

Record of Decision – Off-farm Efficiency Program funding

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

Date of preparation of brief: June 2022

Related Ministerial Submission Ref.: MS22-000950



State-led Projects – Victoria
Lower Murray Water (LMW)
Water Efficiency Project

Part 1 – Purpose of this document

The 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
- 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)
- 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

Lower Murray Water – Water Efficiency Project (**Project**)

Relevant State

Victorian state-led project

Project proponent

Lower Murray Urban and Rural Water Corporation t/a 'Lower 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)*
- 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 modernise the Sunraysia pumped irrigation districts of Mildura, Red Cliffs and Merbein by:

- refurbishing/replacing 27 km of open earthen channels and pipelines including lining of 23.1 km's of irrigation channels
- replacing 3.9 km's of piping
- decommissioning 442 Dethridge meters
- upgrading 14 metered outlets to ultrasonic emplacements
- undertaking the assessment and subsequent upgrading of 285 stock and domestic meters.

Water savings transferrable to Commonwealth Environmental Water Holder

1,848 ML (1,800 ML LTAAY).

Funding amount

\$37,900,000 (\$37.9 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 loss¹

Based on documentation provided by the applicant as independently verified in a report from SMEC Australia Pty Ltd dated 14 February 2022 (SMEC Report), the project will reduce the volume of water lost in the process of delivering water by 2,500 ML and in doing so return 1,848 ML (nominal) or 1,800 ML Long Term Average Annual Yield (LTAAY) of water to enhance the environmental outcomes of the Basin Plan, as Lower Murray 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 SMEC Report, 1,848 ML (1,800 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. An additional water saving of 700 ML/y will be retained in the system. 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 Lower Murray High Security water entitlements which are equivalent to a high reliability product. In the Lower Murray catchment, this is an important water entitlement for the Commonwealth Environmental Water Holder. 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:

- offering an economic boost to the Lower Murray Water area and specifically the pumped irrigation districts of Mildura, Red Cliffs and Merbein;
- providing a modern irrigation infrastructure network better able to meet customer service needs; and
- increasing regional productivity.

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

The infrastructure improvements will allow Lower Murray Water to improve the efficiency and delivery of the water network and ensure water consumption is accurately measured. This will be further supported by a small additional water saving of 700 ML/y retained in the system. While this is a small water saving for the system, it will help overcome delivery challenges during adverse weather conditions especially for the delivery of stock and domestic water and town water, particularly in situations where water allocations may be low (i.e. during drier years). In the long term the Project will benefit up to 5,000 customers in the Sunraysia Irrigation districts. Implementation of the on-ground works will be sourced through local contractors and suppliers.

Neutral or positive socio-economic benefits²

Lower Murray Water undertook stakeholder engagement in designing and developing the Project and the Victorian 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 has reviewed the Victorian Government's assessment of the socio-economic benefits of the Projects 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 Victorian 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.

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.

Part 4 – Assessment against assessment criteria summary

The information provided in the application and supporting documents (22 documents in total) was considered by the Department and the Assessment Panel, and was subject to independent technical review from SMEC.

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.

The finalisation of the Project builds on the success of the previous Sunraysia modernisation projects to further support agricultural production, provide stimulus for the regional economy, and the environment. It will also improve the efficiency and delivery of the water network and ensure that water consumption is accurately measured. Modernisation will contribute to the long-term viability of the Sunraysia pumped irrigation districts by reducing whole-of-life operation and maintenance costs for Lower Murray Water and its customers.

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

Economic Impact Modelling conducted by Victoria investigated the direct impact of the project to the Sunraysia irrigation districts of Merbein, Red Cliffs and Mildura. The socio-economic information provided by Lower Murray Water demonstrates that improving delivery service standards to irrigators benefits on-farm productivity and generates flow-on benefits to the regional economy by supporting other agricultural service industries that provide employment and stimulate economic activity within the community. The project will also provide benefits for the local community and region including procurement of local labour and supplies, and creation of 110 jobs that will contribute to the economic value of the region.

Water savings are generated by reducing conveyance losses across the Sunraysia irrigation districts of Merbein, Red Cliffs and Mildura. Water is not removed from the consumptive pool, therefore there will be no water reductions or increases to either traded or regulated water prices. Note that 700 ML/y of the water savings will remain in the Lower Murray Water network supporting operability into the future under climatic and flow conditions. Lower Murray Water services irrigation properties, townships and provides stock and domestic water supplies to regional communities. With the retention of some of the water savings resulting from the upgrades, reliability of water supplies to users can be better maintained and improved, water quality can be more effectively managed (including providing flexibility for managing periods of poorer water quality) and more effective and efficient supply of water to users can be sustained.

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 by Victoria. The Assessment Panel has reviewed the assessment and reached a view that the project will have a neutral or positive socio-economic impact.

The Assessment Panel agreed that the project has neutral to positive socio-economic outcomes. These include the recovery of 1,800 ML LTAAY of water for the environment and reduced salinity impacts on groundwater. Reduction of seepage reduces salt in the River Murray, reducing corrosion of water infrastructure and improving drinking water quality.

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 Lower Murray Water – Water Efficiency Project was scoped following extensive consultation with customers, the local community, and Regional and State representatives. Stakeholders engaged include Lower Murray Water customers, local councils, state government departments, Australian Government departments, the Local Aboriginal Land Council, regional contractors and suppliers.

The local community is generally supportive of the project given that conveyance losses are provided for in Lower Murray Water's bulk entitlement and there will be no reduction in the amount of water available for consumptive use.

Based on the information reviewed, it is considered that the Proposal has sufficient support from its stakeholders, including those that are directly affected by the project.

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 Victorian Water Savings Protocol methods. The calculations of expected water savings have been independently verified in the SMEC 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 1,800 ML LTAAY (1,848 ML nominal) Lower Murray High Security water entitlements to the Commonwealth Environmental Water Holder. At least 700 ML/yr of the water entitlements will be retained for the State to achieve socio economic outcomes, to be allocated 50:50 to Traditional Owners and Mallee towns.

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 Office confirmed that the 1,848 ML (1,800 ML LTAAY) entitlement proposed for transfer under this project is eligible for environmental water use. Although application documentation states that water recovery works relating to this 1,800 ML LTAAY entitlement will have been completed by August 2023 for entitlements to be transferred to the Commonwealth Environmental Water Holder prior to 30 June 2024, the Department's technical advisors have noted that there are risks due to supply chain and time left for capital works outside of the irrigating season.

The entitlements are Lower Murray High Security water entitlements which are equivalent to a high reliability product. In the Lower Murray catchment, this is an important water entitlement for the Commonwealth Environmental Water Holder. The value of these high reliability entitlements is particularly important during periods of low flows and when lower reliability water products have low allocations. It is considered that the risk of water entitlements not being transferred by 30 June 2024 is low. Victoria has undertaken to complete all water transfer requirements relating to entitlements being returned to the Commonwealth ahead of those being retained in the network or for other uses. The Federation Funding Agreement milestone stipulations ensure this risk is adequately addressed. Victoria is also responsible for providing any shortfall of water not achieved via the works, this is also a condition of funding and outlined in the funding agreement.

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 SMEC. The costs of the infrastructure and construction activities are consistent with current and expected market rates.

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 2.56, 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 SMEC 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 licence for the water recovery program

Both Victoria and Lower Murray Water have identified appropriate risk treatment to lower the likelihood of these risks occurring.

Proposed governance and project oversight arrangements involving Project Control Groups with Lower Murray Water, Victoria and DAWE representation as well as a senior executive-level Steering Committee between NSW 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 SMEC 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*
- the WESA can be debited for the purposes of the Project in accordance with s 86AD(4) of the *Water Act 2007*.