

Operating Water Infrastructure Using Public Private Partnerships

Tabled 21 August 2013



The Victorian Auditor-General's Office

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- **Purpose** – assurance to Parliament on the accountability and performance of the Victorian public sector.
- **Legislation** – *Audit Act 1994* defines powers and responsibilities of the Auditor-General and the Victorian Auditor-General's Office.
- **Mandate** – financial and performance audits of around 550 entities.



Background to the audit

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- Water demand in Victoria has continued to increase in recent decades.
- Significant investment to augment water supplies and improve water use efficiency has occurred.
- Public private partnerships (PPPs) have been used since the late 1990s in the water sector.
- PPPs were intended to achieve value for money outcomes.
- All but two of Victoria's 12 water and wastewater PPP projects have been operating for at least four years.



Audit objective and scope

Audit objective

To assess the operational effectiveness of four water and wastewater PPP projects.

Audit scope

- Central Highlands Water
 - Ballarat North Water Reclamation Plant
- Coliban Water
 - AQUA 2000 project
 - Campaspe Water Reclamation Scheme
- North East Water
 - Wodonga Wastewater Treatment Plant
- Department of Treasury and Finance (DTF) and Department of Environment and Primary Industries (DEPI).



Conclusion

- There are gaps in governance and contract management in all four audited projects.
- All water corporations can improve monitoring of the service providers' financial health and broader project risks.
- Only Central Highlands Water's contract administration substantially met Partnerships Victoria requirements.
- Central Highlands Water's and North East Water's projects have provided service levels that matches the costs incurred.
- Coliban Water's decision to not reduce service payments for non-performance and incur additional costs due to contract changes undermines its ability to achieve value for money.

Findings – Governance and contract management

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- There are gaps in the quality and detail of information reported to the boards of each water corporation.
- Water corporations have not effectively monitored project-specific risks, benefits realisation, or the financial health of their service providers.
- Central Highlands Water has the most comprehensive approach to contract administration and performance monitoring.
- North East Water was unprepared for the voluntary administration of the Wodonga Wastewater Treatment Plant service provider in 2012.
- DTF's and DEPI's oversight has been minimal.



Findings – Achieving intended outcomes

- Central Highlands Water's and North East Water's projects have substantially complied with contracted standards.
- Coliban Water has made full payments on its two PPP projects, despite numerous noncompliances amounting to nearly \$4.8 million in potential deductions over three years.
- Coliban Water has incurred up to \$64 million in unplanned costs to address financial risks faced by the AQUA 2000 project's service provider.
- Water corporations have not assessed the value for money achieved during the operating phase of their projects.
- Only Central Highlands Water can demonstrate that its project is on track to quantitatively achieve value for money.



Recommendations summary

	Accept
Water corporations should:	✓
<ul style="list-style-type: none">• routinely and regularly report to their boards on contract performance	✓
<ul style="list-style-type: none">• revise their contract administration manuals to comply with <i>Partnerships Victoria's Contract Management Guide</i>.	✓
<ul style="list-style-type: none">• improve their risk management frameworks for each public private partnership project to systematically identify, mitigate and report on risks.	✓
Coliban Water should reconsider its approach to applying reductions in service payments for non-performance under the AQUA 2000 project and the Campaspe Water Reclamation Scheme contracts.	✓



Recommendations summary

Accept

DTF should:

- improve its existing public private partnership project oversight regime in the water sector
- develop a best-practice approach to assessing value for money throughout the public private partnership contract operating period.

✓

✓

DEPI should seek assurance that water corporation boards are effectively managing public private partnership contract performance

✓



Related reports

- *Implementation of School Infrastructure Programs* (February 2013)
- *Management of Major Road Projects* (June 2011)
- *Management of Prison Accommodation Using Public Private Partnerships* (September 2010)
- *The New Royal Children's Hospital*—a public private partnership (May 2009)
- *The New Royal Women's Hospital* (June 2008)



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