

TABLE OF CONTENTS

**ITEM 34 RESTART NSW WATER FUND GRANT APPLICATION
FOR CUMNOCK AND YEOVAL POTABLE WATER
SCHEMES2**

CONFIDENTIAL ITEMS

Clause 240(4) of the Local Government (General) Regulation 2005 requires Council to refer any business to be considered when the meeting is closed to the public in the Ordinary Business Paper prepared for the same meeting. Council will discuss the following items under the terms of the Local Government Act 1993 Section 10A(2), as follows:

ITEM 11 SALE OF LAND - PACKHAM DRIVE, MOLONG

(c) information that would, if disclosed, confer a commercial advantage on a person with whom the Council is conducting (or proposes to conduct) business

ANNEXURE ITEMS

**ITEM 34 - RESTART NSW WATER FUND GRANT APPLICATION FOR
CUMNOCK AND YEOVAL POTABLE WATER SCHEMES**

REPORT IN BRIEF

Reason For Report	For Council's determination
Policy Implications	This is consistent with the Cabonne Water Policy.
Budget Implications	There will be budget impacts with the level of impact dependent upon the grant funding model adopted.
IPR Linkage	5.1.2.a - Construct new Cabonne Water projects
Annexures	Nil
File Number	\\OFFICIAL RECORDS LIBRARY\WATER SUPPLY\REPORTING\WATER SUPPLY WEEKLY REPORTS - 2010 - 2019 - MOLONG - 562646

RECOMMENDATION

THAT Council:

1. Submit an application for the Restart NSW Fund's Water Security for Regions Program to fund the proposed potable water schemes for Cumnock and Yeoval.
2. Submit the grant application based on Option 2 Construction of two packaged water treatment plants in Cumnock and in Yeoval.
3. Submit the grant application based on the project being 60% grant funded.

OPERATIONS MANAGER - URBAN SERVICES AND UTILITIES' REPORT

This report consist of the following Sections

1. Background
2. Financial Analysis of proposed potable water schemes
3. Recommendations

1 Background

The feasibility of Potable Water Schemes for Cumnock and Yeoval has been under investigation by Council staff since October 2012. The investigation was conducted using a risk based approach based on the following criteria:

1. Technology and process options;
2. Protection of public health;
3. Full life cycle cost considerations;
4. Long term financial impact and affordability of the schemes; and

5. Impact on the typical residential bill.

The progress of the investigation since October 2012 is summarised in the following table.

Table 1. Background

Description of Work	Outcome
1. Options Report of 4 preferred Water Supply Models with feasibility studies consisting of NPV analysis taking into account capital cost, operating cost and impact of typical residential bill (TRB).	<ul style="list-style-type: none"> • Preferred water supply scheme option was determined in a Water Reference Group Meeting held in Feb 2013. • The preferred option was to construct a water treatment plant in each town and improve water security in Yeoval by constructing an off-creek storage.
2. Options and feasibility study on the various water treatment technologies based on the preferred water supply scheme.	<ul style="list-style-type: none"> • Preferred technologies and water treatment processes for each town were identified. • Financial analysis indicated that the cost of the preferred water supply option would be cost prohibitive at that point in time. • Direction was given by the members of the Water Reference Group to investigate other options to improve water quality, but not to a standard that is regarded as potable.
3. Non-potable treated water option.	<ul style="list-style-type: none"> • The treated non-potable water option was not well received by the NSW Ministry of Health and they were unable to endorse the project due to the high risk to public health. • Based on the feedback from the NSW Ministry of Health, the Water Reference Group gave the direction to investigate other options of providing potable water at the lowest possible cost.
4. Other avenues of providing potable water were investigated which led to a preferred option.	<ul style="list-style-type: none"> • The preferred option was to utilise package water treatment plants • A preferred technology was determined for each town based on a risk assessment of the existing system, raw water source, life cycle cost considerations and environment.

Description of Work	Outcome
	<ul style="list-style-type: none"> • A preliminary concept was developed with preliminary capital and operating cost estimates. • The total project cost was estimated to be \$4.5 million. • Council is investigating long term financial impact and affordability.
<p>5. The NSW Government is inviting applications for funding from Restart NSW Fund's Water Security for Regions Program targeted to improve town water security. There is \$41 million reserved for water infrastructure of which \$21 million has been allocated to high priority projects. There is \$20 million remaining in the budget that has not been allocated. Cabonne Council is one of the few LGAs in NSW which have been invited to make submissions. The deadline for the submissions is 30 June 2014.</p>	<ul style="list-style-type: none"> • Council is in a position to make a strong submission to obtain grant funding for the proposed Cumnock and Yeoval potable water schemes. • The Water Reference Group has agreed that the submissions will be prepared with the assistance of consultants due to the short time frame and amount of work required to complete the submissions. • HydroScience Consulting was engaged through the Local Government Procurement Vendor Panel to assist Council in the preparation of the grant application.
<p>6. Financial Analysis conducted by the HydroScience Consulting</p>	<ul style="list-style-type: none"> • A draft report of the financial analysis for the proposed Cumnock and Yeoval potable water schemes was issued to Council on 20 June 2014 • Two water supply options were investigated.

2 Financial Analysis

The two water supply options investigated are as follows:

1. Option 1: Bulk potable water supply purchased from Central Tablelands Water, with a transfer system consisting of a pipeline from Manildra to Cumnock and Yeoval at a cost of \$12 million.
2. Option 2: Construction of two packaged water treatment plants in Cumnock and in Yeoval at a (worst case) cost of \$5.14 million.

There were six financial scenarios studied. The scenarios studied are as follows:

Table 2. List of Scenarios investigated

Case	Name	Description
1	Base Case	The do nothing approach. No potable water

		for Cumnock and Yeoval.
2	Option 2 with no grant	Drinking Water System (DWS) with no grant funding.
3	Option 2 with 75% grant	75% of the total capital cost of the DWS funded through the state government grant.
4	Option 2 with 60% grant	60% of the total capital cost of the DWS funded through the state government grant
5	Option 2 with 50% grant	50% of the total capital cost of the DWS funded through the state government grant
6	Option 1 with 60% grant	60% of the total capital cost of the pipeline funded through the state government grant

2.1 Impact on Typical Residential Bill (TRB)

The Typical Residential Bill (TRB) is the bill paid by a residential customer based on the average annual consumption per property (it is not a pensioner charge).

The long-term TRB is the TRB at the end of 30 years. It takes into account the 30 year capital works program, Operation, Maintenance and Administration cost (OMA) and recurrent cost.

Table 3. Comparison of scenarios

Case	Name	Long-Term TRB (\$/yr)	Loan Required	Estimated Fees (\$/kL)
1	Base Case	\$640	-	\$2.00
2	Option 2 with no grant	\$980 for 20 years, then \$780	\$3.2M	\$2.97
3	Option 2 with 75% grant	\$760	-	\$2.38
4	Option 2 with 60% grant	\$780	-	\$2.44
5	Option 2 with 50% grant	\$810	\$1M	\$2.53
6	Option 1 with 60% grant	\$920 for 22 years, then \$780	\$3.3M	\$2.88

The cash reserves at the end of the 30 year planning period are between \$300,000 and \$500,000. This is considered to be acceptable based on a \$9.5M capital/renewal works program over the next 30 years.

From the results shown in Table 3, Scenarios 2 and 6 would be regarded as unaffordable to Cabonne water rate payers and should not be considered as options.

Scenario 5 requires a loan of approximately \$1M, which will result in higher TRB's for the water rate payers than the scenarios where no loan is required.

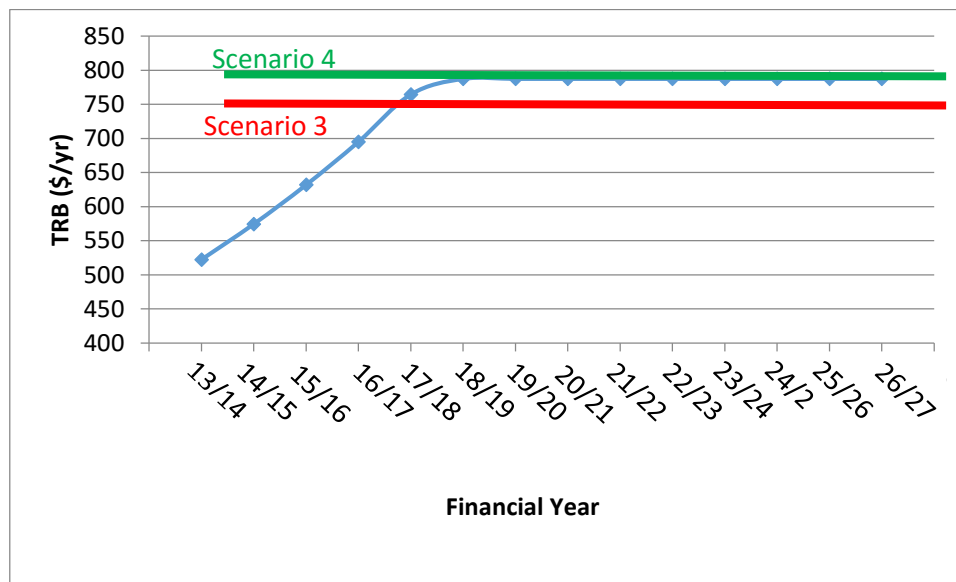
Scenario 3 and 4 do not required any loans to be taken as the Council contribution to the project can be funded from the Water Fund reserves. It is expected that the grant decision panel would look more favourably at a 50% grant application when compared with a 60% grant application. However, a 50% grant application will result in a higher TRB by \$30/yr over the long term. Discussions with Grant Funding Authority have confirmed that applications seeking 100% grant funding will not be successful.

Figure 1 shown below indicates the following:

1. Scenario 3 requires Council to increase the fees and charges by 10% annually from 2013/2014 to 2017/2018.
2. Scenario 4 requires Council to increase the fees and charges by 10% annually from 2013/2014 to 2018/2019.

The 2013/2014 TRB is estimated to be \$522. There are at present planned annual increases of 10% to fees and charges for water access and usage in the next 2 years, which will bring the 2015/2016 TRB to \$632. Scenario 3 will require an additional 2 more years of 10% annual increases, while Scenario 4 will require 3 more years of annual increases.

Figure 1 Graph showing a 10% increase in the TRB over a period of 6 years.



3 Recommendations

Council will be unsuccessful if it seeks 100% grant funding for the project. The most cost effective longer term solution for Council is the package plant option.

Based on this, it is recommended that Council:

1. Submit an application for the Restart NSW Fund's Water Security for Regions Program to fund the proposed potable water schemes for Cumnock and Yeoval.
2. Submit the grant application based on Option 2 Construction of two packaged water treatment plants in Cumnock and in Yeoval.
3. Submit the grant application based on the project being 60% grant funded.

It is considered that a 60% grant/40% Council funding split would provide the right balance between a competitive grant application and the project's financial implications.

Final project costs will be confirmed prior to the application closing date and will likely be less than the worst case figures used in the financial modelling.