

Media Statement

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Auditor-General's Report: Review of South East Water's Works Alliance Agreement

"The SEW experience demonstrates that alliancing arrangements can have significant benefits for public sector agencies but as with all procurement strategies it must be robustly established, managed and reviewed," **Victoria's Auditor-General, Mr Des Pearson** said today.

His audit report *Review of South East Water's Works Alliance Agreement*, was tabled in the Victorian Parliament today.

In 2005 South East Water (SEW) entered into a 12-year alliance agreement with a consortium for operations, maintenance and smaller capital works with an expected value of around \$850 million over the life of the agreement.

The audit reviewed the planning and management of the alliance contract and whether the alliance was achieving SEW's objectives and the expected benefits.

Mr Pearson found there was a lack of rigour applied in choosing alliancing as the preferred procurement strategy. He said that SEW did not attempt to identify the best procurement option available to it. It did not adequately assess this alliance option against other procurement options.

Mr Pearson said that "by entering into the alliance South East Water's primary intention was to drive costs down without compromising service levels. This has been achieved and the alliance is delivering savings compared to the previous 'schedule of rates' arrangements. Nevertheless, it is not clear whether SEW has achieved the best value-for-money outcome available from its alliance."

"In the case of a 12-year alliance such as SEW's, robust review mechanisms are important in terms of locking in benefits and promptly identifying and addressing issues as they arise. Inadequacies in reviews of the alliance's commercial framework were found and a thorough review of the alliance is needed to assure SEW that its current form of alliance is its best procurement option," Mr Pearson said.

The report makes nine recommendations relating to the need for SEW to fully assess all feasible procurement options when undertaking major procurements, conduct a rigorous and independent review of the efficiency and effectiveness of the alliance, undertake a comprehensive annual review of the commercial framework, and to review the alliance's reporting requirements to the SEW Board.

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The report is published at: <http://www.audit.vic.gov.au/>

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