

17.2 VIRGINIA MAIN STREET SEWER

Contact Person: Mr Simon Blom

Why is this matter confidential?

Subject to an order pursuant to Section 90 (3) (d) of the *Local Government Act 1999*, this matter is confidential because it contains details of the funding model proposed by SA Water for their commercial recovery of the asset.

A. COUNCIL/COMMITTEE TO MOVE MOTION TO GO INTO CONFIDENCE

No action – this motion passed in the open section.

B. THE BUSINESS MATTER

17.2 VIRGINIA MAIN STREET SEWER

Responsible Executive Manager : Mr Simon Blom

Report Author : Mr Ben Woodrow

Delegated Authority : Matters which cannot be delegated to a Committee or Staff.

PURPOSE

To seek a decision on how to progress the Virginia Main Street Project with regard to the incorporation of Sewer.

STAFF RECOMMENDATION

1. Council seek an extension of time to meet the requirements of the Places for People grant fund and, if the extension is granted, continue negotiations with SA Water to reach a mutually agreeable position for the installation of sewer in Virginia Main Street. Any agreement reached with SA Water will involve the following commitments:
 - a) Full cost recovery to Council by SA Water no later than the 2024/25 financial year.
 - b) The cost of sewer infrastructure will not exceed \$5 Million.
 - c) Council will seek appropriate authorisations to install infrastructure eg. Authorisation to alter public road, road closure processes where infrastructure may exist in existing road reserve.
2. A prudential review, in accordance with the requirements of the *Local Government Act 1999*, will be undertaken and presented to a subsequent meeting of Council prior to final agreements being executed.
3. If an extension of time to meet the requirements of the Places for People grant fund is not provided, and/or satisfactory agreement cannot be reached with SA Water, project delivery will continue without the construction of sewer infrastructure with consideration given to futureproofing sewer infrastructure installation through design treatments.
4. The CEO is authorised to execute any relevant agreement(s) subject to those agreements being consistent with parts 1 and 2 of this resolution.

EXECUTIVE SUMMARY

Staff have been liaising with SA Water for some time regarding the installation of mains sewer in Virginia prior to the commencement of the Virginia Main Street Upgrade project. Council was successful in its application for \$2,656,850 from Places for People grant funding which comes with tight funding deadlines meaning that an agreement is needed to be reached with SA Water if sewer is to be included in the project.

After considering many possible options SA Water have presented a proposal which is now being presented to Council.

The current proposal from SA Water is for Council to fund approximately \$4.85 Million worth of sewer infrastructure to provide a working sewer solution for the Virginia Main Street. SA Water then propose to reimburse Council for the costs of the work in July 2024 at the commencement of their next Regulatory Budget Period (RBP).

The current proposal from SA Water would require Council to fund the \$4.85 Million without Council taking ownership and control of the built asset. The asset, once built, would be transferred to SA Water for them to manage and take on the risk and responsibility. As the asset would not be owned or in the control of Council, the \$4.85 Million would be treated as an operating expense in the relevant year, with the reimbursement treated as operating revenue in 24/25. As a result, Councils operating result would move into deficit in the 21/22 financial year, with the corresponding full cost plus interest reimbursement flowing through as a surplus in 24/25 financial year. All other things being equal.

The proposals would temporarily increase Council's debt ceiling, until the point of reimbursement. Operating deficits are usually seen as "bad debt" as they have no other funding pathway other than debt. The expectation of our financier is that Council remain in surplus, as it is a good indicator of financial sustainability. This helps ensure the long term support of Council's financier in terms of future borrowings. This proposal is different as there would be a funding pathway, albeit being three years later.

1. BACKGROUND

For more than 18 months staff have been liaising with SA Water at multiple levels, as per Council resolution 3878 17 December 2019, in order to facilitate the inclusion of sewer within the scope of the Virginia Main Street Project.

The inclusion of Sewer within the project scope, whilst not the responsibility of Council, can provide significant benefit to the community in terms of:

- Unlocking development potential of a number of vacant sites,
- Providing a solution for current, non-compliant, sewerage treatment systems,
- Reducing disruption should SA Water decide to install the sewer at a later date,
- Reducing damage to new Council infrastructure should sewer be installed after the upgrade is complete.

Most recently, discussion has centred around finding a piece of land which can be provided to SA Water for the purposes of constructing and operating a waste water pumping station, and details regarding a funding model. A suitable piece of land has been identified as well as a method of providing it to SA Water for this purpose.

A funding model has been presented for consideration. The current proposed model from SA Water suggests that City of Playford fund the installation of the sewer in full with SA Water to reimburse Council in 2024 at the commencement of the next Regulatory Business Period (RBP). SA Water would collect augmentation fees from adjoining properties at the time they

connect to the sewer network. These fees would be calculated based on the capital value of the property at a rate of \$13 per \$1000 of capital value (eg. A\$400,000 property \$5,200 plus a standard connection fee). Any contributions collected would be paid to SA Water and are proposed to then be given to Council as part repayment with full repayment to be made in July 2024. Final negotiations with SA Water will determine if this mechanism is practical and/or necessary, or if a full recovery payment to Council in the 2024/25 financial year is preferable.

The cost estimate for the works is \$4,850,000 and SA Water propose they would reimburse Council for the total cost including any interest incurred on the borrowings over the period of the loan. This includes the cost of constructing the main sewer pipe for the length of the main street and to the pumping station, the construction of a pumping station and a pumping main down McEvoy Road to connect to the main sewer trunk to Bolivar.

The detailed design for Council's Virginia Main Street Project has been completed and the market has been approached for pricing. A number of submissions were received and the evaluation process is currently underway.

2. RELEVANCE TO STRATEGIC PLAN

1: Smart Service Delivery Program

Outcome 1.2 Improved service delivery

The installation of sewer as part of the Virginia Main Street Project would greatly improve the amenity of the Virginia Township.

3. PUBLIC CONSULTATION

Public Consultation is not required in this instance.

4. DISCUSSION

- 4.1** The cost of this work is estimated at \$4,850,000 and would need to be funded by Council until such time as SA Water reimburse Council in 2024.
- 4.2** The construction of a Waste Water Pumping Station (WWPS) relies on the provision of the below piece of land. Staff have reviewed this land and deemed it suitable for the purposes of gifting to SA Water for this use. Consultation with Norman Waterhouse has indicated that this land could be secured via a section 221 permit for 42 years whilst undertaking a road closure process which includes public consultation and then transferring ownership to SA Water. The value of this land is approximately \$40/m² making the 400m² piece of land required by SA Water worth an estimated \$16,000.



Proposed location of Waste Water Pumping Station in Council Road Reserve

- 4.3** Inclusion of mains sewer within the project scope will delay the commencement of construction of the main street project whilst design of the sewer system is undertaken, and will increase the amount of physical work to be delivered which will increase the length of the construction program. This would require a discussion with Places for People regarding the timing within the funding agreement which is yet to be discussed with the funding body. It should be noted that there has been no indication from the funding body that they are prepared to grant an extension at this point and if they refuse the request there will be a requirement to proceed with the project without sewer.

Additionally, the increase in total scope would likely warrant approaching the market for tender once again. This may result in an improved tender response and better value for money, conversely, it also carries the risk that market conditions have changed and the tendered prices increase.

- 4.4** The installation of sewer within Virginia Main Street following Councils upgrade work would create further disruption to residents and would likely have negative reputational impacts for Council.

While SA Water have not confirmed when they would install sewer within Virginia Main Street without Council intervention, they have confirmed that it will not be prior to the commencement of their next budget cycle in 2024 at the earliest, although it currently does not form part of that budget bid. It is possible that the delivery of sewer may be more than 5 years after the completion of the upgrade project without Council intervention.

- 4.5** An operational sewer system is a significant improvement to the Virginia community. The installation of this sewer will result in all abutting properties, connected or not, being charged a supply fee by SA Water. Properties within the Virginia Main Street Project scope currently receive a phase in rate rebate. The eligibility for the phase in rebate will be reassessed once services are delivered to those in the Virginia Main Street area.

5. OPTIONS

Recommendation

1. Council seek an extension of time to meet the requirements of the Places for People grant fund and, if the extension is granted, continue negotiations with SA Water to reach a mutually agreeable position for the installation of sewer in Virginia Main Street. Any agreement reached with SA Water will involve the following commitments:
 - a) Full cost recovery to Council by SA Water no later than the 2024/25 financial year.
 - b) The cost of sewer infrastructure will not exceed \$5 Million.
 - c) Council will seek appropriate authorisations to install infrastructure eg. Authorisation to alter public road, road closure processes where infrastructure may exist in existing road reserve.
2. A prudential review, in accordance with the requirements of the *Local Government Act 1999*, will be undertaken and presented to a subsequent meeting of Council prior to final agreements being executed.
3. If an extension of time to meet the requirements of the Places for People grant fund is not provided, and/or satisfactory agreement cannot be reached with SA Water, project delivery will continue without the construction of sewer infrastructure with consideration given to futureproofing sewer infrastructure installation through design treatments.
4. The CEO is authorised to execute any relevant agreement(s) subject to those agreements being consistent with parts 1 and 2 of this resolution.

Option 2

Continue with project delivery without the construction of sewer infrastructure with consideration given to futureproofing sewer infrastructure installation through design treatments.

6. ANALYSIS OF OPTIONS

6.1 Recommendation Analysis

6.1.1 Analysis & Implications of the Recommendation

This option presents the best possible outcome for the community as it creates development opportunity in Virginia as well as providing a far greater level of amenity for the existing properties.

The expectation is that City of Playford will undertake the design and then, once the design is approved by SA Water, tender the works and manage the construction of the sewer main, connections, pumping station and pumping main.

If sewer is included in the project scope it is important to note the following will be required:

- Given the timing with which this information has been received and then provided to staff (which is due to project time constraints) a formal agreement between City of Playford and SA Water has not yet been drafted and reviewed. This would occur with assistance from Norman Waterhouse.
- An extension would need to be sought from Places for People to allow time for the sewer to be designed and constructed as this forms the first logical package of construction work based on its location and depth. Note: the upgrade project could commence once the sewer is clear of the main street.
- Retendering of the works would be required due to the significant increase in scope. This may allow for submissions which represent better value for money but also carries the risk that market conditions may change and prices may increase.

It is expected that this option would delay the start of the project by approximately 6 months and increase the construction program by a similar amount. This would put construction commencement in July 2021 with construction completion in December 2022.

In order to limit the impact on the main street upgrade and the corresponding funding, the main street portion of the sewer could be installed first, with Council's Virginia Main Street Project upgrade completed next, and then the remaining mains sewer works outside of the project area, could be completed last. Utilising this phasing the street upgrade portion could likely be completed by June 2022 resulting in a 6-month extension to the Places for People grant funding.

There are a number of items still to be resolved in terms of an agreement with SA Water. Selection of this option will allow staff to work towards resolving these issues with the final agreement between SA Water and Council to be finalised prior to construction commencing.

This option is entirely contingent on Places for People being agreeable to the funding extension. If the extension is not granted staff will proceed with the project without the inclusion of mains sewer.

6.1.2 Financial Implications

	FY 2021/22 Once Off	FY 2022/23 Once Off	FY 2023/24 Once Off	FY 2024/25 Once Off	
Operating Revenue				\$5,374,556	
Operating Expenditure	\$4,993,075	\$179,751	\$201,740		
Net Operating Impact	\$4,993,075	\$179,751	\$201,740	\$5,374,556	
Capital – Revenue					
Capital Expenditure					
Total Borrowings (Capital Investment)					\$0

NOTE: SA Water have agreed in principle that they will reimburse Council for all project costs inclusive of any charges. SA Water have indicated that this repayment would be made in full in July 2024.

This Option is to fund the installation of the sewer through Operating expenditure (by way of an operating deficit) and immediately vest the asset to SA Water once construction is completed.

6.2 Option 2 Analysis

6.2.1 Analysis & Implications of Option 2

This option allows for the soonest possible start of the upgrade project with tenders received and the evaluation well progressed. The main risk with this approach is that SA Water may gain funding for the sewer in the next RBP and proceed to dig up the new road and footpath for the installation of mains sewer shortly after the completion of the upgrade. This will not only cause asset damage and impact the aesthetics of the main street it will also result in further disruption to the community.

6.2.2 Financial Implications

There is no change to the current, approved, financials for the Virginia Main Street Project as a result of this option.

C. COUNCIL/COMMITTEE TO DECIDE HOW LONG ITEM 17.2 IS TO BE KEPT IN CONFIDENCE

Purpose

To resolve how long agenda item 17.2 is to be kept confidential.

STAFF RECOMMENDATION

Pursuant to Section 91(7) of the *Local Government Act 1999*, the Council orders that the following aspects of Item 17.2 be kept confidential in accordance with Council's reasons to deal with this item in confidence pursuant to Section 90 (3) (d) of the *Local Government Act 1999*:

- Report for Item 17.2
- Minutes for Item 17.2

This order shall operate until completion of the Virginia Main Street Sewer project, or will be reviewed and determined as part of the annual review by Council in accordance with Section 91(9)(a) of the *Local Government Act 1999*, whichever comes first.

Pursuant to Section 91(9)(c) of the *Local Government Act 1999*, the Council delegates to the Chief Executive Officer the power to revoke this order at any time, and the Chief Executive Officer must advise the Council of the revocation of this order as soon as possible after such revocation has occurred.