



# Administration and Effectiveness of the Environmental Contribution Levy





VICTORIA

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Victorian  
Auditor-General

# Administration and Effectiveness of the Environmental Contribution Levy

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The Hon. Bruce Atkinson MLC  
President  
Legislative Council  
Parliament House  
Melbourne

The Hon. Christine Fyffe MP  
Speaker  
Legislative Assembly  
Parliament House  
Melbourne

Dear Presiding Officers

Under the provisions of section 16AB of the *Audit Act 1994*, I transmit my report on the audit *Administration and Effectiveness of the Environmental Contribution Levy*.

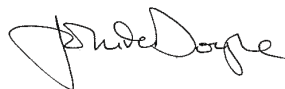
This audit assessed the Department of Environment and Primary Industries' (DEPI) administration and governance arrangements for the Environmental Contribution Levy (ECL), whether funded initiatives had achieved intended outcomes and the transparency and public reporting of the levy.

In respect to these issues, I found that while DEPI's administration of individual projects has generally been sound, there are deficiencies in its management of the ECL. In particular, there are weaknesses in DEPI's processes for selecting and prioritising proposed projects, articulating the levy's strategic priorities and costs, evaluating the effectiveness of the levy and public reporting of the ECL.

More positively, DEPI acknowledged these issues during the audit.

I have made four recommendations aimed at addressing the issues identified in the audit, and DEPI has committed to implementing these improvement initiatives.

Yours faithfully



John Doyle  
*Auditor-General*

25 June 2014



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# Auditor-General's comments



John Doyle  
*Auditor-General*

Since 2004–05, Victorians have been paying for the costs of sustainable water-related initiatives through their water bills. This has been in the form of the Environmental Contribution Levy (ECL), which is linked to the revenue earned by Victorian water businesses. The *Water Industry Act 1994* (the Act) states that the monies raised by the levy are to be used specifically to promote sustainable management of water and/or address adverse water-related environmental impacts. To date, around \$573 million has been collected through the ECL, and it is expected that just under \$1 billion will be raised by the end of the third tranche in 2015–16.

The ECL originated in 2004 as the key funding mechanism for the Victorian Government's *Our Water Our Future* policy, which identified a number of water reforms and environmental initiatives aimed at improving the sustainability of our water supply and usage. The intention of the levy was both to source monies for much needed water management initiatives following years of environmental degradation and prolonged drought and to provide price signals to Victorian water users about the impact of their water consumption on the environment.

The objectives of the ECL as outlined in legislation are broad. This has enabled a wide range of water-related activities to be proposed for funding by the levy. Increasingly, it appears that the ECL has been used to fund a disparate range of projects and what might be perceived to be core business of government, including administrative costs and salaries, rather than specific initiatives designed to achieve the objectives of the Act. This is most evident in the current third tranche of the levy.

While the projects and initiatives that have been funded through the levy appear to have been managed soundly and achieved a range of environmental benefits, it is not clear whether the projects and initiatives that have been funded are the ones that maximise the achievement of the ECL's objectives. This is because the Department of Environment and Primary Industries (DEPI) has not applied a clear and consistent framework for selecting and prioritising the initiatives to be funded.

DEPI has not used the legislated end of tranche reviews to examine the fundamental question of whether the levy is still required to fund worthwhile initiatives that achieve the legislative objectives. Further, there is also no evaluation framework in place and, as a consequence, DEPI is unable to determine the effectiveness of the ECL.

## Audit team

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Given that the ECL will ultimately raise almost \$1 billion, it is reasonable for both Parliament and the public to expect DEPI to be able to demonstrate that the money has been put to the best possible use and that the outcomes achieved are transparently reported. This has not occurred. Only limited information has been published about the levy's purpose, activities and outcomes.

This audit has broader relevance to other funds and levies that may be established for specific purposes. Similar issues were identified in VAGO's 2009 audit *Management of the Community Support Fund*, which found a lack of transparency around the fund arising from the broadness of its legislative objectives and the absence of adequate monitoring, evaluation and public reporting mechanisms. Given the significance of the findings in relation to the ECL, I will be interested to see to what extent other levies, charges and directed funds are managed in the same way.

The audit has recommended that, as a priority, DEPI develops guidelines to support the selection and prioritisation of proposed projects, articulates the strategic policy needs and costs to be recovered, establishes an evaluation framework and improves public reporting.

I am heartened by DEPI's commitment to addressing the issues raised, including its planned review of the effectiveness of the fund.

I would like to thank the staff of DEPI for their assistance and cooperation during this audit.



John Doyle  
*Auditor-General*

June 2014

# Audit summary

The Environmental Contribution Levy (ECL) was established in 2004 as a key initiative from the *Our Water Our Future* water reform agenda that set out to safeguard and support sustainable management of Victoria's water resources. The ECL was designed to fund water reform initiatives to:

- a) promote the sustainable management of water or
- b) address adverse water-related environmental impacts.

Amendments to the *Water Industry Act 1994* (the Act) enabled the ECL to be collected from water businesses based on an amount equivalent to 5 per cent of revenue for urban water businesses and 2 per cent of revenue for rural water businesses for a four-year period. Water businesses are able to pass on the cost of the ECL to water consumers through their water bills.

Between 2004–05 and 2015–16 it is expected that almost \$1 billion will have been collected from the ECL over its three tranches.

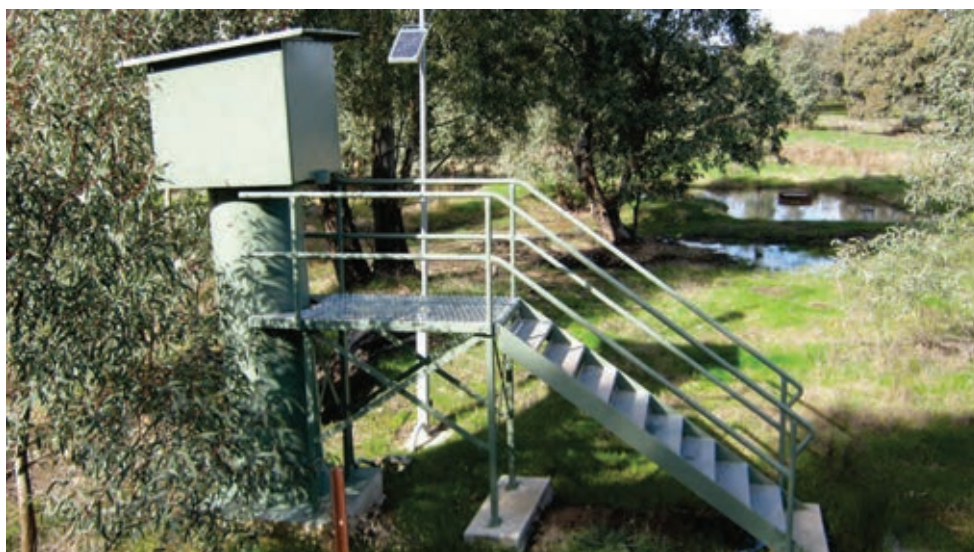
Levied funds are held in consolidated revenue and are allocated to the Department of Environment and Primary Industries (DEPI) as part of the State Budget and cabinet approval process. DEPI is responsible for:

- providing advice to the government on the rate of the levy and projects proposed for funding
- overseeing the delivery of levy-funded initiatives that are approved by cabinet
- annually reporting details of the levy's expenditure
- undertaking a review of the levy at the end of each tranche.

Data on surface water levels and volumes is collected from gauging stations, such as this one on Yarriambiack Creek, Wimmera Highway. This information is used across the state to sustainably manage Victoria's water resources and protect communities during flood events.

ECL tranche 3—Surface Water Monitoring program.

Photograph courtesy of DEPI.



The audit objective was to determine the effectiveness of DEPI's administration of the ECL and its funded initiatives. This included an examination of the governance and administrative arrangements for project selection and implementation, and the extent to which DEPI has reviewed, evaluated and reported on the ECL.

## Conclusions

While DEPI's administration of individual ECL projects has generally been sound, there are deficiencies in the department's management of the levy. In particular, there have been weaknesses in the processes for selecting and prioritising proposed projects across the three tranches of the levy. As a result, the department has not been able to demonstrate whether the projects that have been proposed for funding under the ECL were those that had the greatest potential for optimising the achievement of the levy's objectives.

The broad nature of these objectives has sometimes been used to justify the use of ECL funds as a substitute for funding longstanding core activities rather than funds being directed to water initiatives that more clearly align with the purpose of the levy. This appears to be inconsistent with the original purpose of the levy. Once projects have been approved, their implementation has generally been well managed and improved over time in line with departmental system upgrades and governance reforms.

While the ECL revenue collected has increased substantially over time, DEPI has not clearly articulated the strategic priorities for the levy, nor undertaken an analysis of the level of investment needed to address them.

After almost 10 years in operation, DEPI has not assessed the ECL's overall performance against its statutory objectives nor established an evaluation framework to do so. Some project-level evaluations have been undertaken—and these have demonstrated a range of environmental benefits from these projects. However, the quality and consistency of project evaluations has been variable. DEPI acknowledges these broader evaluation weaknesses.

DEPI has provided only limited information about the levy in its public reports, consequently there is a lack of transparency about how the levy is used and whether its objectives have been met.

## Findings

### Project selection and implementation

The broad nature of the Act's objectives enables differing interpretations of what projects are appropriate to be considered for funding under the levy. The relationship between ECL projects and the levy's statutory objectives are not always clear, and the rationale informing their choice is not transparent.

DEPI has not established an effective framework for assessing proposed projects that includes eligibility criteria, guidance, or a rationale for prioritising projects. There has also been a lack of documentation to support the selection and prioritisation of projects proposed for ECL funding.

The link between funded water initiatives and the ECL objectives has become less clear over time. Tranche 1 was clearly informed by the strategic priorities of the *Our Water Our Future* reforms. However, a decade later, DEPI has not clearly articulated the strategic priorities underpinning the projects and initiatives funded under tranche 3 of the ECL. Funds from the levy have increasingly been used to fund core business initiatives, and in tranche 3, some projects do not clearly align to the objectives of the Act.

Once approved, specific ECL-funded projects and initiatives have had reasonable project management and governance arrangements in place, which have generally improved over time. Adequate arrangements are in place for senior executive oversight, project delivery, and monitoring of the implementation of these projects.

### Review, evaluation and public reporting

Since 2008, DEPI has undertaken four reviews of the ECL including a review of lapsing projects from tranche 2. The two end of tranche reviews did not examine the overall effectiveness of the ECL nor were the terms of reference and scope consistent. It was therefore difficult to compare the findings of each review and the level of progress made.

DEPI has periodically considered the level and basis for collecting the levy in developing the Ministerial Orders for tranches 2 and 3. However, the department has not explicitly identified strategic priorities and quantified the costs it is seeking to recover by the levy.

Despite the ECL being in the place since 2004, DEPI has not established an evaluation framework to assess the effectiveness and its funded initiatives. This absence was also highlighted in the 2009 internal review. As a result, it is currently not possible to determine the extent to which the ECL and funded initiatives have achieved the legislative objectives.

Since 2004, DEPI has complied with the requirement in the Act to annually report project expenditure. However, there has been limited public reporting of the purpose, rationale and achievements of the ECL and funded projects.

## Recommendations

Recommendation 1	Page 14
<p>That as a priority the Department of Environment and Primary Industries establishes guidelines to inform the selection and prioritisation of initiatives funded under the Environmental Contribution Levy. These should include:</p> <ul style="list-style-type: none"> <li>• an interpretation of the scope and intent of the levy's two objectives under the <i>Water Industry Act 1994</i></li> <li>• criteria to assist in the selection and prioritisation of projects and/or initiatives to be put forward for future Environmental Contribution Levy budget bids</li> <li>• a requirement that decisions made under these guidelines are clearly documented and include the rationale for each decision.</li> </ul> <p>These should be in place before any further funds are approved.</p> <p><b>The Department of Environment and Primary Industries' proposed actions</b></p> <p>The Department of Environment and Primary Industries supports this recommendation and will commit to:</p> <ul style="list-style-type: none"> <li>• establishing a definition and criteria around the Environmental Contribution Levy legislative objectives related to sustainable management of water and addressing adverse environmental impacts</li> <li>• preparing a set of guidelines and process steps for ranking priorities of proposals against set criteria</li> <li>• documenting decisions including a rationale for each decision.</li> </ul> <p>These actions will be completed by end September 2014, in preparation for the 2015–16 Budget process.</p>	
Recommendation 2	Page 22
<p>That the Department of Environment and Primary Industries documents the strategic priorities and cost of addressing water policy needs to inform the determination of the total revenue that the Environmental Contribution Levy is being used to recover.</p> <p><b>The Department of Environment and Primary Industries' proposed actions</b></p> <p>The Department of Environment and Primary Industries supports this recommendation and will commit to develop a framework for consideration by government to improve and systematise the linkage between the Environmental Contribution Levy and the Water and Natural Resources group's strategic objectives, policy drivers and priority directions with analysis of the level of investment needed to address these.</p> <p>A draft framework will be prepared with adequate timing to allow government to consider the continuation of the Environmental Contribution Levy for a fourth tranche.</p>	

## Recommendations – continued

### Recommendation 3

Page 22

That the Department of Environment and Primary Industries:

- develops an evaluation framework for the Environmental Contribution Levy that measures the effectiveness of both the levy and the projects and/or initiatives it has funded
- evaluates the effectiveness of the Environmental Contribution Levy as part of each end of tranche review
- undertakes an evaluation of the overall effectiveness of the Environmental Contribution Levy over the past 10 years
- reports the outcomes of this work publicly.

#### **The Department of Environment and Primary Industries' proposed actions**

The Department of Environment and Primary Industries supports this recommendation and will commit to develop an evaluation framework and progress steps to measure the effectiveness of the levy and individual initiatives funded by it. The framework will include a more systematic and consistent approach to each end of tranche review process, and will include a whole of program review of the effectiveness of the ECL.

The framework will be drafted with adequate timing to allow government to consider the continuation of the Environmental Contribution Levy for a fourth tranche.

### Recommendation 4

Page 22

That as a priority the Department of Environment and Primary Industries enhances public reporting of the Environmental Contribution Levy in annual reports and other mechanisms. This should clearly describe the purpose, benefits and achievements of the Environmental Contribution Levy and its funded projects and/or initiatives.

#### **The Department of Environment and Primary Industries' proposed actions**

The Department of Environment and Primary Industries supports this recommendation and commits to providing enhanced public reporting on Environmental Contribution Levy-funded projects, including descriptions of the purpose, benefits, progress and achievements for each project, in addition to the information that it is required to publish on Environmental Contribution Levy expenditure to meet the requirements of the *Water Industry Act 1994*. This information will be published through Annual Reports and other mechanisms such as the Department of Environment and Primary Industries' website and will be available when the Annual Report is published. This will align with the 2013–14 annual reporting time line. The Department of Environment and Primary Industries will commence this format of reporting from 2013–14 onwards.

## Submissions and comments received

In addition to progressive engagement during the course of the audit, in accordance with section 16(3) of the *Audit Act 1994* a copy of this report was provided to Department of Environment and Primary Industries with a request for submissions or comments.

Agency views have been considered in reaching our audit conclusions and are represented to the extent relevant and warranted in preparing this report. Their full section 16(3) submissions and comments are included in Appendix C.





# 1 Background

## 1.1 Introduction

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In 2004, in response to years of drought, the Victorian Government published the *Our Water Our Future* white paper, setting out a water reform agenda designed to safeguard and support sustainable management of Victoria's water resources. As part of this reform agenda, the *Water Industry Act 1994* (the Act) was amended to require water businesses to pay an Environmental Contribution Levy (ECL) to fund initiatives that:

- a) promote the sustainable management of water or
- b) address adverse water-related environmental impacts.

The Act established the first tranche of the levy and the amount payable by water businesses, which was collected over a four-year period commencing in mid-2004. Subsequent tranches were determined under an Order of the Minister for Water (Ministerial Order). The then Department of Sustainability and Environment (DSE) was responsible for delivering initiatives funded by the levy.

The establishment of the levy was part of a progressive—and continuing—move towards full cost recovery for water planning and management activities of the National Water Initiative, which is an intergovernmental agreement signed by the Council of Australian Governments in 2004. The aim of the initiative was to achieve a nationally compatible market, regulatory and planning system to manage surface and groundwater resources for rural and urban use and optimise economic, social and environmental benefits.

Department of Treasury and Finance (DTF) guidelines on cost recovery describe a levy as 'a form of tax that is imposed on a specific industry or class of persons (rather than a tax of general application)'. The Department of Environment and Primary Industries (DEPI) describes the ECL as a pricing and funding mechanism that provides a means by which the Victorian public could be made aware of the need to reform and fund water management activities across the state.

## 1.2 Collection arrangements

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The Act enabled the ECL to be collected from water businesses based on a prescribed payable amount. The first tranche of the levy, from 1 October 2004 to 30 June 2008, was set at an amount equivalent to 5 per cent of revenue for urban water businesses and 2 per cent of revenue for rural water businesses. Since 1 July 2008 the Minister for Water has made Ministerial Orders that have enabled the state to continue to collect the levy from water businesses for tranches 2 and 3.

Water businesses are able to pass on the cost of the ECL to water users through their water bills. This cost does not appear as a separate line item on water bills. However, the estimated average annual cost of the levy for water users across Victoria was \$22.12 in 2007, \$27.54 in 2012 and is forecast to be \$44.25 in 2014.

The Act allows each Ministerial Order to set the levy for a period of no more than four years—known as a tranche. The percentages payable by water businesses have remained fixed since the levy was established in 2004. The first two tranches of the levy (2004–05 to 2007–08 and 2008–09 to 2011–12) raised over \$500 million. The third tranche (2012–13 to 2015–16) is expected to raise a further \$407 million, reflecting water price increases over the 2012–2016 period.

Levied funds are held by DTF in consolidated revenue and are allocated to DEPI as part of the State Budget and cabinet approval process. DEPI is responsible for:

- providing advice to the government on the rate of the levy and projects proposed for funding
- overseeing the delivery of ECL-funded initiatives that are approved by government
- annually reporting details of the levy's expenditure
- undertaking a review of the ECL at the end of each tranche.

The government approves the rate of the levy and funding allocations for ECL projects through the annual Budget and cabinet processes.

## 1.3 Environmental Contribution Levy funding of projects and initiatives

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The initiatives funded by the ECL have covered a range of water management issues, including water metering, groundwater management, water quality monitoring, water efficiency rebates, river restoration, irrigation and food bowl modernisation, and improvements to water accounting procedures. Annual funding allocations to particular initiatives have ranged from less than \$20 000 to \$59 million.

Levy-funded initiatives have been delivered across metropolitan and regional areas, and have been implemented through partnerships with a range of state and local government bodies, including DSE/DEPI, catchment management authorities, the Murray Darling Basin Authority, water businesses and community groups. The external parties responsible for delivery of ECL projects are referred to as 'delivery partners.'

Figure 1A summarises the amount collected and spent under each tranche and the number of projects delivered.

**Figure 1A**  
**Overview of the ECL from 2004–05 to 2015–16**

	<b>Tranche 1</b> <b>2004–05 to 2007–08</b>	<b>Tranche 2</b> <b>2008–09 to 2011–12</b>	<b>Tranche 3</b> <b>2012–13 to 2015–16</b>
Revenue collected	\$227 million	\$278 million	\$407 million (forecast)
Expenditure	\$217 million 2004–05 to 2008-09	\$289 million 2007–08 to 2012–13	\$30 million in 2012–13 of the \$236.8 million budgeted <sup>(a)</sup>
Initiatives	45 projects under five strategic priorities from the <i>Our Water Our Future</i> action plan	27 projects, under four strategic priorities including 11 continuing from tranche 1, eight election commitments and eight new initiatives	27 projects, including four projects continuing from tranche 2 and a range of new projects reflecting current government priorities

(a) The government is expected to commit further ECL funds to projects in future years of tranche 3.

Note: Some expenditure has occurred outside the four-year time frame for revenue collection of each tranche as set out in Appendix A.

Source: Victorian Auditor-General's Office.

A complete list of projects funded under each tranche and their value is listed in Appendix B. The amount allocated for individual initiatives across the tranches has ranged as follows:

- **Tranche 1**—\$20 000 to \$32.58 million
- **Tranche 2**—\$300 000 to \$47.75 million
- **Tranche 3**—\$1 million to \$59.20 million.

## 1.4 Roles and responsibilities

### 1.4.1 Department of Environment and Primary Industries

Since the ECL's inception in October 2004 projects funded by the ECL have been administered primarily through the Water and Natural Resources Group within DEPI, and the former DSE. ECL projects are delegated to the relevant team through standard departmental business structures and processes. There is not a discrete team responsible for the overall management of ECL projects. The business unit that has proposed an ECL project is usually responsible for its implementation.

DEPI has generally taken the lead on projects that have a statewide or policy perspective. More recently, in tranche 3, the Office of Living Victoria has taken lead responsibility for some projects in accordance with machinery of government changes in 2013.

## 1.4.2 Delivery partners

ECL projects are generally delivered by external parties—delivery partners—who have on-ground service delivery capacity. Over the three tranches of ECL, the principal delivery partners have been catchment management authorities and water businesses. Other delivery partners have included the former Department of Primary Industries, commercial service providers and Commonwealth agencies.

## 1.5 Audit objective and scope

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The audit objective was to determine the effectiveness of DEPI's administration of the ECL and funded initiatives by examining the extent to which:

- DEPI's role in the administration and governance of the ECL is effective
- initiatives funded by the levy have achieved their intended outcomes
- there is sufficient transparency around the administration and achievements of the ECL and the initiatives funded.

The audit focused on how well DEPI—and the former DSE—has managed the levy and initiatives funded since its commencement in 2004.

## 1.6 Audit method and cost

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The audit examined DEPI's management of the ECL and initiatives it has funded through documentary reviews and interviews and also by assessing a sample of water initiatives.

The audit was conducted in accordance with the Australian Auditing and Assurance Standards. Pursuant to section 20(3) of the *Audit Act 1994*, unless otherwise indicated any persons named in this report are not the subject of adverse comment or opinion.

The cost of the audit was \$435 000.

## 1.7 Structure of the report

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The report has two further parts:

- Part 2—Project selection and implementation
  - Part 3—Review, evaluation and reporting.
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# 2 Project selection and implementation

## At a glance

### Background

An effective framework for selecting and managing Environmental Contribution Levy (ECL) projects is important to optimise the environmental benefits of the levy, achieve value for money and ensure the distribution of funds is consistent with objectives for their use as set out in the *Water Industry Act 1994*.

### Conclusion

Effective administration and governance arrangements have not been put in place for the selection and prioritisation of ECL projects—in particular, there is an absence of formalised guidelines and selection criteria. These decisions have not been adequately documented, and there is a lack of clarity about how some projects meet the levy's legislative objectives. Increasingly, ECL funds are used to support a broad range of activities, rather than being directed to specific water-related initiatives that more directly align with the purposes of the levy. The implementation of projects and initiatives funded by the levy has been generally sound and has improved over time.

### Findings

- Decisions about what projects to recommend for funding have not been adequately documented.
- There are no established criteria or guidelines to guide the selection and prioritisation of ECL funded projects.
- There is also a lack of clarity as to whether all projects meet the legislative objectives of the levy—particularly in tranche 3.
- At times, there have been differing views across government about what constitutes appropriate use of ECL funding.
- ECL projects are subject to departmental project management procedures, which have generally improved over time.

### Recommendation

That the Department of Environment and Primary Industries establishes guidelines to inform the selection and prioritisation of projects and initiatives funded under the ECL.

## 2.1 Introduction

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Under the *Water Industry Act 1994* (the Act), the objectives for the Environmental Contribution Levy (ECL) are very broad. Funded initiatives are required to 'promote the sustainable management of water' and/or 'address adverse water-related environmental impacts'.

The selection and prioritisation of projects should be based on criteria that are clear, well understood and consistently applied. Decisions about which projects to fund should be transparently documented so that it is clear why those initiatives best contribute to meeting the ECL's legislative objectives.

Once projects have been approved, it is important to establish governance and oversight arrangements to support project management and implementation.

## 2.2 Conclusion

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The Department of Environment and Primary Industries' (DEPI) administration and governance arrangements for the selection and prioritisation of proposed projects have not been effective. As a result, DEPI has not been able to demonstrate that it has prioritised the most beneficial projects—in terms of their level of contribution to meeting the levy's objectives.

There is also a lack of clarity as to whether all projects meet the ECL's legislative objectives. There is evidence that the levy has been used to fund a broader range of department and government activities, rather than those specific to water-related initiatives aimed at promoting the sustainable management of water and/or addressing adverse water-related environmental impacts.

ECL projects have generally been soundly managed, and project implementation has improved over time in line with departmental system upgrades and governance reforms.

## 2.3 Findings

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The following findings examine the selection and approval of ECL projects and the administrative arrangements in place to support project implementation.

### 2.3.1 Project selection

The decision to fund projects under the ECL should be clearly documented and supported by guidelines and sound investment criteria to assure government and the community that funds are allocated to initiatives that optimally support achievement of ECL objectives and value for money.

## Selection process

The levy was established as part of the *Our Water Our Future* policy in 2004 to fund a package of water reform initiatives. Over time the projects funded by the ECL have become less focused on a set of identified strategic priorities and increasingly reflect a wide range of government priorities. This in part can be explained by the broad nature of the levy's legislative objectives and the absence of an effective framework to guide project selection and prioritisation.

### *Tranche 1 project selection*

The projects selected as part of tranche 1 were based on a comprehensive reform and consultation process. During 2003 and 2004, the Department of Sustainability and Environment (DSE) developed a long-term plan for water reform through the development and public consultation of the *Securing Our Water Future* green paper. The resulting *Our Water Our Future* white paper informed the selection of water initiatives under five strategic priorities:

- Protecting and repairing our water services
- Smart urban water initiatives and recycling
- Smart water farms sustainable irrigation
- Water security for cities, farm and the environment
- Council of Australian Governments Living Murray.

During tranche 1, the department implemented 45 projects towards these strategic priorities. The reform process and its associated governance and consultation processes provide assurance about the adequacy of the selection process used for this tranche.

### *Tranche 2 project selection*

The broad strategic directions that were established as part of tranche 1 were carried forward into tranche 2. The five strategic priorities were consolidated into four, and 11 tranche 1 projects continued to receive funding into the second tranche. These projects were considered to be consistent with the ongoing implementation of national water policy and government reforms. In addition, seven projects were driven by the election commitments and government policy directions in *Labor's Financial Statement 2006* and *Making Every Drop Count*. Eight new projects were also funded.

However, unlike the comprehensive tranche 1 policy reform and public consultation process, the selection of tranche 2 projects was undertaken using an internal selection process.

There was no prioritisation and selection framework in place to govern how the projects were selected, nor was the rationale for selection documented. In the absence of an established framework, the department relied on corporate knowledge to interpret and apply the Act's objectives.

### Tranche 3 project selection

The *Our Water Our Future* reform agenda was developed in response to a period of severe drought. This policy agenda guided project development under tranches 1 and 2. While some aspects of tranche 3 project selection were driven by the new government's election commitments outlined in the *Living Melbourne, Living Victoria* policy, the department did not clearly articulate an overarching strategic policy framework to guide the development and selection of tranche 3 projects that reflected the changes in policy and climatic conditions.

During 2010 and 2011, the department used an internal selection process to develop proposals for initiatives to be put forward for tranche 3 funding. Project proposals were reviewed by an internal working group that considered the alignment of proposed projects with the objectives of the Act and other government policies.

DEPI indicated that investment principles such as demonstrated need, value for money, feasibility and public benefits were also considered by the working group. However, consideration of these factors was not documented. Again, the selection process lacked a clear framework for prioritising and selecting projects.

DEPI was also not able to provide documentary evidence about how the projects put forward during the 2013–14 Budget cycle were selected and prioritised.

DEPI advised that it intends to better capture and document the decision-making process associated with the identification of future ECL projects and initiatives. The department also acknowledges the benefit of establishing a framework to guide the internal selection process for the use of the levy that includes a mechanism for prioritising projects.

The photograph shows flood monitoring with an acoustic doppler on the Goulburn River at Loch Garry. Regular measurements of velocity ensure that Victoria's water resources are estimated accurately.

ECL tranche 3—Surface Water Monitoring program.

Photograph courtesy of DEPI.





## Project approvals

Projects under tranche 1 were approved as part of the *Our Water Our Future* policy approval process and, as such, there was less detail provided on individual projects. In tranches 2 and 3 sound project proposals were developed for cabinet or ministerial approval in terms of:

- **Rationale**—there were links to election commitments and other government policies and priorities.
- **Benefits**—a range of environmental, social and economic implications were outlined.

However, the vast majority of individual project proposals do not clearly refer to the ECL's objectives or attempt to link the project outcomes with these objectives. This means that there is insufficient assurance that they adequately address the intent of the ECL.

## Use of ECL funding for tranche 3 projects

Under tranche 3, ECL funding has been used to supplement DEPI's core business activities and subsidise other non-ECL related projects. This reduces the level of scrutiny over ECL funding and outcomes. In the absence of a clearly documented rationale informing their selection, these projects appear inconsistent with the original purposes of the fund.

Examples of these projects are outlined in Figure 2A.

**Figure 2A**  
Examples of projects used for core funding and non-ECL related projects

Project	Funding for	Value	Years
<b>Core business funding</b>			
Goulburn Murray Connections Program	Administrative support comprising staff salary, travel, accommodation and overheads	\$2.0 million	2012–13 to 2015–16
Water Law Review	Consolidate two pieces of water legislation into a single up-to-date act	\$4.8 million	2012–13 to 2015–16
Office of Living Victoria	Core office funding	\$22.5 million	2013–14 to 2015–16
<b>Non-ECL related projects</b>			
Kananook Creek Dredging	Benefits were primarily for recreational boating purposes	\$2.5 million	2012–13
Macalister Irrigation Modernisation	Irrigation infrastructure where agricultural benefits primarily accrue to irrigators	\$16 million	2012–13 to 2015–16

Source: Victorian Auditor-General's Office.

The extent to which the ECL should be used to fund administrative costs and other core funding has not been determined and agreed upon by government. In addition, it is difficult to determine whether this level of cross-supplementation is increasing or not. In recent years, the department has transferred the funding of many core functions of the Water and Natural Resources (WNR) group from general revenue to ECL funding.

In relation to the Macalister Irrigation Modernisation and Kananook Creek Dredging projects, these were not submitted as part of the department's 2013–14 ECL funding proposal, however, both projects were funded by the levy. Conversely, four other projects proposed for ECL funding in 2013–14 were not approved. This highlights the importance of clearly articulating the strategic priorities for the use of the ECL in future Budget bids and for these to be supported by approved guidelines and investment criteria.

This situation can be explained by the absence of an agreed position on what constitutes the appropriate use of ECL funds, which has led to differing views over what types of activities and projects could be put forward for ECL funding—for example, whether the Macalister project aligned with the Act's objective for 'sustainable management of water'. Consequently, there is a need for the development of clear interpretations of the ECL objectives to 'promote sustainable management of water' and 'address adverse water-related environmental impacts.'

DEPI's 2012 end of tranche 2 review noted the absence of clear definitions of the Act's objectives. The review suggested that there would be benefit in the department adopting a clear interpretation of the objectives of the Act and for these interpretations to be consistently applied when assessing whether new projects are eligible for funding under the ECL in future. However, despite DEPI accepting this recommendation, it has not taken action and the subsequent two years of ECL projects have continued to be funded without clarity around the Act's objectives.

## 2.3.2 Project implementation

Effective project implementation needs to be supported by robust arrangements for oversight, planning, delivery and monitoring. This is particularly important for the ECL given the large amount of funds involved, the fact that management of projects occurs throughout the WNR group, and the need to manage relationships with external bodies involved in delivering the projects.

### Senior management oversight

While DEPI does not have a dedicated area for overseeing the ECL, it should ensure that existing governance mechanisms provide sufficient accountability and scrutiny of ECL-funded initiatives and enable ECL reporting and evaluations to be coordinated.

There is evidence that levy-funded projects are generally soundly managed. ECL projects are overseen by two executive governance groups:

- WNR group is comprised of the deputy secretary and executive directors.
- Senior Executive Group (SEG) is comprised of the deputy secretaries and the secretary.

The WNR group meets on a monthly basis to discuss updates provided in the monthly business report. Reports to this group are compiled from a range of data, including financial, human resources and project status information provided by project managers. SEG also meets every month to review DEPI's monthly performance and finance report, and to track progress towards 25 priority projects across the department. The WNR group identifies their priority projects, which are then signed off by the SEG group. Three ECL projects have been identified as priority projects for 2013–14. These are:

- **Review of the Water Act**—due to tight time frames. The project value is \$4.8 million.
- **Goulburn Murray Connections Program**—due to DEPI's role in overseeing this large project, which is valued at \$2 billion, although only \$2.0 million is funded by the ECL.
- **Oversight of Victoria's component of the Murray-Darling Basin Plan**—due to the intergovernmental arrangements. This project is valued at \$4.2 million.

Projects with budget variances of over \$500 000 are identified and considered by the SEG group.

These arrangements provide adequate oversight at an individual project level. However, they could be strengthened to enable the evaluation and reporting of ECL projects to be effectively coordinated. This issue is discussed further in Part 3.



The photograph shows Cann River revegetation—*Phragmites australis* is planted in the bed of the river to improve the stability of the river in the long term.

ECL tranche 3—Securing Priority Waterways.

Photograph courtesy of DEPI.

## Project planning

DEPI has used the development of proposals for the tranche 3 Budget bids to inform project planning. It has prepared comprehensive business cases that address the most significant elements of project planning for large projects over \$7 million. However, for projects under this amount it developed only brief project proposals, which were deficient in terms of the detail surrounding project implementation and schedules.

Our examination of a sample of tranche 2 and 3 projects identified a lack of guidance around the use of project planning tools. DEPI's Finance and Planning Division has commenced a process to implement consistent project management standards, processes and systems across the department, which includes an end-to-end project management standard. This should improve the consistency and rigour of project planning.

## Arrangements with delivery partners

Over the three ECL tranches, the principal delivery partners have been catchment management authorities (CMA) and water businesses. Other delivery partners have included the former Department of Primary Industries, Commonwealth agencies and commercial service providers.

DEPI—and the former DSE—has generally taken the lead on projects that have a statewide or policy development perspective. In accordance with machinery of government changes in late 2013, the Office of Living Victoria has taken lead responsibility for some tranche 3 projects.

The arrangements for delivery partners are set out in service level agreements (SLA) with CMAs and funding agreements with water businesses and tailored agreements with other partners.

## *Adequacy of accountability provisions*

From a sample of tranche 2 and 3 projects, the audit found that appropriate arrangements are in place with delivery partners, including clearly defined roles and responsibilities, and reporting requirements that enable monitoring of delivery of outputs and progress of projects.

The department has a longstanding engagement with CMAs. SLAs are revised annually for each catchment authority in line with the Victorian Investment Framework, which sets out governance arrangements and specific projects across all areas of DEPI. Payments to CMAs are linked to expenditure of project funding and six-monthly reporting requirements are tracked through an online reporting system. A more comprehensive report is submitted annually, which forms the basis of assessment of future funding opportunities.

Funding agreements with other delivery partners, such as commercial service providers, contained adequate provisions to:

- verify that funds were used for approved purposes
- ensure payments are made in accordance with agreed milestones
- withhold payments for noncompliance and unsatisfactory performance.

## Monitoring

DEPI has sound processes in place to monitor progress and performance. Monitoring of all tranche 3 ECL projects includes information about the responsible officer and division, actions, tasks that will be delivered each year, and progress and budget information.

The monitoring process in place prior to 2008 had some shortcomings. The 2008 end of tranche review recommended that individual project managers could improve the monitoring with additional quantitative information for each project milestone. In July 2011, DEPI introduced a new department-wide system—known as Interplan—to support more consistent, comprehensive and integrated business planning, risk management, performance management and reporting. This system is also linked to DEPI's financial and human resources systems.

The photograph shows the Cann River Floodplain looking downstream, showing a linked corridor of native vegetation along the riparian areas.

Work undertaken under ECL tranche 3—Securing Priority Waterways.

Photograph courtesy of DEPI.



### *Financial reporting*

DEPI has introduced improvements to financial management systems so that it is well placed to manage and report on project expenditure against budget.

Reviews of the ECL have identified some weaknesses in the financial management systems during tranches 1 and 2. In particular, the 2008 end of tranche 1 review found that project underspends resulted in carryover of funds between years. The 2009 DSE internal interim report indicated that improved phasing of activities and budget monitoring would reduce the need to carry over funds to future years.

Our audit has confirmed that underspend issues are far less significant than was previously the case. This is in part attributed to a better understanding of the nature of the projects and better project controls. Between 2008 and 2012, the department also adopted a new financial management system resulting in improved information to senior management.

The 2012 end of tranche 2 review indicated that much greater discipline had been applied to budget monitoring across the department since earlier reviews. Monthly reporting identifies variances against the planned budget and requires proposed remediation strategies, with major variances escalated to the monthly WNR and SEG meetings for discussion.

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## **Recommendation**

1. That as a priority the Department of Environment and Primary Industries establishes guidelines to inform the selection and prioritisation of initiatives funded under the Environmental Contribution Levy. These should include:
  - an interpretation of the scope and intent of the levy's two objectives under the *Water Industry Act 1994*
  - criteria to assist in selection and prioritisation of projects and/or initiatives to be put forward for future Environmental Contribution Levy budget bids
  - a requirement that decisions made under these guidelines are clearly documented and include the rationale for each decision.

These should be in place before any further funds are approved.

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# 3 Review, evaluation and reporting

## At a glance

### Background

Review and evaluation are essential to improving the administration of government initiatives and justifying the ongoing need for the Environmental Contribution Levy (ECL).

### Conclusion

While the revenue collected has increased substantially over time, the Department of Environment and Primary Industries (DEPI) has not clearly set out the policy needs and associated costing to justify the quantum of levy revenue. DEPI has adopted a minimal compliance approach to reviewing the levy and has not taken steps to establish an evaluation framework for the ECL. Therefore DEPI is not in a position to conclude on the effectiveness of the ECL. Further, a lack of public reporting has reduced the transparency around the impact of the \$536 million spent on water-related initiatives since 2004.

### Findings

- DEPI has reviewed the operation of the ECL at the end of each tranche, as required by the legislation, however, these reviews did not assess the effectiveness of the levy.
- DEPI has not established an evaluation framework to demonstrate the extent to which the ECL and funded initiatives have been effective.
- Since the levy's establishment in 2004, there has been limited public reporting of how ECL funds have been used and what outcomes have been achieved.

### Recommendations

- That DEPI documents the strategic priorities and cost of addressing water policy needs to inform the determination of the total revenue that the levy is being used to recover.
- That DEPI develops an evaluation framework for the ECL that measures the effectiveness of both the levy and the projects and initiatives it has funded.
- That, as a priority, DEPI enhances public reporting of the ECL in annual reports and through other mechanisms.

## 3.1 Introduction

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The Environmental Contribution Levy (ECL) has been in place for nearly a decade and over this time it has funded a wide range of sustainable water-related projects across Victoria valued at over \$536 million.

This Part examines arrangements for reviewing, evaluating and reporting on the ECL and its funded initiatives.

## 3.2 Conclusion

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While the revenue collected has increased substantially over time—expected to be nearly \$1 billion in total by the end of tranche 3—the Department of Environment and Primary Industries (DEPI) has not clarified the strategic priorities and the associated quantum of funds needed to be recovered by levy revenue. These costs have been passed on to water users through their bills.

Although the department has complied with the legislative requirement to undertake end of tranche reviews, these have not addressed the question of whether the ECL has been effectively administered or whether it is still the best tool to fund water-related projects and initiatives. DEPI has not established an evaluation framework to determine the effectiveness of the ECL and its funded initiatives. Where project-level evaluations have been undertaken they are variable, inconsistent and at the discretion of project managers.

A lack of public reporting has resulted in insufficient transparency around the impact of the \$536 million spent on water-related initiatives since 2004. While DEPI meets legislative requirements to annually report funds spent from the ECL, it provides very little information to the public about the aims, achievements and outcomes of levy-funded initiatives.

## 3.3 Findings

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The following findings examine the reviews of the ECL, the extent to which an evaluation framework is in place and the level of public reporting.

### 3.3.1 Reviews

#### End of tranche reviews

Section 196 of the *Water Industry Act 1994* (the Act) requires that the responsible departmental secretary must, on or prior to the end of each period to which the ECL applies, complete a review on the operation of the levy and report to the Minister for Water on the conclusions reached as a result of that review. To meet this requirement, end of tranche reviews were commissioned in 2008 and in 2012. The department also completed its own internal interim review of tranche 2 in 2009.



The Act does not set out the terms of reference or scope of the end of tranche reviews. However, external advice sought by the department in 2006 indicated that the potential terms of reference for the review could include an examination of whether the ECL has:

- operated as intended when it was enacted by Parliament
- effectively achieved the government's objectives for the collection of environmental contributions, and if not, what changes are required in order to achieve that intention or objective.

The two end of tranche reviews for tranches 1 and 2 did not examine the overall effectiveness of the ECL nor were the terms of reference and scope consistent. Both end of tranche reviews focused on compliance aspects of the administration of the ECL and subsequently made some valuable observations about the administration and project management of the ECL. However, the differing scope and intent of these reviews limits their usefulness as it is not possible to use the first review as a baseline level of performance to measure subsequent progress.

Figure 3A presents the scope and recommendations from the end of tranche reviews.

**Figure 3A**  
**Scope and recommendations of the ECL end of tranche reviews**

Date	Review	Scope	Recommendations
2008	End of tranche 1 review	<ul style="list-style-type: none"> <li>• Water business compliance with the Act.</li> <li>• Governance arrangements.</li> <li>• Financial and project management.</li> </ul>	<ul style="list-style-type: none"> <li>• Five recommendations towards governance and project and financial management.</li> </ul>
2012	End of tranche 2 review	<ul style="list-style-type: none"> <li>• Water business compliance with the Act.</li> <li>• Status of 2008 end of tranche review recommendations.</li> <li>• Alignment of projects with the objectives of the Act.</li> </ul>	<ul style="list-style-type: none"> <li>• No recommendations made.</li> </ul>

Source: Victorian Auditor-General's Office.

While DEPI indicated that it generally supported the findings of the end of tranche reviews, no significant changes were implemented as a result of these reviews. Changes to the management of the ECL were made as part of broader departmental initiatives, including improved financial management and reporting which addressed a number of the review's findings.

However, important questions still remain to be addressed regarding the focus and intent of the end of tranche reviews. These reviews should include an examination of the effectiveness of the ECL. This should be included in the end of tranche 3 review that is required to be completed before June 2016.

## Reviewing the Environmental Contribution Levy's rate

The amounts payable by water businesses in tranche 1 were prescribed as part of the amendments made to the Act when the levy was introduced in 2004. The basis of these—5 per cent of revenue for urban water businesses and 2 per cent of revenue for rural water businesses—has not changed. DEPI has not clarified current strategic priorities and the associated costing to justify the quantum of levy revenue in tranche 3.

However, the department has given some consideration to the rate of the levy when:

- developing the Ministerial Order—and the amount payable by water businesses—for tranche 2 in 2008 and tranche 3 in 2012
- applying for an exemption to the *Subordinate Legislation Act 1994* and in particular, the obligation to undertake a Regulatory Impact Statement (RIS) for the ECL when developing the Ministerial Order for tranche 3.

Typically, a RIS involves an analysis of the policy base case, a cost benefit analysis and public consultation. In gaining an exemption from the requirement to undertake a RIS, the department committed to seeking independent advice from the Essential Services Commission on the anticipated impact, including the costs and benefits of the ECL on water customers in Victoria. The Essential Services Commission's subsequent analysis outlining forecast ECL revenue was presented as part of the Department of Sustainability and Environment's Budget submission for tranche 3 approval.

While DSE's tranche 3 Budget submission provided some rationale for continuing with the levy, in its advice to the government it did not articulate the policy needs and associated costing to justify the quantum of levy revenue. The ECL is in its tenth year of operation and the amounts payable by water businesses have escalated from \$227 million in tranche 1 (2004–08) to a forecast \$407 million in tranche 3 (2012–16). These costs are able to be, and to date have been, passed on to Victorian water users through their bills.

The photograph shows a grade control structure on the Combienbar River. This structure will reduce deepening and widening of the river channel.

ECL tranche 3—Securing Priority Waterways.

Photograph courtesy of DEPI.



### 3.3.2 Evaluation

Despite the ECL being in the place since 2004, DEPI has not established an evaluation framework to assess the effectiveness of the levy and its funded initiatives. This absence was also highlighted in an internal review of the levy that the department conducted in 2009. As a result, it is currently not possible to determine the extent to which the ECL and funded initiatives have achieved the legislative or project specific objectives.

#### Project evaluations

The absence of a framework has meant that evaluations for ECL projects have been patchy and of variable quality, ranging from comprehensive and rigorous to poor and deficient. In tranche 2 only 11 of the 27 projects underwent an evaluation. There have been rigorous evaluations conducted that have highlighted environmental, social and economic benefits, as well as the extent to which project outcomes have been achieved. On the other hand, some evaluations are merely reports on progress in achieving outputs. These appear to be driven by project managers and the local practices within the department rather than being informed by an evaluation framework.

DEPI has been aware of challenges in conducting effective evaluations based on previous ECL reviews. The 2009 internal review noted that while most tranche 2 projects had outputs that directly assisted with addressing adverse water-related environmental impacts, some outputs at the project level did not align with the objectives of the ECL. The review noted that this impeded consistent reporting and evaluation of the performance of ECL tranche 2 projects and that many projects required improved program logic to demonstrate how projects and activities linked to legislative objectives and ECL outcomes.

In September 2013, as part of the new Department of Treasury and Finance (DTF) guidelines for Budget submissions, DEPI introduced a new departmental requirement for all lapsing projects seeking further funding to include an evaluation. While this is a positive step that should go some way to improving the overall rigour and quality of project evaluations, this requirement only applies to projects seeking additional funding at the completion of the initiative. There would be merit in evaluating all ECL projects—both lapsing and non-lapsing—and embedding evaluation mechanisms into projects from their commencement.

#### Evaluation framework for the ECL

In designing an evaluation framework, DEPI could draw upon DTF's *Evaluation policy and standards for lapsing programs* guidelines, where an evaluation is undertaken based on five key areas which address the (1) justification/problem, (2) effectiveness, (3) funding/delivery and efficiency, (4) risk—what the impact would be of ceasing the program—and (5) efficiency.

It is important that sufficient consideration is given to establishing an evaluation framework in the early stages of a project or initiative. This enables the establishment of appropriate data collection mechanisms to track and measure performance towards the evaluative criteria. An evaluation framework for the ECL will also need to assess how individual projects contribute to the overall effectiveness of the ECL.

DEPI has indicated that it supports establishing a more robust evaluation of the effectiveness of the levy and a more rigorous and systematic approach to the analysis of its outcomes to help inform the design of subsequent tranches. Such an evaluation exercise could be undertaken as part of the next end of tranche review process and could be used to inform the establishment of an evaluation framework for future tranches of the ECL.

### 3.3.3 Public reporting

Informing the community and relevant stakeholders is an important aspect of public administration and the expenditure of public funds. It promotes transparency and accountability about the need for the ECL, the effective use of public funds and the outcomes achieved.

#### Annual reporting

Since the commencement of the levy in 2004, the department has provided minimal ECL project details in its annual reports.

The Act requires that the Minister for Water must within three months after the end of each financial year prepare a report setting out details of the expenditure of all monies paid as environmental contributions in that financial year. DEPI has met these basic requirements by including project names and associated expenditure within an appendix of its annual report. This approach provides neither the community nor Parliament with any meaningful information about what exactly the money is used for, how it achieves legislative objectives and the outcomes of the funded initiatives.

The photograph shows an irrigation systems check on an almond orchard in the Mallee, where funding was provided to upgrade the irrigation system and to carry out an irrigation systems check.

ECL tranche 2—Water Smart Farms.

Photograph courtesy of DEPI.



## Opportunities to improve public reporting

There is meaningful information about ECL-funded initiatives readily available within DEPI that could be captured and presented for public reporting. For example, a summary of 'significant benefits' towards the five strategic priorities from tranche 1 was produced for internal purposes in 2008 and major achievements of tranche 2 were presented as part of DSE's Budget bid in late 2011.

Additionally, information is collected through day-to-day implementation and monitoring of individual projects. However, the department does not collate or analyse this information to inform the public about the use of levy funds and achievements of funded projects.

Some key achievements from tranches 1 and 2 are described in Figure 3B.

**Figure 3B**  
**Key achievements from tranches 1 and 2 of the ECL**

- Exceeded Victoria's Living Murray water recovery target of 214 gigalitres—achieving 219.5 gigalitres as of May 2011—at a cost of \$115 million
- Prevented the extinction of the freshwater Murray hardyhead fish in 2006–07 and watered critical drought refuges along the Murray River for river red gums and migratory birds through the creation of the Environmental Water Reserve, 19 environmental entitlements and management of environmental water during the recent drought
- Completed river restoration works on 2 600 kilometres of the state's rivers and streams
- Increased opportunities for integrated water management and potable water substitution by funding innovative stormwater and urban recycling projects
- Saved 22.4 gigalitres of potable water from 2007 to 2011 through the development of water management action plans
- Made ongoing potable water savings of 3.2 gigalitres per year through the Water Smart Gardens and Homes rebate scheme, which provided 305 000 rebates statewide from 2003 to 2011.

*Source:* Victorian Auditor-General's Office based on Department of Environment and Primary Industries material.

During the course of the audit, DEPI has committed to enhancing the reporting of the ECL and to preparing more outcomes-focused reporting of progress and achievements in its 2014–15 annual report. In addition to meeting the legislative requirement to report annual ECL expenditure, DEPI has undertaken to explore opportunities to use existing data sources and arrangements to enhance the narrative presented in annual reports to articulate the:

- purpose and function of the levy
- major achievements to date
- highlights from projects and major initiatives across Victoria.

The department has also indicated that it intends to undertake a 10-year review of the ECL to capture achievements and lessons learnt over the past decade.

DEPI should publish the findings from the end of tranche reviews and other periodic evaluations. Where ECL-funded projects already have existing public reporting arrangements in place, the department should identify that the project is funded by the ECL and link it back to the objectives of the levy. The amount of information published about each project should be commensurate with the level of ECL funding.

## Recommendations

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2. That the Department of Environment and Primary Industries documents the strategic priorities and cost of addressing water policy needs to inform the determination of the total revenue that the Environmental Contribution Levy is being used to recover.
  3. That the Department of Environment and Primary Industries:
    - develops an evaluation framework for the Environmental Contribution Levy that measures the effectiveness of both the Environmental Contribution Levy and the projects and/or initiatives it has funded
    - evaluates the effectiveness of the Environmental Contribution Levy as part of each end of tranche review
    - undertakes an evaluation of the overall effectiveness of the Environmental Contribution Levy over the past 10 years
    - reports the outcomes of this work publicly.
  4. That as a priority the Department of Environment and Primary Industries enhances public reporting of the Environmental Contribution Levy in annual reports and other mechanisms. This should clearly describe the purpose, benefits and achievements of the Environmental Contribution Levy and its funded projects and/or initiatives.
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## Appendix A.

# Environmental Contribution Levy revenue and expenditure

**Figure A1**  
**Environmental Contribution Levy revenue and expenditure**

	Tranche 1				Tranche 2				Tranche 3	Total (\$ mil)
	2004–05 (\$ mil)	2005–06 (\$ mil)	2006–07 (\$ mil)	2007–08 (\$ mil)	2008–09 (\$ mil)	2009–10 (\$ mil)	2010–11 (\$ mil)	2011–12 (\$ mil)	2012–13 (\$ mil)	
<b>Environmental Contribution Levy revenue</b>										
Tranche 1	44.6	60.2	60.2	61.5						226.5
Tranche 2					69.4	69.4	69.4	69.4		277.6
Tranche 3									69.4	69.4
<b>Total</b>	<b>44.6</b>	<b>60.2</b>	<b>60.2</b>	<b>61.5</b>	<b>69.4</b>	<b>69.4</b>	<b>69.4</b>	<b>69.4</b>	<b>69.4</b>	<b>573.5</b>
<b>Environmental Contribution Levy expenditure</b>										
Tranche 1	44.6	48.6	44.1	69.9	10.2 <sup>(a)</sup>					217.4
Tranche 2				60.9 <sup>(b)</sup>	68.9	68.2	47	41.9	2.2 <sup>(c)</sup>	289.1
Tranche 3									29.5	29.5
<b>Total</b>	<b>44.6</b>	<b>48.6</b>	<b>44.1</b>	<b>130.8</b>	<b>79.1</b>	<b>68.2</b>	<b>47</b>	<b>41.9</b>	<b>31.7</b>	<b>536</b>

(a) Approval was sought from the Department of Treasury and Finance to carryover \$10.2 million into tranche 2.

(b) In the 2008–09 Budget, the Budget and Expenditure Review Committee approved the bringing forward funding of \$35 million for the Living Murray initiative and \$25.9 million for the Shepparton Irrigation Modernisation project.

(c) Approval was sought from the Department of Treasury and Finance to carry over \$2.2 million into tranche 3.

Source: Victorian Auditor-General's Office from Department of Sustainability and Environment and Department of Environment and Primary Industries annual reports.





## Appendix B.

# Environmental Contribution Levy projects

**Figure B1  
Tranche 1 projects**

Projects	Years	Value (\$ mil)
<b>Protecting and repairing our water services</b>		
Converting summer licences to winter-fill dams on high priority rivers	2004–05 to 2007–08	10.38
Improving the State's Observation Bore Network—capital project	2004–05 to 2007–08	7.20
Establishing and upgrading monitoring capability of river condition, health of fish communities, water quality and quantity, and community attitudes	2004–05 to 2007–08	7.09
Urban stormwater management	2005–06 to 2007–08	6.84
Enhancing Catchment Management Authority capability in managing the Environmental Water Reserve	2004–05 to 2007–08	6.45
Large Scale River Restorations—project management	2006–07 to 2007–08	4.36
Effective use of 120 gigalitres bulk entitlements for the environment in northern Victoria	2004–05 to 2007–08	4.14
Welcoming water back to the Glenelg River	2004–05 to 2006–07	3.34
Thomson and Macalister Rivers restoration project	2004–05 to 2005–06	3.32
River Health Research and Innovation	2004–05 to 2007–08	3.26
East Gippsland Heritage Rivers	2004–05 to 2006–07	2.97
The Ovens River— Healthline for the Murray	2004–05 to 2006–07	2.89
Restoring Victoria's River Corridors	2004–05	2.79
Providing environmental flows in the Wimmera River	2004–05 to 2006–07	2.56
Water Plan Communication	2007–08	2.50
Rebates for metering groundwater and surface water extractions	2004–05 to 2007–08	2.36
Restoring the Great Ocean Road estuaries	2004–05 to 2006–07	1.94
Improving groundwater management—groundwater and surface water interactions	2004–05 to 2007–08	1.85
Improving flow and habitat in the Broken River	2004–05 to 2005–06	1.84
Regional water education initiatives and action plans	2005–06 to 2007–08	1.76
Restoring the Loddon River and its floodplain wetlands	2004–05 to 2005–06	1.62
Restoring the Lower Werribee River	2004–05 to 2005–06	0.82
Enhancing the Murray River zone in the Mallee	2004–05 to 2005–06	0.77

**Figure B1**  
**Tranche 1 projects – continued**

Projects	Years	Value (\$ mil)
<b>Protecting and repairing our water services</b>		
Lake Mokoan Investigations	2006–07 to 2007–08	0.39
Lower Goulburn Floodplain Rehabilitation Project	2004–05	0.35
North-west region activities	2007–08	0.22
Groundwater resource appraisals	2004–05	0.03
<b>Smart water urban initiatives and recycling</b>		
Recycling and recovery investment program	2004–05 to 2007–08	32.58
Smart Water Fund and Smart Urban Design	2004–05 to 2007–08	9.78
Stormwater and Urban Water Conservation Fund	2004–05 to 2007–08	9.35
<b>Smart water farms sustainable irrigation</b>		
Smart Farms—Sustainable Irrigation	2004–05 to 2007–08	12.86
Water trading and adjustment	2006–07	0.02
<b>Water security for cities, farms and the environment</b>		
Unbundling water entitlements and enhancement of water register	2004–05 to 2007–08	7.16
Sustainable Water Strategies	2004–05 to 2007–08	5.39
Creation of the Environmental Water Reserve	2004–05 to 2007–08	3.81
Urban Water Regulatory Reform	2004–05 to 2007–08	2.95
Legislation program	2004–05 to 2007–08	2.49
Managing future risks to the total water supply— plantations, climate change, logging in Melbourne catchments	2004–05 to 2007–08	2.14
Accounting and compliance program	2004–05 to 2007–08	1.65
Institutional—mergers	2004–05 to 2005–06	0.96
Catchment land use	2006–07 to 2007–08	0.42
Parks Victoria grants management	2007–08	0.20
<b>Council of Australian Governments Living Murray</b>		
Sales Water Package	2004–05 to 2005–06	15.19
Living Murray investment	2007–08	10.94
Goulburn Murray Water Recovery Package Applications Transfer Entitlements	2006–07 to 2007–08	2.62
Goulburn Murray Water Recovery Package Water Register	2006–07	1.52
Goulburn Murray Water Recovery Package Reconfiguration Works	2006–07 to 2007–08	1.02
<b>Sub Total</b>		<b>207.15</b>
Carryover to 2008–09	2008–09	10.18
<b>Total</b>		<b>217.33</b>

Note: A total \$10.18 million for four of the five categories of Environmental Contribution Levy initiatives was approved by the Department of Treasury and Finance to carry over to the 2008–09 financial year.

Source: Department of Environment and Primary Industries annual reports.

**Figure B2**  
**Tranche 2 projects**

<b>Projects</b>	<b>Years</b>	<b>Value (\$ mil)</b>
<b>Protecting and repairing our water resources</b>		
Large Scale River Restoration	2008–09 to 2012–13	47.75
Living Murray	2007–08 to 2008–09	35.00
Shepparton Irrigation Area Modernisation Project	2007–08 to 2008–09	25.90
Environmental Water Reserve Management	2008–09 to 2011–12	18.25
River Health Monitoring	2008–09 to 2011–12	10.82
Groundwater Management, including Groundwater Management and Assessment Program	2008–09 to 2012–13	7.94
Policy and management of unregulated rivers	2008–09 to 2011–12	5.60
Regional Water Management Capability	2008–09 to 2011–12	2.74
Groundwater Monitoring Program	2008–09 to 2010–11	2.01
State Observation Bore Network	2008–09 to 2009–10	1.00
Catchment Management Authority Regional Works Program	2009–10	1.00
Water policy administration	2008–09 to 2011–12	0.30
<b>Water smart farms and sustainable irrigation and land management</b>		
Foodbowl Modernisation Project	2009–10	14.50
Farm catchments and modernisation	2008–09 to 2011–12	12.00
Continue the Werribee Vision	2008–09 to 2011–12	9.21
Water Smart Farms	2008–09 to 2010–11	7.49
<b>Water smart urban initiatives and recycling</b>		
Water Smart Garden and Homes Rebate	2008–09 to 2011–12	15.00
Small Towns Water Quality Fund	2008–09 to 2012–13	13.50
Stormwater and urban recycling	2008–09 to 2011–12	7.49
Somers Treatment Plant Bluescope Steel Western Port upgrade	2008–09	4.10
On-site recycling projects	2008–09 to 2009–10	3.60
Top 1500 Industry Program	2008–09 to 2011–12	0.75
<b>Continuing our investment in water security for cities and towns</b>		
Improved Accounting of Water Resources	2008–09 to 2012–13	5.92
Unbundling and Water Register	2008–09 to 2011–12	5.48
Sustainable Water Strategies	2008–09 to 2011–12	5.00
Manage Water Risks	2008–09 to 2011–12	2.59
Bulk Entitlements and Water Sharing Agreements Compliance Framework	2009–10 to 2011–12	0.56
<b>Total</b>		<b>289.12</b>

Source: Department of Environment and Primary Industries annual reports.

**Figure B3**  
**Tranche 3 projects**

Projects	Years	Value \$ (mil)
<b>Approved in 2012–13 budget</b>		
Securing priority waterways—regional on-ground works	2012–13 to 2015–16	59.20
Efficient and Effective Management of the Environmental Water Reserve	2012–13 to 2015–16	40.80
Surface Water Monitoring and Data Management	2012–13 to 2015–16	10.40
Living Melbourne, Living Victoria	2012–13 to 2015–16	10.00
Groundwater Monitoring of the State Observation Bore Network	2012–13 to 2015–16	7.80
Demonstrating waterway health outcomes	2012–13 to 2015–16	7.00
Linking Farms and Catchment Programs to Modernisation II	2012–13 to 2015–16	5.50
Water Law Review	2012–13 to 2015–16	4.80
Enhancing the Victorian Water Register	2012–13 to 2015–16	4.80
Improving capability in groundwater management	2012–13 to 2015–16	4.70
Improving modelling for water resource management	2012–13 to 2015–16	4.50
Managing risks to water availability	2012–13 to 2015–16	3.50
Water user entitlement refinement and market development	2012–13 to 2015–16	3.40
Coordination of Murray Darling Basin Plan activities with the Department of Environment and Primary Industries	2012–13 to 2015–16	2.50
Goulbourn Murray Connections Project Management	2012–13 to 2015–16	2.00
Mordialloc Creek Dredging	2012–13 to 2015–16	2.00
Integrated water analysis and reporting	2012–13 to 2015–16	1.80
Improving integrity of water savings assessment and management	2012–13 to 2015–16	1.20
Simplifying the Bulk Water Entitlement Framework	2012–13 to 2015–16	1.20
Breathing the life back into the Yarrowee River	2012–13 to 2014–15	1.00
<b>Approved in 2013–14 budget</b>		
Office of Living Victoria—implementation	2013–14 to 2015–16	22.50
Modernising the Macalister Irrigation District	2013–14 to 2015–16	16.00
Flood resilient communities and catchments	2013–14 to 2015–16	4.34
The Victorian Government's 2013–14 annual contribution to the Murray–Darling Basin Authority	2013–14	4.20
Groundwater—maintaining the state observation bore network	2013–14 to 2015–16	4.00
Basin Plan Modelling	2013–14 to 2015–16	3.00
Kananook Creek Dredging	2013–14	2.50
<b>Total</b>		<b>234.64</b>

Source: Department of Environment and Primary Industries annual reports.

## Appendix C.

# *Audit Act 1994* section 16— submissions and comments

### Introduction

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In accordance with section 16(3) of the *Audit Act 1994*, a copy of this report was provided to the Department of Environment and Primary Industries.

The submissions and comments provided are not subject to audit nor the evidentiary standards required to reach an audit conclusion. Responsibility for the accuracy, fairness and balance of those comments rests solely with the agency head.

**RESPONSE provided by the Secretary, Department of Environment and Primary Industries**



**Department of Environment and Primary Industries**

Ref: SBR007140  
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12 JUN 2014

Dear Mr Doyle *John,*

**PROPOSED PERFORMANCE AUDIT REPORT: ADMINISTRATION AND EFFECTIVENESS OF THE ENVIRONMENTAL CONTRIBUTION LEVY**

Thank you for the opportunity to respond to the proposed report on Administration and Effectiveness of the Environmental Contribution Levy (ECL).

The report identifies a range of issues, challenges and areas requiring action by the Department of Environment and Primary Industries (DEPI) in carrying out its responsibilities for the administration of the Environmental Contribution.

I am pleased to note the audit report also refers to DEPI's strengths in the implementation and management of projects that have been approved by government and the quality of evaluation of some of the larger initiatives funded by the ECL. DEPI also welcomes the report's findings that its financial management, governance, and monitoring of initiatives by senior management has improved and is effective.

I am pleased to confirm that DEPI welcomes the report's findings and accepts all the recommendations.

The enclosed table notes each recommendation and specifies DEPI's proposed actions to address each audit recommendation.

I am confident the report will provide a useful framework for DEPI to improve its systems and processes to give robust advice to government on priorities for investment under the ECL. The report's findings will also aid DEPI in working with other government agencies involved in the broader management of the ECL.

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**RESPONSE provided by the Secretary, Department of Environment and Primary Industries – continued**

In addition, I am confident that the audit will help DEPI better validate and communicate the achievements of the ECL to the public of Victoria.

Thank you for the opportunity to comment on the report.

Yours sincerely



**Adam Fennessy**  
Secretary

Encl.

**RESPONSE provided by the Secretary, Department of Environment and Primary Industries – continued**

**AUDIT RECOMMENDATIONS AND DEPARTMENTAL RESPONSE**

Recommendation 1	DEPI's proposed actions	Completion Date
<p>As a priority DEPI should establish guidelines to inform the selection and prioritisation of initiatives funded under the ECL. These should include:</p> <ul style="list-style-type: none"> <li>• an interpretation of the scope and intent of the Act's two objectives</li> <li>• criteria to assist in selection and prioritisation of projects and/or initiatives to be put forward for future Environmental Contribution Levy budget bids</li> <li>• a requirement that decisions made under these guidelines are clearly documented and include the rationale for each decision.</li> </ul> <p>These should be in place before any further funds are approved.</p>	<p>DEPI supports this recommendation and will commit to:</p> <ul style="list-style-type: none"> <li>• Establishing a definition and criteria around ECL legislative objectives related to sustainable management of water and addressing adverse environmental impacts.</li> <li>• Preparing a set of guidelines and process steps for ranking priorities of proposals against set criteria.</li> <li>• Documenting decisions, including a rationale for each decision.</li> </ul>	<p>Draft definition and criteria will be prepared by end of September 2014 and be used for the 2015-16 Budget process.</p>
<p><b>Recommendation 2</b></p>	<p>DEPI supports this recommendation and will commit to:</p> <ul style="list-style-type: none"> <li>• Developing a framework for consideration by government to improve and systematise the linkage between the ECL and DEPI's strategic objectives, policy drivers and priority directions with analysis of the level of investment needed to address these.</li> </ul>	<p>A draft framework will be prepared as part of the advice to support government to consider the continuation of the ECL for a fourth tranche.</p>
<p><b>Recommendation 3</b></p>		



**RESPONSE provided by the Secretary, Department of Environment and Primary Industries – continued**

<p>DEPI should:</p> <ul style="list-style-type: none"> <li>• develop an evaluation framework for the Environmental Contribution Levy that measures the effectiveness of both the levy and the projects and/or initiatives it has funded</li> <li>• evaluate the effectiveness of the levy as part of each end of tranche review</li> <li>• undertake an evaluation of the overall effectiveness of the ECL over the last 10 years</li> <li>• report the outcomes of this work publicly.</li> </ul>	<p>DEPI supports this recommendation and will commit to:</p> <ul style="list-style-type: none"> <li>• Develop an evaluation framework and process steps to measure the effectiveness of the levy and the individual initiatives funded by it</li> <li>• The framework will include a more systematic and consistent approach to each end of tranche review process, and will include a whole of program review of the effectiveness of the ECL.</li> </ul>	<p>The framework will be drafted as part of the advice to support government to consider the continuation of the ECL for a fourth tranche.</p>
<b>Recommendation 4</b>		
<p>As a priority DEPI should enhance public reporting of the ECL in annual reports and other mechanisms. This should clearly describe the purpose, benefits and achievements of the ECL and its funded projects and/or initiatives.</p>	<p>DEPI supports this recommendation and will commit to:</p> <ul style="list-style-type: none"> <li>• Providing enhanced public reporting on ECL funded projects, including narrative descriptions of the purpose, benefits, progress and achievements for each project, in addition to the information that it is required to publish on ECL expenditure to meet the requirements of the Water Industry Act.</li> <li>• This information will be published through Annual Reports and other mechanisms such as DEPI's website and will be available when the Annual Report is published.</li> </ul>	<p>This will align with the 2013-14 annual reporting timeline. DEPI will commence this format of reporting from 2013-14 onwards.</p>



# Auditor-General's reports

## Reports tabled during 2013–14

<b>Report title</b>	<b>Date tabled</b>
Operating Water Infrastructure Using Public Private Partnerships (2013–14:1)	August 2013
Developing Transport Infrastructure and Services for Population Growth Areas (2013–14:2)	August 2013
Asset Confiscation Scheme (2013–14:3)	September 2013
Managing Telecommunications Usage and Expenditure (2013–14:4)	September 2013
Performance Reporting Systems in Education (2013–14:5)	September 2013
Prevention and Management of Drugs in Prisons (2013–14:6)	October 2013
Implementation of the Strengthening Community Organisations Action Plan (2013–14:7)	October 2013
Clinical ICT Systems in the Victorian Public Health Sector (2013–14:8)	October 2013
Implementation of the Government Risk Management Framework (2013–14:9)	October 2013
Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2012–13 (2013–14:10)	November 2013
Portfolio Departments and Associated Entities: Results of the 2012–13 Audits (2013–14:11)	November 2013
WoVG Information Security Management Framework (2013–14:12)	November 2013
Public Hospitals: Results of the 2012–13 Audits (2013–14:13)	November 2013
Occupational Health and Safety Risk in Public Hospitals (2013–14:14)	November 2013
Racing Industry: Grants Management (2013–14:15)	November 2013
Local Government: Results of the 2012–13 Audits (2013–14:16)	December 2013
Managing Victoria's Native Forest Timber Resources (2013–14:17)	December 2013
Water Entities: Results of the 2012–13 Audits (2013–14:18)	December 2013
Tourism Strategies (2013–14:19)	December 2013
Oversight and Accountability of Committees of Management (2013–14:20)	February 2014
Managing Emergency Services Volunteers (2013–14:21)	February 2014

Report title	Date tabled
Asset Management and Maintenance by Councils (2013–14:22)	February 2014
Apprenticeship and Traineeship Completion (2013–14:23)	March 2014
Residential Care Services for Children (2013–14:24)	March 2014
Access to Education for Rural Students (2013–14:25)	April 2014
Shared Services in Local Government (2013–14:26)	May 2014
Universities: Results of the 2013 Audits (2013–14:27)	May 2014
Accessibility of Mainstream Services for Aboriginal Victorians (2013–14:28)	May 2014
Access to Services for Migrants, Refugees and Asylum Seekers (2013–14:29)	May 2014
Prisoner Transportation (2013–14:30)	June 2014
Using ICT to Improve Traffic Management (2013–14:31)	June 2014
Managing Consultants and Contractors (2013–14:32)	June 2014
Recreational Maritime Safety (2013–14:33)	June 2014

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