

Summary and recommendations

Background

1. In advance of the 2013 Federal Election, the Coalition released its *2030 Vision for Developing Northern Australia* policy paper that committed to ‘investigating the establishment of a Water Project Development Fund to support the advancement of meritorious proposals for water infrastructure across northern Australia, including dams and groundwater projects’.
2. In June 2015, the Government announced the establishment of the National Water Infrastructure Development Fund (the Fund). The objective of the \$500 million Fund is to:
 - start the detailed planning and to build or augment existing water infrastructure, including dams, pipelines or managed aquifer recharge. This will help secure the nation’s water supplies and deliver regional economic development benefits for Australia, whilst also protecting the environment.
3. The Fund has two components:
 - a feasibility component of \$59.5 million over four years from 2015–16—including approximately \$30 million for projects in northern Australia—to fund, or contribute to the funding of, early scoping and feasibility assessments of infrastructure proposals; and
 - a capital component of \$440 million over eight years from 2017–18—including up to \$170 million for projects in northern Australia—to contribute towards the construction costs of infrastructure projects (with a maximum contribution of 50 per cent of such costs).¹
4. The design of the Fund was informed by a number of separate precursor and concurrent processes over the period from November 2013 to July 2015 including:
 - the *Agricultural Competitiveness* and *Developing Northern Australia* White Paper processes—each assisted by a taskforce established within the Department of the Prime Minister and Cabinet (PM&C) involving officers seconded from multiple Australian Government entities;
 - an examination by the Joint Select Committee on northern Australia—comprising Members of Parliament and Senators;
 - the *Water Infrastructure Options Paper* process (March 2014 to August 2014)—prepared by the Minister for Agriculture and Water Resources (the Minister) with support from a Ministerial Working Group on Water Infrastructure.² The Department of Agriculture and Water Resources (Agriculture) assisted the Ministerial Working Group, with support from an interdepartmental working group;

1 Funding transfers subsequent to the Fund’s establishment resulted in a net reduction of \$0.5 million to the Fund.

2 The Ministerial Working Group on Water Infrastructure comprised: the Minister (chair); Deputy Prime Minister (and Minister for Infrastructure and Regional Development); Minister for the Environment; Assistant Minister for Infrastructure and Regional Development; and the Parliamentary Secretary to the Minister for the Environment.

- advice to Government on the establishment of the National Water Infrastructure Development Fund—prepared by Agriculture, with assistance from an interdepartmental working group; and
 - PM&C in its capacity as advisor to the Prime Minister throughout the processes listed above.
5. As at December 2017, the Australian Government had committed the following contributions to water infrastructure projects under the Fund:
- \$25 million to four feasibility projects announced in the *Developing Northern Australia* White Paper in June 2015 when the Fund was established;
 - \$32.3 million to 34 feasibility projects and \$45.6 million to one capital project proposed by the state and territory governments that were approved by the Minister and/or Government after a merit assessment undertaken by Agriculture³;
 - \$249.8 million to water infrastructure election commitments announced in the lead-up to the 2016 election that were subsequently incorporated into the Fund.⁴
6. While all feasibility component funding has been committed to projects, \$146.9 million of the capital component remains available to fund further projects.

Audit approach

7. The objective of the audit is to examine the effectiveness of the design and governance of the National Water Infrastructure Development Fund (the Fund).
8. To form a conclusion against the audit objective, the ANAO adopted the following high level audit criteria:
- Was an appropriate design process established to support the achievement of the Government’s objectives for the Fund?
 - Was a sound governance framework established for the Fund, including robust performance monitoring, reporting and evaluation arrangements?
9. The audit did not examine the merits-based assessment and selection of projects under the feasibility and capital components of the Fund, or the subsequent management of projects.
10. Agriculture administered the Fund until January 2018. In January 2018, after the completion of audit fieldwork, Machinery of Government changes resulted in the transfer of administrative responsibility for dam infrastructure programs, including the Fund, from Agriculture to the Department of Infrastructure, Regional Development and Cities. Recommendations related to Fund governance have been directed to the Department of Infrastructure, Regional Development and Cities.

3 With assistance from a Technical Expert Panel, the Water Infrastructure Investment Governance Board (for capital proposals) and Infrastructure Australia (for capital proposals greater than \$100 million).

4 The Australian Government’s contributions to water infrastructure projects committed under the Fund are listed individually in Appendix 2.

Conclusion

11. The design of the National Water Infrastructure Development Fund (the Fund) was effective. There is scope to improve governance arrangements to better support the implementation of the Fund.

12. Informed by extensive stakeholder consultation, the advice prepared by Agriculture on the design of the Fund was sound in relation to the rationale for the Fund's feasibility component and the expected outcomes of the Fund, as well as its funding composition and duration, and design arrangements. The advice could have more clearly: outlined the evidence-base for including a capital component to the Fund; justified the capital funding envelope; and set out implementation arrangements at the time of the Fund's approval. The advice provided to Government by Agriculture and PM&C informing the selection of the four Fund projects for announcement in the *Developing Northern Australia* White Paper was not underpinned by consistent assessment processes demonstrating that the most meritorious projects were recommended.

13. Appropriate oversight and project assessment arrangements have been established by Agriculture to support the implementation of the Fund. There were, nonetheless, weaknesses in program planning, risk management, and processes to demonstrate the proper use of relevant money, which put at risk effective implementation of the Fund going forward. In addition, the Fund's performance monitoring, measurement and reporting framework requires further development to enable Agriculture to report against the Fund's objectives.

Supporting findings

Program design

14. The Fund was established following a 2013 election commitment from the then Coalition Opposition. An evidence-based rationale for the Australian Government's intervention in accelerating investment in water infrastructure through support for feasibility studies and water resource assessments, particularly in northern Australia, was developed by Agriculture. The rationale for the Fund's capital component relied more on assertions about project readiness than evidence, particularly taking into account the lack of 'shovel ready' projects and long lead times to progress projects through development phases. The advice to Government on the selection of the first Fund feasibility studies and water resource assessments announced in the *Developing Northern Australia* White Paper was not underpinned by documentation demonstrating: that all projects were assessed consistently and categorised on merit; and the rationale for project funding recommendations from the broader field of projects under consideration.

15. Agriculture and PM&C took adequate steps to identify lessons learned from previous programs and reviews that informed the design of the Fund.

16. Input was obtained and considered from relevant stakeholders external to the Australian Government through multiple structured forums. This input was used to inform advice to Government on the design of the Fund. The interdepartmental working group that developed the Options Paper and advice to Government on the design of the Fund sought the advice of officials with relevant skills, expertise and experience from its member organisations.

17. Overall, the advice Agriculture provided to Government on the design of the Fund in June 2015 was sound. Both the justification for, and expected outcomes from, the Fund were clear, although the choice of a grants-based funding model in preference to alternative funding and delivery options could have been better substantiated. While the composition and duration of funding was justified clearly, the size of the capital funding envelope was not. The Fund's design supports the likelihood of the Fund achieving its objectives with value for money, but implementation details were lacking in advice to decision-makers at the time of the Fund's approval. After the 2016 election, Agriculture also provided appropriate advice to Government regarding the incorporation of the water infrastructure election commitments into the Fund.

Program governance

18. Appropriate arrangements have been established to oversee the implementation of the Fund. Oversight is provided by departmental senior executives, with assistance from the division's Water Project Board. The Minister also received briefs on Fund progress. Further, the entities responsible for the implementation of the White Paper initiatives also receive regular updates of Fund status, although its effectiveness as an oversight mechanism would be improved if actual Fund progress was compared to expectations documented in the Fund implementation and project plans.

19. A fit-for-purpose Implementation Plan was established to initially guide Fund implementation, which was later supplemented by a Project Plan for the Fund's capital component. Implementation of the Fund's feasibility component, however, continues to be governed by the Implementation Plan that has not been updated to reflect program design and scheduling changes that occurred since 2015.

20. Agriculture has undertaken risk management planning for the Fund inconsistently and in a manner that makes it difficult for the department to monitor the implementation of risk treatments. Evidence has not been retained demonstrating that Fund risks, including the implementation and effectiveness of risk treatments, identified in risk management plans have been formally monitored at the program level since the Fund commenced in 2015. Additional risks arising from incorporating 2016 election commitment water infrastructure projects into the Fund have not been assessed in risk registers. Consolidated Fund risks are monitored and reported quarterly to Agriculture's executive management committee.

21. A sound framework for assessing and selecting merit-based proposals has been established which included appropriate plans and guidance for assessors, including in relation to conducting consistent assessments, and managing probity and conflict of interest. Agriculture's merit assessment processes support the Minister's decisions that the selected projects represented a proper use of relevant money. However, Agriculture's recommendations to the Minister to approve three White paper project announcements and two 2016 election commitments under the Fund did not sufficiently justify that expenditure on these projects would represent a proper use of relevant money.

22. The performance monitoring, measurement and reporting framework for the Fund requires further development for Agriculture to report on achievements against the Fund's objective. A suitable range of relevant, reliable and complete performance criteria for the Fund has yet to be developed. The ability of the established project monitoring arrangements to

capture and aggregate the information necessary to report on the achievement of Fund objectives is uncertain. Public reporting of Fund performance has thus far been limited to activity-based indicators or status information.

Recommendations

Recommendation no.1
Paragraph 2.39

The Department of Agriculture and Water Resources and the Department of the Prime Minister and Cabinet ensure that the basis on which key program design elements and features are determined are appropriately documented and retained.

Department of Agriculture and Water Resources' response: *Agreed.*

Department of the Prime Minister and Cabinet's response: *Agreed.*

Recommendation no.2
Paragraph 3.11

The Department of Infrastructure, Regional Development and Cities review and update the key governance plans for the National Water Infrastructure Development Fund to reflect current program design, parameters and scheduling.

Department of Infrastructure, Regional Development and Cities' response: *Agreed.*

Recommendation no.3
Paragraph 3.27

The Department of Infrastructure, Regional Development and Cities update the risk management plan for the National Water Infrastructure Development Fund to reflect departmental risk management guidance and regularly monitor the implementation of risk treatments, changes in risk ratings and emerging risks.

Department of Infrastructure, Regional Development and Cities' response: *Agreed.*

Recommendation no.4
Paragraph 3.38

The Department of Infrastructure, Regional Development and Cities ensure that legislative requirements for committing public money under the National Water Infrastructure Development Fund are met and appropriately documented.

Department of Infrastructure, Regional Development and Cities' response: *Agreed.*

Recommendation no.5
Paragraph 3.51

The Department of Infrastructure, Regional Development and Cities further develop and implement the monitoring and evaluation plan for the National Water Infrastructure Development Fund to support the ongoing monitoring and reporting of progress towards achieving the Fund's objective.

Department of Infrastructure, Regional Development and Cities' response: *Agreed.*

Summary of entity responses

23. The summary response to the report from each entity is provided below, with full responses provided at Appendix 1.

Department of Agriculture and Water Resources

The department welcomes the audit's overall conclusions and findings. The department is pleased that the report acknowledges that the design of the National Water Infrastructure Development Fund (the fund) was effective, that overall the advice provided on the design of the fund was sound, and that appropriate arrangements were established by the department to oversee the implementation of the fund.

The department is also pleased the report recognises that the department developed an evidence-based rationale for accelerating investment in water infrastructure feasibility studies and that adequate steps were taken to identify lessons learned from previous programs and reviews to inform the design of the fund.

The department agrees with the recommendation directed to the department that *the basis on which key program design elements and features are determined are appropriately documented and retained*.

The department acknowledges the importance of appropriate records management in enabling the department to meet its business, legislative and accountability requirements. The department is committed to ensuring staff are aware of and fully comply with their record management responsibilities and seeks to foster a culture that promotes good record management practices. This commitment is supported by an ongoing training and user education program for all staff to ensure the greatest possible compliance with records management requirements within the agency.

Department of Infrastructure, Regional Development and Cities

The Department of Infrastructure, Regional Development and Cities (the department) welcomes the audit's overall conclusions and findings. The department is pleased the report acknowledges that the design of the National Water Infrastructure Development Fund (the Fund) was effective, that overall the advice provided on the design of the Fund was sound, and that appropriate arrangements were established by the department to oversee the implementation of the Fund.

The audit report recognises that an evidence-based rationale was developed for accelerating investment in water infrastructure feasibility studies and that adequate steps were taken to identify lessons learned from previous programs and reviews to inform the design of the Fund.

The department agrees with the recommendations of the report and is taking action to implement these recommendations as part of the transfer of administrative responsibility for the Fund. The department is currently updating key governance and risk management documentation and strengthening monitoring and evaluation planning. The department is committed to ensuring legislative requirements for the commitment of public money are met and appropriately documented.

Department of the Prime Minister and Cabinet

The Department welcomes the audit's overall finding that the design of the National Water Infrastructure Development Fund was effective. We also note the audit found the design of the Fund was informed by extensive consultation with relevant stakeholders, incorporated lessons learned from previous processes and was based on sound advice.

We acknowledge there were elements of the process which could be improved upon, particularly that agencies could have better documented the basis on which key program design elements and features were determined. The Department is strengthening its internal record keeping practices in response to this finding.

Key learnings for all Australian Government entities

24. Below is a summary of key learnings and areas for improvement identified in this audit report that may be considered by other Commonwealth entities when designing and governing programs.

Policy/Program design

- For continuous improvement, transparency and accountability purposes, entities should ensure that appropriate documents are retained to record the basis on which advice was developed for government consideration, particularly in relation to the need for the program and size of the funding envelope.

Policy/Program implementation

- When seeking ministerial approval of proposed expenditure under the *Public Governance, Performance and Accountability Act 2013*, entities should assist their Ministers to demonstrate that they have met their requirements to make reasonable inquiries that the proposed expenditure represents a proper use of relevant money.

Governance and risk management

- Entities should ensure that key program planning documentation is updated as necessary to reflect current program design, parameters and scheduling.
- Entities should regularly monitor and document the implementation of risk treatments, changes in risk ratings and emerging risks.

Performance and impact measurement

- As part of the design process for new programs, entities should ensure that program performance indicators are, and performance information will be, complete, reliable and relevant.