

Record of Decision – Off-farm Efficiency Program 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.: MS22-000159



State-led Projects – South Australia Marion 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 Off-farm Efficiency Program 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, National Water Grid Authority and Murray-Darling Basin Authority;
- 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 of the Project.

This document is a record of the basis for decision by the Minister to grant funding under the Off-farm Efficiency Program in respect of the project described in Part 2 (**Project**) 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

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

Proposal name

Marion – Water Efficiency Project (**Project**)

Relevant State

South Australia state-led project

Project proponent

Government of South Australia Department for Environment and 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* s86AD(2)(a)(ii).

Summary of Proposal

This Project will substitute the River Murray water used for open space irrigation in metropolitan Adelaide with treated stormwater from an existing scheme at Oaklands Park by:

- extending the existing supply network with 9.5kms of pipe to transport recycled stormwater to the irrigation sites;
- installing a new tank, aquifer injection system and recovery bore for additional above and below ground storage;
- installing new pumps to meet pressure requirements; and
- implementing water treatment facilities to ensure water is of sufficient quality to meet future demands.

Water savings transferrable to Commonwealth Environmental Water Holder

143.49 ML (126.56 LTAAY).

Funding amount

\$2,702,760.72 (\$2.703 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 39 (Urban or Industrial and Mining areas water efficiency) of the Murray-Darling Basin Ministerial Council’s ‘Register of Measures’ notified under cl 7.13 of *Basin Plan 2012*.

Reduction of water loss¹

Based on documentation provided by the applicant as independently verified in a report from Jacobs Group Australia Pty Ltd dated 27th January 2022 (Jacobs Report), the project will return 143.49 ML (nominal) or 126.56ML Long Term Average Annual Yield (LTAAY) of water to enhance the environmental outcomes of the Basin Plan, as South Australia Murray Class 3 High Security Entitlements (a high security water product) (s86AA (1)(a) and (b)).

Generation of water savings¹

Based on documentation provided by the applicant as independently verified in the Jacobs Report, 143.49 ML (126.56ML LTAAY) of the total water savings possible from the activities proposed by the Project will be transferred to the Commonwealth Environmental Water Holder (CEWH) before 30 June 2024. As the Project will be substituting existing water entitlements, the CEWH Office was not required to provide confirmation that the water entitlements are eligible.

The entitlements are South Australia River Murray High Security Class 3 entitlements which are equivalent to a high reliability product and are held by the South Australian Minister for Environment and Water. Therefore, they are available for transfer to the CEWH on or before 30 June 2024. This is an important water entitlement for the CEWH. The value of these high reliability entitlements is particularly important during periods of low flows and when lower reliability water products have low allocations.

Demonstrable public benefits¹

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:

- substituting River Murray water used for open space irrigation in metropolitan Adelaide with treated stormwater from an existing scheme at Oaklands Park;

¹ This is an eligibility requirement set out in the document *The Off-farm Efficiency Program*, August 2021.

- contributing to a reduction of the volume of harmful urban run-off discharged to Adelaide’s coastal waters;
- delivering positive outcomes for social values including local parks, the Oaklands Wetlands site and coastal ecosystem;
- irrigation systems installed as part of this project will use water efficiently and are designed to accommodate future demands. The proposal for this project is part of a broader strategic assessment of urban water efficiency options for local government in Adelaide, reducing reliance on the River Murray in the longer-term; and
- delivering 143.49ML/y of water entitlement (126.56 ML LTAAY) for the environment that will enhance environmental outcomes in the Murray-Darling Basin by contributing towards the 450 GL target.

The infrastructure improvements will result in a positive contribution to the South Australian Government’s wider integrated water policy strategy, benefits include providing a diversified water supply to support greening and cooling in the City of Marion. The project will support the environment by harvesting stormwater away from the Gulf St Vincent at Glenelg, improving coastal water quality and sea grass habitat. The stormwater is not currently used for any purpose and will benefit as several green spaces will have a reliable water supply to ensure they survive periods of low water availability and are usable during times of drought when local water restrictions are in place.

The project will provide a short-term economic stimulus in the region through the procurement of goods and services for the detailed design and construction. Strong indications have been provided that the works undertaken under will preferentially be allocated to local contractors. The additional capacity and the expansion of the network creates new connection opportunities for customers and may further stimulate economic investment in the local economy.

Neutral or positive socio-economic benefits²

South Australia has confirmed that the project is eligible for a specific exemption allowed by the Murray-Darling Basin Ministerial Council in relation to the socio-economic assessment that was agreed in December 2018. Despite this, a high-level socio-economic assessment has been completed and South Australia was satisfied that the Project has neutral or positive socio-economic outcomes.

Although public consultation was not conducted with Murray-Darling Basin communities (consistent with the requirements of the Ministerial Council’s socio-economic criteria) stakeholders including potential customers of the stormwater reuse scheme were consulted and have provided letters of support for the proposed project.

The Assessment Panel has reviewed the South Australian Government’s assessment of the socio-economic benefits of the Projects and reached a view that the project will have a neutral or

² This is an eligibility requirement set out in the document *The Off-farm Efficiency Program, August 2021*, but also as a substantive assessment criterion with an assessment weighting.

Record of Decision – Off-farm Efficiency Program funding

positive socio-economic impact. South Australia confirms that the entitlements to be transferred have been held for many years by the Government of South Australia.

Based on the information provided by the applicant, including the South Australian 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 (9 documents in total) was considered by the Department and the Assessment Panel and was subject to an independent technical review from Jacobs Group.

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, but no weightings will be applied to this or other Project applications.

Preparing for the future

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

This project is an urban stormwater harvesting and re-use project. Urban water efficiency projects are eligible under for funding as these projects provide long-term water use efficiencies that benefit communities. The Project will deliver a range of positive social, environmental and economic impacts such as

- providing an opportunity to reduce reliance on the River Murray for the watering of public spaces in Adelaide;
- provision of a diversified water supply to support greening and cooling in the City of Marion;
- support the environment by harvesting stormwater that would otherwise not be used; and
- providing flexibility for a secure water supply across wet and dry years.

Combined with the reliability of the Sturt River as a stormwater source this ensures that this infrastructure should future proof the City of Marion irrigation systems against future droughts.

Based on the information reviewed, it is considered that the proposal demonstrates it will better prepare the water users for the future and provide a range of benefits to local communities. The water return will have no impact on water markets, consumptive pools or the irrigation industry within the Murray—Darling Basin, though it will reduce reliance on the River Murray for Adelaide.

Regional economic stimulus, socio-economic outcomes and public support

The proposal provides economic stimulus to the region

Economic Impact Modelling conducted by South Australia investigated the direct impact of the project to the Marion, Mitcham and Holdfast Bay local government areas. The socio-economic information provided by South Australia demonstrates that the Project will provide a short-term economic stimulus in the region through the procurement of goods and services for the detailed design and construction. The Oakland's Stormwater Network Expansion is expected to contribute to up to 17 direct and 35 indirect jobs.

The network and capacity expansion of the Oaklands Park stormwater harvesting scheme also provides flexibility to supply cost effective, alternative water to new customers in the future. The existing City of Marion alternative water network passes through the Tonsley Redevelopment Precinct, an integrated employment, education and residential precinct with a focus on high-value manufacturing. The additional capacity and the expansion of the network creates new connection opportunities for customers and may further stimulate economic investment in the local economy. Based on the information reviewed, it is considered that the Proposal provides economic stimulus to the local region.

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

South Australia has confirmed that the project is exempted from the Murray-Darling Basin Ministerial Council's socio-economic assessment agreed in December 2018. However, a high-level socio-economic assessment has been completed within the spirit of that agreement. South Australia is satisfied that the Project has neutral or positive socio-economic outcomes. The Assessment Panel has reviewed the assessment and reached a view that the project will have a neutral or positive socio-economic impact and will have no impact on water market prices in the Murray—Darling Basin.

The Assessment Panel agreed that the project has neutral to positive socio-economic outcomes. These include the recovery of 143.49 ML (126.56ML LTAAY) of water for the environment.

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).

Although public consultation was not conducted with Murray-Darling Basin communities (consistent with the requirements of the Ministerial Council's socio-economic criteria) stakeholders including potential customers of the stormwater reuse scheme were consulted and have provided letters of

support for the proposed project. This project is exempt from direct assessment under the Murray—Darling Basin Ministerial Council’s socio-economic criteria.

The Assessment Panel agreed that direct stakeholders and potential customers of the stormwater reuse scheme have been consulted, with some letters of support for the proposed project provided with the application. If the project is funded the non-sensitive content in the application will be advertised. The design includes engagement with community and industry leaders.

Based on the information reviewed, it is considered that the Proposal has sufficient support from its direct stakeholders and 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 South Australia Water Savings Protocol methods. The calculations of expected water savings have been independently verified in the Jacobs Group 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 143.49 ML South Australia River Murray Class 3 water entitlements to the CEWH (126.56 ML LTAAY).

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

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 this date.

As the Project will be substituting 143.49 ML (126.56ML LTAAY) of existing water entitlements, the CEWH was not required to provide confirmation that the water entitlements are eligible.

The entitlements are South Australia River Murray High Security Class 3 entitlements which are equivalent to a high reliability product and are held by the South Australian Minister for Environment and Water. Therefore, they are available for transfer to CEWH on or before 30 June 2024.

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 an independent technical review by Jacobs Group. The Commonwealth is requested to co-contribute towards the total costs of this project, with additional funding (\$1.952 million)

provided to the project by the City of Marion. South Australia and/or City of Marion will also be responsible for any project costs above the funding provided by the Commonwealth.

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 CEWH, 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 2.35, 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 Jacobs Report.

It is considered that all of the identified project risks including those set out in the OFEP Program Guide have been adequately mitigated in the project risk plan and as such would not impose a barrier to a decision being made to approve funding. All the risks identified will be monitored and controlled during implementation and there are a number of controls proposed including:

Funding Conditions

The overarching principles for the Federation Funding arrangements provide states with financial flexibility, reduced red tape and in effect more control on how activities are delivered to achieve the agreed outcomes.

For the Project, the following conditions to funding are proposed:

- South Australia to provide evidence that all relevant approvals are obtained before work is commenced on each project segment;
- stipulate that any costs in excess of the agreed funding will be met by South Australia (and/or the city of Marion) with contributions verified by independent financial auditing; and
- the water return (South Australia River Murray Class 3 entitlement is a offered in substitution for the efficiency measures works undertaken. This entitlement can be

transferred to the Commonwealth 'up front'. The risk of not achieving the water returns is therefore low.

Project Monitoring

The Department will work closely with South Australia Department for Environment and Water to monitor the project and ensure performance and delivery.

A separate Project Control Group (PCG) is not required for this project, given the small scale and low value. Normal project monitoring and oversight from the Department will be sufficient to ensure project delivery performance.

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 Jacobs Group 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*.