Options Assessment Process

Overview

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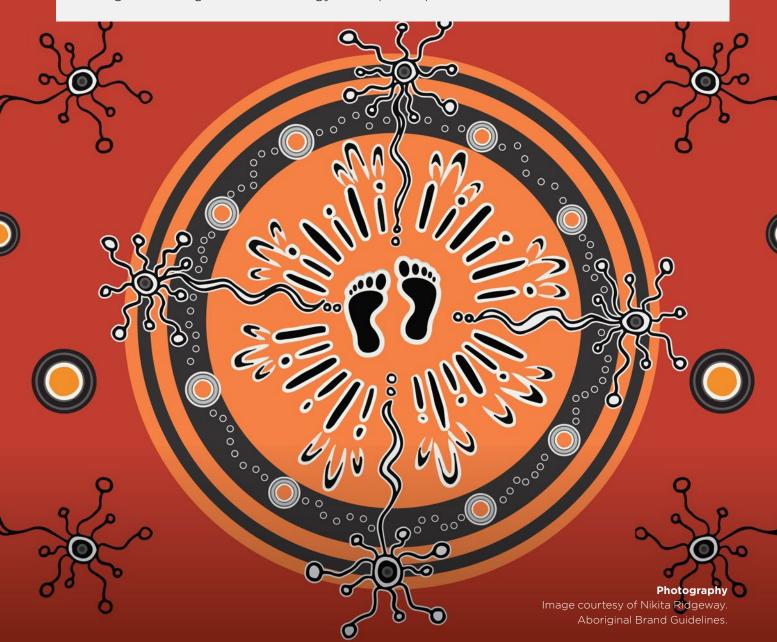
Acknowledging Aboriginal people

The NSW Government acknowledges First Nations/Aboriginal people as Australia's first peoples practising the oldest living culture on earth and as the Traditional Owners and Custodians of the lands and waters.

The waterways of NSW hold great spiritual, cultural and economic importance for First Nations/Aboriginal people. The NSW Government recognises the intrinsic connection of Traditional Owners to Country and acknowledges their contribution to the regional water strategies.

The NSW Department of Planning and Environment understands the need for consultation with Traditional Owners and inclusion of their knowledge, values and uses in water strategies to ensure we are working towards equality in objectives and outcomes.

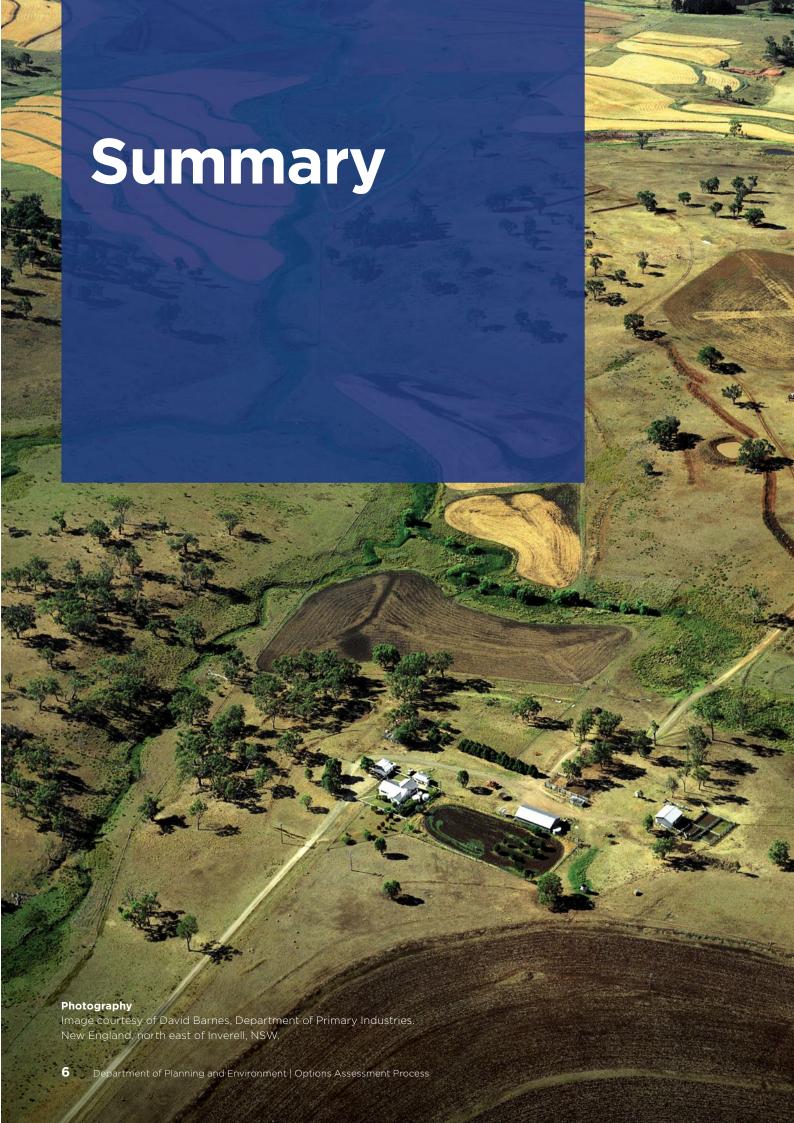
The NSW Department of Planning and Environment is committed to continue building relationships and strong partnerships with Aboriginal people. We thank the Elders, representatives and Aboriginal community members who provided their knowledge throughout the regional water strategy development process.



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The NSW Government is developing regional water strategies that identify the best ways to address water-related risks in each region over the next 20-40 years.

Regional water strategies will set out a long-term 'roadmap' of actions to deliver five objectives (Figure 1).

Options included in the final strategy for each region will address at least one of these objectives. We aim to develop a balanced package of options that achieves all of these objectives.

Figure 1. Regional water strategies: objectives



Deliver and manage water for local communities

Improve water security, water quality and flood management for regional towns and communities.



Enable economic prosperity

Improve water access reliability for regional industries.



Recognise and protect Aboriginal water rights, interests and access to water

Including Aboriginal heritage assets.



Protect and enhance the environment

Improve the health and integrity of environmental systems and assets, including by improving water quality.



Affordability

Identify least-cost policy and infrastructure options.

Draft regional water strategies have been, and will continue to be, progressively published between 2020-2022. Each draft strategy included a comprehensive long list of options that could potentially address identified challenges in each region and help to achieve the objectives of the strategies.

This document summarises the process that was used to shortlist options and provides an update on the information presented in the *Regional Water Strategies Guide*.

At each stage of the assessment in the regional water strategies, the number of options are narrowed down and filtered, based on the evidence gathered and analysis undertaken.

There are a range of challenges associated with assessing and prioritising a long list of options into a shortlist. The key challenges are that:

- the regional water strategies aim to fulfil a range of objectives around delivering and managing water for local communities, enabling economic prosperity, enabling First Nations/Aboriginal people's water rights, and protecting and enhancing the environment. Within each strategy, some options benefit one of the strategy's objectives, but conflict with other objectives
- not all options have quantifiable costs and benefits.

The options assessment framework developed for the regional water strategies aims to address these challenges in a transparent, evidence-based and consistent way.

The options that are recommended to be implemented may require further investigation. Any further investigation may need to include more detailed economic and environmental analysis, an exploration of potential outcomes for First Nations/Aboriginal people and further stakeholder consultation. This process may also identify outstanding issues to address in a detailed risk assessment required for a business case or implementation plan.

This high-level options assessment is appropriate for strategic documents and does not consider all possible impacts on the environment, water users or First Nations/Aboriginal people in detail. The options assessment process does, however, provide enough detail to compare options and understand how each option may contribute towards a regional water strategy's objectives. More detailed environmental, economic and cultural assessments may be required and will be undertaken as part of any subsequent business case development or planning processes for any options that proceed to implementation stage.

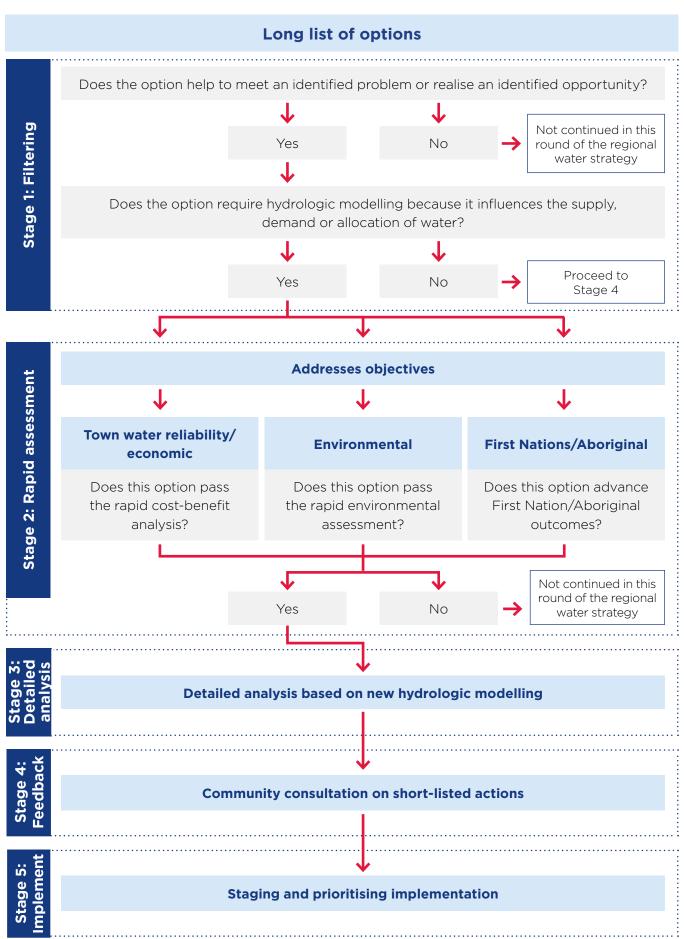
Any option that involves a capital expenditure of \$10 million or more must meet the Gateway Review processes of Infrastructure NSW.

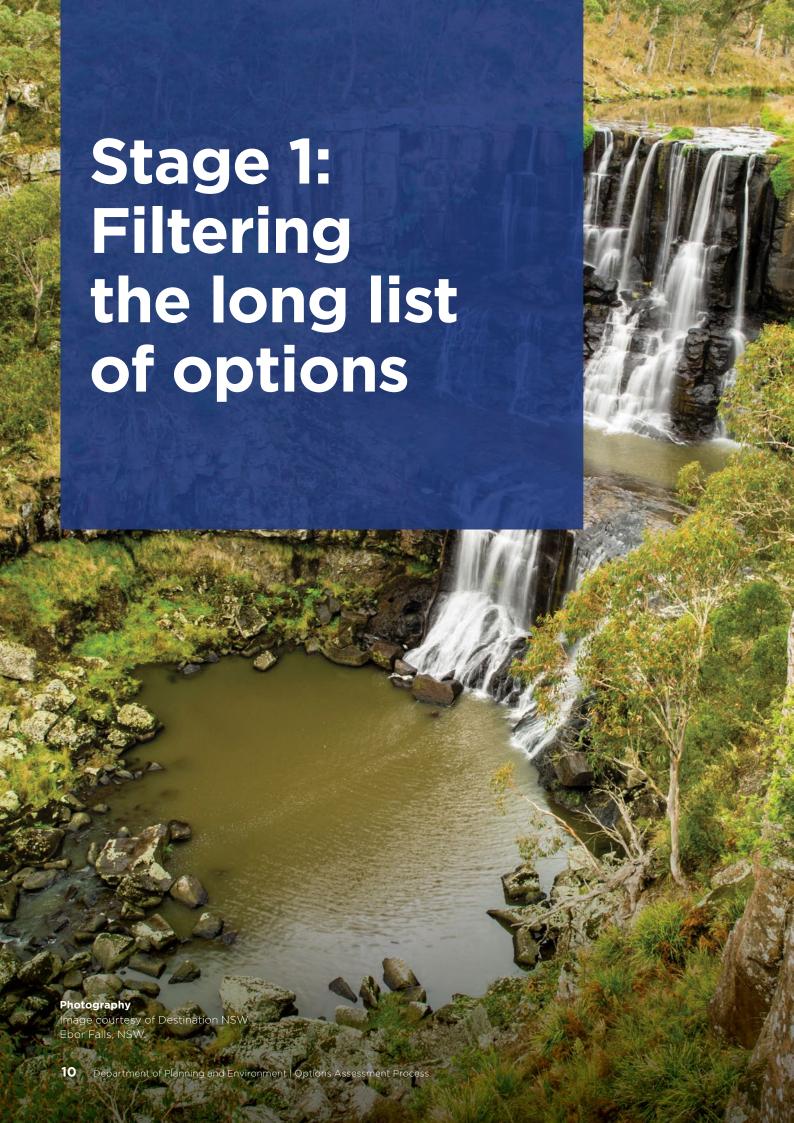
Options recommended in each final regional water strategy will be staged and not all options will be progressed or implemented at the same time.



The options assessment framework developed for the regional water strategies aims to address these challenges in a transparent, evidence-based and consistent way.

Figure 2. Options assessment process







The purpose of Stage 1 is to filter the long list of options based on whether the options address a key challenge or realise an opportunity for a region and decide how to assess their impacts.

Identifying the key challenges for the region and understanding the base case

The first step in the options assessment process is to prioritise the key challenges that we need to focus on over the next 40 years.

The draft regional water strategies identify all of the water-related challenges and opportunities in each region, as well as a long list of options that can help address those challenges or opportunities.

While all the challenges and options identified in the draft strategies are important, it is not possible nor feasible to tackle every challenge at once. We need to prioritise the issues and focus on those that are likely to cause the most significant long-term impacts.

Identifying the key water-related challenges in each region involves:

- modelling an economic base case to understand how the availability of water might vary under a range of plausible climate futures, and the consequences if we do nothing
- an assessment of the consequences of climate change for the flows in the river and the regional environment which was presented in the draft regional water strategies
- considering feedback from the public consultation process, including specific feedback from First Nations/ Aboriginal communities.

Importantly, these challenges are considered in the context of the new climate data that has been published in the draft regional water strategies. In the past, we have only ever assessed water infrastructure and policy changes against observed historical data (records of rainfall, temperature and other climate conditions going back to the 1890s). The new climate data developed by the NSW Government includes long-term historic climate projections as well as projections of a dry climate change scenario. This gives us a much better understanding of the water risks that could be faced by each region.

These multiple lines of evidence help identify the drivers and impacts of each challenge, and the outcomes we can expect to achieve if we help manage this challenge.

Understanding the key challenges for each region is critical in informing which options in the long list should be prioritised.



We need to prioritise the issues and first tackle those that are likely to cause the **most significant long-term impacts**.

Economic base case

The economic base case in each region is developed by understanding what the future could look like, and the possible consequences if we do nothing. This process interprets the outcomes of the hydrology for the major extractive users of water under different climate scenarios. The economic base case is based on existing infrastructure and policy settings but includes median population growth projections for the region from the NSW Government's *Common Planning Assumptions*.

To understand the economic consequences for the region of doing nothing, the most significant extractive water user groups modelled within each region are:

towns—Hydrologic modelling identifies if
a town experiences shortfalls in meeting
its unrestricted demand from surface
water supplies. The replacement cost
function estimates the social costs that
NSW taxpayers would be willing to pay to
eliminate any shortfall in a town meeting
its unrestricted demand from surface water
supplies. In effect, the replacement cost
function estimates the cost of maintaining
perpetual supply of water to the town
or community

- annual crop producers—valued at the longterm average producer surplus³ associated with a megalitre of water used for irrigation of the dominant crop in the region
- permanent crop producers—valued as the long term average producer surplus of the dominant permanent crop. If shortfalls occur, they initially result in reduced production capacity but, if sustained, result in a diminished value of capital invested in the permanent crop. It is estimated to take 10 years for any capital to recover from a shortfall
- **stock and domestic users**—valued based on the costs incurred if there are shortfalls in supply
- mining activity—incorporated when there are significant water entitlements held by mines in the region.

The full details of how the extractive water users are valued is described in the *Regional water value function*.⁴ Region-specific economic base case reports will progressively be published on the Department of Planning and Environment's website.

^{1.} The ecological challenges for each region are already identified in each draft regional water strategy.

 $^{2. \} Available \ here: \underline{treasury.nsw.gov.au/information-public-entities/nsw-common-planning-assumptions}$

^{3.} Producer surplus refers to the economic profit made by a producer.

^{4.} Marsden Jacobs Associates, 2020, *The regional water value function,* available on the Department of Planning and Environment's website dpie.nsw.gov.au

Filtering, matching and prioritising options

The key challenges identified for each region were used to filter and match options in the draft regional water strategies, as well as additional options identified through stakeholder consultation.

This step is critical in making sure that options are only progressed to the shortlisting stage if they adequately contribute to addressing at least one of the key challenges.

Determining whether to analyse an option qualitatively or quantitatively

After the filtering process, we determine which of the remaining options will influence the supply, demand or allocation of water. Options that influence any of these things are quantitatively assessed using complex models that represent the surface water system in each region—this is called hydrologic modelling. This quantitative assessment is described in Stage 2 and Stage 3. For options that do not require hydrologic modelling, the extent to which they address the key challenges in a region are assessed qualitatively. The relative priority of these options and timing for their implementation are considered as part of Stage 5.



Stage 2: Shortlisting options based on rapid assessments

Photography

Image courtesy of Destination NSW. Batemans Bay, NSW.



The purpose of Stage 2 is to understand which options are likely to meet their main objective while having benefits that outweigh their costs. More detailed analysis, particularly any detrimental impacts on other users of water, including the environment, are examined in Stage 3.

Options that seek to address the regional water strategy objectives for economic activity, and influence the supply, demand or allocation of water are assessed through rapid costbenefit analysis.

The decision criteria depend on whether the objective of the option is to improve the economic activity in a region or the reliability of water supply to towns and communities. Options that aim to address town water security are assessed through cost-minimisation analysis when it comes to water reliability options. The replacement cost value for a town is calculated in the economic base case using the long-term and climate change datasets.

Options aiming to improve the economic activity of a region are evaluated according to how they change the expected total economic benefits. This assessment is made against the available historic record in the region, referred to as the instrumental record of approximately 130 years (1890 to 2020),⁵ allowing an analysis of the performance of an option over a known climate period. Within this period, all infrastructure and policy settings are kept constant. Over this timeframe, the economic benefit of the option is evaluated according to two metrics: the net present value and the benefit-cost ratio.

Options that aim to improve environmental outcomes are assessed through a rapid environmental risk assessment.

The outcomes of the rapid cost-benefit analyses are decision-support tools—as opposed to decision-making tools.

Importantly, options in this stage that demonstrate they could meaningfully meet their primary objective may still progress to Stage 3 for detailed assessment, even if they had a negative impact on other objectives, had a benefit-cost ratio of less than 1 or did not have a net present value greater than zero. For example the option may progress if it:

- is of significant community interest
- passed the rapid cost-benefit analysis, but may still have negative environmental impacts
- aims to improve environmental outcomes and passed the rapid environmental assessment.

^{5.} The exact time period of the instrumental record is detailed in the Hydrologic Report for each region, available on the Department of Planning and Environment's website dpie.nsw.gov.au

Rapid cost-benefit analysis

Rapid cost-benefit analysis involves assessing whether the benefits the option can generate are greater than the estimated costs using the historic record. The key information that informs the rapid cost-benefit analysis of each option includes:

- understanding what happens
 if we do nothing. This includes hydrologic
 modelling of the observed historical data
 (130 years), which looks at how much water is
 available to different licences under the base
 case and each option
- high-level cost estimates. These estimates are prepared for each option and include capital expenditure and operating expenditure for infrastructure options, and operational costs for non-infrastructure options. These costs are broad and high level. Further investigation of any option will require more detailed cost estimates
- benefit estimates. The economic value of water for town and industry is estimated by evaluating how much society would pay to eliminate any shortfall in water supplied. The detail behind how these values are calculated is described in the region's economic base case.

As per NSW *Treasury's Guide to Cost-Benefit Analysis* (2017) a discount rate of 7% has been used in the rapid cost-benefit analysis. All assessments are undertaken over the length of the available historic record in the region. Within this period, all infrastructure and policy settings are kept constant over the length of a hydrologic run.

If an option has a net present value or a benefit-cost ratio close to or greater than 1, then the option proceeds to Stage 3 and is assessed in more detail against the stochastic and NARCliM simulations. An assessment is also undertaken of the impact of the option against environmental watering requirements and broader ecological implications.

Options that aim to improve environmental outcomes are progressed to the next stage even if the rapid cost-benefit analysis produces a negative net present value or a low benefit-cost ratio.

Due to the high level of uncertainty regarding environmental valuations within a cost-benefit analysis context, no attempt has been made to include an environmental economic assessment. Rapid cost-benefit analysis is a high-level analysis aimed at comparing alternative options. This approach is based on the advice of an expert advisory group who helped establish the options assessment framework. Separate quantitative and qualitative environmental assessments will be undertaken on options that progress past the rapid cost-benefit analysis stage within each regional water strategy.



Rapid cost-benefit analysis involves assessing whether the benefits the option can generate are greater than the estimated costs.

6. This group included:

- government representatives, including economists and water resource officers from NSW Government departments and agencies (including the Department of Premier and Cabinet, the Department of Planning and Environment, and Treasury)
- water economists from Frontier Economics, Marsden Jacobs Associates and The Centre for International Economics.

Rapid cost-minimisation assessment for water reliability options

Options aiming to improve the reliability of water supplies for towns and communities are rapidly assessed in a different manner than those aiming to improve economic activity. Options aiming to improve economic activity compare the expected outcomes with and without the option, based on the instrumental hydrologic record. In contrast, for options aimed at improving reliability, the cost of the option is compared with the cost of maintaining a continuous supply of water to the town—the reliability cost for that town. The reliability cost for a town or community is based on the stochastic or NARCliM hydrologic record.

The hydrologic modelling identifies when towns experience shortfalls in meeting unrestricted demand from surface water supply.

The replacement cost function estimates the social costs that NSW taxpayers would be willing to pay to eliminate any shortfall—in effect it estimates the cost of maintaining perpetual supply of water to the town or community. The replacement cost function comprises the social costs associated with water restrictions, the cost of emergency water supply for small towns or the cost of emergency climate-independent augmentations for towns larger than 1000 people. These costs are detailed in the economic base case report for the region.

If the option costs less than the cost of maintaining reliability, then it is worth examining further. However, if it costs more than the reliability cost for the community, then it is not likely to be worth considering further unless it is of significant community interest.



Rapid environmental assessment

The rapid environmental assessment involves a high level assessment of the impact or improvement of each of the options on the aquatic environment. The assessment is based on the expert opinion of scientists from the Department of Planning and Environment—Water—Water Science; the Department of Planning and Environment, Energy and Science; and the Department of Regional NSW—Department of Primary Industries—Fisheries.

The assessment rating system is based on that used by Department of Planning and Environment—Environment, Energy and Science to assess the potential ecological outcomes from the implementation of individual daily extraction limits in the Barwon–Darling system (Department of Planning and Environment, 2019). It uses a five-category ranking system to rate the potential impacts or benefits to the environment (Table 1).

Table 1. Categories to be used in environmental assessment

Stage 1 category	Estimated percentage change in hydrology/ecology	
Major/Extreme impact	More than 30% change in a negative direction (< -30%).	
Minor/Moderate impact	More than 10% change in a negative direction (< -10%).	
No/Little change	Between less than 3% change in a negative direction (< 0%) and less that 3% change in a positive direction (> 0% and < 3%).	
Minor/Moderate improvement	More than 10% change in a positive direction (> 10%).	
Major/Extreme improvement	More than 30% change in a positive direction (> 30%).	

The environmental assessment is undertaken separately by each agency and then the assessments are combined for an overall result for each option. In developing their rankings, the scientists are asked to consider how the option might impact:

- geomorphology—bed and bank erosion and sediment transport
- floodplain and riparian vegetation
- wetland ecology
- fish breeding, recruitment and movement
- water quality—temperature, dissolved oxygen, nutrients, refuge pool conditions
- river hydraulics—availability of flowing water and other diverse habitats

- food web impacts—inputs of nutrients from overland and tributary flows, quality of water release from dams and weirs
- availability of held environmental water and potential impacts on planned environmental water.

The purpose of considering these impacts is to assess whether options aimed at improving outcomes for the environment should proceed to the next stage. This assessment does not rule out options aimed at improving outcomes for towns, industries or Aboriginal interests.



Stage 3: Detailed assessment of options based on new climate modelling

Photography

Image courtesy of Department of Planning and Environment. Liverpool Plains, NSW.



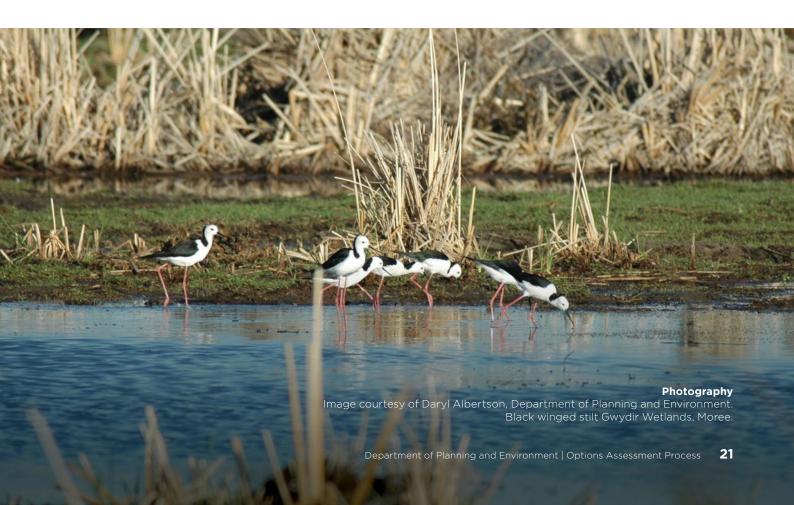
The purpose of Stage 3 is to undertake more detailed analysis of the shortlisted options to examine how they will influence the use of water in the region, any impacts on environmental watering requirements and the economic consequences of implementing the option.

Options that pass through the filtering and rapid assessment processes are then assessed against the new stochastic and climate change data. The outcomes are described in the Detailed Economic and Ecological Assessment report for each region.

- Long-term historic climate projections (stochastic data). These projections assume that our future climate is similar to our longterm paleoclimate, as indicated by science, and they are based on a 10,000-year dataset.
- A dry climate change scenario
 (NARCliM⁷ modelling). This scenario assumes
 there is a dry, worst-case climate change
 scenario in the future, and is also based on a
 10,000-year dataset.

The detailed economic and ecological assessment helps to understand the resilience of the options in more extreme climate scenarios.

^{7.} NARCliM (NSW and ACT Regional Climate Modelling) is a partnership between the NSW, ACT and South Australian governments and the Climate Change Research Centre at the University of NSW. NARCliM produces robust regional climate projections that can be used to plan for the range of likely climate futures. Further information about NARCliM modelling can be found at climate-projections-for-NSW/About-NARCliM



Detailed cost-benefit analysis

The detailed analysis includes the same cost and benefit inputs as the rapid cost-benefit analysis, but has a number of additional analyses.

- Additional data sets. The detailed analysis assesses the option against two additional data sets. Which allows us to analyse how resilient the option will be to a more variable climate, or to a dry climate change scenario. The data generates 1000 replicates of potential past and future climate sequences over a 40-year period, over monthly timesteps, to provide a range of possible outcomes.
- **Sensitivity analysis.** The sensitivity analysis is used to identify the extent to which changes to the key assumptions influence the outcomes of the detailed assessment. The sensitivity analysis is carried out across:
 - the discount rate (3% and 10%)
 - capital and operational expenditure (+30% and -30%)
 - the value of water assigned to each economic activity
 - reactive infrastructure solutions.
- **Distributional impacts.** This assessment looks at how the option impacts different water users and classes of licences.
- **Breakeven analysis.** Assessing at what value a megalitre of water would balance the option's costs with its benefits.

The detailed assessment is completed by applying the regional water value function to the outputs of the hydrologic modelling to determine the incremental change between the base case and the option, while taking into account the cost of the option.

All future incremental benefits and costs are discounted to present day values, according to the NSW Treasury's *Guide to Cost-Benefit Analysis*,⁸ which recommends assessing the economic costs and benefits according to the following measures:

- Expected net present value. This is the present value of economic benefits delivered by the scenario less the present value of economic costs incurred. Net present value measures the expected benefit (or cost) to society of implementing the scenario expressed in monetary terms.
- Benefit-cost ratio. This is the ratio of the
 present value of economic benefits to the
 present value of economic costs. The benefitcost ratio identifies the scenario that provides
 the highest benefit per unit of cost.

The rapid cost-benefit analysis base case represents a single representation of a historic climatic period with recorded rainfall being used to directly generate flows within the hydrologic model. The datasets used for the stochastic and NARCliM datasets use probability distributions to generate rainfall that is used to simulate hydrologic flows for a series of 1000 representations of climatic periods.

The detailed cost-benefit analysis is not undertaken as a decision-rule, but to inform understanding of how the proposed option is likely to influence the supply, demand and allocation of water in a region.

 $^{8. \} More information is available \ at: \underline{treasury.nsw.gov.au/finance-resource/guidelines-cost-benefit-analysis}$

Assessment of environmental watering requirements and changes to river flows

This stage includes a more detailed analysis of the impact of the options on different flows in the river. The analysis does not seek to monetise the costs and benefits of changes to flows in the river within the timeframe of the regional water strategies because these are difficult to determine and subject to a number of limitations. Instead, the likelihood and consequence risk assessment is quantified in hydrological metrics, which are then used to supplement the economic assessment.

In this stage, each option that passes through to Stage 3 is modelled and the results compared to the base case to identify changes in the volume of water across indicator sites for a number of relevant flow metrics.

The assessed flow metrics are:

- standard metrics—include impacts on a range of flows including average annual flows, and flows that increase from zero flows to overbank flows, which flow across floodplains or fill wetlands. Each part of the flow regime plays an important role in supporting the health of the river
- environmental water requirements—for the region, where the strategy is being developed.

This analysis can be used for future assessments to understand the impacts of the options based on the scale, likelihood and feasibility.

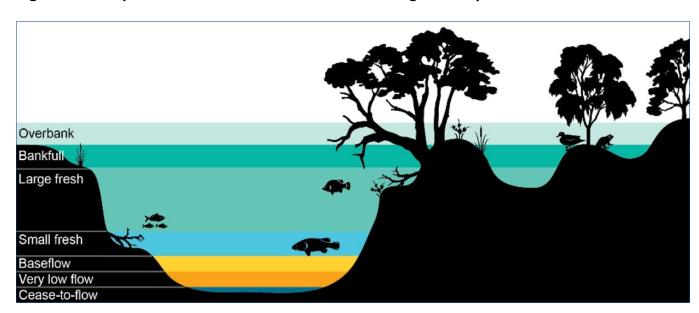


Figure 3. Conceptual model of the role of different flow regime components

Source: Border Rivers Long Term Water Plan

There are likely to be different impacts at different gauges along the river. In each region there is a large amount of data available and, often, a subset of gauges are used to assess changes, as well as standard ecological metrics. While using a subset of gauges means that not every impact is likely to be analysed, it provides enough information to be able to inform any further investigations.

The gauges vary between regions and are chosen to represent a cross-section of the management zones within the long-term water plans.

As with the rapid environmental assessment, the results are then categorised as having an impact from extreme improvement to extreme impact based on 11 criteria as shown in Table 2.

Table 2. Categories to be used in environmental assessment

Stage 1 category	Stage 2 category	Estimated percentage change in hydrology/ecology
Major/Extreme impact	Extreme impact	More than 30% change in a negative direction (< -30%).
	Major impact	More than 20% change in a negative direction (< -20%).
Minor/Moderate impact	Moderate impact	More than 10% change in a negative direction (< -10%).
	Minor impact	More than 3% change in negative direction (< -3%).
No/Little change	Little impact	Less than 3 % change in a negative direction (< 0%).
	No change	0%, rounded to the nearest whole percentage point.
	Little improvement	Less than 3% change in a positive direction (>0% and <3%).
Minor/Moderate improvement	Minor improvement	More than 3% change in a positive direction (> 3%).
	Moderate improvement	More than 10% change in a positive direction (> 10%).
Major/Extreme improvement	Major improvement	More than 20% change in a positive direction (> 20%).
	Extreme improvement	More than 30% change in a positive direction (> 30%).

Both the standard metrics and the environmental water requirements are calculated from a 10,000 year daily flow record under the stochastic model, which is a reconstruction of the paleo record of the past 10,000 years, and the NARCliM model, a prediction of the dry climate change scenario adopted for the regional water strategies.

The implications of each option are also considered by the assessment process used to shorten the long list of options. This assessment process will raise a range of issues that will need to be addressed if the options move forward to be implemented.

Assessment of impacts or benefits to First Nations/Aboriginal people's water rights and access

Up to, and since the release of the draft regional water strategies, we have been seeking input from peak Aboriginal organisations on how to assess the impact or benefit of options on Aboriginal communities.

Consultation with First Nations/Aboriginal communities so far, has highlighted the need for informed discussion, with specific details for how each option will impact specific areas. This level of detailed analysis is not yet available, and will follow on from the detailed investigation of shortlisted options.

To better engage with First Nations/Aboriginal communities, we need to understand exactly:

- · what type of information is needed
- the level of detail and locations for where that information is needed.

In the final regional water strategies, this knowledge will allow us to describe how we intend to assess the benefits or impacts of the options for First Nations/Aboriginal people, before the option is implemented.

Options that cannot be quantitatively analysed

Some options cannot be quantitatively analysed because they do not impact how water is shared or allocated, or there is not enough literature to effectively monetise the value or benefits they bring to various communities or needs.

For these options, analysis relies on how well the option may address the key regional challenges, in addition to the feedback from consultation on the draft regional water strategies. The critical issue for these options will be the timing of how they should be implemented (see Stage 5).



We need to better understand the specific types of questions or information required by First Nations/Aboriginal people to be able to provide advice on how an option impacts them.

Stage 4: Undertaking further consultation on options

Photography

Image courtesy of Destination NSV Cotton Farm, Moree.



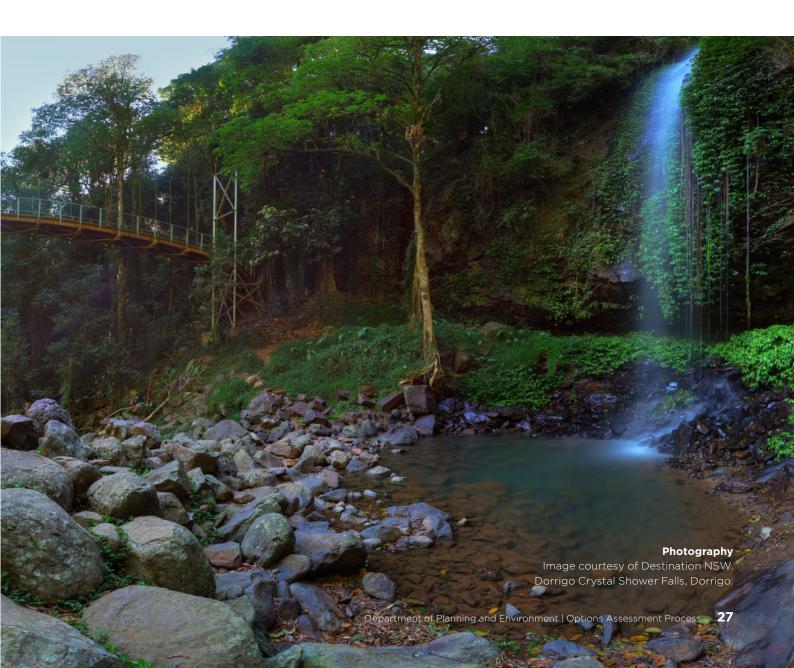
The purpose of Stage 4 is to seek feedback from the public on which shortlisted options should be included in the final regional water strategy.

The Guide for Regional Water Strategies notes that a review committee will provide advice on the preferred options that should be implemented.

During public consultation on the draft regional water strategies, we heard that many parts of the community would like to be more involved in the shortlisting process. As such, we have removed the role of the review committee and instead replaced it with:

- a public consultation process that allows the public to provide advice on the shortlisted options before a final strategy is developed
- an independent peer review process of both the economic and environmental assessment to ensure its adequacy.

This will then inform the final package of options presented in the final regional water strategies.



Stage 5: Implementation

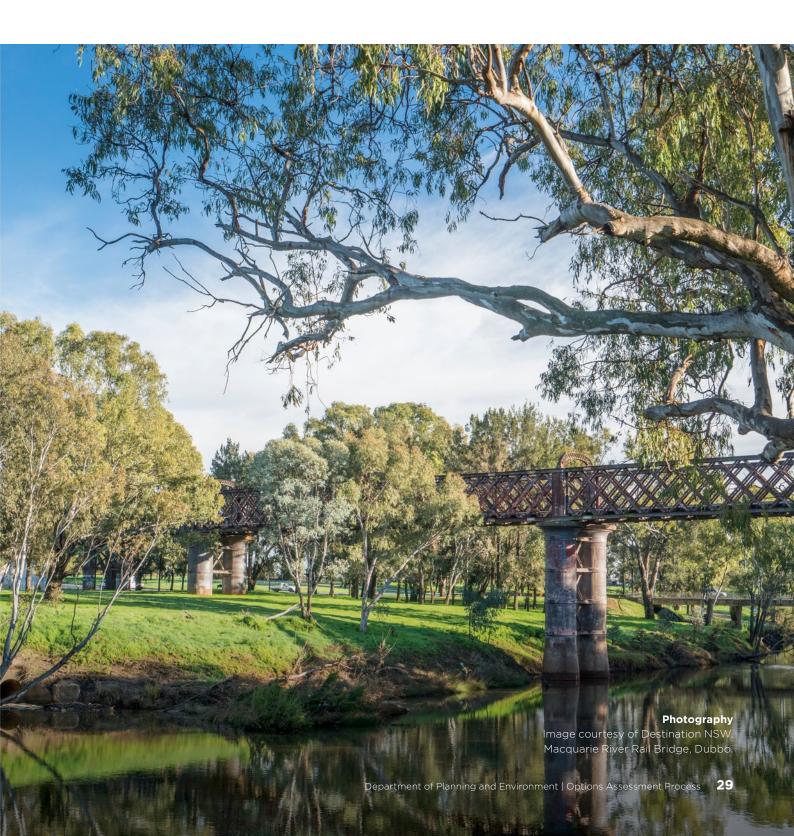
Photography

Image courtesy of Amanda Cutlack, Department of Planning and Environment Pambula River, Ben Boyd National Park.



The purpose of Stage 5 is to understand the staging and timing of progressing the preferred options.

This final stage of the options assessment process will include prioritising and staging options and implementing shortlisted actions. Options will be appropriately sequenced with other reforms.





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