

VICTORIA

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Victorian  
Auditor-General

Audit summary  
of  
Irrigation Water Stores:  
Lake Mokoan and  
Tarago Reservoir

Tabled in Parliament  
10 March 2010

# Audit summary

## Background

A secure water supply is linked to the health of the environment, businesses, community and farms. Recognising this, the government committed to an action plan in the 2004 white paper *Securing Our Water Future Together*. It re-affirmed this in 2007 in response to an extended drought period and the need to accelerate major water augmentation projects.

Although the white paper's strategies varied in size, complexity and priority, all had the objective of achieving regional and national benefits. They also addressed local issues. Two such projects are the decommissioning of Lake Mokoan and the reconnection of Tarago Reservoir to Melbourne's water supply.

The Broken system, located in north-east Victoria is made up of weirs, channels, creeks, rivers and large water storages. One of its components Lake Mokoan, was considered unsustainable because of its inefficiency as a large water storage and its substantial future costs. Water to be saved by the decommissioning project was committed to the Snowy and Living Murray projects, a collective action between governments to restore the health of these rivers.

The Lake Mokoan project comprised multiple capital works projects and attracted significant local resistance, principally relating to fears over water security and increased flooding risks. These concerns were known at the time of the decision to decommission and persisted through the life of the project.

The reconnection of Tarago Reservoir was an initiative to increase water supply to Melbourne. By comparison with Lake Mokoan this project was less complex, because reconnecting Tarago Reservoir only required the establishment of a water treatment plant. Unlike Lake Mokoan, there were no residual community concerns about the decision.

This audit examined the role of the Department of Sustainability and Environment (the department), Goulburn-Murray Water (G-MW) and the Goulburn Broken Catchment Management Authority (GBCMA) in managing the decommissioning of Lake Mokoan. Similarly, the audit examined the role of the department and Melbourne Water in reconnecting Tarago Reservoir.

In particular the audit examined the extent to which the governance frameworks were sound, whether the advice to government regarding the cases to proceed was well founded, and whether consultation and communication with the communities and stakeholders was effective.

## Conclusions

Both the reconnection of Tarago Reservoir and the decommissioning of Lake Mokoan were the most suitable options to pursue on environmental and cost grounds. Advice to government was comprehensive and robust.

The governance structures and approaches to decision-making and project implementation by the governing bodies were appropriate and sound for both projects. However, for Lake Mokoan, after the decision to decommission was made and implementation commenced, it took 20 months before an appropriate project governance framework was fully established.

Melbourne Water delivered the Tarago Reservoir project with no residual community issues identified. Despite the department's and G-MW's comprehensive and continuous engagement, community concerns remained throughout the life of the Lake Mokoan project. Although community engagement was generally well managed, a more targeted approach in addressing known areas of community dissatisfaction would have been beneficial.

## Main findings

### The Lake Mokoan project

A sound project governance framework with a project specific focus and support by the department was not established until 20 months after the decision to decommission Lake Mokoan had been made and implementation had commenced. While this did not stop the delivery of the project, confused roles and responsibilities during this period contributed to uncertainty about program accountability. Given the project complexities and community sensitivities known at the time, this should have been addressed earlier.

The decision to decommission Lake Mokoan was based on sound technical advice and comprehensive community consultation. The investigation of alternatives to full decommissioning and flooding risks included consultation with stakeholders, consistent methodology, relevant data and appropriate technical advice.

Although *Securing Our Water Our Future Together* did not record an approximate cost for the Lake Mokoan project, it was announced by the Premier in 2004 to be \$60 million. However, at the time it was not made clear this cost was a preliminary estimate. The cost of all project components could not be finalised until 2009 when the level of interest by irrigators in selling their water entitlements was determined. As at January 2010 the project expenditure is expected to be \$108 million once land rehabilitation, the final project stage, is completed. This cost increase has not invalidated the decision to fully decommission Lake Mokoan. Cost benefit analysis against alternatives still demonstrates that full decommissioning is the preferred option in regard to water savings, cost and the environment.

Communication throughout the project was continuous. Technical reports were accessible through the dedicated project website and a comprehensive program was in place to keep the community up to date in regard to the project implementation and key issues and concerns.

Despite comprehensive community engagement, the communication objectives did not target the community's dissatisfaction with the decision to fully decommission Lake Mokoan, the main project risk. The strategies employed were ineffective in allaying concerns by community groups, resulting in project delay and an atmosphere of mistrust.

In the course of the audit, interest groups raised a number of issues related to the Lake Mokoan project. This included a dispute regarding the government's commitment to maintain water security after the decommissioning of Lake Mokoan. The supply reliability, an estimation of current water security, was reassessed as 91 per cent in the Broken system in 2004, meaning the water users could expect to receive their full licence volume in 91 out of 100 years. This figure was used to guide the infrastructure investment and water entitlement buy back decisions. Some irrigators argued this rate should have been 97 per cent. Audit found the most defensible scenario was that supply reliability was between 91 and 93 per cent in 2004 when the commitment was made. Supply reliability of 92 per cent has been achieved as a result of the 2009 water entitlement buy-back process.

The risk of flooding to Benalla as a result of decommissioning Lake Mokoan was also an area of community concern, based largely on the belief in the community that Lake Mokoan was part of a flood mitigation strategy. Decommissioning Lake Mokoan will not raise the flooding risk for Benalla and its region, as Lake Mokoan was not used for flood mitigation.

## The Tarago Reservoir project

Melbourne Water established a sound governance framework from the commencement of the Tarago Reservoir project. The decision to proceed with the option of reconnection was well founded on technical advice and included an assessment of alternatives. The community was engaged by targeting those affected and their concerns were identified and responded to throughout consultation. The project is complete and there are no residual community concerns.

Although *Securing Our Water Our Future Together* recorded the approximate cost as \$50 million, it also noted the timing, cost and environmental impacts required further investigation. Once this work was complete, the cost of the project was estimated to be up to \$99.3 million (\$94.6 million +/- 5 per cent) with completion by the end of 2009. The project was completed within time and budget although the final cost of \$96 million, stated as being \$3 million under budget, was actually within the estimated cost range.

## Recommendations

Number	Recommendation	Page
	The Department of Sustainability and Environment should:	
1.	Establish and promulgate at the commencement of all major projects clear roles and responsibilities and reporting requirements.	30
2.	Make clear when project costs are announced whether they are preliminary estimates or firm commitments.	30

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