



Australian Government

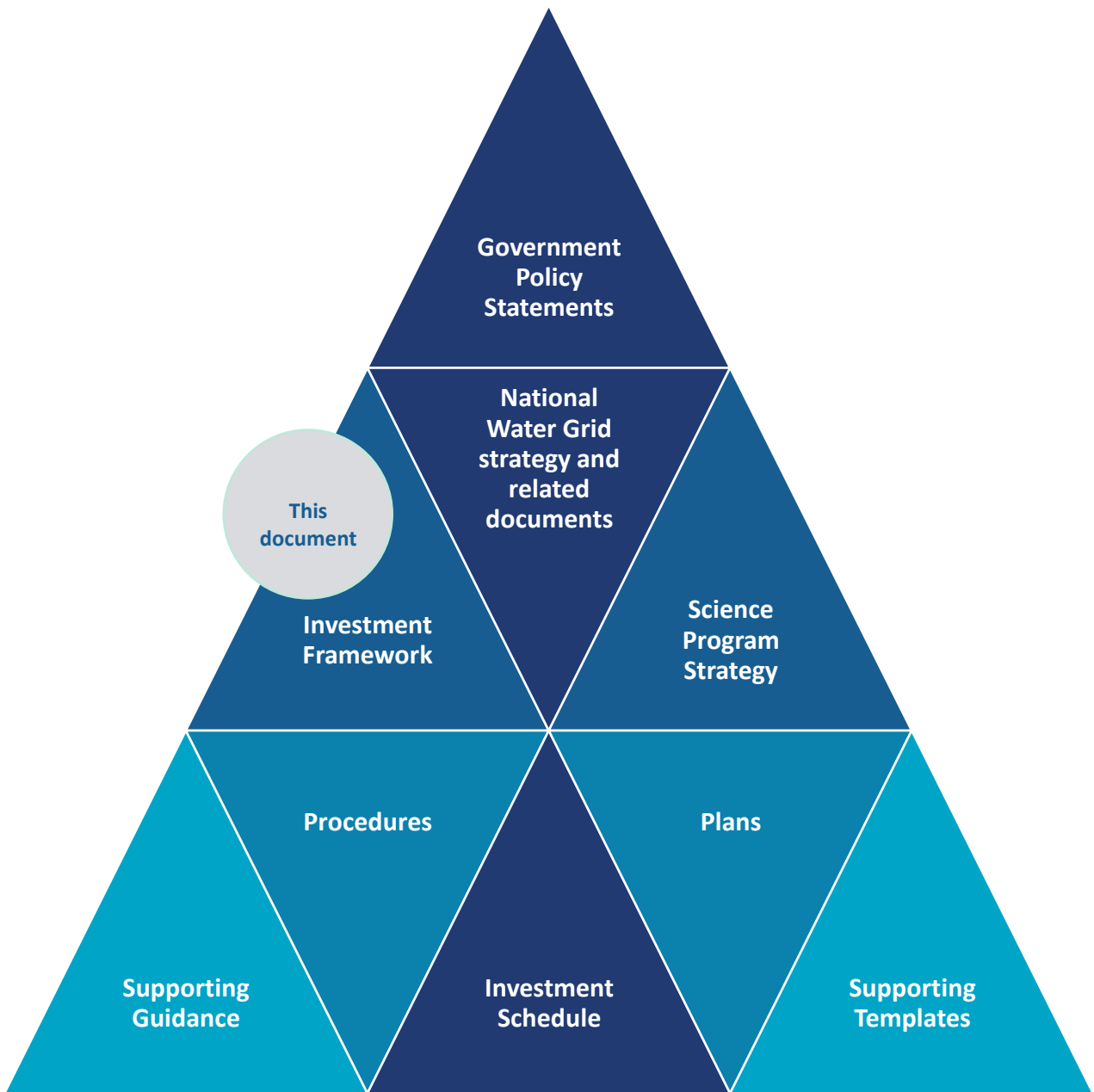


National
Water Grid
Authority

National Water Grid Investment Framework

September 2021





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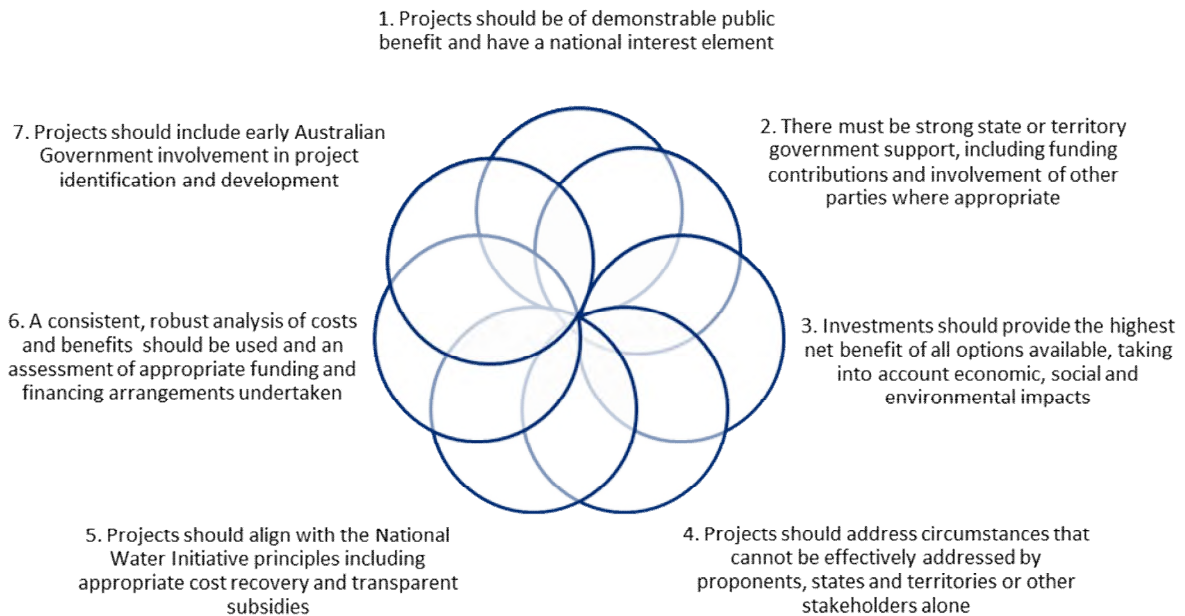
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Investment Framework at a Glance

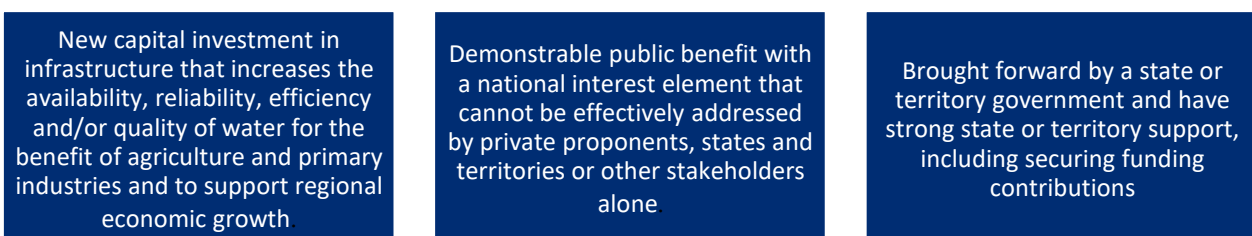
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National Water Grid Investment Framework

The National Water Grid Investment Framework underpins the Australian Government's investment in nationally significant water infrastructure that will deliver benefits to the National Water Grid.

Overview

The Australian Government is committed to working with the state and territory governments to deliver improved infrastructure across Australia that supports the growth and long term viability of our regions. As part of this process the Government is working to identify, plan and deliver Australia's next generation of regional water infrastructure. The Australian Government will invest in nationally important water infrastructure projects that build the right water infrastructure in the right places, tailored to each regions' unique circumstances.

Australia's water infrastructure provides vital services to our economy and underpins Australians' quality of life. Regional water systems support over \$17 billion of irrigated agricultural output each year. In 2016-17, agriculture accounted for 63 per cent of the water demand, while industrial users used 25 per cent of water and household consumption utilised only 12 per cent¹. While Australia has a strong record of water management and investment, climate change and an increasing demand for agricultural products are putting pressure on our water resources. Australia needs a new national approach to water infrastructure planning and investment.

The Australian Government has established the National Water Grid Authority (the Authority) to advise on infrastructure investment decisions. The Authority's focus is on identifying and supporting the delivery of projects that secure water resources and strengthen the National Water Grid. While investing in Australia's long-term water supply is a national priority, investing in the National Water Grid is just one part of the Australian Government's water policy agenda. Infrastructure investment is not always the best solution for managing our scarce water resources and the Authority will work closely with other government agencies to ensure investment decisions align with national water policy and reform objectives and align with international obligations. The Authority will provide advice to the Australian Government to align with and inform Australian Government Budget processes.

We must invest for the future

The Australian Government is acting now to support our agriculture and primary industry sectors and assist drought-affected regions. It is critical that governments plan and invest in water infrastructure to make Australia more resilient to extreme weather events and to sustain our regional communities.

Traditional knowledge and practices have an important role to play in delivering improved water outcomes for the program, and can inform evidence-based decision-making processes. Traditional owners and Indigenous communities can realise economic benefits from the construction and operation of new or augmented water infrastructure.

¹ Australian Bureau of Statistics, Water Account, Australia, 2016-17 (cat. no. 4610.0)

Australia's existing regional water infrastructure cannot meet our long-term water supply needs. Infrastructure Australia's 2019 *Australian Infrastructure Audit* found Australia's water infrastructure faces unprecedented challenges from ageing assets, growing demand, and a changing climate. The Productivity Commission's 2018 inquiry into national water reform recommended policy settings around infrastructure investment be enhanced.

State and territory governments are responsible for the regulation, planning, management and allocation of water resources, including water infrastructure development and maintenance. National water infrastructure investment must consider and align with the relevant legislative and statutory frameworks relating to water (for example, but not limited to, state and territory water legislation, water resource plans, water allocation frameworks and regional and state wide water strategies, the Commonwealth *Water Act 2007*, the Basin Plan and the Murray-Darling Basin Agreement and Australia's commitments under the World Trade Organisation).

The *National Water Grid Investment Framework* (the Framework) will underpin how the Authority advises Government on national water infrastructure investment decisions and processes. It sets out:

- How the Authority will work in partnership with state and territory governments to advise the Australian Government and invest in national water infrastructure within regional areas.
- The role science has to play in identifying opportunities and evaluating options.
- How investment will be targeted. The Government's focus is on identifying and prioritising nationally important regional water infrastructure projects that benefit the agriculture and primary industry sectors and support regional economic development. This could include capital works such as, but not limited to, dams, weirs, delivery networks, recycling and desalination plants (for agriculture use) and managed aquifer recharge. Projects may be large-scale standalone initiatives or networks of smaller initiatives.
- The process for the development and delivery of an investment schedule that will provide confidence to Australia's agricultural and primary industry sectors to plan and invest for the future.

The National Water Grid

The National Water Grid is made up of all nationally important, non-urban regional water systems in Australia. It comprises state and territory water systems and assets including:

- Natural water systems, such as rivers, lakes and groundwater.
- Built infrastructure, such as dams, weirs and pipelines.

Collectively, the water systems and assets that make up the National Water Grid provide long-term water security across Australia's regions which responds to the effects of climate change and will improve resilience to drought. The Australian Government will work with state and territory governments to enhance the National Water Grid over time and ensure the institutional arrangements governing these water assets support effective and efficient water use, consistent with the National Water Initiative.

The Authority launched Phase 1 of the National Water Grid Interactive Mapping Tool in October 2020. This tool will be built on over time to show connectivity of existing water resources, and storage and supply infrastructure. Mapping the National Water Grid will provide greater transparency for water users, and help identify opportunities to:

- Make Australia's water supplies more reliable and secure as regional areas respond to the effects of climate change.
- Better manage water resources into the future which supports growing demands for water, including in the agriculture sector and primary industries.
- Strengthen the National Water Grid, so water can be accessed when and where it is needed during droughts.

The Framework will set out how the Authority works with state and territory governments to advise the Australian Government on identifying (which includes looking at the science) and funding infrastructure projects that enhance the National Water Grid.

Objectives

The Australian Government is committed to working with the state and territory governments to identify, plan and deliver nationally important water infrastructure that increases our nation's water security, reliability and sustainability. Under the Framework, the Australian Government will identify and invest in projects that:

1. **Support primary industries and unlock potential** – improving water access and security for agricultural and industrial use will support regional economic growth and development, and open up new opportunities.
2. **Promote the growth and sustainability of regional economies** – increasing water supply certainty for farmers, businesses, primary industries and regional communities will encourage long-term planning and investment and help ensure that access to reliable water sources is not a limiting factor to regional economic growth.
3. **Build resilience** – strengthening the National Water Grid will capture and store water so it is more readily available in regions when it is needed during droughts and in response to changing climate patterns.

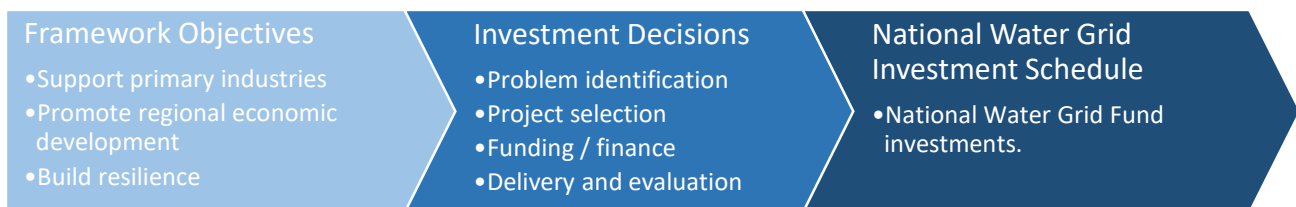
What does *Nationally Significant* mean?

A nationally significant project will deliver benefits to the National Water Grid. This could be in the form of (but not limited to) increased water storage, more reliable supply or redistribution. These benefits are likely to be experienced on a regional or local level, while supporting the overall objective of a secure National Water Grid. The fundamental key is that projects help to build water security and resilience, in turn supporting local industries and regional economies.

Role

The Framework details the Australian Government's policy and processes for water infrastructure investment (Figure 1). It brings together the Government's key objectives and links them to decisions on investment in water grids across regional Australia and details how the Authority advises the Australian Government on infrastructure investment decisions at each stage of the program lifecycle (Figure 3).

Figure 1: National Water Grid Investment Framework



The Framework (and supporting documentation) draws on the Australian Government's existing approach to transport infrastructure investment, while taking account of the specific characteristics of water infrastructure. The Framework is designed to complement the Australian Government and state and territory governments' commitment to national water reform, through renewal of the National Water Initiative, and align with the Government's drought, regional development and national recovery and resilience agendas. The Framework will also support whole-of-government water commitments such as full implementation of the Basin Plan, as well as supporting economic development and recovery.

The Framework is a progression from the processes that supported the initial National Water Infrastructure Development Fund, and is premised on the basis of shifting to a long-term strategic approach to funding. A robust investment framework and the development of a forward-looking investment schedule that identifies projects at all stages of development will bring several benefits:

- Planning certainty for proponents.
- Alignment with the timeframes associated with major water infrastructure delivery.
- Supporting and encouraging long-term, integrated planning decisions by jurisdictions and industry.

Investment Principles

The Framework is underpinned by seven guiding principles.

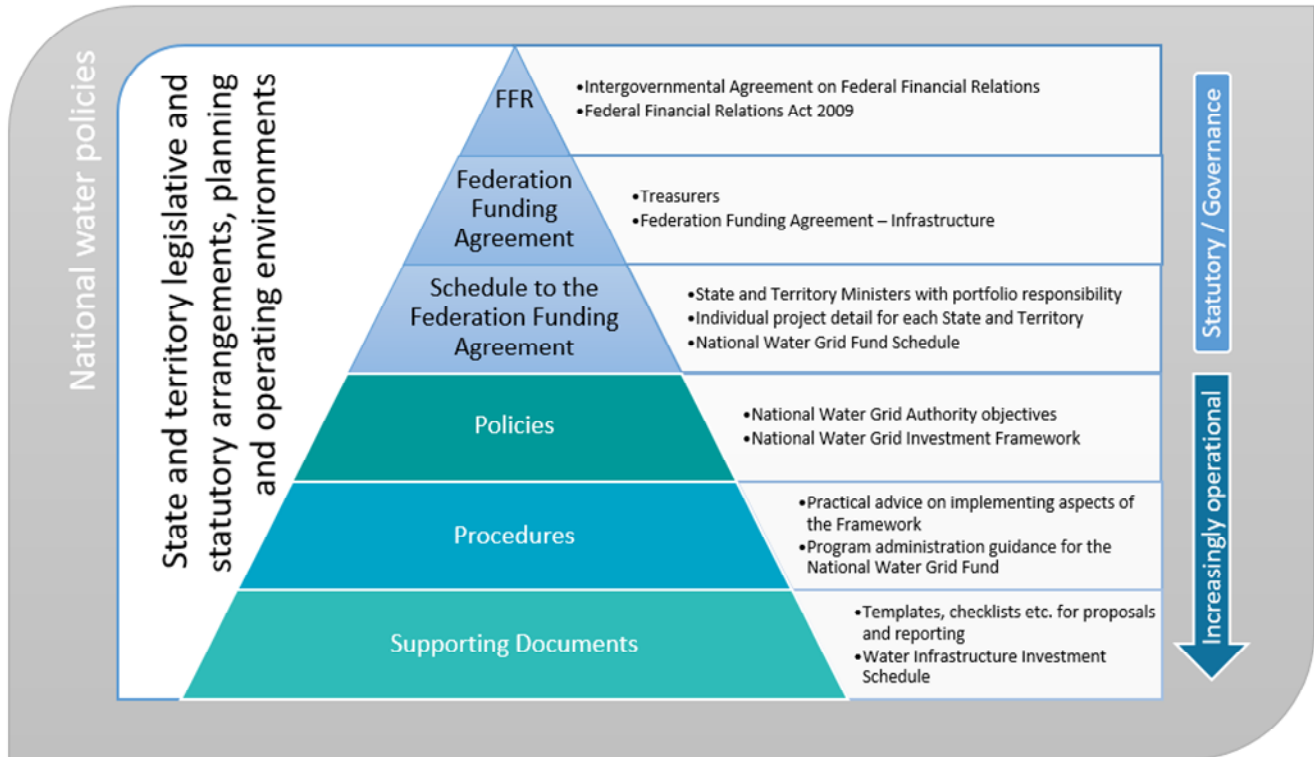
Investment Principles

1. Projects should be of demonstrable public benefit and have a national interest element, including through securing the nation's water security, building resilience to future drought, supporting primary industries and promoting regional economic development, including through the creation of jobs.
2. There must be strong state or territory government support, including funding contributions and involvement of the private sector and local government where appropriate.
3. The investment should provide the highest net benefit of all options available to increase access to or security of water, taking into account economic, social and environmental impacts.
4. Projects should look to address circumstances which cannot be effectively addressed by private proponents, states or territories or other stakeholders alone.
5. Projects should align with the National Water Initiative principles including appropriate cost recovery, and where full cost recovery is not deemed feasible, any subsidies are fully transparent.
6. If providing capital, a consistent, robust analysis of costs and benefits is used and assessment of appropriate funding and financing arrangements is undertaken.
7. Earlier involvement in project identification and development, including through the Authority's science program, support for business case development, and close collaboration with states and territories and other project proponents.

Implementation

Getting reliable water to the right places requires well-planned water infrastructure. In partnership with state and territory governments, the Authority will work to deliver the Australian Government's commitment of progressing the National Water Grid. Proponent engagement with Indigenous and regional communities will be an important consideration when infrastructure proposals are developed. The Framework, which sets the policy to guide Australian Government investment in water infrastructure and the lens through which projects will be considered, is one element of the overall operating environment. The core elements of a collaborative approach to implementing the Framework and delivering water infrastructure are outlined in Figure 2.

Figure 2: Investment Framework Operating Environment



Investment Decisions

The Framework sets out how the Authority advises the Australian Government on national water infrastructure investment decisions throughout the program lifecycle (Figure 3), including:

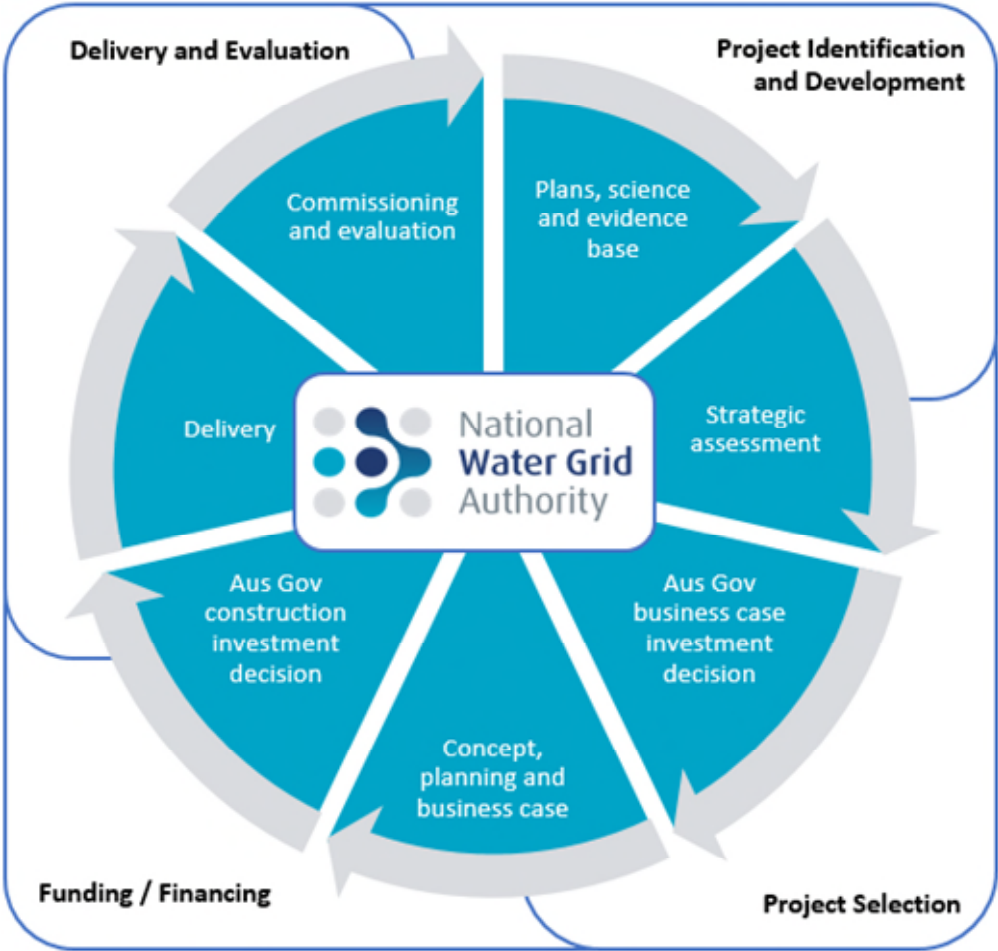
Project Identification – Drawing on the knowledge of states and territories and world’s best science to analyse water supply requirements and prospects, and identify potential opportunities, problems and solutions.

Project Selection – Assessment and prioritisation of nationally significant water infrastructure projects for Australian Government investment.

Funding / Finance – The conditions and arrangements for Australian Government investment in water infrastructure projects.

Delivery and Evaluation – Monitoring project delivery and analysis of project outcomes.

Figure 3: Water Infrastructure Program Lifecycle



Project Identification and Development

During the Project Identification and Development stage, the Authority will work with state and territory governments, and Australian Government scientific agencies, to analyse water supply requirements and prospects, identify potential opportunities, problems and solutions, and develop ideas. This section details the Australian Government’s proposed approach to Project Identification and Development (Figure 4).

Figure 4: Project Identification and Development Process



Options Analysis

To support a longer-term and more-informed approach to investment, the Authority will have earlier involvement in project identification and development. In consultation with state and territory governments, the Authority will look to identify where regional water supplies are not keeping up with the demand of water users, are under threat (including from changing rainfall patterns) and where opportunities exist to capture new water resources or better utilise existing resources.

The Authority will develop a robust evidence base for national water infrastructure investment decisions by:

- *Mapping the National Water Grid* to assist in identifying locations where demand risks exceeding available supplies or existing levels of reliability.
- *Commissioning robust scientific analysis* in a timely manner which recognises the long lead times for large scale water infrastructure projects, to identify opportunities for developing additional water resources and expanding agricultural water use.
- *Encouraging submissions from state and territory governments on priority projects* that support the economic growth and long term viability of regional Australia through securing and improving the reliability of water, particularly for the agricultural and primary industry sectors.

Where a potential regional water infrastructure project proposal is identified, the Authority will consult with the relevant jurisdiction (and Australian Government agencies as appropriate) to explore:

- **Policy consistency** – Whether the water infrastructure project proposal aligns with the Framework objectives and is consistent with whole of government national water reform commitments (such as the National Water Initiative and the Basin Plan) and Commonwealth and state and territory legislative and statutory water frameworks, along with Australia's international obligations.
- **Social, economic, cultural and environmental impacts** – How changes to the water system might impact communities, industry, Indigenous water use and the environment.

- **Benefits realisation** – What benefits will be realised and how they will be measured. How the project supports the increased sustainability and capability of primary industries, minimises the damage caused by climate change and natural disasters to primary industry operators and regional communities, connects water resources and users, delivers jobs and economic growth for regional Australia and improves standards of living for regional Australians.
- **Suitability** – Whether the proposal delivers the highest net benefit solution to the problem. Projects should address circumstances which cannot be efficiently addressed by private proponents, states and territories or other stakeholders alone.
- **Alternative solutions** – What alternative solutions, including non-infrastructure solutions, have been explored, and the costs and benefits of those alternative solutions.

Principles 3, 4, 5 and 7 refer

Proposal Development

State and territory governments seeking Australian Government funding will submit a proposal for consideration by the Authority. The Authority has developed guidance material and templates for water infrastructure project submissions, which are made available to state and territory governments.

The Australian Government may make funding available to state and territory governments to undertake business case development and other analysis that contributes to the evidence base for national water infrastructure investment. Namely, funding may be provided for:

- Environmental, geological, hydrological and other relevant scientific and technical studies that progress the development of specific projects.
- Cost estimations and cost benefit analysis of infrastructure proposals.
- Technical design and engineering appraisals.
- Risk and options analysis.
- Stakeholder consultation.
- Other work required to develop a project business case.

Funding for business case development cannot be used for activities that have already taken place, capital expenditure, or business as usual operational and administrative functions.

Funding will be allocated to state and territory governments by the Australian Government on advice from the Authority, and may be offered through competitive rounds. The Australian Government may provide up to 100 per cent of funds for elements of business case development and for science projects. In prioritising funding, the Australian Government will consider how the proposal aligns with the objectives of the Framework.

Findings from projects undertaken through the Authority's science program and the business case development process will help inform the project selection phase and future Australian Government investment decisions.

Australian Government Involvement in Water

Investments under the Framework are one part of the Australian Government's water policy agenda. State and territory governments are responsible for the regulation, planning, management and allocation of water resources, including water infrastructure development and maintenance in their jurisdictions. The Australian Government works with the state and territory governments to improve Australia's water security through a range of policies and reforms, programs, and regulation.

The Authority works closely with other Australian Government agencies to ensure water infrastructure investment decisions complement the Government's broader water policy objectives.

Non-infrastructure solutions

The National Water Grid Fund provides for investment by the Australian Government in water infrastructure. In this regard, the Authority will advise the Australian Government on water infrastructure investment decisions to address identified non-urban water supply opportunities or problems, noting that infrastructure investment will not always be the best solution.

As part of the Project Identification stage, the Authority expects that state and territory governments will have regard to alternative solutions for water supply improvements, such as regulatory or planning changes, financial assistance, and/or public information. The Authority will work with state and territory governments as needed, including consulting with other Australian Government agencies where required, in order to ensure appropriate consideration has been given to non-infrastructure solutions.

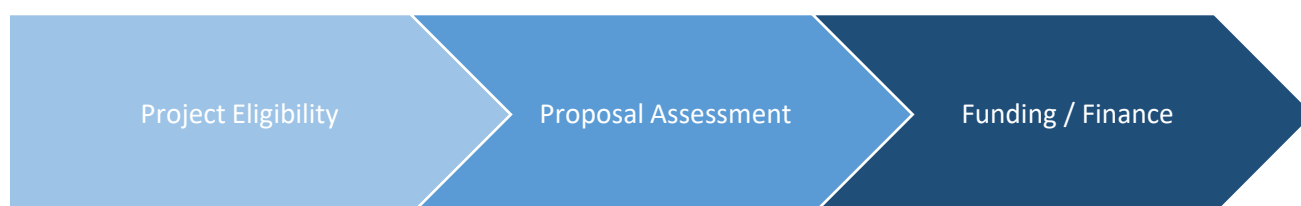
Principles 3 and 7 refer

Project Selection

During the Project Selection stage, the Authority will assess the merits of national water infrastructure proposals and recommend projects for Australian Government investment. This section details the Australian Government's proposed approach to project selection (Figure 5).

The Authority (in consultation with other relevant agencies as appropriate) will assess proposals and business cases for projects prior to advising the Australian Government on project recommendations. In some circumstances, the Australian Government may make upfront investment commitments, contingent on completion of an acceptable business case and submission of a proposal.

Figure 5: Project Selection Process



Eligible Projects

To be eligible for Australian Government investment under the Framework, projects must:

- Propose new or additional capital investment in infrastructure that increases the availability, reliability, efficiency and/or quality of water for the benefit of agriculture and primary industries and to support regional economic growth.
- Provide demonstrable public benefit with a national interest element that cannot be effectively addressed by private proponents, states or territories or other stakeholders alone.
- Be brought forward by a state or territory and have strong state or territory support, including securing funding contributions.

A project may consist of a number of smaller regional projects such as piping and delivery schemes that connect water sources together, or a single project such as a large dam or weir, or a new pipeline or water recycling scheme. Consideration may also be given to projects that undertake regional pilots to assess the merits of specific water infrastructure. The key criteria for eligibility is that a project must support the development of the National Water Grid.

Projects for maintenance, refurbishment without betterment, and urban consumer water needs that do not also deliver water for agriculture and primary industry sectors are considered out of scope for Australian Government funding under this Framework. It is noted that an eligible project may deliver wider benefits, including for urban water users. Infrastructure that supports wider uses can increase reliability and security across the water network and this is considered a positive outcome.

Projects that supply water for the exclusive use of a private business or individual will not be eligible for investment under the Framework. Australian Government financial assistance to individuals and businesses (for example, for on-farm irrigation upgrades) is administered under other government programs, and the Authority will support state and territory government in identifying alternate funding programs where a project proposal is not eligible under the Framework, as appropriate.

Principles 1 and 2 refer

Project Proposal Assessment

The Authority (in consultation with other relevant agencies as appropriate) will assess the merits of proposals submitted by state and territory governments against the Framework and in the context of the Australian Government's broader objectives for investment in water infrastructure.

Project Proposal assessment will include consideration of the strategic fit, impact and deliverability of a project with regard to elements such as:

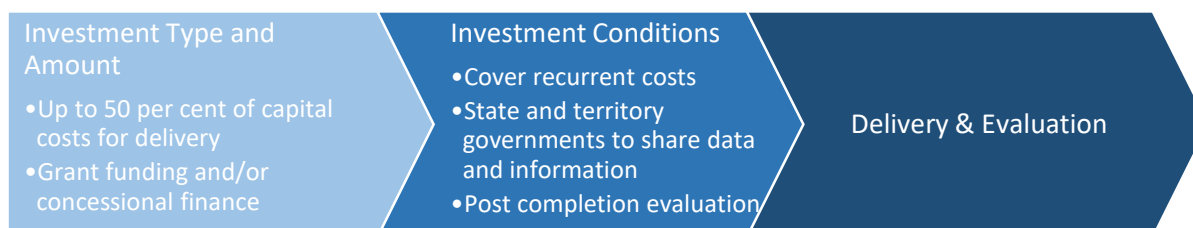
- Project eligibility and alignment with the Framework objectives.
- Completed feasibility and business case work.
- Independent studies and assessments.
- Project location and local constraints.
- The economic, social and environmental costs and benefits of the project.
- Benefits realisation planning.
- Whether alternative options have been explored.

The Authority will provide advice to the Australian Government on project selection decisions based on this assessment. When the Australian Government selects a project for investment, the investment type, amount and conditions will be determined in the Funding / Finance stage.

Funding and Finance

During the Funding and Finance stage, the Authority will advise the Australian Government on the amount of funding to be offered for National Water Grid projects, and any related investment conditions. The Authority may also seek advice from other Australian Government agencies in making its recommendations. This section details the Australian Government's proposed approach to funding and financing (Figure 6).

Figure 6: Funding and Finance Process



Amount and type of funding or finance

The Australian Government may offer a combination of funding and finance of up to 50 per cent of the project's total capital costs for delivery (including associated management fees).

The Authority will consider the nature of the project, its revenue raising capacity and any other relevant financial circumstances in determining the most appropriate type of investment. The Australian Government may offer:

- Grant funding.
- Concessional finance.
- A combination of funding and finance.

The National Water Grid Fund provides grant funding to state and territory governments only. Other funding and finance may be offered through alternative Australian Government agencies and programs.

Proposed projects seeking more than \$100 million in Australian Government funding will need to outline the process for considering alternative funding and/or financing opportunities and the outcome of the considerations (e.g. the capacity and appetite of the market to be able to deliver and support the proposal, opportunities for private sector contributions, etc.).

Principle 6 refers

Requirements on state and territory governments

The Australian Government will invest in water infrastructure projects conditional on the state or territory government:

- Confirming it, or the asset operator, will meet the ongoing costs for the life of the asset (noting that revenue generated through operations can be used to cover costs).
- Working with the Authority to evaluate the project's outcomes.

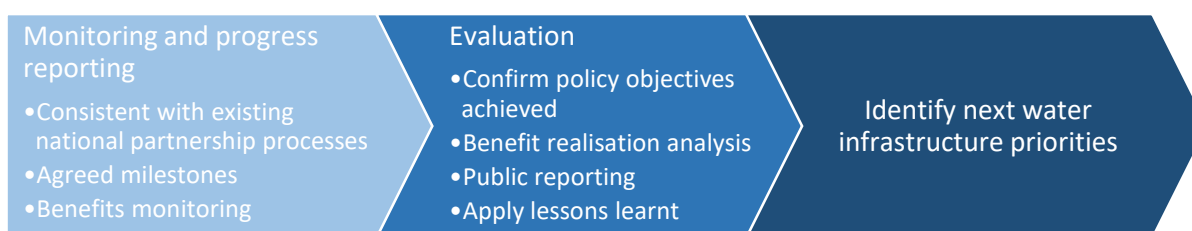
- Confirming that the Australian Government's total contribution from all sources will not exceed 50 per cent of the total capital cost for delivery.
- Supplying information about water resources, sharing, usage and access with the Authority.
- Abiding by any other conditions requested by the Australian Government.

The key terms and conditions of the Australian Government's funding for water infrastructure projects are set out in the relevant Federation Funding Agreement and Schedules, as in force from time to time. These agreements are available at www.federalfinancialrelations.gov.au.

Delivery and Evaluation

The Australian Government generally has no direct role in the delivery of water infrastructure projects. Under the Federation Funding Agreement arrangements for project delivery, the relevant state or territory government will be responsible for all procurement and project management arrangements. The jurisdiction will also determine operational and access arrangements for the infrastructure asset, consistent with the principles of the National Water Initiative. This section details the Australian Government's proposed approach to Delivery and Evaluation (Figure 7).

Figure 7: Delivery and Evaluation Process



Monitoring and progress reporting

The Authority will work with state and territory governments to confirm project delivery progress and provide progress payments upon the completion of agreed milestones consistent with the Federation Funding Agreement processes and reporting requirements.

Evaluation

The Authority will work with state and territory governments to evaluate project outcomes post-completion, and to identify and apply lessons learnt. Project evaluation will be led by the relevant state or territory government. The evaluation should occur once sufficient information is available to assess the project's outcomes against stated objectives (i.e. water supply volume and distribution outcomes) which may be several years after project completion. The evaluation will consider whether the delivered project:

- Is consistent with the project proposal (in terms of timeliness, budget and project specifications).
- Met the Framework policy objectives and intended project outcomes.
- Is providing the expected benefits (through a benefits assessment).
- Had any unintended outcomes, positive or negative.

Agreement to conduct an evaluation, in consultation with the Authority, will be an Australian Government investment condition. The Authority will draw on evaluation findings in making future water infrastructure investment decisions.

The Authority will, in consultation with state and territory governments, publish summaries of all completed projects to share outcomes delivered through Australian Government investment.

National Water Grid Investment Schedule

The Authority will produce and maintain a publicly available National Water Grid Investment Schedule (the Investment Schedule), drawing on information and data provided by jurisdictions. The Investment Schedule will include nationally important water infrastructure projects where funding has been committed by the Australian Government under the National Water Grid Fund. This will include projects where the Australian Government is providing funding for business case development to reflect the Australian Government's approach for early involvement in project identification and development.

The Investment Schedule will support a transparent, long-term approach to water infrastructure investment, providing certainty about future water supply. This will give farmers and regional businesses confidence to plan and invest for the future.

The Investment Schedule will be complemented by other sources of information on nationally-significant infrastructure, including Infrastructure Australia's Infrastructure Priority List and the Australian and New Zealand Infrastructure Pipeline (ANZIP).

Reporting

The Authority will update the Investment Schedule twice yearly and additionally as necessary following major announcements or changes. The Authority will also regularly update its online map of the National Water Grid to depict the projects in the Investment Schedule.

Project information

Information on all funded projects will be maintained on the Authority's website. This will include information on:

- Scope, location and funding.
- Current status and expected delivery timeframes.
- Project partners.
- Water storage capacity, expected supply volumes, and reliability of supply.
- Expected benefits.