

VICTORIA

Victorian
Auditor-General

Wimmera-Mallee Pipeline

1

Executive summary

1.1 Introduction

The Wimmera-Mallee Pipeline project is Australia's largest water saving project. It is being funded by the Commonwealth Government, the State Government and the Grampians Wimmera-Mallee Water Authority (the Authority). On completion of the project in 2009, 17 500 km of open earthen channels will be replaced with an 8 800 km piped water distribution system. The new system of seven discrete supply systems will cover some 2.3 million hectares (10 per cent of Victoria) and provide water to approximately 2 500 rural customers, 35 000 urban customers and 36 towns in the region.

The Authority is responsible for the procurement and implementation of the project, and will manage the design and construction of the major trunk pipelines, water pumping stations, and water storages across six supply zones. The Authority is also responsible for the procurement of the distribution pipeline systems connected to the supply zone trunk mains.

The pipeline is projected to save 103 000 megalitres of water currently lost from the existing system. Forecast economic, social and environmental benefits for the region, include:

- secure, reliable and better quality water supplies to the farms, towns and businesses of the region
- providing up to 83 000 megalitres of water to help restore degraded waterways and wetlands in the region, and provide increased frequency of water flows to the region's nationally significant lake system
- providing up to 20 000 megalitres of additional water for regional economic development.

In 2006, with water storages at historical lows and the prospect that without significant rain local communities would run out of water, the Authority was in a difficult position. In order to secure supplies to meet customer needs, the Authority and its funding partners amended the project's proposed completion date from 2016 to 2011.

1.2 Key findings

The Authority established appropriate governance arrangements for the project and planned it well. The Authority adequately identified and assessed the alternatives available to meet the identified need, adequately supported the project with a comprehensive business case, consulted with the community and obtained the necessary approvals.

The audit identified a number of shortcomings with the procurement:

- While the Authority's Board and management were provided with general assurance by the probity auditor regarding the probity of the tender process, there was no specific assurance that all of the requirements of the probity plan were completed.
- Stage one of the project received a poor tender response and higher than expected tender prices. Efforts to address contractor preferences and the size of the bidder pool would likely have generated a better outcome.
- The Authority's decision to enter into an alliance agreement with a preferred tenderer, who was selected following a traditional fixed price tender process, was unwise.
- In moving to the alliance contract, the Authority reduced the tenderer's risk and increased its own risk, without obtaining a corresponding reduction in the tender price. This reduced value for money for the community.
- Contractor margins incorporated into the price for supply systems one and seven and for the supply system two trunk pipeline target cost contracts were high compared with average margins for the industry.
- By undertaking the system two trunk pipeline as an extension to the contract for the construction of systems one and seven, the Authority cannot be assured that it achieved the best price for this work.

Construction of the project has been well managed. The Authority's completion of the stage one trunk pipeline by October 2007, to secure town supplies and provide water to most rural customers during the 2007–08 summer, was a significant achievement.

However, the project is estimated to cost significantly more (\$248 million or 56 per cent) than was provided for in the project delivery agreement. The Authority should have formally notified the State Government sooner that the estimated cost of implementing the project was likely to increase.

The cost overruns have resulted in the need for the Authority to significantly increase its debt and the prices charged to its water customers. The proposed increase in debt creates a risk to the Authority's business.

The Authority's processes for the reimbursement of contractor costs under alliance contracts need to be more stringent to ensure payments are only made where goods and services are received and used appropriately, and the rates used for the reimbursement of contractor salaries are consistent with the contract agreements.

1.3 Key recommendations

The Grampians Wimmera-Mallee Water Authority should:

- comprehensively review its procurement arrangements to better align them with public sector principles and better practice (**Recommendation 4.2**)
- assess the reasonableness of costings in business cases supporting capital projects, before funding is sought (**Recommendation 3.1**)
- review its processes for reimbursing contractors under alliance agreements, to ensure payments are only made where goods and services are received and used on the project, and the labour rates paid are consistent with the contracts (**Recommendation 5.1**)
- commission independent audits of payments under all alliance contracts (**Recommendation 5.1**).

The Department of Treasury and Finance incorporate into its investment management material clear articulation that public sector agencies should:

- only enter into alliance procurement arrangements after assessing the appropriateness of these arrangements for the particular procurement exercise and assessing the suitability of an alliance partner, using the Department of Treasury and Finance's alliancing guidelines
- not tender for lump-sum contracts and then change the arrangements to alliance contracts
- when establishing alliance agreements, set contractor margins that are consistent with margins used for similar contracts in the relevant sector (**Recommendation 4.1**).

RESPONSE provided by the Managing Director, Grampians Wimmera-Mallee Water

GWMWater notes and welcomes the recommendations presented in the audit report. The recommendations will be presented to the Board of GWMWater for discussion at a future Board meeting once the audit findings are reported to the Victorian Parliament and are considered public information.

A range of further comments were also submitted by GWMWater. These are included in Appendix A along with further audit comment.

RESPONSE provided by the Secretary, Department of Sustainability and Environment

The Secretary of the Department of Sustainability and Environment has provided formal comments on aspects of this report. These are also included in Appendix A.

RESPONSE provided by the Secretary, Department of Treasury and Finance

DTF will review its investment management guidance material, with a view to incorporating clear articulation that public sector agencies should:

- *only enter into project alliance procurement arrangements after assessing the appropriateness of these arrangements for the particular procurement exercise and assessing the suitability of an alliance partner, using DTF's alliancing guidelines;*
- *not tender for lump-sum contracts and then change the arrangements to alliance contracts, or contracts with predominantly alliance features, after selection of a preferred proponent; and*
- *when establishing project alliance arrangements, set contractor margins that are consistent with margins used for similar contracts in the relevant sector.*