

Record of Decision – State-led Water Efficiency Project funding

Prepared for the Minister for Resources and Water for the purposes of *Water Act 2007*, Part 2AA
by the Department of Agriculture, Water and the Environment

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Related Ministerial Submission Ref: MS20-001519



State-led Projects – Victoria Goulburn-Murray Water - Water Efficiency Project

Part 1 – Purpose of this document

The Department of Agriculture, Water and the Environment (**Department**) has undertaken a comprehensive assessment of the application for funding for the Project described in Part 2 to ensure that funding and program objectives of the Goulburn-Murray Water - Water Efficiency Project (**Project**) under the Water for the Environmental Special Account (**WESA**) provisions in Part 2AA of the *Water Act 2007* are met where a decision to fund is made.

This assessment process included:

- review and assessment of the application form and supporting documentation by the Department and by an Assessment Panel comprising representatives from the Department);
- review of the Assessment Panel's report by the Department and preparation of a 'due diligence' assessment document; and
- obtaining and reviewing an independent expert report on technical elements, water savings calculations and costings for the Project.

This document is a record of the basis for decision by the Minister to grant funding from WESA for the Project described in Part 2 as a result of the assessment process summarised above, providing information on:

- the Project, including proposed water savings and funding amount (Part 2);
- assessment of the funding application for the Project against basic eligibility criteria (Part 3);
- assessment of the funding application for the Project against assessment criteria (Part 4); and
- the decision to grant funding under the *Water Act 2007* (Part 5).

Part 2 – Project information

Program name

Water Efficiency Program under Part 2AA of the *Water Act 2007*.

Proposal name

Goulburn-Murray Water – Water Efficiency Project.

Relevant State

Victoria state-led project.

Project proponent

Goulburn-Murray Water.

Purpose of Proposal – Water Act 2007 s 86AD(2)

The purpose of the Proposal is to achieve the improvement of:

- water efficiency of the infrastructure that uses Basin water resources for irrigation – *Water Act 2007* s 86AD(2)(a)(i); and
- water efficiency of any other infrastructure that delivers, stores or drains Basin water resources for the primary purpose of providing water for irrigation – *Water Act 2007* s 86AD(2)(a)(ii).

Summary of Proposal

The Project will rationalise and modernise works across the Goulburn-Murray Irrigation District (**GMID**) through two sub-projects, the Backbone Transformation Project and Shepparton East Project. The Projects will consist of works done across the following areas: Central Goulburn, Loddon Valley, Murray Valley, Rochester, Torrumbarry and Shepparton. Rationalisation and modernisation works for both the Backbone Transformation Project and Shepparton East Project will be done by:

- treating up to 230 km of channel;
- rationalising 151.7 km of channel ;
- automating up to 81 km of channel;
- modernising 21 km of high-loss channel;
- upgrading 868 outlets; and
- rationalising up to 153 outlets.

Water savings transferrable to Commonwealth Environmental Water Holder

18,168 ML (15,900 ML LTAAY).

Funding amount

\$177.5 million.

Part 3 – Assessment against basic eligibility criteria

Sufficiency of information

The Project application includes all required information and the information provided is considered sufficient to allow assessment of the Project application against assessment criteria.

Eligibility of proposed Project activities

The activities proposed under the Project are consistent with the descriptions of efficiency measures in item 38 (On Farm Irrigation Efficiency and Other Water Use Efficiencies) of the Murray-Darling Basin Ministerial Council's 'Register of Measures' notified under cl 7.13 of *Basin Plan 2012*.

Reduction of water loss

Based on documentation provided by the applicant as independently verified in a report from GHD Advisory dated 14 September 2020 (**GHD Report**), the project will reduce the volume of water lost in the process of delivering water by 18,168 ML and in doing so return 15,900 ML/y Long Term Average Annual Yield (LTAAY) of water to enhance the environmental outcomes of the Basin Plan, as a combination of both high and low security water entitlements from the following locations: Central Goulburn, Loddon Valley, Rochester, Murray Valley and Torrumbarry (s86AA (1)(a) and (b)).

Generation of water savings

Based on documentation provided by the applicant as independently verified in the GHD Report, 18,168 ML (15,900 ML LTAAY) of the total water savings possible from the activities proposed by the Project will be transferred to the Commonwealth Environmental Water Holder before 30 June 2024. As part of the assessment process, the Commonwealth Environmental Water Office confirmed that the entitlement proposed for transfer under this project is eligible for environmental water use.

The entitlements are both high and low security water entitlements from the following locations: Central Goulburn, Loddon Valley, Rochester, Murray Valley and Torrumbarry. In these catchments, these are important water entitlements for the Commonwealth Environmental Water Holder. The value of high reliability entitlements is particularly important during periods of low flows and when lower reliability water products have low allocations.

Demonstrable public benefits

Based on documentation provided by the applicant, including in relation to reduction in water loss, generation of water savings, and in relation to the neutral or positive socio-economic impacts of the Project, it is considered that the Project will provide demonstrable public benefits principally by:

- benefitting water supply to Goulburn-Murray Water customers by providing enhanced service levels through more accurate metering, faster delivery times and modernised supply points;
- support local industry and regional economies by creating employment opportunities through procurement of regionally based project management, design services, civil contractors and use of locally sourced materials; and
- provide long-term drought and climate resilience generating productivity improvements.

The infrastructure improvements will allow Goulburn-Murray Water to improve delivery service standards to irrigation businesses, through more accurate metering, faster delivery times and modernised supply points. This is expected to provide long-term drought and climate resilience generating productivity improvements, which create flow-on benefits to the regional economy. The project will assist Goulburn-Murray Irrigation District to manage a water constrained future in a changing climate.

Neutral or positive socio-economic benefits

Goulburn-Murray Water undertook stakeholder engagement in designing and developing the Project and the Victoria State Government has undertaken public consultation during its assessment of the [Murray-Darling Basin Ministerial Council socio-economic criteria](#) and the preparation of an assessment in accordance with those criteria.

The Assessment Panel reviewed the Victoria State Government's assessment of the socio-economic benefits of the Project and reached a view that the Project will have a neutral or positive socio-economic impact.

Based on the information provided by the applicant, including the Victoria State Government's assessment, and the Assessment Panel's review of that assessment, it is considered that the Project meets the eligibility criteria for having a neutral or positive socio-economic benefit. Part 4 below provides further information on socio-economic benefits presented by the Project.

Part 4 – Assessment against assessment criteria summary

The information provided in the application and supporting documents (11 documents in total) was considered by the Department and the Assessment Panel, and was subject to independent technical review from GHD Advisory.

In this context, this Part 4 presents core information in relation to the assessment of the Project application against assessment criteria based on that documentation. Criteria are scored as part of the Assessment Panel report.

Preparing for the future

The proposal demonstrates it will better prepare the water delivery network, irrigators and communities for the future.

The works reduce leakage and under reporting of water use and provide Goulburn-Murray Water with another tranche of a modernised delivery system that will enable adjustment to a drying climate and provide a more reliable water supply to its customers within the network, building on its existing investment through the Connections Project.

The business case from Victoria for the Backbone Transformation Project notes that Goulburn-Murray Water faces significant sustainability challenges and that the sub-project will reduce running costs by approximately one million dollars per year. This is a significant cost reduction and will assist the business to meet its predicted future of reduced income due to reduced water availability.

Based on the information reviewed, it is considered that the proposal demonstrates it will better prepare the water delivery network, irrigators and communities for the future.

Regional economic stimulus, socio-economic outcomes and public support

The proposal provides economic stimulus to the region.

The Project will improve delivery service standards to irrigators that will benefit on-farm productivity and generates flow-on benefits to the regional economy by supporting processors and other agricultural service industries that provide employment and stimulate economic activity within the community.

Both Backbone Transformation Project and Shepparton East Project sub-projects will support local industry and regional economies by creating an estimated 1,000 employment opportunities through procurement of regionally based project management, design services, civil contractors and use of locally sourced materials.

The Backbone Transformation Project alone will provide a stimulus to the regional Goulburn-Murray Irrigation District economy during the construction phase, creating an

estimated 928 Full Time Equivalent's jobs in the region (direct and indirect employment) and generating an estimated regional GDP increase of \$167.5 million.

Based on the information reviewed, it is considered that the Proposal provides economic stimulus to the region.

The proposal has neutral to positive socio-economic outcomes due to water efficiency improvements.

The project has been assessed against the Murray-Darling Basin Ministerial Council's socio-economic criteria. The Assessment Panel has reviewed the assessment and reached a view that the project will have a neutral or positive socio-economic impact.

The modernisation and rationalisation of channels will contribute to the long-term viability of the Goulburn-Murray Irrigation District by reducing the irrigation infrastructure footprint and whole-of-life operation and maintenance costs for Goulburn-Murray Water and its customers.

Channel and meter upgrades will directly benefit water supply to Goulburn-Murray Water customers by providing enhanced service levels through more accurate metering, faster delivery times and modernised supply points. As a result the Project will provide long-term drought and climate resilience generating productivity improvements.

Based on the information reviewed, it is considered that the Project has no negative impact on customers or the consumptive pool for the region, and has neutral to positive socio-economic outcomes due to water efficiency improvements.

The proposal has sufficient support from its direct stakeholders where applicable, from directly affected stakeholders (such as customers within the water delivery network, potential individual rationalisation customers, where applicable, and third parties with assets affected by the proposal).

The Project was scoped following extensive consultation with customers, the local community, and Regional and State representatives. Stakeholders engaged include Goulburn-Murray Water customers, local councils, State Government, Australian Government, regional contractors and suppliers.

Project information was posted on the Engage Victoria website to allow for public comments on the expected socio-economic outcomes. Public feedback on the expected socio-economic outcomes of the project through consultation included 75 survey responses and nine written submissions.

Both Backbone Transformation Project and Shepparton East Project sub-projects detailed stakeholder engagement strategies including stakeholder action plans and landowner engagement plans.

The Victoria Minister for Water made a determination on the project's compliance with the socio-economic criteria.

Based on the information reviewed, it is considered that the Proposal has sufficient support from its direct stakeholders where applicable, from directly affected stakeholders.

Water savings shared between the environment and water users

The proposal has independently verified water savings.

Information provided for assessment shows water savings calculations in line with the Victoria Water Savings Protocol methods. The calculations of expected water savings have been independently verified in the GHD Report.

Based on this, it is considered that the Project has independently verified water savings.

Where appropriate, the proposal describes the sharing of water savings between the environment and water users resulting from the project.

The project is proposing to transfer 18,168 ML (15,900 ML LTAAY) water entitlements to the Commonwealth Environmental Water Holder. These water entitlements are both high and low security water entitlements from the following locations: Central Goulburn, Loddon Valley, Rochester, Murray Valley and Torrumbarry.

It is considered that the sharing of water savings between the environment and water users resulting from the project is satisfactory.

The proposal delivers eligible water entitlements that can be transferred before 30 June 2024.

The Commonwealth Environmental Water Holder confirmed that the 18,168 ML (15,900 ML LTAAY) of water entitlements offered are primarily high security water from the Goulburn-Murray Irrigation District that are eligible to be transferred.

It is considered that the Project will deliver eligible water entitlements that can be transferred before 30 June 2024, and it is a condition of funding that the transfer occur by that date.

Overall value for relevant money

The proposed funding for the infrastructure required to achieve water savings is demonstrated through a budget based on eligible activities that represents value for money.

The cost of the project has been reviewed in the assessment of the project and verified for current market costs by the independent technical review by GHD Advisory. The costs of the infrastructure and construction activities are consistent with current and expected market rates.

The Project business case provides a budget and cost assessment tables that are comprehensive and provide a sound basis for managing the project. The due diligence assessment by GHD Advisory suggests the budget is likely to be adequate under 90% of possible situations. The project schedule to be applied uses the Federal Financial Relations framework, and this framework places the risk of budget overruns on the State.

In addition to the return of high reliability, high security water entitlements that can be used at key sites across the Murray-Darling Basin by the Commonwealth Environmental Water Holder, the project will deliver immediate and longer-term social and economic outcomes.

Based on the information reviewed, it is considered that the proposed funding for infrastructure to achieve water savings has been demonstrated in a manner which represents value for money.

The proposal results in a market multiple that balances the request for funding and the value of the water entitlements returned to the Commonwealth.

The market multiple calculated for this project is 2.48, which is consistent with other infrastructure and off-farm efficiency measures investments to recover water for the environment under the Murray-Darling Basin Plan.

It is noted that, the market multiplier is only one indication of how the project compares to the prevailing water market price at the time of assessment. This recognises that an investment in infrastructure delivers much greater social and economic benefits to the region than would otherwise be possible from purchasing water entitlements.

Based on the information reviewed, it is considered that the Proposal results in a market multiple that balances the request for funding and the value of the water entitlements returned to the Commonwealth.

The overall project risks are identified with appropriate risk mitigation strategies.

Project risks were considered to be well understood and well described, with appropriate treatments and controls in place. Risks were also reviewed as part of the GHD Report.

Key risks are:

- insufficient time available before 30 June 2024 for project delivery due to program delays and construction processes reducing water recovery volumes;
- onsite work, health and safety issues including work site death or serious injury;
- project opportunities for water recovery do not offer value for money due to infrastructure costs or rising water entitlement prices, reducing water recovery volumes;
- lack of 'social license' for the water recovery program.

Project risks were considered to be well understood and well described, with appropriate treatments and controls in place. Risks were also reviewed as part of the GHD Report.

Proposed governance and project oversight arrangements involving Project Control Groups with Goulburn-Murray Water, Victoria and DAWE representation as well as a senior executive-level Steering Committee between Goulburn-Murray Water and the Commonwealth are considered to be effective in providing sufficient project oversight to manage any emerging risks.

Based on the information reviewed, it is considered that the overall Project risks are identified and that appropriate risk mitigation strategies are in place to control these risks.

Part 5 – Decision consistent with statutory objectives

Having regard to the activities, funding level and water savings eligible for transfer as presented in the Project application and associated documents, and having regard to the Assessment Panel report and GHD Report, the Minister has determined to approve the provision of funding for the Project from the WESA under the *Water Act 2007* and consistently with the *Public Governance, Performance and Accountability Act 2013*, on the basis of an assessment demonstrating that:

- the Project furthers the objects of Part 2AA of the *Water Act 2007*, as set out in s 86AA of the *Water Act 2007*;
- the proposed funding for the Project is consistent with the purposes of the WESA set out in s 86AD(2) of the *Water Act 2007*; and
- the WESA can be debited for the purposes of the Project in accordance with s 86AD(4) of the *Water Act 2007*.