budget paper 4 provides information on the capital allocations across government. It is a general question; I do not think you will have to refer — well, it is the absence, perhaps, you will refer to. If you can find it, I would be grateful. In opposition — —

Mr WALSH — What page is absent?

Mr SCOTT — The pages are all there. In opposition you were very critical of Labor for not investing in the construction of dams. Can you please identify where in the budget papers there are funds allocated to the construction of new dams or dam strengthening?

The CHAIR — You are referring to budget paper 4, the state capital program?

Mr SCOTT — Correct.

The CHAIR — And you are looking for advice as to whereabouts in budget paper 4 there will be reference to capital for new dams?

Mr SCOTT — Or dam strengthening.

The CHAIR — Dam strengthening, indeed.

Mr WALSH — Thank you for the question. In the budget papers last year there was money announced for the Lindenow water security project, where a committee has been set up to look at the opportunities for improving the water security for the Lindenow area. As you would be aware, and the Chairman would definitely be aware, there is a major horticultural area there that produces a substantial percentage of the salad vegetables for Victoria. One of their challenges is that particularly through the late summer months there is not always water available for those areas and if they lose a particular crop they lose the opportunity of supply business and sometimes it takes a number of years to get that business back again. So there was money allocated and the work is being done to look at what opportunities there are to improve the security of supply for that area.

There was also money allocated to look at the water security and supply for Wangaratta. We can go back to 2007: Wangaratta nearly ran out of water and six months later Wangaratta was being flooded out. Upstream of Wangaratta you have Lake Buffalo and Lake William Hovell. The work is being done in conjunction with the Wangaratta city council, North East Water and Goulburn-Murray Water as to how you can increase the security of supply of water to the Wangaratta city and surrounding area, as to whether that may be a slight enlargement of one of those storages or potential use of groundwater in that area. So there is the study being done about those two storages and particularly the interrelationship between surface water and groundwater in that area to make sure there is a more secure supply of water for Wangaratta into the future.

As far as your question about money for the upgrades to individual dams, as per one of your previous questions, the dams are managed by the various water authorities around Victoria. There has been a substantial program over the last, probably, decade to upgrade those dams to the new international standard, the ICOLD standard. The work was done on Eildon and it has been done on quite a few of the major storages around Victoria. There has been ongoing work at Hume Reservoir, as I understand it. It would be within the water authorities capital programs rather than the state government's capital programs.

Mr SCOTT — The two programs you mentioned, can you provide — again I am relaxed if this is provided on notice — the expenditure and the expenditure over years, because obviously TEI is not expended all in one year? Where you mentioned expenditure, if that could be provided, and the estimate over the estimates period.

Mr WALSH — Chair, can I get some more detail on that question, as to what is being — —

Mr SCOTT — You mentioned two programs that were specifically funded in the previous budget — —

Mr WALSH — So this is the Lindenow project and the Wangaratta — —

Mr SCOTT — Yes. Can you just provide the figure, because if you are providing capital works and you are doing studies for further capital works, there should be a program of expenditure and expected expenditure for those.

Mr WALSH — We are happy to do that, but both those are investigative processes, not — —

Mr SCOTT — I understand that.

Mr WALSH — capital works projects.

Mr SCOTT — Then expected capital works, if there are any figures that have been derived from those investigative processes.

Mr WALSH — As per the normal process, when an investigative process is concluded, there would be a report to government and at some time in the future there would be a government response to that report.

The CHAIR — Minister, just for my edification, the Lindenow project, is there is a time line on that? When is that report to be provided?

Mr WALSH — They had 12 months, so they are well advanced into it. I have not had an update in recent times.

The CHAIR — Thank you. Minister, with 1 minute to go, I think it would not be productive to ask a further question, because the answer would be necessarily abridged. So I will thank you as minister and your departmental officers for their attendance.

This concludes the budget estimates for the portfolios of agriculture and food security, and water. There were some questions taken on notice. The committee will write to you and seek your response within 21 days. This concludes the hearing. Thank you.

Witnesses withdrew.