

**Meeting Date:** 13 April 2016

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**Item:** 10  
**Subject:** State Government Funding Programs  
**Author:** Tracey Hamer, Section Leader Planning  
Brendan Guiney, Executive Manager Infrastructure Development

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### **Executive summary**

Infrastructure NSW's shortlisted projects for the Regional Water and Wastewater Backlog program were reported to the last board meeting in March 2016, advising that the shortlist does not align with MidCoast Water's current priorities. A letter has been written to the Minister for Water regarding MidCoast Water's capital works priorities for the Gloucester and Pacific Palms projects, seeking a meeting with the Minister.

The affordability and deliverability of the unserviced village projects shortlisted under the Regional Water and Wastewater Backlog program was assessed using revised costings. The financial impact of servicing the top two priority villages was assessed and it was determined that these schemes, Stroud Road and Coomba Park, are deliverable within the required five year timeframe, with existing resources, the funding rules for the subsidy program will result in impacts on the typical residential bill of all customers due to operating losses. Our top priority project, the Nabic Inland Dune Aquifer water supply project is intended to be submitted.

Detailed submissions are due on 28 April 2016.

### **Strategic alignment**

- 1.1.3 Deliver our asset management strategy
  - 3.4.1 Deliver a long-term financial management plan
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### **Recommendation**

1. The board acknowledges the letter sent to the Minister for Water regarding MidCoast Water's capital works priorities for the Gloucester and Pacific Palms projects, and supports a delegation to convey the concerns with affordability and deliverability with the funding rules specifying a \$45,000 per lot cap, and a 5 year timeline for initiation, and ask that the Minister to amend or remove these rules.
  2. The board endorses the submission of the Nabic Inland Dune Aquifer water supply project for \$6.6 million in assistance from the funding program against a total project budget of \$34.6 million project,
  3. No other small village sewerage projects be submitted for funding assistance pending delegation to the NSW Government to improve the funding rules.
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### **Background**

In March this year Infrastructure NSW confirmed the shortlisting of projects for the Backlog program including the Nabic Inland Dune Aquifer Water Supply System and sewerage schemes for unserviced villages. These projects were identified by Infrastructure NSW and the Department of Primary Industries – Water (DPI Water) as being eligible for funding under the Backlog program as they had previously been listed within the 2004 assessment of the Country Towns Water Supply and Sewerage (CTWSS) program.

The submissions for the Gloucester Water Treatment Plant, Gloucester Sewage Treatment Plant and Stage 1 of the Pacific Palms Sewage Treatment Plant were unsuccessful. At the March 2016 board meeting, it was determined that further representations be made to the Minister for Water regarding MidCoast Water's capital works priorities for the Gloucester and Pacific Palms projects.

#### **Requirements for Detailed Submissions to the Backlog Program**

The eligible projects listed under the Backlog program must demonstrate that they will produce a net economic benefit. The criteria for detailed submissions include:

- A strategic assessment
- An economic assessment
- Affordability and
- Deliverability.

Infrastructure NSW and DPI Water conducted a workshop with applicants on 16 March to confirm the requirements for detailed submissions. During the workshop, it was reinforced that for a project to be eligible, it needed to:

- Have a positive Net Present Value
- Have a Benefit Cost Ratio greater than one
- Commence within 5 years

In the requirements for detailed submissions, DPI Water has stipulated upper limits on the government grant available for each eligible project based upon the size of the utility, the capital cost of the project and the population served by the individual project.

A preliminary assessment undertaken in early March indicated these limits applied to MidCoast Water's shortlisted projects were of the order of 14 – 31% of the total capital cost, as opposed to approximately 50% sought in the expressions of interest. A revised assessment based on revised cost estimates was undertaken and resulted in the limits increasing to 15 – 42%, as shown in Table 1.

#### **Revised capital costs**

The capital costs used in the Expressions of Interest were based on cost estimates undertaken in 2005 which had been adjusted for CPI. The revised costs were determined using the following information:

- Gravity main and rising main pipe lengths and diameters from concept designs
- Number and size of pump stations for each scheme
- Level of pre-treatment, if any, required
- Unit costs from the most recent NSW Reference Rates Manual

The revised budget estimates are shown in Table 1 which also shows the Government Grant Limits. It can be seen that each of the cost estimates have reduced except for the estimate for North Arm Cove. This increased as it was assumed that North Arm Cove would be constructed ahead of Pindimar and

Bundabah due to its higher priority and risk of being left unserved. This effectively meant that the capital cost for the North Arm Cove scheme includes a transfer main back to Tea Gardens, which the Pindimar and Bundabah schemes could then benefit from.

It is important to note that the Government Grant Limits did not change for any of the shortlisted projects, only the limit expressed as a percentage. This is due to a combination of the cap on funding of

50% of \$45,000 per Equivalent Tenement (ET) and the grant being based on the lower of the 1996 ETs and the current required ET capacity.

**Table 1 - Cost estimates for candidate projects**

Project	Current Budget Estimate (\$M)	Revised Budget Estimate (\$M)	Funding Sought In Expression of Interest (\$M)	Current Government Grant Limit (\$M)	Govt. Grant Limit as a % of Current Budget Estimate
Nabiac Water Supply System	\$34.6	-	\$9.6 alternatively, \$6.5	\$6.6	19%
<i>Unserviced Villages</i>					
Allworth Sewerage Scheme	\$6.0	\$4.8	\$2.0	\$1.36	28%
Bundabah Sewerage Scheme	\$3.3	\$2.5	\$1.6	\$1.03	42%
Coomba Park Sewerage Scheme	\$19.0	\$15.74	\$9.5	\$2.72	17%
Nerong Sewerage Scheme	\$6.5	\$6.3	\$3.2	\$0.93	15%
North Arm Cove Sewerage Scheme	\$11.4	\$12.6	\$5.7	\$2.98	30%
Pindimar Sewerage Scheme	\$6.7	\$4.6	\$3.3	\$1.71	37%
Stroud Road Sewerage Scheme	\$4.6	\$3.54	\$1.7	\$1.24	35%
<b>Unserviced Villages Total</b>	<b>\$57.5M</b>	<b>\$50.1M</b>	<b>\$27.0M</b>	<b>\$11.97M</b>	<b>24%</b>

### **Affordability and Deliverability**

A Benefit Cost Analysis, using the Benefit Cost Analysis (BCA) toolkit provided by DPI Water, was undertaken for each unserviced village. The benefits included the reduced risk of environmental damage, reduced epidemic risk, economic benefits and productivity savings. The costs accounted for total cost of ownership – capital and operating costs using Net Present Values.

The timeframe for each scheme was also estimated based on priority ranking. The ranking was based on a combination of:

- Risk scores for each village, allocated as part of the Small Villages Wastewater Risk Assessment Report (MidCoast Water 2000), and
- Affordability and capital cost of the scheme

The Benefit Cost (BCR) results and high level timeframe information are shown in

**Table 2.** It can be seen that each village has a BCR > 1, which is required in order to receive funding under the Regional Water and Waste Water Backlog program. It can also be seen that only two schemes could be completed prior to the end of 2021 and one could be commenced in 2021. Using current resource levels, it has been assumed that only one sewerage scheme can be undertaken at a time.

**Table 2 – Summary of Benefit Cost Analysis results and deliverability**

Sewerage Scheme	Priority ranking	Benefit Cost Ratio	Net Present Value ('000)	Timeframe		
				Initiation	Completion	Total time (months)
Allworth	5	1.13	\$735	Jul-24	Apr-26	22
Bundabah	4	2.34	\$3,671	Jul-23	Dec-24	18
Coomba Park	2	1.13	\$2,920	Jul-18	Mar-21	33
Nerong	7	1.05	\$387	Jan-26	Oct-27	22
North Arm Cove	3	1.53	\$7,785	Jan-21	Sep-23	33
Pindimar	6	2.47	\$7,776	Jul-23	Jan-25	19
Stroud Road	1	1.26	\$1,808	Jul-17	Oct-18	15

*Note: Projects that start after 2020 were entered in the BCA toolkit as 2020 as this was the latest year available for selection.*

The best method for assessing the affordability of an individual scheme is to look at its effect on Profit and Loss and Cash flow. The results for the top two priority villages which can be delivered within five years are shown in Table 3. It can be seen that each scheme has a negative effect on Profit and Loss and that the required increase per sewer customer is relatively small. It should be noted that this high level financial analysis does not take into account the Triple Bottom Line approach – the environmental, health and economic benefits that were used in the Benefit Cost Analysis are not included here:

**Table 3 – Impact of servicing top two priority villages on Profit and Loss and Cash flow**

	<u>Coomba Park</u>	<u>Stroud Rd</u>
	213 ETs	62ETs
Cost	\$13.0m	\$2.3m
<b><u>Per annum</u></b>		
Revenue (@\$970 per ET)	\$206,610	\$60,140
Operating Expenses (Service Delivery to verify)	\$95,000	\$53,000
Depreciation (50 years, straight line)	\$261,600	\$46,000
Net Profit and Loss impact	<b>-\$149,990</b>	<b>-\$38,860</b>
Net Cash flow impact	\$111,610	\$7,140
Number of Sewer accounts (2014/15)	38,000	38,000
Average increase per Sewer customer	\$3.95	\$1.02

*Note: Table 3 excludes owner contributions and revenue from vacant lots in the village zone.*

**Community expectation**

It is important to note that community expectation has been heightened in the small villages since separate announcements just prior to the March 2015 state election regarding the availability of funding for these projects by Member for Myall Lakes Mr Stephen Bromhead MP, and the Liberal Candidate for Port Stephens Mr Ken Jordan.

The expectation of availability of service for all owners of residential sized properties in our operating area needs to be balanced with the affordability and deliverability of the projects as discussed above. It is notable that there was reasonable support and willingness to pay to extend sewerage services to unserviced villages during the public consultation phases for our long term plan – Our Water Our Future.



23 March 2016

Reference: KG:BG

The Hon. Niall Blair MLC  
 Minister for Water and Lands  
 52 Martin Place  
 GPO Box 5341  
 SYDNEY NSW 2001

Dear Minister Blair,

**Re: Meeting with MidCoast Water**

I write to request a meeting with you, the Chair of MidCoast Water Aled Hoggett and myself to discuss a number of important issues:

1. ***Future of MidCoast Water*** – The NSW Government's Council Boundary Review recently announced a proposed merger of Gloucester Shire, Great Lakes and Greater Taree City Councils. Since a County Council must comprise more than one local government area, the proposal to merge all 3 of our constituent councils would impact on MidCoast Waters capacity to continue to exist as a County Council.

MidCoast Water was established in 1997 as a pilot for water reform in the state, specialising in high quality water & sewerage services. Many inquiries in NSW and Australia have recommended the movement of such services out of local government and the consolidation of entities to improve scale and capacity.

As MidCoast Water is performing strongly, we propose that MidCoast Water be converted from a county council into a council owned corporation along the lines of the proposed Central Coast Water Corporation.

2. ***Regional Water and Wastewater Backlog Program (RWWWB)*** – MidCoast Water has been invited to submit funding applications for backlog sewerage projects in Nerong, Stroud Road, North Arm Cove, Pindimar, Bundabah, Coomba Park and Allworth. The potential cost for these 7 projects is of the order of \$57 million. Key criteria for this round of funding are commencement within 5 years and 50% funding up to a limit of \$45,000 per lot.

MidCoast Water is very pleased to have the government's support to proceed with these projects, but unfortunately MidCoast Water cannot proceed since the timeframe is too short for delivery, and the funding criterion represents an average 20% subsidy, which leads to the projects being unaffordable. In addition, MidCoast Water needs to prioritise projects in Pacific Palms and Gloucester.

ABN 33 274 464 218 All correspondence to PO Box 671 Taree, NSW 2430

General enquiries 1300 133 455 Fax 02 6555 8516 Web [midcoastwater.com.au](http://midcoastwater.com.au)

Forster Customer Service Centre 16 Breese Parade Forster Taree Customer Service Centre 26 Muldoon Street Taree





These projects have been committed to the community via election promises and we are very aware of the impact any decision not to proceed would have.

We are keen to discuss the criteria for future funding offers, and particularly, ensure we have a measured and consistent response to the communities affected by the above projects.

Aled and I are keen to meet with you to discuss the above topics and look forward to your favourable response. I can be contacted directly on 02 65924861 or 0409969071 to arrange a meeting.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Ken Gouldthorp", written over a horizontal line.

**Ken Gouldthorp**  
General Manager

