RELEASED 30 NOVEMBER 2023

ADELAIDE HILLS COUNCIL
ORDINARY COUNCIL MEETING
Wednesday 27 January 2021
CONFIDENTIAL AGENDA BUSINESS ITEM

Item:	**18.2**
Responsible Officer:	**David Collins** **Manager Strategic Assets** **Infrastructure and Operations Directorate**
Subject:	**Community Wastewater Management System (CWMS) Review**
For:	**Decision**

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1. CWMS Divestment – Exclusion of the Public

Pursuant to section 90(2) of the *Local Government Act 1999* the Council orders that all members of the public, except:

- **Chief Executive Officer, Andrew Aitken**
- **Director Infrastructure & Operations, Peter Bice**
- **Director Development & Regulatory Services, Marc Salver**
- **Director Corporate Services, Terry Crackett**
- **Director Community Capacity, David Waters**
- **Executive Manager Governance & Performance, Lachlan Miller**
- **Manager Strategic Assets, David Collins**
- **Manager Sustainability Waste and Emergency Management, Sustainability, Waste & Emergency Management, John McArthur**
- **Governance & Risk Coordinator, Steven Watson**
- **Minute Secretary, Pam Williams**

be excluded from attendance at the meeting for Agenda Item 18.2: CWMS Divestment in confidence.

The Council is satisfied that it is necessary that the public, with the exception of Council staff in attendance as specified above, be excluded to enable Council to consider the report at the meeting on the following grounds:

Section 90(3) (d) commercial information of a confidential nature (not being a trade secret) the disclosure of which –

(i) could reasonably be expected to prejudice the commercial position of the person who supplied the information, or to confer a commercial advantage on a third party; and

(ii) would, on balance, be contrary to the public interest;

of the *Local Government Act 1999*, the information to be received, discussed or considered in relation to this Agenda Item is commercial information of a confidential nature (not being a trade secret) the disclosure of which could reasonably be expected to provide a commercial advantage to another party as it relates closely to a proposed tendering process and may influence market responses and that disclosure may have a detrimental effect on the efficient and effective conduct of government functions.

Accordingly, on this basis the principle that meetings of the Council should be conducted in a place open to the public has been outweighed by the need to keep the information and discussion confidential.

2. CWMS Divestment – Confidential Item

SUMMARY

Council is wholly responsible for a range of Community Wastewater Management Systems (CWMS) assets across seven townships and/or areas. The assets serve approximately 1,850 properties through the townships of Birdwood, Mount Torrens, Kersbrook, Charleston, Verdun, Woodside and Stirling (Golf Links Road).

Council has been reviewing its CWMS operations and ownership since an initial Council resolution in 2015.

Most recently, and as part of the review, Council's Community Wastewater Management Scheme (CWMS) assets were presented to the open market through a soft sound and Registration of Interest (ROI) process. A soft sounding (direct promotion to interested parties) and open call for ROIs was conducted during September and October 2020 as part of the CWMS Divestment tender process as a consortium. This stage of the tender process was to guauge the market interest in these assets. This stage of the process was undertaken with the City of Onkaparinga and the Rural City of Murray Bridge.

This point in the tender process is a hold point that requires consideration by Council to continue with the divestment or as recommended in this report to withdraw from the tender process and retain ownership, management and operation of the CWMS Assets. The required costs to Council, up to $140,000, to undertake necessary vendor (Council) due diligence and continue to the Request for Proposal (RFP) stage of the tender process are not considered to be justified given the unlikely overall benefit to the Council and the community.

Council continues to invest in the management and operations of the CWMS assets and meets its regulatory and operational requirements to provide this service to the community in line with the *Water Industry Act 2012* and relevant regulatory oversight bodies such as Essential Services Commission, Environmental Protection Agency, Office of the Technical Regulator and SA Health. In addition, Council over the past 4 – 5 years has increased fees to align with ESCOSA pricing principles requirements and this has resulted in a lowering of the financial risk associated with holding the assets.

The retention of the CWMS Assets will require the on-going position of the CWMS Technical Officer. The provision of this CWMS Technical Officer in the CWMS structure has been a major contributor to the change in effective management of the CWMS in ensuring the on-going improvement in meeting our regulatory and licencing obligations.

RECOMMENDATION

Council resolves:

1. **That the report be received and noted.**

2. **That Council withdraws from the tender process with the consortium of councils thereby determining not to divest its Community Wastewater Management System Assets.**

3. **That Council continues to own, operate and maintain the Community Wastewater Management Systems for the communities of Kersbrook, Birdwood, Mount Torrens, Woodside, Charleston, Verdun and Stirling (Golf Links Road).**

4. **That Council, in deciding to retain the Community Wastewater Management System Assets, acknowledges the on-going review of the operational management of the system and risk profile that may result in changes to Council's future operational management requirements.**

5. **That the Chief Executive Officer writes to the Chief Executive Officers of both the City of Onkaparinga and Rural City of Murray Bridge to formally inform them of Council's decision.**

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1. GOVERNANCE

➢ **Strategic Management Plan/Functional Strategy/Council Policy Alignment**

Strategic Plan 2020-24 – A brighter future

Goal 1	A functional Built Environment
Objective B4	Sustainable management of our built assets ensures a safe, functional and well serviced community
Priority B4.1	Ensure the long term management of the built form and public spaces occurs in consideration of the relevant financial, social and environmental management matters
Goal 3	A prosperous Economy
Objective E2	Provide local infrastructure to drive growth and productivity
Priority E2.4	Manage and maintain Council assets to maximise their utilisation and benefit to the community
Goal 5	A Progressive Organisation
Objective O3	Our organisation is financially sustainable for both current and future generations
Priority O3.2	Ensure that renewal of assets and the associated maintenance is based on current asset management plans which consider reviewed service levels and whole of life costing
Priority O3.4	Assess the range and level of services undertaken to ensure they fulfil Council's legislative and strategic intent

This review of the CWMS assets and the way in which they are managed is in line with Council's obligations to ensure that the resources of Council are being used in the most efficient manner.

➢ **Legal Implications**

Section 48 of the *Local Government Act 1999* refers to prudential requirements for certain projects of significance. Section 48 of the *Local Government Act 1999* requires councils to undertake a Prudential Review before a Council engages in a project that exceeds financial parameters set by the Act. The CWMS Review did not meet the required financial parameters of the Act.

Furthermore, the Act also stipulates where a council considers that it is necessary or appropriate, a report that addresses the prudential issues set out in Section 48(2) can be obtained before the Council engages in that project. The exploration of divestment of

Council's CWMS assets is considered to be a project of significant community importance and therefore a Prudential Review was previously prepared and presented to Council at the meeting on 28 August 2018. Please see ***Appendix 1***.

Probity services have been maintained throughout the CWMS assets divestment project since March 2017 to date, in accordance with further Council resolutions at 26 September 2017 and 19 June 2018 meetings.

Council is required to meet regulatory requirements relating to the operation of its CWMS. These requirements are contained within various pieces of legislation including the *Environment Protection Act 1993*, the *Water Industry Act 2012* and the *South Australian Public Health Act 2011*. A number of government agencies oversee and enforce the CWMS regulatory environment in South Australia, these are:

1. The Essential Services Commission of South Australia
2. The Environment Protection Agency
3. The Officer of the Technical Regulator
4. The Department of Health and Wellbeing

Licencing Requirements and Obligations

Council is a "water entity" within the meaning of the *Water Industry Act 2012,* as it provides a waste water service to its customers who in turn contribute to the ownership and operational costs of the waste water collection, treatment and reuse infrastructure. As a consequence, Council must hold a licence as a recognition of its status as a water industry entity. The licence has extensive implications and obligations associated with it including:

1) Compliance with the *Water Industry Regulations (2012).*
2) Compliance with water and sewerage infrastructure technical standards (as defined by the Office of the Technical Regulator).
3) Participation in price regulation process requiring justification of forecast capital and operating expenditure.
4) Provision of Customer Service Standards.
5) Participation in performance monitoring process for the water industry.
6) Commitment to water conservation measures in line with the principles within the *Water Industry Act 2012 (the Act).*

Ownership and operation of any waste water treatment facility also requires licencing from the EPA including payment of annual fees to ensure currency of licences. Council holds two licences issued by the EPA covering the Birdwood and Kersbrook Waste Water Treatment Facilities. Within the provisions for these licences there are also reporting requirements. This includes ongoing monitoring and sampling of waste water treatment lagoons to reduce the potential for environmental harm.

Conflict of Interest Declaration

In accordance with s120(4) of the *Local Government Act 1999*, the Manager Strategic Assets discloses that he has disclosed a conflict of interest under s120(2) to the Chief Executive Officer (CEO) and that the CEO has authorised the Manager Strategic Assets to continue to act in relation to the matter.

- **Risk Management Implications**

The introduction of the *Water Industry Act 2012 (the Act)* and associated licencing requirements in 2015 placed a greater burden on Council resources due to extensive reporting and technical requirements of holding a water industry licence. At the same time Council was directed by the EPA to enter into Environmental Improvement Programs associated with infrequent lagoon overflow events at the Birdwood and Kersbrook Waste Water Treatment Plants (WWTP). Given that Council is considered a small scale waste water retailer the financial and legal implications of this extra regulation were deemed as a significant enough risk to undertake a review of CWMS operations and ownership.

Non-compliance with any of the required regulatory requirements places Council at risk of receiving significant monetary penalties, potential to cause environmental harm, inability to provide a CWMS service to its community which would result in a significant loss of customer and community confidence. Council has all of its monitoring and reporting processes in place to minimise these risks to a tolerable level.

Divestment of Council's CWMS would transfer the legislative and regulatory obligations and subsequent risks, from Council's continued ownership of CWMS and provision of community sewerage services to another provider. Council would still have a lesser regulatory role in this space to ensure that public health and environmental incidents are managed appropriately and compulsory pump out of septic tanks associated with CWMS infrastructure are managed in a compliant manner under the *SA Public Health Act 2011*. Notwithstanding the ability to transfer these risks via a divestment process, Council also needs to consider the impact of divestment on the system users and the broader community.

However, since the CWMS Review process commenced there has been an increased understanding of the regulatory framework and obligations associated with managing and operating wastewater infrastructure. This, together with the completion of several mitigation actions has decreased the risk of environmental harm and financial penalties from regulatory agencies such as the Essential Services Commission of SA (ESCOSA) and Environmental Protection Authority (EPA), examples include:

- The addition of a CWMS Technical Officer (Contract Position) within the CWMS Structure.
- The engagement of a third party contractor to oversee the management of the WWTP at Birdwood and Kersbrook (which has decreased the EPA reporting and monitoring requirements and helped improve the quality or wastewater irrigation supplied to third party users).
- Development and implementation of a Safety, Reliability, Maintenance and Technical Management Plan.
- CWMS Wastewater Customer Service Charter.
- Close out of the Environmental Improvement Programs for the Kersbrook and Birdwood Wastewater Treatment Facilities.

However, even with the above improvement works undertaken, risks remain with the management and operation of the CWMS assets. The disposal of trade waste into Council's system and subsequently entering the SA Water network for treatment has a high residual risk. Additional discussion on this trade waste issue is included in the analysis section of the report. The other identified risks as contained in ***Appendix 7*** have both medium and low residual risks.

A summary of the relevant CWMS Risk Assessments are attached in ***Appendix 7***.

Whilst considerable work has been undertaken in the divestment component of the CWMS review there is now a need for Council to invest further significant financial and staff resources if it were to progress the tender information such that a Request for Proposal document can be issued to the market.

The withdrawal from the CWMS divestment tender process will assist in mitigating the risk of:

> *Significant funding and resources being used to progress the CWMS divestment process with little or no return on this investment leading to forgoing of these funds for other more beneficial purposes.*

Inherent Risk	Residual Risk	Target Risk
High 2B	Low 1E	Low

➢ **Financial and Resource Implications**

The following table maps the recent operational income and expenditure associated with CWMS assets.

Year	Income	Expenditure (incl Depreciation)	Surplus/ (Deficit)
2016/17	$ 1,351,813	$ 892,158	$ 459, 655
2017/18	$ 1,503,184	$ 971,643	$ 531,541
2018/19	$ 1,670,253	$ 1,044,344	$ 625,909
2019/20	$ 1,816,755	$ 1,009,802	$ 806,953*
2020/21 (proposed)	$ 1,853,590	$ 1,181,873	$ 671,717*

- *Note the delay in septic tank pump out in 2019/20 provide a higher surplus in 2019/20 and lower in 2020/21. The average of $739,335 is a better indicator of on-going surplus levels.*

The surplus that is generated from the CWMS operations has been increased in recent years to align within the lower and upper bounds of the pricing as determined through the ESCOSA pricing principles. This operating surplus ensures that Council has sufficient financial resources to be able to undertake the appropriate level of maintenance and operations and ensure the capacity to renew its assets in line with Asset Management Plans. The pricing model also ensures that consideration is given to the identified LTFP capital investment in the asset and future upgrades to meet regulatory, technical or licence obligations. The surplus recognises a required risk premium associated with CWMS assets in accordance with the ESCOSA pricing principles. The risk premium recognises the value of the capital investment over time and considers the WACC (Weighted Average Cost of Capital).

To date Council has invested (including committed) about $85,000 since 2015/16 on undertaking various investigations including its own Expression of Interest, Financial modelling, probity advice, prudential review and responding to an unsolicited bid. This includes $33,500 as our contribution to the Joint Working Group costs.

Whilst significant advice and information has been sought from various sources to undertake probity advice, prudential reviews, financial modelling, risk assessments, commercial and legal advice; significant work would still be required to undertake detailed vendor due diligence of the CWMS asset before the Request for Proposal can be issued. This work is primarily legal associated with the definition of the asset for sale, land tenure clarification, contract obligation and the development of the tender documentation.

Financial Modelling

A number of financial models have been prepared regarding the valuation of the CWMS assets. These financial models, as with all models, need to make a number of assumptions in determining what a bidder may be willing to pay for these assets. The sale of the CWMS assets are more complicated and complex than the traditional sale process. Many of these assets have been built and developed over many years and tend to involve many assets spread over large distances and traversing many and differing land tenures with various operational and right of use agreements in place. The subsequent structure of any proposed sale transaction by bidders is unknown and adds to the uncertainty of any sale price. This generally results in a wide range of likely sale valuations.

Council originally had a model prepared in 2016. This work was undertaken by BRM Holdich Chartered Accountants. The value of Council's CWMS under a divestment scenario ranged between $2.9 million and $11.3 million. The wide valuation range of the model highlighted the uncertainty regarding the type of buyer and the structure of any sale.

An additional model was undertaken in 2018/19. The 2019 model provided a range of $11.7m and $19.9m and is provided in ***Appendix 2.***

Subsequently, Adelaide Equity Partners (AEP), engaged by the Joint Working Group to provide commercial advice, undertook a discounted cash flow model for all of the assets of the consortium early 2020. The model is very detailed and structures the value of the assets in a manner that the commercial sector would evaluate these type of assets. This model indicated a potential sale price of Council's CWMS assets between $10m and $13million. A brief overview summary of the AEP modelling is provided in ***Appendix 8.***

Officers have subsequently run a net sale proceeds of $13.0m scenario and this results in a reduction of the operation surplus by just over $300k per annum. This scenario includes the removal of all income and expenditure on both the operational and capital programs identified for CWMS in the next 10 years. Note that based on the scenario above a sale price in excess of $20m is likely to be required to deliver a financial break even position for Council.

Any sale will certainly reduce Council's Net Financial Liabilities Ratio. However, in the current low interest rate environment the benefits in interest payment reductions or reduced new borrowing at low interest rate levels requires a very high sale price for Council to end up with a net benefit in its operating position.

Please refer to the summary sheets of the LTFP $13.0m net sale proceed scenario and subsequent Operating Position in LTFP CWMS Divestment Scenario attached in ***Appendix 3.***

<u>Other Financial Implications</u>

Please also note that should Council progress to a sale of the asset, a current CWMS Expansion Investment fund of about $300,000 will need to be returned to the LGA and this will need to show as an expenditure in our accounts for that year.

<u>Financial Costs to Continue of CWMS Tender Divestment Process</u>

Should Council determine to progress with the divestment process, at this point in time, it is not possible to put a fixed cost to the remainder of the project as there are too many uncertainties. The project is complex and requires the assistance of specialised service providers that are skilled and experienced in this area. As each component can be planned and delivered in sufficient detail, the future costs involved become clearer.

Legal and Commercial advisory are now expected to be the main additional assistance required in the development of the initial due diligence and Request for Proposal tender documentation.

As a member of the Joint Working Group, Council share of total costs has been and would continue to be 30% of the total costs of the tender divestment.

An indicative cost estimate of the Adelaide Hills Council share or the professional services required for the remainder of the tender divestment process is provided in the table below. This extends from the current stage (preparation of data for RFP bidders – or vendor due diligence and RFP documentation) through to the negotiation of a transaction and execution of contracts. This should not be taken as a position regarding the potential sale of the assets but rather an overview of cost considerations should the project proceed to a transaction.

Professional Services	Indicative Estimate Adelaide Hills Council Share of Costs	Initial Due Diligence review	RFP Documentation and Approval	Close of Select Tender and Approval to Proceed	Final Negotiation to Close
Legal	$195,000	$75,000	$15,000	$60,000	$45,000
Commercial Advisory	$94,500	$22,500	$12,000	$24,000	$36,000
Commercial Alignment	$22,500	$4,500	$4,500	$4,500	$9,000
Probity	$9,000	$2,250	$2,250	$2,250	$2,250
Owners Engineer	$7,500	$1,500	$0	$3,450	$2,550
Total	$328,500	$105,750	$33,750	$94,200	$94,800

If the next stage of the process was undertaken by Council, that is, the Request for Proposal Stage of the tender process would potentially incur cost up to $140,000 for the 'Initial Due Diligence review' and 'RFP Documentation and Approval' amounts shown above. The initial offers received from the RFP stage of the tender process would be Non-Binding Offers and further due diligence on these offers would be required. The remaining costs in the table above are the likely scale of costs (estimated $189,000) to complete the tender process.

The proposed recommendation is not to continue with the CWMS Divestment tender process and hence these costs would not be incurred should Council resolve that way.

<u>Resources</u>

Currently, the CWMS Technical Officer (Contract Position) is directly funded from the CWMS Operations and a number of other indirect costs are associated with the operation of the CWMS. The operational works undertaken to monitor and maintain pumps and gravity main blockages and the like is coordinated though our Civil Services Coordinator and Supervisors as a component of their broader civil maintenance activities. In addition there are corporate related activities and associated overheads that are required from Finance, Rates and Accounts areas of Council to operate the CWMS. Whilst a sale of the CWMS would reduce the some requirements on these corporate resources the subsequent positions would still be required to be retained by Council.

The retention of the CWMS assets would result in the need to formalise the CWMS Technical Officer as a permanent role in the ongoing management and operations of the CWMS. This position is directly funded from the CWMS fees and charges. The current officer in this role would return to a substantive position in Council if the CWMS were divested.

Also, staff will continue to review the structure of the CWMS regarding the on-going operations and maintenance of the operations. These options will include expansion of the current treatment facility operations and maintenance contract to include the broader CWMS pumps and pipes assets. The review will also include consideration of consolidation of the current in-house operations and maintenance operations and the creation of a dedicated field officer position.

Any changes to the structure and associated costs to ensure the most efficient and effective operations and maintenance of the CWMS assets and service is funded through the CWMS service fee in line with the ESCOSA pricing principles model.

- **Customer Service and Community/Cultural Implications**

The community would continue to have Council as its service provider if the recommendation is adopted.

- **Environmental and Regulatory Implications**

Continued ownership and operation of CWMS networks carries with it legislation and regulatory obligations. These obligations if not well understood can lead to environmental harm and financial penalties if not adequately managed.

Since the CWMS review commenced, Council has undertaken and completed a number of mitigation activities minimising the potential risks for environmental harm and subsequent financial penalties. Examples of these activities include the completion of two Environmental Improvement Programs (EIP), development of a Safety Reliability Maintenance Technical Management Plan, Emergency Response Protocol, Customer Service Charter, CWMS Hardship Policy and CWMS Policy Statement. Council also has a CWMS pricing model template to ensure consistency and compliance with the National Water Initiative Pricing Principles and ESCOSA's Price Determination for Minor to Intermediate Retailers.

There has also been significant investment in capital infrastructure to comply with two Environmental Improvement Programs issued by the Environmental Protection Authority (EPA) for the disposal of treated waste water from the Birdwood and Kersbrook lagoons. This has resulted in a reliable and sustainable water supply to Kersbrook and Birdwood Ovals as well as reducing the need for Council to report annually to the EPA. All groundwater monitoring at these sites has now ceased and the EPA annual licence conditions relaxed as a result. This has reduced the overall CWMS environmental and regulatory risk to Council.

- **Engagement/Consultation conducted in the development of the report**

Significant engagement by Council staff representatives on the Joint Working Group with the City of Onkaparinga, Rural City of Murray Bridge, commercial, probity and legal advisors has been undertaken to fully understand the costs associated with progress to the next phases of a tender process associated with a divestment of this type of public infrastructure.

Consultation on the development of this report was as follows:

Council Committees:	Not Applicable
Council Workshops:	Not Applicable
Advisory Groups:	Not Applicable
Administration:	Chief Executive Officer Director Infrastructure and Operations Director, Corporate Services Manager Finance Services Manager Sustainability, Waste and Emergency Management
External Agencies:	Joint CEO Briefings (City of Onkaparinga, Rural City of Murray Bridge and Adelaide Hills Council)
Community:	Council previously undertook a community consultation on the CWMS Divestment and a copy of the outcomes of that survey previously presented to Council is contained in ***Appendix 4*** for information.

2. BACKGROUND

Council commenced a review of its CWMS operations as a project in 2015 and this included a resolution to undertake an Expression of Interest (EOI) in purchase of the CWMS assets.

In addition to undertaking the EOI there were a number of CWMS regulatory requirements that were addressed. These included:

- The development of a Safety Reliability Maintenance Technical Management Plan.
- Development of a CWMS Customer Service Charter.
- Ongoing annual reporting to ESCOSA.
- Close out of ESCOSA non-conformances.
- Close out of the Birdwood CWMS Treatment Plant Environment Improvement Program.

- EPA approval and implementation (which has since been completed) of an Environment Improvement Program for Kersbrook CWMS.
- Development of CWMS hardship criteria for inclusion in Council's Debt Recovery Policy.
- Increasing the fee structure to align with the requirements of the ESCOSA princing principles. (in the order of 25 – 30%)

It was preferable to address the above regulatory requirements to increase the commercial attractiveness and value of Council's CWMS assets through the EOI process as resolved by Council and in order to facilitate any future proposed changes to CWMS operation and management.

Council subsequently undertook an Expression of Interest between 18 August 2016 and 27 September 2016. The EOI process resulted in several responses being received. None of the responses showed an immediate preference for ownership of Council's CWMS but there was an interest in taking on the maintenance and operation of the assets and service.

During this Expression of Interest process an un-solicited Non-binding Offer was received from a Private Equity Company. That Non-binding offer was assessed and ultimately rejected by Council.

At its meeting held on 26 September 2017, Council resolved that the CEO identify and seek the interest of other Councils in undertaking an open market joint expression of interest (EOI) process for the potential divestment of Council's CWMS assets.

The CEO wrote to a number of Councils late 2017, seeking their interest in collaborating with Adelaide Hills Council for a collective approach to market. Two of these Councils responded with interest and subsequently a Joint Working Group was formed with the City of Onkaparinga (CoO) and the Rural City of Murray Bridge (RCMB).

A joint open market EOI process was undertaken through April – June 2018 by Adelaide Hills Council, CoO and RCMB.

At a Special Council meeting held on 19 June 2018 Council was presented with an overview of the outcomes of the EOI and evaluation process. To inform future decision making in relation to the potential divestment of Council's CWMS, it was recommended that community consultation and an independent Prudential Review consistent with Section 48 of the *Local Government Act 1999,* be conducted. Council resolved to undertake both.

Following the completion of the prudential review and community consultation the following resolution was adopted by Council on the 28 August 2018.

12.7 Community Wastewater Management Systems Review – Update and Consultation Outcomes

Moved Cr John Kemp
S/- Cr Lynton Vonow **203/18**

Council resolves that:

1. **The report be received and noted**
2. **The CEO undertakes a request for tender process for the divestment of Council's CWMS assets to inform Council's decision to sell or retain these assets.**
3. **The resolution to undertake a request for tender process is subject to there being no matters of material impact identified through further due diligence and request for tender preparation activities, as determined by the CEO.**
4. **Subject to Council resolving to proceed to a request for tender for the divestment of Council's CWMS assets, the CEO be delegated to prepare and approve an evaluation plan for the purposes of assessing responses received including but not limited to the following criteria:**
   - **CWMS customer pricing and fees**
   - **Sale price for CWMS assets**
   - **Respondents financial capacity**
   - **Respondents operational capacity and capability**
   - **Network investment and expansion**
5. **That ongoing analysis be undertaken on continued Council ownership of CWMS assets for request for tender comparison purposes to inform future decision making.**
6. **The Prudential Review Report and the Probity Report be received and noted.**
7. **The Council acknowledges that whilst S48 of the Local Government Act 1999 does not require a prudential review to be undertaken, the report in relation to this project is consistent with the provisions of S48.**
8. **The Administration is to continue to work collaboratively with the City of Onkaparinga and Rural City of Murray Bridge for the potential divestment of Council's CWMS.**
9. **That probity advisory services continue to be maintained throughout the CWMS review process.**
10. **That a further report be provided to Council detailing the outcomes of the second stage request for tender and evaluation process with recommended next steps.**

Carried Unanimously

Council has continued to work in collaboration with both the City of Onkaparinga and the Rural City of Murray Bridge as a Joint Working Group (JWG) to develop and progress a staged divestment process.

For a number of reasons, including the complexity of the assets and more recently COVID-19, it has taken some time to determine an appropriate process. After consideration of legislative, policy, public consultation learnings and other findings, it has been determined that the most effective approach to this tender will be to conduct a Request for Proposal (RFP) process. This will follow similar conventions to a Request for Tender (RFT) but will allow the consideration of a broader range of options than seeking tenders for a specific outcome.

The JWG has completed the Registration of Interest stage of the process between September and December 2020 and this report provides details of the outcome of this evaluation.

A hold point now exists in which Council is required to make a decision to proceed or otherwise with the CWMS Divestment tender process of the CWMS Review.

3. ANALYSIS

CWMS Schemes and Assets for Context

Council is wholly responsible for a range of CWMS assets across seven townships. The assets serve approximately 1,850 properties through the townships of Birdwood, Mount Torrens, Kersbrook, Charleston, Verdun, Woodside and Stirling (Golf Links Road).

The assets within each of these CWMS networks varies but typically includes:

- Gravity drains (and associated access chambers, maintenance holes, etc.).
- Pumping stations (and associated mechanical, electrical and controls equipment and instrumentation).
- Pressure mains (and associated air valves, scour valves).
- A sequencing batch reactor wastewater treatment plant (WWTP) in Birdwood.
- A facultative lagoon treatment plant in Kersbrook.
- Discharge points to SA Water-owned wastewater infrastructure (Stirling, Woodside and Verdun).
- Recycled water reuse infrastructure including pumping stations, pressure mains, tanks and irrigation infrastructure.

Generally, Council undertakes all operation and maintenance activities associated with the CWMS assets servicing the customer with the exception of the two treatment plants. For these two assets, Council has an operation and maintenance (O&M) contract with TRILITY Pty Ltd (TRILITY). Under this O&M contract, TRILITY manages the assets, provides operation and maintenance support as required and reports to Council and external regulators on a regular basis allowing required reporting milestones to be achieved.

Tender Progress – Registration of Interest (ROI) Outcomes

An open ROI was implemented through September and October 2020. The opportunity was promoted comprehensively through local, national and international media channels including infrastructure, water industry and investor trade publications. Our commercial advisor, Adelaide Equity Partners (AEP), also contacted parties they had identified as potentially suitable investors to alert them to the ROI. Our probity advisor, David Powell, oversaw the delivery of the process.

ROIs were received from a range of national and international parties and all seven registrants were selected by the evaluation panel as suitable to proceed to a RFP stage. The table below provides a generalised summary of these Registrants. To maintain probity and competitive tension through the process, the identities of Registrants are not able to be disclosed.

Registrant #	Geographic Footprint	General Characteristics
1	Australian	• Water Utility. • Sufficient financial capacity and no identified legal impediments.
2	Australian	• Water Utility. • Financial capacity to be confirmed and no identified legal impediments.
3	Global	• Water Utility. • Existing Australian Presence. • Sufficient financial capacity, no identified legal impediments and FIRB approval TBC.
4	International	• Water Utility operator. • Sufficient financial capacity, no identified legal impediments FIRB approval TBC.
5	International	• Consortium and water utility operator. • Australian operation and maintenance experience. • Strong recognised consortium partners. • Strong financial credentials and no identified legal impediments.
6	International	• Water Utility Operator. • Sufficient financial capacity and no identified legal impediments.
7	International	• Water infrastructure investor. • Sufficient financial capacity and no identified legal impediments.

NB:

- The terms international and global describe companies with a geographic footprint extending to either several or many countries respectively.
- FIRB is the acronym for Foreign Investment Review Board – an arm of the Australian Government.
- Funding arrangements, financial capacity and risk to be investigated in detail in RFP.

The ROIs were evaluated against a pre-approved evaluation plan using the following criteria:

- Declaration that the Registrant has not colluded in preparing the response and has no conflicts of interest.
- Ability to carry on operations (hold a water retail licence) under the Water Industry Act 2012 (SA).
- Capability to operate and maintain water assets of the type included in the project.

- Indicative financial strength. Registrants demonstrated ability to fund current operations and provided evidence including financial statements, credit ratings, parent company guarantees and/or financial institution letter of comfort to support the declarations made.

The ROI process has assembled a strong bidding field and in the opinion of AEP, the Registrants in general have a genuine appetite for a transaction.

Considering Council's CWMS Divestment Evaluation Criteria Requirements

CWMS Customer Pricing and Fees

Any party operating the CWMS business will need to undertake pricing within the ESCOSA requirement of pricing. Council has had its pricing model updated and externally reviewed in the past few years to ensure that Council price setting is in line with the ESCOSA requirements. Council has progressively moved towards the upper bound of price recovery for the CWMS assets and operations in the past several years.

Without understanding the final sale price, the type of financial and cost of that financing, and how the entity may structure its business and how it is operated (individual schemes or consolidated business and operations entity) it is not possible at this time to provide any clarity of customer fees and charges.

However, any entity operating the schemes would be bound by the same regulatory requirements and pricing principles in setting its annual service fees and charges.

A report into the price setting for the 2020/21 financial year is provided in ***Appendix 5***

Sale Price for CWMS Assets

The sale price will be very dependent on the final structure of any proposed transaction. Sale prices could vary greatly as has been shown from the various financial modelling that has been undertaken by various independent parties. The most recent modelling has been undertaken by AEP and based on the current price path and operational costs has identified a potential sale price of between \$10m and \$13m. Certainly, there is a possibility that the market will offer a higher sale price. Whilst a higher sale price may be achieved in general it is considered that a higher sale price may result in potential for higher fees for customers to cover any capital investment.

To provide a higher level of certainty regarding a potential sale price and the CWMS customer pricing and fees, Council would need to undertake the Request for Proposal stage of the tender process and allocate the necessary funding to undertake the required due diligence.

However, the costs to undertake this additional work is considered based on the modelling to date not likely to return a sale price that is high enough to be beneficial to Council from an overall operating position.

Respondents' Financial Capacity

This was a key consideration of the ROI stage of the tender process and as such the registered parties will have the financial capacity to purchase and operate the CWMS schemes.

AEP was engaged to undertake a review of the respondents' financial capacity and the provision of this advice to the JWG evaluation panel.

Respondents' operational capacity and capabilities

It is certainly considered that parties who have registered interest will have the operational capacity and capabilities to manage and operate the CWMS schemes under the *Water Industry Act 2012*.

Network Investment and Expansion

Council has undertaken previous investigations in to the expansion of the network to the townships of Mylor, Summertown/ Uraidla and Houghton/ Inglewood.

It is considered that the majority of the respondents would have the financial capacity to fund or source funding to undertake the expansions to the townships. However, it is not considered that any obligation to service these townships would be accepted in a future sale contract. This issue was originally identified in the Prudential Report.

The total cost to implement the schemes to all these townships is in the order of approximately $19.7m. Council also has the ability to access funding from the Local Government Association to fund 1/3rd of these capital costs. A private operator of the Council CWMS assets will not have access to the LGA subsidy to assist in the delivery of schemes to these towns.

The table below summarises the share of capital costs, assuming that Council receives the LGA subsidy and that all property owners would contribute a capital connection fee of $6,100. Note that the annual operating costs are modelled to be higher than the current CWMS fee of $884 (2020/21). The external report also highlighted that if the schemes were implemented and operated as part of Council's network, upward pressure will result in the annual operating costs. In the event that the CWMS were divested to a private operator the LGA subsidy would not be available to the private operator to assist in the expansion of CWMS to these townships.

Details	Inglewood Houghton	Mylor	Summertown Uraidla
Number of properties	202	85	278
Capital cost $'m	$7.8m	$2.6m	$9.3m
Potential capital income from grants and property owners	$5.7m	$2.0m	$6.7m
Net Capital to be funded by Council	$2.2m	$0.6m	$2.7m
Annual operating cost per property	$1,930	$1,656	$1,448

Attached in ***Appendix 6*** is the report on the potential costs of the schemes and associated on-going fee implications should the schemes be constructed.

Due Diligence

A sale transaction of this nature is very complex from a commercial and legal perspective. These assets are located over a large area and the assets are on or pass through many parcels of land. For example Council has 79km of pipes and assets on or passing through 427 properties. To understand the type of due diligence that is required before going to the market for offers the following key type of information is provided:

- Identification of the assets to be sold and clear definition of all assets for sale.
- The land tenure for all land that is associated with the assets on sale. For example, Community land and what restrictions this may put on the sale.
- Any contracts and obligations to third parties currently in place and the ability for these contracts and obligations to be transferred.

Whilst the vendor due diligence is considered necessary to be able to continue the divestment tender process and request RFP from the industry respondents, some of the due diligence work would be of value for the future management of the scheme by Council.

Current Key Management and Operations Issues

Whilst Council has been undertaking significant ongoing improvements to the manner in which it operates and provides this service to the community there are on-going issues that are still to be progressed.

SA Water Discharge Agreement

SA Water has for a number of years provided South Australian Council's with a service that receives and treats effluent from CWMS into SA Water sewerage network. Historically Council has paid a yearly fee to SA water to accept the effluent which has involved limited monitoring of effluent quality and consequent impact on both Council and SA Infrastructure. As greater awareness of the financial impact of trade waste discharge on critical infrastructure, SA Water has proposed that all CWMS networks serviced by SA Water infrastructure enter into a waste water discharge agreement. The agreement will involve regular monitoring and controls on the type of discharges that enter into the sewerage network.

Initial negotiations and feedback to SA Water has raised concerns regarding the potential costs to Council and CWMS customers from continual monitoring of effluent quality. To mitigate these potential costs Council will be required to adopt a trade waste policy and an increased level of potential enforcement to ensure that the quality of wastewater to the SA Water discharge points meets required trade waste levels.

SA Water has indicated that they will adopt a risk based approach to discharge quality dependant on Council's current trade waste mitigation strategies. Each CWMS scheme will be categorised as low/ medium/ high risk and this could result in $20,000 - $30,000 per annum initially until Council can show management systems are in place to reduce the risk of trade waste entering the stream.

Currently, discharge from the Woodside scheme is causing on-going operational problems at the SA Water Bird in Hand Wastewater Treatment Plant. The considered source of the majority of the issue is from cheese producers that operate in the Industrial precinct of Woodside. They currently discharge whey from their processing into the scheme. These type of operations will not be able to continue to discharge trade waste into the CWMS network. Businesses will need to capture trade waste on site and dispose of this waste at an appropriate facility. Council is progressing enforcement processes with this type of trade waste operations. There is a possibility of legal action associated with any change of conditions for at least one business that will be required to capture trade waste on site and dispose of this waste at an appropriate facility.

As a due diligence example, this type of information would need to be documented and disclosed potentially to bidders.

Further Management and Operations Improvement Investigations

Currently the scheme management requires the pump out of septic tanks and historically this has been undertaken on a four yearly cycle. This is a large annual cost in operating the system. A review to evaluate if longer cycle times between pump outs are feasible is underway.

As part of Council's strategic direction the Birdwood Treatment Plan was identified as a large user of electricity. Council is in the process of installing a ground mounted solar system at the facility and this is anticipated to reduce annual operating costs in the order of $5,500 to $6,000 per annum.

Council is reviewing its current asset management plan and will be seeking to ensure that the whole of life cycle principle is adopted to ensure the lowest costs through the operation, maintenance and renewal of the assets.

4. OPTIONS

Council has the following options:

I. Council can withdraw from the CWMS Divestment tender process and continue to own, operate and maintain these CWMS assets and provide the on-going waste water service to the community. Over the 5 years since the CWMS Review commenced Council has improved in its understanding of the requirements and management of the system and invested in necessary improvements to meet its regulatory requirements. The analysis undertaken indicates that it is unlikely that Council will be any better off from a long term financial perspective through the sale of the CWMS Assets. Therefore, it is recommended that Council withdraw from the divestment tender process and not incur further financial and resource requirements to progress this tender. (Recommended)

II. Council can determine to continue with the divestment tender process and in doing so allocate a minimum of $140,000 to continue with vender due diligence and progress the tender to the Request for Proposal stage. It should be noted that that additional funding will be required following the Non-Binding offers from bidders as part of the Request for Proposal Tender stage. (Not Recommended)

5. APPENDICES

(1) Prudential Report
(2) CWMS Pricing Model
(3) LTFP CWMS Divestment Scenario
(4) 2018 Community Consultation Outcomes
(5) CWMS Divestment Pricing Report 2020/21
(6) CWMS Expansion Review Final Report
(7) WHS Risk Assessment Table
(8) AEP Valuation Summary

Appendix 1

Prudential Report

Potential of CWMS Divestment

Prudential Report for

Adelaide Hills Council

Final
August 2018

Alan Rushbrook

utintja consulting

u.tin.tja - v, to make clear, learn, to understand

Executive Summary

This Prudential Report examines the adverse consequences and potential benefits that may arise from the divestment of Council's Community Waste Water Management Systems (CWMS). Although under no obligation to have a Prudential Report prepared, Council has commissioned the preparation of this report to assist Council when it considers how to proceed with the possible divestment of the CWMS. The report addresses all the prudential topics required under Section 48 of the Local Government Act.

The possible divestment of the CWMS has been considered by Council for a number of years and recently Adelaide Hills Council has participated in an Expression of Interest for the Divestment of their CWMS with the City of Onkaparinga and the Rural City of Murray Bridge. Council is about to consider proceeding to a Request for Tender.

When considering the project it was assessed to not be inconsistent with Council's current Strategic Management Plans nor to be contrary to the objectives of Council's Development Plan.

Whilst constrained by the commercial nature of the project the CWMS customers and community have been informed and given the opportunity to comment on the proposed divestment of the CWMS assets.

A review of the financial risks associated with the sale show that the major uncertainty is the sale price of the CWMS business. Income received from any divestment will increase investment income or reduce Council's finance costs but the value of this will be dependent on the sale price. In addition to this an analysis has shown that without the CWMS the net income to Council will reduce in the order of $669k per year.

In the longer term a low sale price is likely to have an adverse impact on Council's financial position, whilst a high sale price could improve Council's financial capacity. These outcomes are dependent on the sale price received for the business.

The project has a number of other uncertainties, many of which are complex and difficult to assess. One of the highest risks is the possible impact the project might have on the prices for existing customers and on the possibility for future network expansion. Once sold Council is unlikely to have any control over the prices charged to CWMS customers. The prices will be subject to regulatory oversight and the policies of the new owner. The new owner will not be able to access grant funding which Council can currently apply for, but the new owner may have the financial resources to expand the network.

There are a number of contractual issues which, at the present time, represent a risk to Council should the divestment proceed. Also, there is a risk that the benefits deriving from this project may be compromised without ensuring there are clear project outcomes moving forward.

The project has a strong governance structure and suitable resourcing for a project of this scale.

Contents

Introduction

Adelaide Hills Council operates five Community Waste Water Management Systems (CWMS) which collect, transport and treat waste water from properties in seven townships. A total of 1,903 properties are serviced by these schemes. Each of these properties pay an annual fee to fund the operation of the scheme.

In 2016 Council undertook an Expression of Interest (EOI) but that did not reveal interest in the acquisition of Council's CWMS. A short time later Council received an unsolicited bid for the CWMS, which, after consideration, it did not accept.

Since 2017 Council has worked collaboratively with the City of Onkaparinga and the Rural City of Murray Bridge for the potential divestment of Council's CWMS. In 2018 it issued an EOI for the purchase of the CWMS and is currently in process of considering its response.

On 19th June 2018 Council passed the following resolution

"To inform future decision making in relation to divestment of Council's CWMS or otherwise an independent Prudential Review is to be conducted in accordance with Section 48 of the Local Government Act 1999."

This Prudential Review is consistent with the provisions of Section 48 of the LGA. Some of the requirements to Section 48 have little relevance to this project but the headings have been retained for completeness.

This version of the report has been prepared to inform Council on prudential issues as it considers the outcome of the EOI and decides on what course of action it should take in the future. Should Council decide to proceed with a Request for Tender (RFT) it is intended that this report will be updated and presented to Council when it considers the results of the RFT.

Prudential Review Criteria

The purpose of a Prudential Review is to foresee and assess what adverse consequences might arise from a project being contemplated by Council. Section 48 of the Local Government Act describes ten prudential issues which must be considered in a prudential report prepared in accordance to that section. Whilst this project does not meet the criteria included in the Local Government Act for preparation of a Prudential Report, those ten issues are used as a framework for review of the projects.

The remainder of this report addresses each of these issues.

i the relationship between the project and relevant strategic management plans;

This project supports Council's strategic strategy 3.5 which says *"We will take a proactive approach, and a long term view, to infrastructure maintenance and renewal"* by assessing an option for the future management of its CWMS.

The proposed divestment, if it was to occur, would result in Council reducing its involvement in the direct service provision of waste water services, which will presumably allow it to focus resources on the priorities in its strategic plans. No new activities are planned as a result of this project.

The impact on Council's Long Term Financial Plan (LTFP) is discussed in detail later in this report where two potential financial scenarios are reviewed. The least financially favourable scenario sees Council unable to meet its financial targets without other policy interventions for a short period and thereafter meeting its future targets. The more favourable scenario sees Council consistently meeting its financial targets.

The divestment of the CWMS would not be inconsistent with Council's Strategic Management Plans.

ii the objectives of the Development Plan in the area where the project is to occur;

No development is proposed as a result of this project.

The ponds and pump stations are located within the Watershed Primary Production and Township Centre Zone and these activities are consistent with the objectives of those zones.

iii the expected contribution of the project to the economic development of the local area, the impact that the project may have on businesses carried on in the proximity and, if appropriate, how the project should be established in a way that ensures fair competition in the market place;

It is not expected that this project will directly result in any significant changes in the operation of the CWMS. A new owner would continue to provide the same level of service as has been provided in the past and therefore the project is not expected to have an impact on the economic development of the local area, local businesses, nor on competition in the market place.

It is hoped that any new owner will expand the CWMS but if divestment does not take place it would be expected that Council will continue to assess the feasibility of expanding the systems itself. Any expansion would provide economic benefit to the area where the CWMS is installed. It would not have an impact of competition as community waste water systems are monopoly providers, although there would be negative impact on the businesses which supply and maintain the existing onsite waste water systems.

iv the level of consultation with the local community, including contact with persons who may be affected by the project and the representations that have been made by them, and the means by which the community can influence or contribute to the project or its outcomes;

The project plan for this project has identified *"Keeping the project team and identified stakeholders informed will be a critical activity*" and has identified communication strategies for each stakeholder group.

Following the finalisation of the EOI Council has undertaken the following community consultation.

- Posted approximately 2,080 letters to existing CWMS customers seeking their comments on the project
- Posted a further 500 letters to properties within the townships of Mylor, Inglewood/Houghton and Summertown/Uraidla seeking their comments on the project
- Sent letters to recipients of recycled water seeking their comments on the project
- Conducted drop-in information sessions held at Gumeracha, Woodside and Stirling
- Published a public notice in the local newspaper

- Published information regarding the project on Council's website and using Council social media channels
- Feedback sought in writing or through short online survey

In addition a short item has been published in the local newspaper informing residents of the proposal.

This consultation process resulted in 36 survey responses. It is understood that all the responses will be made available to Council when they consider the next steps for this project. There has been a reasonable level of communication with the community regarding the proposed divestment.

v if the project is intended to produce revenue, revenue projections and potential financial risks;

The financial aspects of this proposal are relatively simple. If the divestment were to occur Council would receive money for the CWMS and no longer have the income and expenditure related to the CWMS. As the CWMS is part of Council's existing operations Council knows how much income it receives and the amount of expenditure it spends, or will not have to spend, should it no longer operate a CWMS. The unknown item, and largest financial risk, is how much Council will receive from the divestment of the CWMS.

Sale proceeds

The amount received for the CWMS will be an asset for Council which it can use to further Council's objectives. This amount is unknown.

Legal and professional advice will be required to support the sale process. It is assumed that professional support costs will continue to be shared with the City of Onkaparinga and the Rural City of Murray Bridge. AHC's share has been estimated to be $50k.

Council is yet to decide if land associated with the CWMS will be included in the sale or whether the land will be leased to the new owner. If the land is included in the sale it is unlikely to change the sale proceeds as the land will have little impact on the future cash flows of the business, which is the most probable basis for potential buyers' determining a purchase price. If the land is leased it is assumed the lease fee will be a peppercorn fee. Therefore both options concerning the land, sell or lease, do not appear to have a material financial impact.

Loss of ongoing income and expenditure

After the divestment, assuming Council takes that path, Council will no longer receive income for the CWMS and it will no longer have to pay the direct costs of operating the CWMS.

The following income and expenses would no longer be expected to be earnt or incurred from 2019/20 and onwards.

	$'000
Reduction of Income	$1,632
Reduction of Employee costs	$69
Reduction of Materials and contractual expenses	$596
Reduction of Depreciation expense	$298
Net reduction in income	**$669**

Council's net income, before considering the impact of the sale proceeds, could be expected to reduce by approximately $669k each year if it no longer owned the CWMS.

It has been assumed that Council's overhead costs will not be affected by the divestment of the CWMS and that staff who worked part time on the CWMS will continue to work at AHC. There is a small ongoing saving in call-out costs.

It should be noted that when Council calculates the CWMS charges for its customers it includes, as required by the ESCOSA pricing principles, all the costs attributable to CWMS operations, including indirect labour costs, overheads and cost of capital. These items are appropriate to consider when calculating CWMS fees, but since Council will not be saving the indirect labour costs or overheads, nor will it need to calculate the cost of capital if the CWMS is sold, they have not been used in the assessment of the financial impact of the sale.

Income from proceeds of sale

The Council can expect to receive income from the sale. The cash received can be used by Council in a number of ways: to reduce debt, fund community activities or to invest. For the purposes of the financial modelling it is assumed that the funds will be used to retire any short term debt of Council and any remaining amount invested.

Additional financial impacts

Another impact of the sale of assets would be on Council's Statement of Comprehensive Income. Any sale price less than the written down value of the CWMS would be shown as a loss in the Statement of Comprehensive Income and if the sale price was higher than the written down value of the assets there would be a surplus of disposal. This would be a once off impact on Council's Net Surplus / (Deficit). Following on from the sale there would need to be an adjustment to the Asset Revaluation Reserve to recognise the revaluation increments of the disposed assets.

The Local Government Act also requires that any amounts held in a reserve established to hold amounts received from a Service Charge are to be applied for another revenue from a service charge *"may be applied for another purpose specifically identified in the council's annual business plan"* (*Section 155 (7) Local Government Act, 1999*). AHC has a reserve for this purpose, and as at 30 June 2017 it had a balance of $683k.

This is not a separate source of funds as it is not a cash reserve. Should the divestment proceed Council will need to consider how the balance of this reserve will be applied.

The major financial risk associated with the divestment is the unknown amount that will be received for the CWMS and the consequent impact these funds will have on the Statement of Financial Position and the Statement of Comprehensive Income. All other changes to income and expenditure can be estimated with a high degree of confidence.

The potential financial impacts of Council's LTFP are assessed later in this report.

vi the recurrent and whole-of-life costs associated with the project including any costs arising out of proposed financial arrangements;

There are no financing costs associated with this proposed project.

The financial impacts of the project are discussed in other sections of this report.

vii the financial viability of the project, and the short and longer term estimated net effect of the project on the financial position of the council;

The Adelaide Hills Council maintains a Long Term Financial Plan (LTFP) which it updates each year during the development of their annual budget.

Using the LTFP dated February 2018 Utintja Consulting undertook an independent assessment of the likely impact of the proposed divestment of the CWMS.

Since the sale proceeds are unknown two scenarios were developed. One using a high sale price and another using a low sale price. The high sale price was determined by calculating the net present value of expected cash flows from the CWMS operations over a 20 year period assuming moderate future fee increases. The low sale price was determined by reference to the net present value of expected cash flows assuming low future CWMS fees.

Both of these amounts were calculated without reference or knowledge of the results of submissions Council received during the recent EOI. Since the estimated sale proceeds has been calculated with access to confidential Council information the estimates have not been disclosed in this report. This ensures that no commercially sensitive information is placed in the public domain thereby maintaining the integrity of the divestment process and importantly allowing all of this report to be accessible to the public.

The major assumptions made in the financial calculations are:

- Divestment to take place in June 2019,
- All figures are expressed in nominal terms (i.e. they show the effect of inflation),
- Based upon the latest LTFP of Council, which was published in February 2018,
- All income and expenditure associated with the CWMS removed from the CWMS calculations, with the exception of,
    - $69k in employee costs
    - Overhead allocation will not be saved
- Divestment proceeds used to reduce any short term debt and the rest invested in short term financial instruments,
- No lease fee for land (i.e. it is either included in sale or leased at a peppercorn rate), and
- No allowance has been made for the repayment of seed funding grants received from the Local Government Association of SA.

After updating the LTFP for each of the two scenarios, low sale price and high sale price, these were compared to the adopted LTFP outcomes for each of Council's financial indicators. The outcome of this analysis provides a high level picture of the likely long term impact of the divestment of the CWMS.

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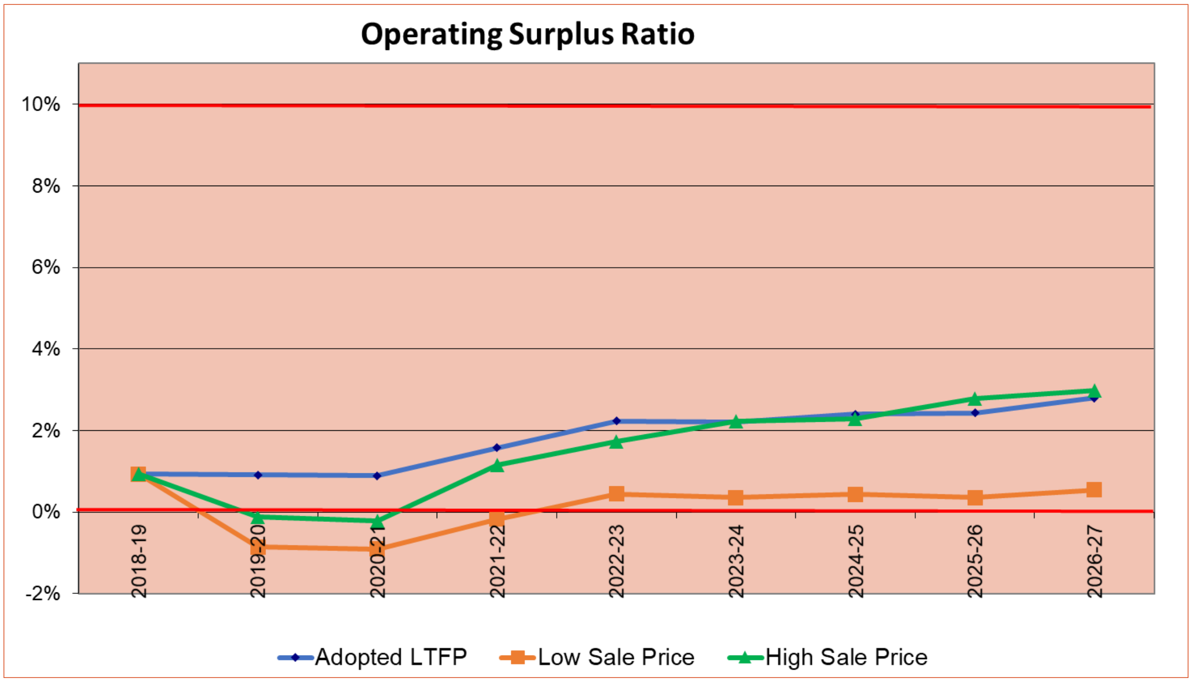
Operating Surplus Ratio

"The operating surplus ratio indicates the extent to which operating revenue is sufficient to meet all operating expenses and whether current rate payers are paying for their consumption of resources.

The Operating Surplus ratio expresses the operating surplus as a percentage of total operating income. A negative ratio indicates the percentage increase in total operating income required to achieve a break-even operating result. A positive ratio indicates the percentage of total rates available to fund capital expenditure over and above the level of depreciation expense without increasing council's level of net financial liabilities.

***Target:** 0–10%"*
(from page 4 of Adelaide Hills Council Long Term Financial Plan, dated February 2018)

The table below illustrates the impact of two divestment scenarios on the Operating Surplus Ratio. The red lines indicate Council's upper and lower target range.



The low sale price scenario sees the operating surplus ratio dip into a negative percentage, indicating an operating deficit, in the first two years, before moving to a small surplus. The gap between the low sale price scenario and the adopted LTFP continues to widen over the period of the model indicating that Council would be in a less financially sustainable position in this scenario compared to retaining the CWMS. However, the low price scenario is largely within Council's target, albeit at the low end of the target range.

The high sale price scenario achieves an outcome over the longer term similar to the adopted LTFP. The ongoing loss of income resulting from the divestment of the CWMS is compensated for by the reduction in borrowing costs and / or increase in investment income achieved from the sale proceeds. This scenario, after two years, is within Council's target range.

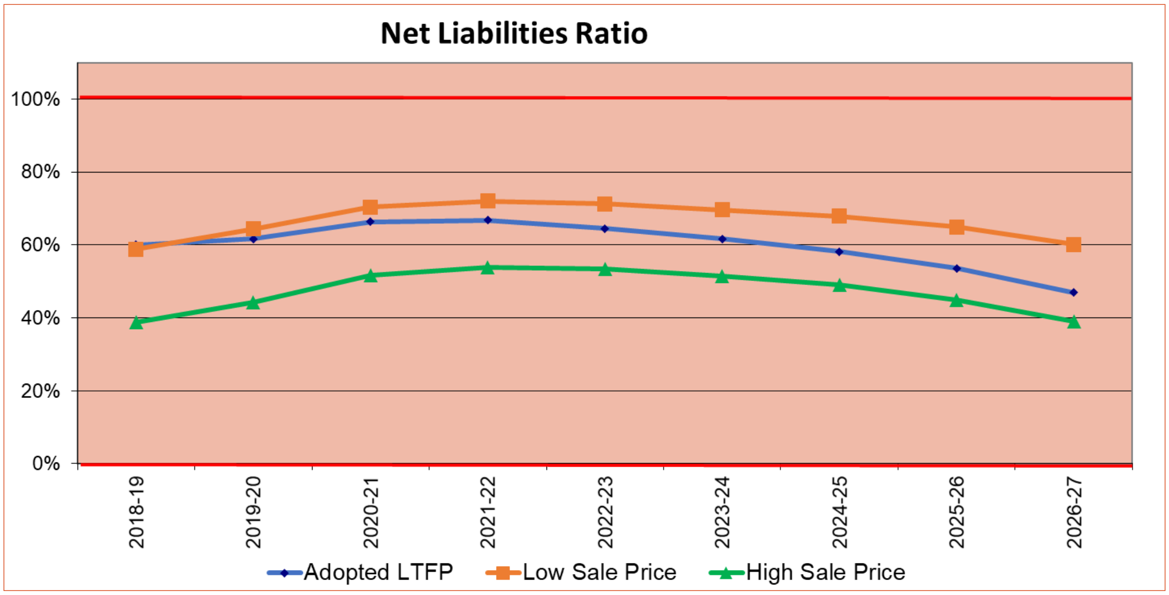
Net Financial Liabilities Ratio

"Net Financial Liabilities is an indicator of the Council's total indebtedness and includes all of a council's obligations including provisions for employee entitlements and creditors.

This ratio indicates the extent to which the net financial liabilities of the Council can be met by the Council's total operating revenue. Where the ratio is falling, it indicates that the Council's capacity to meet its financial obligations from operating revenues is strengthening. Where the ratio is increasing, it indicates that a greater amount of Council's operating revenues is required to service its financial obligations.

***Target:** 0–100%"*
(from page 4 of Adelaide Hills Council Long Term Financial Plan, dated February 2018)

The table below illustrates the impact of two sale scenarios on the Net financial Liabilities Ratio. The red line indicates Council's upper target for this performance indicator.



As would be expected a high sale price reduces the Net Financial Liabilities ratio indicating an increase in Council's financial capacity when compared to the adopted LTFP. The low sale price scenario shows that Council's financial capacity will be less than if the CWMS continued to be operated by Council. In both scenarios the Net Financial liabilities ratio is within Council's target range.

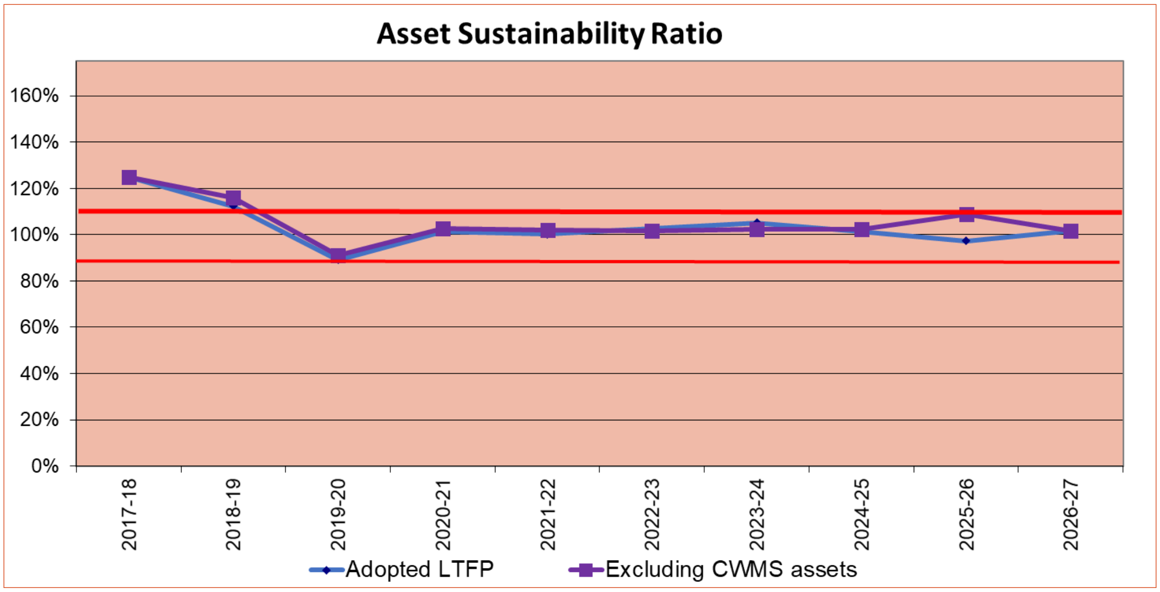
The low sale price scenario would impact on Council's ability to fund additional capital projects though borrowing whilst the high sale price would enhance Council's ability to undertake additional capital expenditure for the benefit of the community.

Asset Sustainability Ratio

"This ratio indicates whether a Council is renewing or replacing existing infrastructure assets at the same rate that its asset management plan requires.
The target for this ratio is to be between 90% and 110% in any given year, with 100% on average over five years. This would mean that Council is replacing 100% (or all) of the assets that require renewal.

***Target:** 90–110%"*
(from page 5 of Adelaide Hills Council Long Term Financial Plan, dated February 2018)

The table below illustrates the impact of a sale on the Asset Sustainability Ratio. There is no difference between the impact of the low or high sale price scenarios on the Asset Sustainability Ratio. The red lines indicate Council's upper and lower target range.



The sale of the CWMS would not have a significant impact on the Asset Sustainability Ratio as can be seen from the lack of divergence between the two lines on the graph above.

This brief analysis demonstrates the potential impact of the divestment on Council's financial position. A low sale price will limit Council's financial capacity to reduce its level of financial sustainability. A high sale price would enhance Council's financial capacity. Nothing in this analysis would indicate that either scenario was not financially manageable by Council.

The amount Council receives for the CWMS will impact on Council's financial position.

It should be noted that this analysis does not include an analysis on the possible financial impact on CWMS customers resulting from the divestment of the CWMS. This is relevant as there is likely to be an inverse relationship between the proceeds offered to Council and the level of future fees. It is not unreasonable to assume that a third party who offers a high sale price bid would be expecting to recover their acquisition costs through higher fees, all other things being equal. The converse is that a lower acquisition price means that the purchaser has less pressure on customer charges to recover their investment. This is discussed later in the report, but essentially there could be a trade-off between the proceeds received by Council and the fees paid by customers.

The proposed divestment, depending on the sale price received, could have a material impact on Council's financial position and impact on its financial capacity.

viii any risks associated with the project, and the steps that can be taken to manage, reduce or eliminate those risks (including the provision of periodic reports to the chief executive officer and to the council);

The structure of Council with its supporting legislation, organisational structures, delegations, professional staff, reporting processes and mature systems provide a strong control environment for any well-defined project, such as the one under consideration.

Added to the strong control environment are the project governance structures that have been established for this project which provides an added layer of assurance and management of the risks associated with this project.

No project is without risks and Utintja Consulting has identified the following major risks associated with the divestment project.

Adverse community, political and media attention (AA)

The selling of an asset held by public authorities can be the source of significant public concern. Misgivings could emanate from a philosophical position about the sale of publicly owned assets through to specific concerns about how they might be personally impacted.

This proposed divestment is unusual in that there is no known precedent of a South Australian Council selling its CWMS to another party, although it is understood that one other South Australian Council is considering a divestment of its CWMS. Because it is unique, it is difficult to both learn from and point to the experience of others who have walked this path previously.

Much of the public concern relates to the loss of control that customers feel they will experience if they have another provider of their waste water system. Presently they may feel they have more influence, both at an individual level and at a collective level, on the local council if the service they receive is not up to the standard they expect. They probably feel that they have elected representatives they can contact, they know that they can comment on proposed fees and have access to officers in their locality. None of these options to influence may be available if another provider operates the CWMS scheme. This may lead to a sense of disempowerment and loss of control which may be expressed though action.

With Council about to enter an election period there is a risk that this issue could become an election issue.

Council has been active in ensuring that the public is informed about Council's process and have been able to participate in a community consultation process. It has conducted public information sessions to provide information on the divestment process.

The risk is not that there will be public discussion about the project, the risk is that there might be ill-informed discussion which could result in unnecessary community concern about the process which could reflect poorly on Council and hinder objective decision making.

The level of response to the recent community consultation indicates that there is not a high level of community concern about this project. The majority of the small number who responded were opposed to the potential divestment and there were a few who would be supportive of Council's decision.

With proactive communications this risk should be able to be well managed. This is assessed as a **low** risk for Council.

Does not achieve outcomes for customer (CO)

Through this project Council is wishing to see if it can reduce the risk inherent in owning and operating a CWMS and obtain a financial benefit which it can use to improve community outcomes in the future. It also does not want to see its current customers disadvantaged in terms of the service they receive and the price they pay.

At the present time Council is responsible for the operations of the CWMS. It is a regulated operation in which Council must meet a range of operational and administrative guidelines. If it is negligent in its conduct Council could be liable to fines or charges, be required to make good any damage or service shortcomings and may face potential legal liability. Council takes reasonable precautions to not only ensure that it carries out its activities with due diligence, it also insures itself against a range of risks which could emanate from risks associated with operation the CWMS.

The Council would want to satisfy itself that any future operator is able to successfully hold a licence to operate a CWMS. Similarly, it would be seeking a commitment regarding the future fees it would expect to charge customers.

The operation of the CWMS are well regulated, with strict environmental, health and operational controls in place. There is an active system independent of Council of reporting faults and ensuring they are rectified. There is also a regulatory system which ensures that pricing is controlled.

In the absence of any attempts to provide contractual assurance regarding future fees and or operations, any future operator would be free to act as they wish as long as they meet their licence conditions. Once Council was to divest itself of the CWMS it would lose operational and financial control of the scheme.

The risk of the new operators not operating the scheme to a high standard is relatively low, given the due diligence checks that Council would include in the RFT process and the regulatory and licencing framework which exists.

The regulatory pricing controls will put a cap on future prices. The new operator would need to comply with the National Water Initiative Pricing Principles and only pass on "efficient" costs to customers and only charge a rate of return calculated according to well documented principles. There is uncertainty how a new owner would apply past credits for contributed assets.

Currently Council only charges a relatively low rate of return in calculating its CWMS prices and it is possible a new owner may have higher debt or equity costs, which would result in a higher cost structure which would be recovered through customer fees. Conversely, a large organisation which already services a large number of other customers may be able to spread its operating costs over its entire network in a way which may benefit prices charged to local customers. The pricing variables are almost endless. A new owner may not adopt network pricing and charge each scheme a different price depending on the cost of running each scheme. They may not use the Property Units code but rather property valuations as a basis for levying fees. Any of these decisions could result in higher or lower prices for particular properties.

In summary, it is likely that Council can ensure that through a rigorous divestment process, the risk of a poor operator and inadequate service to customers is low. Whilst Council will not have control over any future operators it can rely on the comprehensive regulatory environment in which the CWMS operates. However, there is a risk, which is difficult to manage, with respect to future prices customers may have to pay. Whilst Council charges its CWMS customers close to what is referred to as upper bound revenue, other operators will have different internal policies for calculating upper bound revenue which are likely to result in prices different to those charged currently by Council.

Being able to manage this risk is difficult. Council could assess the current polices and prices charged by future RFT respondents or it could offer financial incentives to maintain reasonable prices, or it could simply rely on the application of the regulated pricing principles.

This remains a **high** risk in the divestment process.

Contractual Risks (C)

The sale of an operating business is a complex undertaking.

Council has a number of contracts with third parties for the supply of water from the CMWS which do not have assignment clauses. This creates a risk for any new owner and a possibly a residual risk for Council. Should the current arrangement not be able to be continued, there is a risk of a legal challenge to a sale contract or other loss that might eventuate as a result of this uncertainty.

At the present time Council has not decided on whether it will offer the land on which the CWMS are located as part of the divestment. The two straight forward options are to lease the land to the new operator or include the land in the sale. Since the land on which the CWMS are located is designated community land, Council must go through a revocation of community land process before it can dispose of the land. The revocation process includes a community consultation process, consideration by

Council and then the approval by the Minister of Local Government. This is a complex process, which, by its very nature, the outcome of which cannot be guaranteed and therefore provides a very real risk to the divestment process.

Council has the option of leasing the land if it was not possible, or not desired, and sell the plant and equipment of that land.

Whilst they can be managed, at the current time the contractual risks associated with the divestment are assessed to be **medium**.

Consideration should be given to clarifying these issues prior to proceeding to the RFT.

Development of future areas (FD)

It is reported that due to the high number of failing private waste water systems and community demand, Council would like to see new schemes constructed in Mylor, Houghton / Inglewood, Summertown / Uraidla where no CWMS currently exist.

Should Council divest themselves of the CWMS operations they would expect the new owner to take responsibility for the development of the new schemes. Once Council no longer manages CWMS schemes it would be expected the Council would quickly, and quite reasonably, lose its current expertise in managing and operating CWMS schemes. This would then make the previous model of Council constructing and operating a CWMS less feasible.

Therefore, following divestment of the CWMS, any new scheme would need to be constructed by the new operator. A new operator may be asked to provide assurances on developing waste water systems in new areas and be asked to demonstrate their financial ability to fund the investment required, but it is unlikely that they would be willing to be contractually bound to such an undertaking. They would, presumably, make an independent judgement of the feasibility on developing new parts of the network.

Council has been able to develop new schemes in the past with the assistance of State Government funding made available through the Local Government Association. The current funding deed does not make allowance for grants to be paid from this funding source to bodies other than local government bodies. Unless there is a change to the funding deed it appears that a valuable source of grant funding will not be available to operators who are not local governments. This may have the effect of either making the schemes less viable at reasonable fees or requiring high customer fees to recover the capital costs.

In the absence of any compensating facts, the removal of access to State Government CWMS funding results in a risk for the future development of additional CWMS schemes. This risk might be able to be mitigated in a sale agreement but that would require careful consideration.

The Council has received past funding for the development of plans for new CWMS schemes, totalling in the vicinity of $350k. The usual condition of these grants is that they are to be repaid unless the proposed schemes proceeds, or it is not viable to proceed.

Assuming it is the desire of Council to see these other towns provided access to a CMWS this is a **high** risk which would benefit from further investigation prior to proceeding with the RFT.

Failure of private company (F)

If Council were to divest the operations of the CWMS to a private company there is a risk that company may, for whatever reason, experience difficulties which may result in it being unable to fulfil their licence requirements. If this were to occur the Water Act 2012 makes it clear that the Essential Service Commission of SA (ESCOSA) would be responsible for arranging for an operator to maintain the system. In the case of failure by a private operator it would not be Council's responsibility to rectify any problems caused by the operator.

This is assessed to be a **low** risk.

Clarity of project objectives (PO)

For Council to ensure maximum benefit is achieved out of the current divestment process it is important that they have clear objectives and priorities for the sale. Without clarity of purpose a sub optimal outcome may result.

Considerable time has elapsed since this project commenced. When the first EOI was undertaken the waste water industry was in a period of transition with the recent introduction of the Water Act, the consequent introduction of licencing and pricing principles as well a steadily increasing environmental expectations. Over this period Council has been able to respond to the changing regulatory environment and in doing so has probably reduced the level of risk previously associated with the operation of the CWMS.

Also, there remains an opportunity for Council should it retain the CMWS to assess how it can improve its own management of the CWMS, and this could include consideration of service reviews, outsourcing maintenance and / or management.

Council should be aware of the risks and benefits that arise from continued ownership as without this the information the option of continuing to own the CWMS cannot be compared to any offer to purchase the CWMS.

Similarly it is important that Council be confident on the priority of other project goals, whether they be network expansion, customer pricing, maintenance of the network, financial outcomes for Council etc. At the present time there does not appear to be clarity on the outcomes being sought by this project.

It is understood that Council will have the opportunity to discuss the divestment at an elected members workshop and later at a council meeting. Consideration should be given to determining an objective set of minimum standards required to be achieved by a successful tenderer and what outcomes, and their priority, are important for Council to achieve from this project. This would go some way to ensuring an acceptable and measurable outcome for the Council and the community is achieved.

This issue, as it currently stands, is assessed as a **medium** risk.

Assessment of Risks

The table below is a summary of the major project risk identified.

Consequence → / ↓ Likelihood	Insignificant	Minor	Moderate	Major	Catastrophic
Almost Certain					
Likely		CO		FD	
Possible			PO, C		
Unlikely	F	AA			
Rare					

Key to Risk rating

Low risk	Medium risk	High risk	Extreme risk

The risks with the rating of High Risk both relate to customer outcomes, be it pricing or expansion of the network. It is important that consideration be given to the management of these risks if the divestment process is to move forward.

ix the most appropriate mechanisms or arrangements for carrying out the project;

The project has a strong governance structure in place which adds to the existing organisational controls. Working with two other Councils, Adelaide Hills Council staff have been able to share the expertise and costs during this project. The Joint Working Group is a non-binding group which facilitates joint divestment strategy of each council. The group has provided strong project governance with a well-documented structure, good records and strong commitment to the group activities. The Joint Working Group is an effective way to share resources and expertise across the three Councils.

Internally there is a structured approach to ensuring the internal processes are progressed with a structured Project Management Team, made up of appropriate personnel and adequately resourced with internal and external resources.

The project governance arrangements described above are suitable for a project of this type.

x if the project involves the sale or disposition of land, the valuation of the land by a qualified valuer under the Land Valuers Act 1994.

It has yet to be confirmed if land will be sold as part of the CWMS divestment

Council receives annual valuations from the Valuer General, who by definition of the office in the Valuation of Land Act 1971, is a licensed valuer under the Land Valuers Act 1994. The most recent valuation valued the land on which CWMS are located at a value of $704k.

Whilst this section refers to the disposition of land, it is worthwhile noting the Adelaide Hills Council has sought and received a commercial valuation on the CWMS. Given the nature of the project, and the fact that the land is an integral part of the CWMS system there is no reason to justify a separate commercial valuation of the subject land.

About Utintja Consulting

Utintja Consulting is a South Australian consulting firm which specialises in providing financial governance services to local government. The owner, and author of this report, is Alan Rushbrook.

Alan Rushbrook is a Fellow of CPA Australia and has over 25 years local government experience. He has worked for four South Australian councils and during his 10 years working as a consultant he has provided services to most Councils in South Australia, the SA Local Government Financial Management Group, Local Government Association SA, and the Office of State / Local Government Relations. Alan currently provides services to clients throughout Australia.

Appendix 2

CWMS Pricing Model

Adelaide Hills Council

Community Wastewater Management Scheme Valuation Report

utintja - v, to make clear, learn, to understand

Alan Rushbrook
Utintja Consulting
4th October 2019

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Contents

Introduction

Utintja Consulting Alan Rushbrook was appointed to prepare financial models, undertake scenario modelling and produce a valuation for the Adelaide Hills Council (AHC) Community Wastewater Management System (CWMS). The modelling was required to support Council and Council staff during the assessment of responses to a proposed Request for Tender for the divestment of the CWMS.

The project has several components. The first is a valuation component and the second a scenario modelling component.

This report addresses the first component of the project. A separate report has been provided to summarise the results of the scenario modelling.

Project Scope

The financial model assumes a business-as-usual model and calculates the value of the business over a period of 50 years.

To provide a meaningful valuation, two models have been developed, both using the same data and assumptions. One is Earnings Before Income Tax and Amortisation (EBITA), and the other is a Discounted Cash Flow (DCF) of operations. Considering the length of the life of the CWMS assets and the stable operating environment, an appropriate period to assess the value of the business was agreed to be between 20 and 40 years. Accordingly, four valuation figures have been provided, giving a range for the value of the CWMS business.

A significant output of the project is a spreadsheet which documents the calculation of the valuation and can be readily adjusted to reflect different assumptions.

Initially, the model was to produce financial information for each of the primary networks, but this was not able to be achieved due to the lack of granularity of the source data.

A collaborative approach between the consultant and staff of the AHC was employed, which ensured there was a clear understanding of the business, the valuation philosophy and agreement on the inputs to the model.

Modelling Assumptions

General

- Modelling is in nominal dollars, with estimates adjusted by inflation. The indices applied were those used in AHC's Long Term Financial Plan (LTFP).
- Base income and expenditure derived from AHC's draft 2019/20 budget.
- Service Fees were calculated to be the maximum allowable under the Essential Services Commission of SA (ESCOSA) guidelines. The service charges comply with ESCOSA regulations. See discussion on this topic later in the report.
- No increase in the number of connections and no expansion of the network.
- Capital renewal expenditure estimated using indexed replacement cost of assets at their anticipated end of life. 2017 asset data used.
- No capital expenditure for new or upgraded assets has been included in the model.
- Depreciation expense obtained from 2017 asset data listing and adjusted for changes in the replacement value of assets and asset movements.
- In the calculation of the service charge, depreciation expense reduced by the depreciation attributable to contributed assets. Similarly, in the calculation of the cost of capital, the value of contributed assets is deducted from the total value of CWMS assets.
- Assumes all funds earnt are available for later use.

Economic assumptions

- CPI – 1.8% in 2020 increasing to 2.5% in 2024 and the same after that.
- Employee costs increased by 2.7% per annum.

Valuation

- Only efficient costs included in the model. Council staff reviewed expenses and if necessary, adjusted them.
- Only avoidable costs included in the calculation of EBITA. Avoidable costs are those costs which will not continue to be incurred five years after the divestment of the business. Indirect salaries are not avoidable and like Corporate Overheads are expected to be incurred past five years.
- A real weighted average cost of capital was calculated and used as the discount rate in the model. The value calculated is 4.21%. While the discount rate used did not change the Weighted Average Cost of Capital varied according to changes in the economic assumptions in the model.

- No calculation of notional interest on the balance of funds earned by the CWMS was included in the model.
- A Corporate Overhead rate of 19% was applied to all operating expenses, excluding depreciation and finance charges.

Valuation

After applying the assumptions to the base data, the following valuation was calculated.

	20 years	40 years
Discounted Cash Flows	$11,732,650	$19,911,486
Earnings Before Interest, Tax and Amortisation	$12,302,033	$19,273,896

The spreadsheet version of this valuation is v0.5.

Earnings Before Interest, Tax and Amortisation (EBITA) – measures the earnings of the business over a set period and discounts the earnings by the discount rate.

Discounted Cash Flows (DCF) – measures the net cash flows of the business over a set period and discounts the cash flows by the discount rate.

Depreciation expense is included in the calculation of EBITA whilst DCF does not include depreciation expense but does include capital expenditure. If capital expenditure is more than depreciation expense over the period DCF would be lower than EBITA.

The EBITA and DCF methodologies are widely accepted methods of valuing an investment or a business. They assume the value of a business is the sum of future cash it generates, in the case of DCF, or of its future earnings, in the case of EBITA. The net cashflows, or earnings, are adjusted by a discount rate, which reflects the time value of money and risk.

The EBITA and DCF is an estimate of the commercial value of a business to the Adelaide Hills Council.

The spreadsheets used to calculate these values have been delivered to AHC.

Observations

Over the past three years, AHC has been phasing in the levying of the maximum level of CWMS fees as allowed, and expected, under the ESCOSA regulations. This model assumes that the highest permissible fee, given Council's cost structure, is charged to property owners. Applying the maximum fee provides an estimate of the maximum value of the business. Any future operator can choose to charge this rate or a lower rate, as long as they comply with the ESCOSA pricing regulations.

Using Council's asset data to estimate future capital expenditure requirements, it appears that the CWMS operations, based on the assumptions contained in this report, will be able to fully fund future capital renewal.

The accompanying report provides further analysis of ongoing CWMS operations.

Project Qualifiers

Alan Rushbrook is not a licensed valuer. He has undertaken the project consistent with the direction of GN 20 Scope and Extent of Work for Valuation Services (issued by the Australian Professional & Ethical Standards Board Limited). When developing the valuation models required by the project brief, Utintja Consulting has used the perpetual growth approach to the calculation as he is not able to provide a multiple EBITA figure. This is an acceptable approach. The project is assessed to be a Limited Scope Valuation Engagement due to the limited use external evidence (e.g. multiple EBITA) and the active participation of AHC staff in the development of the valuation principles and the provision of financial data used in the models.

Utintja Consulting has not expressed an opinion on the veracity, accuracy or appropriateness of the information provided by the Council, or other parties, that has been used in the valuation model.

This report is for internal Council use only.

Appendix 3

LTFP CWMS Divestment Scenario

Adelaide Hills Council
10 Year Financial Plan for the Years ending 30 June 2030
SCENARIOS - GENERAL FUND
Scenario: CWMS Divestment

New Scenario (After): CWMS Divestment
Old Scenario (Before): 2020-21 LTFP in accord with 2020-21 Adopted Budget

Headline Figure / KPI	Scenario	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
Rates	After	38,674,795	40,180,371	39,935,916	41,522,144	42,830,682	44,059,204	45,323,265	46,623,894	47,962,150	49,339,121	50,755,927
	Before	38,674,795	40,180,371	41,745,332	43,372,272	44,725,213	45,999,204	47,309,825	48,658,131	50,045,209	51,472,173	52,940,172
Statutory Charges	After	1,143,300	1,173,350	1,199,751	1,226,745	1,256,187	1,286,336	1,317,208	1,348,820	1,381,191	1,414,340	1,448,284
	Before	1,143,300	1,173,350	1,199,751	1,226,745	1,256,187	1,286,336	1,317,208	1,348,820	1,381,191	1,414,340	1,448,284
User Charges	After	620,657	743,863	1,007,534	1,033,220	1,088,061	1,114,166	1,140,897	1,168,270	1,196,299	1,225,001	1,254,777
	Before	620,657	743,863	1,007,534	1,033,220	1,088,061	1,114,166	1,140,897	1,168,270	1,196,299	1,225,001	1,254,777
Investment Income	After	41,500	26,800	26,800	26,800	26,800	26,800	26,800	26,800	26,800	26,800	26,800
	Before	41,500	26,800	26,800	26,800	26,800	26,800	26,800	26,800	26,800	26,800	26,800
Grants, Subsidies and Contributions	After	6,754,740	4,762,500	3,826,305	3,896,658	3,973,390	4,068,751	4,166,401	4,266,394	4,368,787	4,473,638	4,581,005
	Before	6,754,740	4,762,500	3,851,868	3,922,797	4,000,156	4,096,160	4,194,468	4,295,135	4,398,218	4,503,776	4,611,867
Reimbursements	After	212,000	232,600	237,834	243,185	249,021	254,998	261,118	267,385	273,802	280,373	287,102
	Before	212,000	232,600	237,834	243,185	249,021	254,998	261,118	267,385	273,802	280,373	287,102
Other Income	After	452,715	222,690	227,701	232,824	238,412	244,134	249,993	255,993	262,137	268,428	274,870
	Before	452,715	222,690	227,701	232,824	238,412	244,134	249,993	255,993	262,137	268,428	274,870
Total Income	After	47,999,707	47,442,174	46,561,841	48,281,576	49,762,553	51,154,389	52,585,682	54,057,556	55,571,166	57,127,701	58,728,765
	Before	47,999,707	47,442,174	48,396,820	50,157,843	51,683,850	53,121,798	54,600,309	56,120,534	57,683,656	59,290,891	60,943,872
Employee Costs	After	17,341,691	18,086,572	18,047,115	18,502,962	19,059,873	19,661,678	20,281,921	20,921,161	21,485,203	22,064,401	22,659,166
	Before	17,341,691	18,086,572	18,145,522	18,604,454	19,164,544	19,769,625	20,393,244	21,035,965	21,603,108	22,185,489	22,783,524
Finance Costs	After	603,601	735,839	353,982	288,753	413,323	460,258	473,155	470,746	487,568	499,577	505,461
	Before	603,582	735,635	610,416	668,689	788,175	834,415	834,056	860,297	863,217	868,856	899,092
Materials, Contracts & Other Expenses	After	21,122,306	19,492,365	18,976,477	19,861,092	20,190,160	20,768,689	21,324,806	21,783,094	22,376,725	22,894,069	23,425,362
	Before	21,122,306	19,492,365	19,582,746	20,490,922	20,845,660	21,439,416	22,018,728	22,492,571	23,107,927	23,643,571	24,193,550
Depreciation, Amortisation & Impairment	After	8,945,000	9,236,741	9,348,237	9,623,543	9,986,708	10,255,269	10,527,055	10,804,788	11,088,616	11,591,812	11,889,306
	Before	8,945,000	9,236,741	9,770,843	10,066,048	10,450,577	10,730,687	11,021,810	11,311,701	11,613,430	12,131,295	12,443,792
Total Expenses	After	48,012,598	47,551,517	46,725,810	48,276,349	49,650,065	51,145,894	52,606,937	53,979,789	55,438,112	57,049,858	58,479,294
	Before	48,012,579	47,551,312	48,109,526	49,830,113	51,248,957	52,774,143	54,267,838	55,700,533	57,187,684	58,829,212	60,319,957
Operating Surplus / (Deficit)	After	(12,891)	(109,343)	(163,969)	5,227	112,488	8,495	(21,255)	77,766	133,053	77,843	249,471
	Before	(12,872)	(109,138)	287,294	327,730	434,893	347,655	332,472	420,001	495,972	461,680	623,915
Net Surplus / (Deficit)	After	946,109	475,047	(63,969)	105,227	112,488	8,495	(21,255)	77,766	133,053	77,843	249,471
	Before	946,128	475,252	387,294	427,730	434,893	347,655	332,472	420,001	495,972	461,680	623,915
Sale Proceeds from I,PP&E	After	710,000	2,068,000	14,523,000	651,000	574,000	657,000	500,000	698,000	662,000	748,000	587,000
	Before	710,000	2,068,000	1,523,000	651,000	574,000	657,000	500,000	698,000	662,000	748,000	587,000
New Loan Borrowings	After	3,000,000	-	-	3,800,000	1,400,000	7,000,000	1,000,000	1,600,000	1,500,000	1,500,000	1,500,000
	Before	3,000,000	10,800,000	3,300,000	4,800,000	2,500,000	7,900,000	3,000,000	2,600,000	2,800,000	3,500,000	2,900,000
Cash Purchases of I,PP&E	After	10,401,125	9,702,000	9,955,000	10,399,000	10,457,000	11,200,000	10,715,000	10,700,000	10,924,000	11,785,000	11,188,000
	Before	10,401,125	9,702,000	10,007,000	10,443,000	11,039,000	11,200,000	11,106,000	10,783,000	11,124,000	12,036,000	11,373,000
Loan Repayments	After	62,000	5,271,334	277,336	283,471	613,200	5,748,804	1,353,592	1,482,824	1,665,033	1,845,512	2,032,607
	Before	62,000	5,271,334	1,218,449	1,531,878	1,984,462	7,254,481	2,980,755	3,325,440	3,648,653	3,998,911	4,417,262

Adelaide Hills Council
10 Year Financial Plan for the Years ending 30 June 2030
SCENARIOS - GENERAL FUND
Scenario: CWMS Divestment

New Scenario (After): CWMS Divestment
Old Scenario (Before): 2020-21 LTFP in accord with 2020-21 Adopted Budget

Headline Figure / KPI	Scenario	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
Current Assets	After	3,269,628	3,021,801	3,140,441	3,229,916	3,306,767	3,382,282	3,459,431	3,537,423	3,618,921	3,701,609	3,786,644
	Before	3,267,290	3,022,983	3,217,262	3,308,575	3,387,432	3,464,876	3,544,087	3,624,099	3,707,728	3,784,827	3,872,489
Current Liabilities	After	13,315,860	18,761,573	8,526,565	8,865,136	14,029,822	9,545,004	10,572,679	10,525,361	10,684,678	11,361,117	10,996,314
	Before	13,313,503	8,903,645	9,380,815	9,911,475	15,279,571	11,109,267	11,524,137	11,986,313	12,413,428	12,905,021	13,097,101
Net Current Assets	After	(10,046,232)	(15,739,772)	(5,386,124)	(5,635,220)	(10,723,055)	(6,162,723)	(7,113,247)	(6,987,938)	(7,065,758)	(7,659,508)	(7,209,670)
	Before	(10,046,213)	(5,880,662)	(6,163,552)	(6,602,900)	(11,892,139)	(7,644,391)	(7,980,050)	(8,362,214)	(8,705,701)	(9,120,194)	(9,224,612)
Non-current Assets	After	437,422,475	446,961,649	441,483,413	450,375,870	456,717,162	463,439,893	469,662,838	475,475,050	481,418,433	487,793,622	493,595,316
	Before	437,422,475	446,961,649	454,622,807	463,656,759	470,116,182	476,763,495	482,882,685	488,560,984	494,279,554	500,474,668	506,026,159
Non-current Liabilities	After	9,818,134	8,063,721	7,753,102	10,911,237	6,532,205	12,146,773	11,630,448	11,530,203	11,147,714	10,576,310	10,143,370
	Before	9,818,134	17,922,607	19,663,581	22,450,454	17,665,746	22,553,152	22,194,211	21,110,346	19,874,456	18,918,397	17,306,557
Net Non-current Assets	After	427,604,341	438,897,929	433,730,311	439,464,634	450,184,957	451,293,119	458,032,389	463,944,846	470,270,720	477,217,312	483,451,946
	Before	427,604,341	429,039,042	434,959,226	441,206,305	452,450,436	454,210,343	460,688,474	467,450,639	474,405,098	481,556,270	488,719,602
Total Assets	After	440,692,103	449,983,450	444,623,854	453,605,787	460,023,929	466,822,174	473,122,269	479,012,473	485,037,354	491,495,231	497,381,960
	Before	440,689,765	449,984,632	457,840,069	466,965,334	473,503,614	480,228,371	486,426,772	492,185,083	497,987,282	504,259,495	509,898,649
Total Liabilities	After	23,133,994	26,825,294	16,279,667	19,776,373	20,562,027	21,691,778	22,203,127	22,055,564	21,832,392	21,937,427	21,139,684
	Before	23,131,637	26,826,252	29,044,395	32,361,929	32,945,316	33,662,419	33,718,348	33,096,658	32,287,885	31,823,419	30,403,658
Total Net Assets	After	417,558,109	423,158,156	428,344,187	433,829,414	439,461,902	445,130,397	450,919,142	456,956,909	463,204,962	469,557,805	476,242,276
	Before	417,558,128	423,158,380	428,795,674	434,603,404	440,558,297	446,565,952	452,708,424	459,088,425	465,699,397	472,436,076	479,494,991
Available Working Capital (Unrestricted Net Current Assets)	After											
	Before											
Cash & Investments - Unrestricted	After	(382,467)	(11,144,391)	(910,577)	(741,493)	(675,799)	(450,440)	(1,214,373)	(863,285)	(702,365)	(1,061,662)	(702,704)
	Before	(382,447)	(344,168)	(395,604)	(291,441)	(290,048)	(254,638)	(185,973)	(200,206)	(133,183)	(72,093)	(52,365)
Cash & Investments - Internally Restricted	After	573,000	573,000	573,000	573,000	573,000	573,000	573,000	573,000	573,000	573,000	573,000
	Before	573,000	573,000	573,000	573,000	573,000	573,000	573,000	573,000	573,000	573,000	573,000
Cash & Investments - Externally Restricted	After	-	-	-	-	-	-	-	-	-	-	-
	Before	-	-	-	-	-	-	-	-	-	-	-
Cash & Investments - Total	After	190,533	(10,571,391)	(337,577)	(168,493)	(102,799)	122,560	(641,373)	(290,285)	(129,365)	(488,662)	(129,704)
	Before	190,553	228,832	177,396	281,559	282,952	318,362	387,027	372,794	439,817	500,907	520,635
Cash & Cash Equivalents - Total	After	190,533	(10,571,391)	(337,577)	(168,493)	(102,799)	122,560	(641,373)	(290,285)	(129,365)	(488,662)	(129,704)
	Before	190,553	228,832	177,396	281,559	282,952	318,362	387,027	372,794	439,817	492,498	492,941
Bankoverdraft - Total	After	(278,176)	(10,991,264)	(838,052)	(668,981)	(603,299)	(377,954)	(1,141,902)	(790,828)	(629,923)	(989,234)	(630,289)
	Before	(275,819)	(192,223)	(322,790)	(218,632)	(217,245)	(181,840)	(113,182)	(127,421)	(60,404)	-	-

Adelaide Hills Council
10 Year Financial Plan for the Years ending 30 June 2030
SCENARIOS - GENERAL FUND
Scenario: CWMS Divestment

New Scenario (After): CWMS Divestment
Old Scenario (Before): 2020-21 LTFP in accord with 2020-21 Adopted Budget

Headline Figure / KPI	Scenario	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
External Loans Outstanding - Current	After	5,271,334	277,336	283,471	613,200	5,748,804	1,353,592	1,482,824	1,665,033	1,845,512	2,032,607	1,890,653
	Before	5,271,334	1,218,449	1,531,878	1,984,462	7,254,481	2,980,755	3,325,440	3,648,653	3,998,911	4,417,262	4,469,554
External Loans Outstanding - Non-current	After	7,728,666	7,451,331	7,167,860	10,354,660	6,005,856	11,652,263	11,169,439	11,104,406	10,758,894	10,226,287	9,835,634
	Before	7,728,666	17,310,217	19,078,339	21,893,877	17,139,396	22,058,642	21,733,201	20,684,549	19,485,637	18,568,375	16,998,822
External Loans Outstanding - Total	After	13,000,000	7,728,666	7,451,331	10,967,860	11,754,660	13,005,856	12,652,263	12,769,439	12,604,406	12,258,894	11,726,287
	Before	13,000,000	18,528,666	20,610,217	23,878,339	24,393,877	25,039,396	25,058,642	24,333,201	23,484,549	22,985,637	21,468,375
Internal Loans Outstanding - Current	After	-	-	-	-	-	-	-	-	-	-	-
	Before	-	-	-	-	-	-	-	-	-	-	-
Internal Loans Outstanding - Non-current	After	-	-	-	-	-	-	-	-	-	-	-
	Before	-	-	-	-	-	-	-	-	-	-	-
Internal Loans Outstanding - Total	After	-	-	-	-	-	-	-	-	-	-	-
	Before	-	-	-	-	-	-	-	-	-	-	-
Total Borrowings Outstanding - Current	After	5,271,334	277,336	283,471	613,200	5,748,804	1,353,592	1,482,824	1,665,033	1,845,512	2,032,607	1,890,653
	Before	5,271,334	1,218,449	1,531,878	1,984,462	7,254,481	2,980,755	3,325,440	3,648,653	3,998,911	4,417,262	4,469,554
Total Borrowings Outstanding - Non-current	After	7,728,666	7,451,331	7,167,860	10,354,660	6,005,856	11,652,263	11,169,439	11,104,406	10,758,894	10,226,287	9,835,634
	Before	7,728,666	17,310,217	19,078,339	21,893,877	17,139,396	22,058,642	21,733,201	20,684,549	19,485,637	18,568,375	16,998,822
Total Borrowings Outstanding - Total	After	13,000,000	7,728,666	7,451,331	10,967,860	11,754,660	13,005,856	12,652,263	12,769,439	12,604,406	12,258,894	11,726,287
	Before	13,000,000	18,528,666	20,610,217	23,878,339	24,393,877	25,039,396	25,058,642	24,333,201	23,484,549	22,985,637	21,468,375
External Loans Repayments - Interest	After	567,500	632,016	288,514	278,879	402,802	437,129	461,285	455,846	474,093	483,790	489,136
	Before	567,500	632,016	605,508	661,352	781,804	814,642	827,395	854,090	856,617	861,354	892,033
External Loans Repayments - Principal	After	62,000	5,271,334	277,336	283,471	613,200	5,748,804	1,353,592	1,482,824	1,665,033	1,845,512	2,032,607
	Before	62,000	5,271,334	1,218,449	1,531,878	1,984,462	7,254,481	2,980,755	3,325,440	3,648,653	3,998,911	4,417,262
External Loans Repayments - Total	After	629,500	5,903,349	565,849	562,349	1,016,003	6,185,933	1,814,877	1,938,671	2,139,125	2,329,302	2,521,743
	Before	629,500	5,903,349	1,823,957	2,193,230	2,766,266	8,069,123	3,808,149	4,179,531	4,505,270	4,860,266	5,309,296
External Loans - New Loans raised	After	3,000,000	-	-	3,800,000	1,400,000	7,000,000	1,000,000	1,600,000	1,500,000	1,500,000	1,500,000
	Before	3,000,000	10,800,000	3,300,000	4,800,000	2,500,000	7,900,000	3,000,000	2,600,000	2,800,000	3,500,000	2,900,000
Total Value of I,PP&E	After	645,303,475	658,854,390	650,814,390	663,850,390	674,558,390	685,776,390	696,616,390	707,173,390	717,990,390	729,582,390	740,738,390
	Before	645,303,475	658,854,390	670,936,390	684,556,390	695,846,390	707,464,390	718,695,390	729,625,390	740,742,390	752,685,390	764,126,390
Total Accumulated Depreciation	After	215,364,164	225,922,758	229,874,242	240,789,090	252,036,570	263,550,526	275,367,630	287,459,165	299,833,028	312,500,430	325,489,932
	Before	215,364,164	225,962,755	236,920,257	248,136,669	259,696,643	271,533,986	283,681,963	296,111,690	308,830,726	321,848,914	335,195,774
Indicative Remaining Useful Life (as a % of GBV)	After	67%	66%	65%	64%	63%	62%	60%	59%	58%	57%	56%
	Before	67%	66%	65%	64%	63%	62%	61%	59%	58%	57%	56%

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SCENARIOS - GENERAL FUND
Scenario: CWMS Divestment

New Scenario (After): CWMS Divestment
Old Scenario (Before): 2020-21 LTFP in accord with 2020-21 Adopted Budget

Headline Figure / KPI		Scenario	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
Note 15 Ratios													
Operating Surplus Ratio	Snapshot	After											
		Before											
	Ratio	After	-0.03%	-0.23%	-0.35%	0.01%	0.23%	0.02%	-0.04%	0.14%	0.24%	0.14%	0.42%
		Before	-0.03%	-0.23%	0.59%	0.65%	0.84%	0.65%	0.61%	0.75%	0.86%	0.78%	1.02%
Adjusted Operating Surplus Ratio	Snapshot	After											
		Before											
	Ratio	After	-0.03%	-0.23%	-0.35%	0.01%	0.23%	0.02%	-0.04%	0.14%	0.24%	0.14%	0.42%
		Before	-0.03%	-0.23%	0.59%	0.65%	0.84%	0.65%	0.61%	0.75%	0.86%	0.78%	1.02%
Net Financial Liabilities Ratio	Snapshot	After											
		Before											
	Ratio	After	41.42%	50.21%	28.26%	34.31%	34.71%	35.83%	35.68%	34.29%	32.81%	31.95%	29.58%
		Before	41.42%	50.21%	53.40%	57.96%	57.23%	56.88%	55.30%	52.55%	49.58%	47.31%	43.52%
Asset Renewal Funding Ratio	Snapshot	After											
		Before											
	Ratio	After	115.28%	105.32%	99.48%	99.58%	94.73%	100.00%	96.48%	99.23%	98.20%	97.91%	98.37%
		Before	115.28%	105.32%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Interest Cover Ratio	Snapshot	After											
		Before											
	Ratio	After	1.17%	1.50%	0.70%	0.54%	0.78%	0.85%	0.85%	0.82%	0.83%	0.83%	0.82%
		Before	1.17%	1.49%	1.21%	1.28%	1.47%	1.52%	1.48%	1.49%	1.45%	1.42%	1.43%
Asset Consumption Ratio	Snapshot	After											
		Before											
	Ratio	After	61.10%	60.17%	58.89%	57.92%	56.77%	55.64%	54.49%	53.30%	52.13%	51.02%	49.86%
		Before	61.10%	60.16%	59.10%	58.15%	57.02%	55.91%	54.76%	53.59%	52.42%	51.31%	50.16%
Old Note 15 Ratios													
Operating Surplus Ratio	Snapshot	After											
		Before											
	Ratio	After	-0.03%	-0.27%	-0.40%	0.01%	0.26%	0.02%	-0.05%	0.16%	0.27%	0.15%	0.48%
		Before	-0.03%	-0.27%	0.67%	0.74%	0.95%	0.74%	0.69%	0.84%	0.97%	0.88%	1.15%
Adjusted Operating Surplus Ratio	Snapshot	After											
		Before											
	Ratio	After	-0.03%	-0.27%	-0.40%	0.01%	0.26%	0.02%	-0.05%	0.16%	0.27%	0.15%	0.48%
		Before	-0.03%	-0.27%	0.67%	0.74%	0.95%	0.74%	0.69%	0.84%	0.97%	0.88%	1.15%
Other Ratios													
Operating surplus / (deficit)	Snapshot	After											
		Before											
	Ratio	After	(12,891)	(109,343)	(163,969)	5,227	112,488	8,495	(21,255)	77,766	133,053	77,843	249,471
		Before	(12,872)	(109,138)	287,294	327,730	434,893	347,655	332,472	420,001	495,972	461,680	623,915
Net Financial Liabilities	Snapshot	After											
		Before											
	Ratio	After	19,883,366	23,822,493	13,158,226	16,565,457	17,274,260	18,328,496	18,762,696	18,537,141	18,232,471	18,254,818	17,372,039
		Before	19,883,347	23,822,270	25,846,133	29,072,354	29,576,885	30,216,543	30,193,261	29,491,560	28,599,157	28,049,182	26,522,475

Appendix 4

2018 Community Consultation Outcomes

Potential divestment of CWMS - Community Consultation Results 2018

The consultation process occurred from 9 July – 2 August 2018 and resulted in the following feedback and involvement from the community.

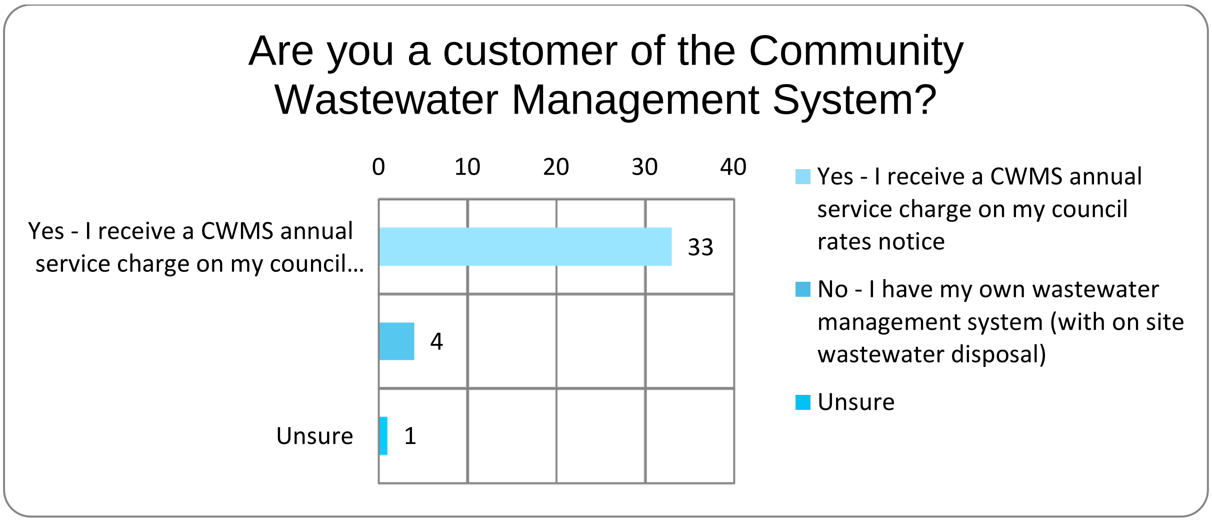
Drop in information sessions attendance:

17 July 18	Gumeracha Civic Centre	**10**	attendees
18 July 18	Stirling Library	**3**	attendees
19 July 18	Woodside Library	**6**	attendees

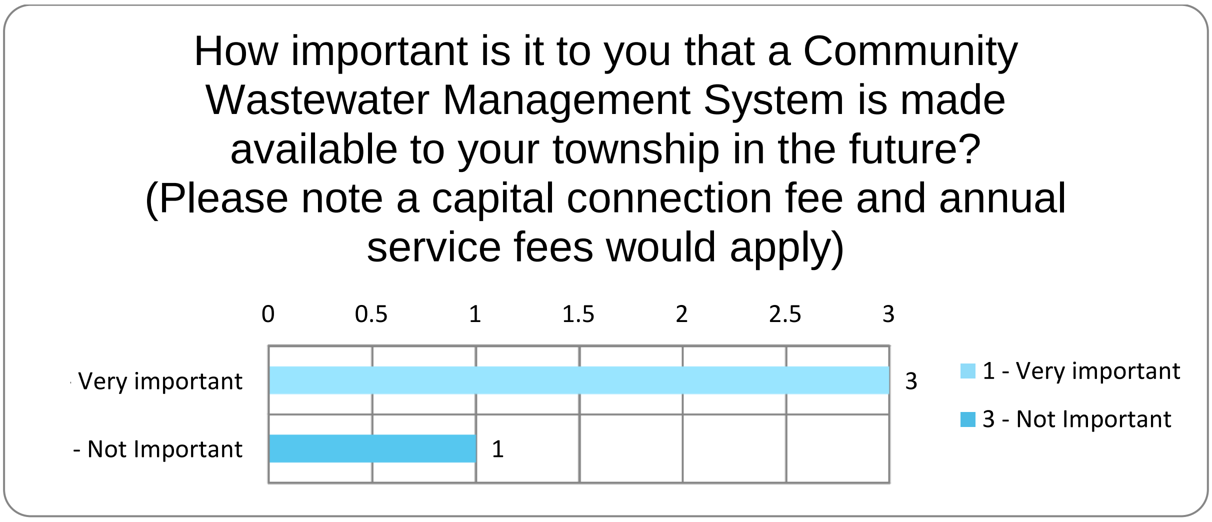
37 online survey responses were received

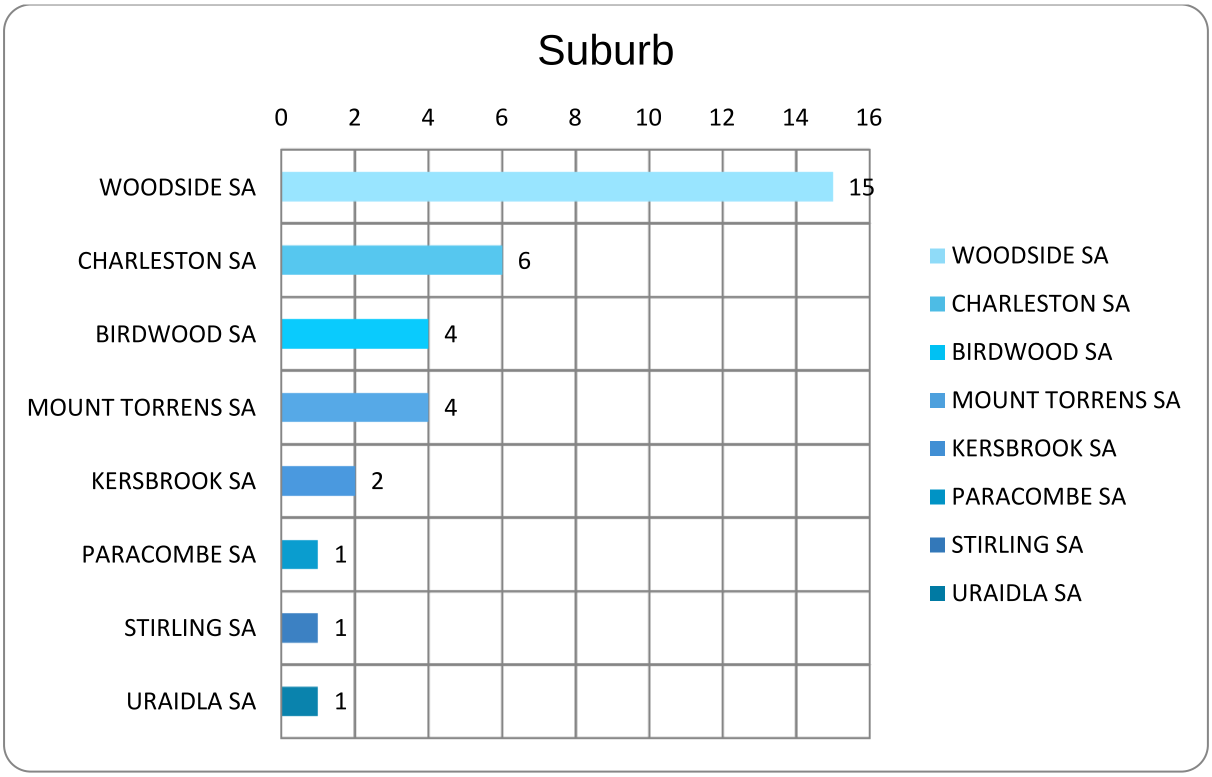
10 phone calls and **5** emails received

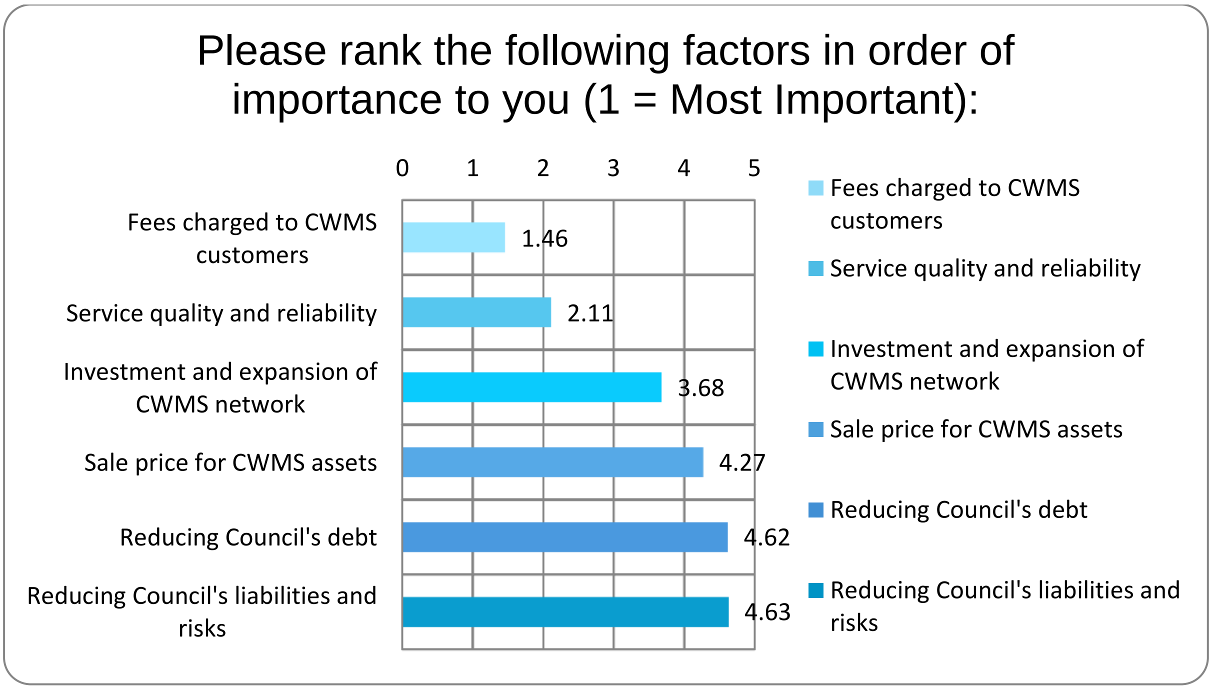
Survey results



If respondents answered they were not a customer of the CWMS in the above question the following was asked:




Suburb
0
2
4
6
8
10
12
14
16
WOODSIDE SA
15
CHARLESTON SA
6
BIRDWOOD SA
4
MOUNT TORRENS SA
4
KERSBROOK SA
2
PARACOMBE SA
1
STIRLING SA
1
URAIDLA SA
1
WOODSIDE SA
CHARLESTON SA
BIRDWOOD SA
MOUNT TORRENS SA
KERSBROOK SA
PARACOMBE SA
STIRLING SA
URAIDLA SA


Please rank the following factors in order of importance to you (1 = Most Important):
0
1
2
3
4
5
Fees charged to CWMS customers
1.46
Service quality and reliability
2.11
Investment and expansion of CWMS network
3.68
Sale price for CWMS assets
4.27
Reducing Council's debt
4.62
Reducing Council's liabilities and risks
4.63
Fees charged to CWMS customers
Service quality and reliability
Investment and expansion of CWMS network
Sale price for CWMS assets
Reducing Council's debt
Reducing Council's liabilities and risks

Address location	**Online Survey Response to Question –** *What other issues and considerations are important to you and should therefore be taken into account as we progress the CWMS review?*
1. Woodside	As a ratepayer I do not want the service outsourced if the costs increase and it still takes council officers to administer the contracted services.
2. Mount Torrens	There has been zero investment in the CWMS in the 12 years we've been living in Mount Torrens. This is a cop out and a way to avoid spending money upgrading a 19th century wastewater system. It would be better if council took responsibility for its assets rather than trying to flog them off but I'd wager good money the decision has already been made. Much like the truck route through our town, you simply don't care.
3. Woodside	Given South Australia's proven poor history of privatisation and controlling costs I am, and I think we are all very dubious about the benefits of this proposal. I am sure that the person reading this would have some strong feelings about electricity, water, and privatised health services. Right?
4. Woodside	Council are responsible for their own debt not ratepayers!! Reducing debt is the salaried officers and councillors responsibility.
5. Charleston	That we are due for a pump out and the council will try sell off prior to their obligations - isn't this why we pay steds/ higher council rates? So will these go down.
6. Birdwood	Ratepayers are paying an extra surcharge on their rates to be part of this system. So will this be removed if the system is outsourced to a private contractor, and will you guarantee that we won't be charged huge increased fees to have the wastewater pumped out ??! We are not happy at all about this. Why do we pay rates at all if services are going to be reduced and outsourced for profits ?!
7. Mount Torrens	From the way you have structured this survey, it seems clear that you have already decided to sell off the CWMS assets and are just paying the usual lip-service to a public consultation. We are opposed to this sale - CWMS assets should stay in Council hands. Once sold, we would be at the mercy of a private operator that would keep increasing fees and probably give poorer service. Privatisation of public assets usually ends up being to the detriment of users.

8. Mount Torrens	The CWMS systems and infrastructure in most towns have been neglected by Council for years. Consequently, any sale of these CWMS assets to private service providers will immediately result in costly upgrade programmes which will result in substantially higher fees to customers. This is what happened when the State Government sold off our power assets with promises of 'the best cost efficient provision to customers'!! What guarantees will AHC provide to existing customers to manage price increases no more that annual CPI?
9. Mount Torrens	What will be the actual benefits to our household of privatising the service? That is what is the difference between the council service we get now and what privatising will give us. How will this service be billed to the household? Do the rates reduce by the amount that we currently pay? Any idea what the cost will be? Thank you.
10. Kersbrook	if CWMS went to private tender I don't want to see the cost to me to be greater than if council retained responsibility
11. Charleston	Excess water capture in times of heavy rain which congests the network. In the November 2016 floods the system IP covers popped and dirty water flowed, can this be protected better?
12. Woodside	To maintain the system and service with council resources, managing any risk issues with good management.
13. Woodside	First off, great service from AHC. My main query relates to why this is a separate charge on the rates notice. All other services are provided at a flat rate (proportional to the capital value of the property), but this is charge for a specific service. Why is this service not funded like all other services provided by AHC to the community, and accommodated in the overall rates bill for all ratepayers within the AHC service area?
14. Birdwood	You have already mentioned what we feel is most important to us...the fees charged to us as our rates are an expensive burden already!
15. Birdwood	I've lived in the area for 33 years. At first the removal of sewerage from tanks was every two years but then the time lapse between servicing was stretched considerably. Probably something in between what it was and

	what it is now would be more appropriate. Also, anything that increases cost to consumers is not desirable. AHC rates are already quite high compared with our city counterparts. A more expensive service would not be well received.
16. Woodside	Provision of services for commercial as well as residential customers is important for local economic growth. The present services are impeding local commercial expansion and this needs to be addressed as a highest priority. Planning for future development needs, well ahead of time, is imperative. A holistic and consultative approach to this planning is required. Assurance of ongoing investment in infrastructure and services needs to be made - how is this going to be achieved without significant increase in costs of services to customers - privatized or not? How will the decision to privatize consider the long-term impacts for customers and the council in general? A short term reduction of debt should not be the reason to privatize this service.
17. Woodside	Current rate prices are barely manageable, how will privatising this essential service ensure future rates remain reasonable and affordable? Historically privatisation does not reduce costs for end users. So how will selling off this asset make it more 'cost effective'. What protections will be put in place to prevent a private owner from raising the CWMS operating costs as high as they desire? While building on my property we discovered CWMS pipes that the Council did not know about. This resulted in them being relocated at Council cost to allow my build to continue. During the investigation it was obvious to myself that this issue is likely to reoccur on nearby properties. How will a private company effectively manage an unknown asset?
18. Woodside	Don't privatise services. In all cases where services have been privatised in Australia (and probably most cases in the rest of the world), the quality of the service degrades as the private enterprise only cares for maximising profit, rather than maintaining quality of a service. The control of the service is also then out of public hands and can no longer be improved.
19. Woodside	I do not want an essential service in the hands of third parties, who will hold us for ransom by charging exorbitant prices. This is the council's responsibility. Maybe you need to employ better managers, who won't squander funds on non-essential stuff like the roundabout into Woodside Road going to Lobethal. Or going back every year for at least three years to upgrade mains on Onkaparinga road. Or waste money on fireworks. Get a grip.

20. Woodside	My address [redacted] Woodside. The opposite side of the road is connected to the sewerage system. It should be easy to connect us and the other properties on the same side to also connect to the sewerage system .Why has this not been done yet ?
21. Birdwood	It should not be privatized; prices in South Australia have only gone up more than the CPI on public owned assets that have been privatized.
22. Charleston	The higher costs to ratepayers. The selling off of the CWMS will only lead to higher cost of living to us ratepayers. Have never seen private company take something on and reduce its charges
23. Woodside	I do not agree with selling the CWMS. I believe it would be wiser to lease this service. The sale of such an asset will only increase costs to users. It is an essential service and no good has ever come from selling off essential services.
24. Charleston	Cost is very important, as is maintaining the council's assets long term - council should retain control to minimise cost to customers.
25. Kersbrook	Council commenced the CWMS on the undertaking that residents who signed up paid a one off fee. It was also understood by residents that it would remain controlled and maintained by Council. Residents who are signed up with the CWMS feel very let down with how it has been managed.
26. Unknown	Level of service, cost to residents and ongoing maintenance
27. Unknown	Government VS private does not usually work when utilities are privatised. Cost increases to local community. Proper workability of the system eg rain event and extra flows. Note our local council rates are already one of the highest around plus CWMS, this needs to be controlled carefully and fairly.
28. Unknown	As a pensioner I find the rates the second biggest expense I incur per week after food, I am therefore extremely worried about process regarding the CWMS increases should this be taken over by a private operator.
29. Unknown	Down the line cost factors for pensioners who are all struggling at the moment. Such people will be considering moving to another area to survive financially.

Location and attendees	**Drop in information sessions** **Administrative summary of feedback and concerns raised**
Gumeracha 10 attendees 9 from Kersbrook 1 from Birdwood	• Kersbrook irrigation and water supply, resident concerns whether there is an adequate disposal path for the water generated by the scheme as there have been overflows in the past. Staff explained that the irrigation areas at the oval have been expanded and there have not been any issues since this was installed. • Opposed to privatisation. • Stormwater inundation issues were raised by Kersbrook residents as an ongoing issue. • Privatisation of essential services – residents worried about private companies wanting to make a profit and what control would Council have over this. • History of other essential services being privatised like ETSA and subsequently prices going up over time. • Concerns that an alternative company may come in and complete upgrades and capital works in one big hit, raising the fees and costs to customers significantly. • 'Short term gain, long term pain' • Concerns of increased costs to customers. • Confidence in government organisation over private. • Issues were raised on the management of the current pump out contract • Concerns that Council can't manage existing contractors adequately i.e. how could Council manage someone else maintaining and operating the whole network. • Faith that Council are doing the right thing and ensuring costs are reasonable, concerns that a private company would not • Residents want to be kept informed of process
Stirling 3 Attendees	• Costs may go up if privatised • Concerns that Council will lose control and the owner would charge whatever they want.
Woodside 6 Attendees 5 from Woodside 1 from Birdwood	• One resident said he's financially better off living in Woodside than previous address and is concerned that the cost of living will increase with privatisation. • Have Council looked at all options i.e. leasing out operation and maintenance rather than divestment. • Is Council doing this because they need the money? Why does Council want to sell these assets now? • Concern by resident 'Can I continue to live in this Township' in regards to rising costs.

	• Will the CWMS charge be removed from the rates notice? Can Council guarantee this? Staff explained that this charge would no longer apply if Council transfers ownership • Concerns that the customers have no choice and are locked into one service provider • Residents happy with current service and don't see the need to change • Concern that Council is handing over the reins, what control will Council have after it is sold? • Belief that Council is wiping its hands of responsibilities • Concerns raised over storm water inundation events, resulting in network overflows and that if Council cannot address these issue another operator wouldn't be able to either • Belief that Council had already made a decision on the divestment • Concerns for pensioners if costs went up • Confidence in Council to run the system and be accountable to the customers
Address Location	**Email Responses**
30. Woodside	Re Your communication of 4th inst, I feel very strongly about selling public assets. A very good example is the current mess that our power supply is in now. During discussion with some friends this opinion tends to be fairly widespread. It is obvious of course that private enterprise will put profit before service, then the community authority has to step to clean up the mess.
31. Woodside	This is a flawed survey in that it assumes that the sale will go ahead and I am merely giving you my thoughts on how to spend the windfall. This is the first I have heard of the proposed sale and to say that I am totally shocked is to put it mildly. After all the fall out of the sale of ETSA and the gaming of the SA power supply by 3 energy suppliers to the benefit of their profits, I am dumbfounded that AHC wants to sell off an essential service and leave those of us with the CWMS at the mercy of a corporate with no social conscience and whose only motive is profit, or, is AHC trying to tell me that their profits are going to miraculously appear out of the blue and we will all be happy thereafter. Once sold, we rate payers will have no say what so ever when this goes south unlike at present when we have the right to vote in council elections. The bullshit AHC is espousing to justify this, is the same garbage that has been used to sell off all the other essential services around the country. And look where that has got us. MASSIVE INCREASES IN HOUSEHOLD COSTS. I DO NOT APPROVE OF THIS PROPOSAL. ESSENTIAL SERVICES BELONG IN THE HANDS OF THE PEOPLE THEY SERVE. NOT IN THE HANDS OF A CORPORATE ONLY INTERESTED IN TURNING A GOOD PROFIT.

32. Woodside	Hi, a couple of questions if the change is made. Please outline the scope of works they will be responsible for. What affect will this change have on our Council Rates? Will they be cheaper? What cost will private operators charge. My general comment would be that a private contractor could lower the initial price then I would foresee costs increasing dramatically
33. Birdwood	As a ratepayer, I wish to express my doubt that privatizing our community wastewater management "will be at a reasonable cost to customers." Privatisation doesn't work that way. It's all about money making. I believe it is a duty of care of any council to provide sewerage services.
34. Woodside	I live at [redacted] Woodside and the five properties no's [redacted], and [redacted] are all part of CWMS. I attended the meeting with you and your colleague at Woodside Library last night. It was surprising that more people did not attend given the number or properties affected. There were a couple of property owners there who were a bit anti Council and pushing their own agenda and wasted a bit of time. In general, there were quite a good number of relevant questions asked and answered. I believe that everybody had an opportunity to have their say and went home satisfied. Personally I will be quite happy if it is sold and do not object to paying more as long as the system is maintained and run efficiently and the funds received by the Council put to good use. I have only been at my property [redacted] and am not aware that my tank has been emptied yet. Perhaps that is something that you could find out for me? I look forward to the next stage of the process
Birdwood	Regarding the changes to the CMWS system I am concerned that it will be an exercise in increasing costs to the rate payer. What assurance do we have that another layer of fees and charges will not be inserted as was the case with SA Water when it was privatised. In terms of reliability I would like to question when the tanks will be emptied. The regular four [4] year cycle was due in July last year [2017]. Still not done. The council does not have a very good reputation with regard to extra charges. Take the ubiquitous "fixed charge" that was added to the rates several years ago and has steadily increased year on year to the point where it is almost a double dip on the actual rates. If [and it's a big "if] this is an exercise in actually reducing overall costs to the rate payers then it has my support, but if it is just another cynical exercise in offloading an unprofitable operation whilst still charging the rate payer then it most certainly does not have my support.

Appendix 5

CWMS Divestment Pricing Report 2020/21

Adelaide Hills Council
CWMS 2020/21 Pricing Report

Alan Rushbrook
May 2020
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Contents

Introduction

Adelaide Hills Council (AHC) operates five Community Waste Water Management Systems (CWMS) which collect, transport and treat waste water from properties in seven townships. A total of 2,019 properties are serviced by these schemes. Each of these properties pay an annual fee to fund the operation of the scheme.

Utintja Consulting has been tasked to calculate and recommend the fees the CWMS customers for 2020/21.

Regulatory background

The Water Industry Act 2012 establishes a regulatory framework for the South Australian water and sewerage industry. The Essential Services Commission of SA (ESCOSA) is an independent economic regulator which regulates the Water Industry Act 2012.

The Adelaide Hills Council is licensed as an Intermediate Retailer by ESCOSA to sell and supply sewerage services within its Council boundary and specifically to operate the "*Community Wastewater Management Systems (CWMS) and associated infrastructure at Birdwood-Mt Torrens, Kersbrook, Woodside, Charleston, Verdun and Stirling*."[1]

This license requires the licensee to comply with the conditions of the license, the Water Industry Act and applicable industry codes. The Price Determination for Minor and Intermediate Retailers is one of the codes Council must comply with and this requires that retail prices for sewerage services must comply with the National Water Initiative Pricing Principles (NWIPP).

The NWIPP where adopted in 2004 and provide principles for best practice pricing of water and waste water services.

The most fundamental NWI Pricing Principle is Principle 1 for "Principles for urban water tariffs", which states, that providers "*should be moving to recover efficient costs consistent with the National Water Initiative (NWI) definition of the upper revenue bound: 'to avoid monopoly rents, a water business should not recover more than the operational, maintenance and administrative costs, externalities, taxes or tax equivalent*

[1] (p9, WATER INDUSTRY RETAIL LICENCE, Issued by the Essential Services Commission of South Australia on 18 January 2013)

regimes, provision for the cost of asset consumption and cost of capital, the latter being calculated using a Weighted Average Cost of Capital (WACC)' "[2]

The parts of this paragraph most relevant to this review are that providers are to move to recover efficient prices and they cannot recover more than the upper bound revenue.

Upper bound revenue includes,

- Operational, maintenance and administrative costs,
- Finance Costs,
- Externalities,
- Taxes or tax equivalents,
- Depreciation, and the
- Cost of capital.

Each year Council is required to complete a questionnaire in which they must state if they have complied with the NWI pricing principles.

Council must also comply with other operational and environmental requirements.

Council uses the Service Rate provisions of the Local Government Act (LGA) to charge customers for the CWMS services.

- Section 155 of the LGA outlines the rules surrounding the application of service rates and charges.
- Section 155(5) limits the amount Council can seek to recover by way of a service charge to the cost of providing the service, including depreciation.
- Section 155(5a) provides that any pricing provisions made by ESCOSA will take precedence over any limits to income imposed by Section 155(5). This allows a Council to make charges consistent with ESCOSA regulations and be able to charge for the cost of capital.
- Paragraph of 12(5) of the Local Government Act Regulations, reinforces the ability of Councils to be able to include the cost of capital in the calculation of the revenue they can charge from Service Charges by including the cost of capital in the definition of allowable types of expenses.

The Local Government Act Regulations 12(4)(b) allows Councils to use Property Units to apply charges for water charges.

The Local Government Association of South Australia has provided guidance and financial issues associated with CWMS through a document *CWMS Accounting Principles – the Costing and Pricing of CWMS*.

[2] p10 National Water Initiative Pricing Principles, found at http://www.agriculture.gov.au/SiteCollectionDocuments/water/national-water-initiative-pricing-principles.pdf

Review of current pricing

Table of past prices and price if fully priced.

Current Pricing Structure

Principles

Council is a monopoly provider of waste water services to its customers. Its customers have very limited, if any, alternative options for the disposal of their waste water. Apart from its regulatory requirements Council has an obligation to use its rating powers fairly, and it has set out the following principles of taxation in its Rating Policy

i) **Benefits received**
(i.e. services provided, or resources consumed). Reliance on this principle suggests that (all other things being equal) a person who received more benefits should pay a higher share of tax.

ii) **Capacity to pay.**
This principle suggests that a person who has less capacity to pay should pay less; and that persons of similar means should pay similar amounts.

iii) **Administrative simplicity.**
This principle refers to the costs involved in applying and collecting the tax and how difficult it is to avoid.

iv) **Economic efficiency.**
This refers to whether or not the tax distorts economic behaviour.

v) **Policy consistency.**
The principle that taxes should be internally consistent, and based on transparent, predictable rules that are understandable and acceptable to taxpayers.

These principles are relevant to the setting of CWMS fees.

Structure of Pricing

Pricing guidelines have been set using the calculations listed below. By adhering to these principles Council should be able to ensure that it has:

- sufficient revenue streams to ensure the efficient delivery of required services,
- facilitates the efficient functioning of water markets,
- gives effect to the principle of user pays,
- achieves pricing transparency, and
- avoids adverse pricing outcomes.

General Principles

The following general principles should be applied to CWMS pricing.

Item	Treatment and discussion
Network pricing	**All charges are calculated on a network basis** (i.e. a single fee, for each type of service for the whole of the Council area, rather than a different fee for each CWMS). Network pricing is consistent with the Benefits received principle as each property receives the same service (i.e. removal and treatment of waste) and it is an easy method to understand and implement.
Annual pricing	**Prices will be recalculated each year** using the latest available data and consulted upon as part of the Annual Business Planning process.

Calculation of Lower Bound Revenue

Lower Bound Revenue is the minimum amount which Council needs to recover through fees and charges. It is the full cost of providing the CWMS service and includes all staff costs, contractor costs, other expenses, finance costs and depreciation.

Item	Treatment
Operating costs	**Includes** the following directly related to the operation of the CWMS • Employee costs, including oncosts • Operating costs • Maintenance costs • Plant hire for Council used equipment • Licence fees • Insurance costs (if not include in overhead costs) • Power and water costs • Monitoring costs • Contractors and consultant's fees • Pump out costs *These costs are readily identified in the General Ledger.*
Indirect costs	**Includes** staff costs not otherwise included in Operating Costs, but attributable to CWMS operations. Calculated as a proportion of employee costs of staff who contribute to the management and operations of the CWMS scheme.

	Employee oncosts can be added to the employee costs to account for costs such as leave, workers compensation and superannuation. *Separate calculations are undertaken for this expense.*
Interest	Any interest costs associated with financing the CWMS scheme..
Depreciation	**Includes** depreciation expense for all assets used in CMWS scheme. *These costs are readily identified in the General Ledger.*
Council Rates	**Includes** Council rates for properties used to provide CWMS services. *These will need to be calculated each year as rates are not levied on Council owned properties*
Tax Equivalents	**Are not included** as the amounts are generally very small in proportion to total costs and the value is a challenge to calculate reliably.
Overheads	**Includes** a calculation of overhead expenditure, being the distribution of the cost of internal Council activities which contribute towards the CWMS activities. Typically, this includes management expenses, finance activities, corporate activities, Information Technology costs. *The amount to be applied can be sourced from Council's full cost attribution or overhead calculation model.* Care should be taken to ensure that there is no double counting of expenses. For instance, if the insurance costs for assets are included in the calculation of corporate overheads they should not be included separately in the CWMS pricing.

Any cost, or part of a cost, which is considered to be an inefficient cost should be excluded from the lower bound pricing.

Calculation of Upper Bound Revenue

The NWIPP state that providers should be moving towards, but not beyond, upper bound revenue.

Upper bound revenue is lower bound revenue plus the cost of capital. The cost of capital being an estimate of the opportunity cost of the investment made by Council in the CWMS.

For Adelaide Hills Council the cost of capital is calculated as follows.

Item	Treatment
Written Down Value of all CWMS Assets	The current written down replacement cost of CWMS assets and the written down value of the cost of assets yet to be included in a revaluation. (*Readily available from Council's asset system*)
Less: Contributed assets	Any assets provided by developers or others for no cost. *(Available from Council's asset system)*
Less: Capital grants received for CWMS assets	Grants received to assist in the construction or installation of CWMS assets. *(Available from Council records)*
Less: Capital contributions	Any contributions towards the capital cost of the CWMS, for instance connection fees. *(Available from Council's finance system)*
Multiplied by WAAC	The Weighted Average Cost of Capital (WAAC) is the formula recommended by the NWIPP and is the most comprehensive method of calculating WAAC. It takes into account the current cost of capital, projected inflation, risk and the risk-free rate of capital.

Calculation of property charges

Once the upper bound pricing has been calculated it can be distributed to each property.

Item	Treatment
Property Units	**Charges will be applied on the basis of Property Units** as described in the Code for Establishing and Applying Property Units as a Factor for the Imposition of Annual Service Charges for Community Wastewater Management Systems published by the LGA on 20 April 2006. The Property Units code is under review.

Vacant Properties	These properties are in an area serviced by a CWMS but have not yet been connected to the scheme. It is not appropriate to charge these properties for the ongoing operations of the scheme since they do not contribute to these costs. However, it is appropriate that they make a contribution towards the capital cost of infrastructure. This is calculated as the sum of • Depreciation expense, and • Cost of capital. This total is then divided by the number of properties and then applied to each vacant property.
Occupied Properties	The revenue derived from occupied properties is the sum of • depreciation expense and the cost of capital not charged to Vacant Properties, and • all other costs to be recovered. The total of these expenses is then divided by the number of occupied properties.

Other charges

Item	Treatment
Capital connection fees	Typically, this charge is levied where a new connection is created from an existing connection, for instance where an assessment is split in two. No significant additional infrastructure is required. The fee charged represents a contribution by the owner of the new allotment of their share of the capital cost of the scheme. The adopted approach is a System by-in approach where the new customer pays an amount equal to the net investment already made by existing users. The net investment is calculated as the Net Written Down Value of the scheme assets. This is calculated each year. Regulated Asset Base Divided by Number of existing property units in the system Multiplied by Number of new property units in the system Any contributions received would reduce the value of the Regulated Asset Base and reduce the cost of capital in future years thereby providing a benefit to existing property owners.

Connection charges	Customers will be charged for any costs incurred by Council for connection to a system. This will include • Administration fee • Cost of installing a connection point (if this cost is incurred by Council) The Administration fee would be consistent to other similar fees charged by Council and represent the cost of updating records and processing transactions. The cost of installation would be any direct costs incurred by Council.
Augmentation fees	Where new infrastructure is required for a new connection, the charge should reflect a share of the value of existing assets, where they utilise existing assets, plus the full cost of any additional infrastructure required. If the additional infrastructure provides a benefit to existing customers, then some of the costs of the new shared infrastructure could be paid for by the scheme. The Augmentation fee would need to be calculated on a case by case basis with the aim of ensuring that existing customers are not disadvantaged.

Estimated 2020/21 CWMS expenses

Using the methodology described above the draft 2020/21 prices were calculated

The following table shows the determination of upper and lower bound revenue.

	2020/21 Calculated $	2019/20 Estimated $	Change 19/20 to 20/21 $
Operating Costs			
Employee costs	373,733	327,073	46,660
Materials, contracts and other services	590,400	608,601	18,201
Full Cost Attribution	144,620	187,135	42,515
Depreciation	391,400	305,659	85,741
	1,500,153	1,428,468	71,686
Non booked costs			
Rates	5,477	5,233	244
Lower Bound Revenue	**1,505,630**	**1,433,701**	**71,930**
Return on Capital			
RAB	12,829,426	11,938,860	
WACC	1.45%	3.06%	
	185,915	364,818	178,903
Upper Bound Revenue	**1,691,545**	**1,798,519**	**106,973**

Following a review of corporate overheads the rate of overhead was changed to 15%. It was previously 20%. As a result of a revaluation of all Council infrastructure assets the value of assets and depreciation expense has increased.

The most significant change in the calculations is the Return on Capital, reducing by $179k. This is the result of a rapid reduction in real interest rates. In the current depressed economic position long term interest rates for Australian Government Bonds, which are used as a measure of risk-free interest rates, are less than 1%. These interest rates were obtained in the midst of the COVID19 pandemic and the low interest rates reflect the current unparalleled economic conditions.

It is inappropriate for a tax to change rapidly from year to year, as is explained in the LGA Information Paper on CWMS pricing.

> *The service charge for a particular year should be set based on the medium to long run expected expenses and revenues with a view to ensuring that, over time, the full cost (whole-of-life) of the CWMS will be recovered and that where increases in the*

service charge are needed to recover the full cost that sharp increases will be avoided as far as possible.[3]

In recent years AHC has used the NWIPP to set its CWMS prices each year. As AHC prices have been below upper bound revenue AHC has been slowly increasing it's the fee for occupied CMWs prices by slightly more than CPI each year.

If AHC was to adopt the same prices as it set in 2019/20 Council would recover approximately $17k below the upper bound revenue.

If AHC was to use the same rate of return as it did in 2019/20 and did not change its prices then it would under recovery by $150k.

An increase by cpi on 2019/20 prices, at the new Return on Capital rate would see Council $34k below upper bound revenue

Implications of Over or Under Recovery

Section 155(5) of the Local Government Act (Act) states

A council must not seek to recover in relation to a prescribed service an amount by way of service rate, annual service charge, or a combination of both exceeding the cost to the council of establishing, operating, maintaining, improving and replacing (including by future capital works and including so as to take into account the depreciation of any assets) the service in its area (being a cost determined taking into account or applying any principle or requirement prescribed by the regulations).

For many years, and probably since the inception of CWMS service charges, AHC has been charging less than the total amount required. Which means over a period of years CWMS customers have been changed less than what is recommended in the NWIPP. Whilst it is not be appropriate to deliberately increase prices to claim back some of the "under-charging" it would not be unreasonable for there to be a small and short period of over recovery as Council adjusts to a change in economic circumstances.

[3] Page 12, CWMS Accounting Principles, The Costing and Pricing of CWMS, Local Government Association of South Australia, 2016.

Weighted Average Cost of Capital

The method recommended in the NWIPP to calculate the cost of cost is the Capital Asset Pricing Method (CAPM). The formula for the CAPM is embodied in the spreadsheet developed to calculate the CWMS prices. The spreadsheet has been provided to AHC.

Because Council revalue its asset regularly it is required to use the real cost of capital when calculating the return of capital.

The inputs used in the calculation of CAPM are:

Input	Amount	Source
Cost of debt	5.68%	AHC 2019 Financial Statements
Expected inflation	1.50%	Reserve Bank 2022 estimate
Value of equity	$411.6M	AHC 2019 Financial Statements
Value of debt	$10.1M	AHC 2019 Financial Statements
Value of the AHC	$421.7M	AHC 2019 Financial Statements
Nominal risk free rate	0.84%	Australian Government Bond 10 Year Yield, 22/4/2020 Bloomberg
Beta represents systematic risk	0.50	Assessed value
Expected market risk premium	6.00%	Generally accepted Market Risk Premium

In the past the cpi rate used in the model has been the cpi rates used by AHC in its LTFP, which is 2.4%. COVID19 has turned the world economies on their head and all previous economic forecast have gone out the window. The most recent forecast of inflation by the Reserve Bank of Australia is cpi of 1.5% for the year ended June 2022[4]. Given the economic downturn that has occurred the downside risk to cpi is much higher than an upside risk and 1.5% is a more appropriate long term cpi figure to use than 2.4%.

[4] https://rba.gov.au/publications/smp/2020/may/economic-outlook.html

The inputs listed in the table above result in a calculated cost of capital of 2.35%. Last year the rate was 3.06%. This change is largely attributable to the reduction in the risk-free interest rate which is now 0.84%, down from 2.63%.

By way of comparison the Australian Energy Regulator publishes Rates of Return each year using the CAPM. Whilst some of the inputs are slightly different, it is a relevant comparison. In December 2019 it published a rate of return of 3.84% nominal, which translates to a real rate of return of 2.31%.

The calculation of the cost of capital can be subject to much discussion. The Local Government Association Information Paper, *CWMS Accounting Principles* suggests that Councils select two rates for the cost of capital, one for a return on assets and another for risk. On past years AHC has used CAPM as it is the method recommended by the NWIPP and it takes much of the subjectivity out of selecting an appropriate interest rate.

2.35% is a reasonable and defensible real rate of return to use in the calculation of the Return on Capital.

CWMS Price Options

Usually calculating the CWSM fees are relatively straightforward. Updating the inputs and maintaining the pattern of transition of fees towards upper bound revenue. However, this year the change in the cost of capital has made the calculation slightly more complex. AHC has been gradually increasing fees towards upper bound revenue, which has been slowly rising. This year upper bound revenue has reduced.

In determining a recommended price three options have been considered. The options are.

Option 1: Price set to achieve upper bound revenue.

Option 2: Price remain unchanged.

Option 3 Increase CWMS income by CPI.

The table below illustrates the impact of each of these options.

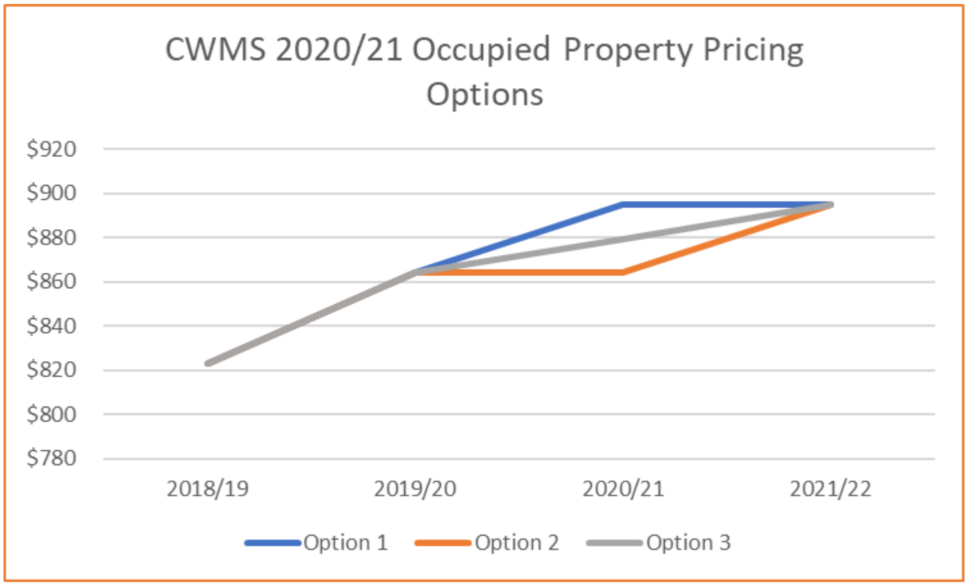
For the purposes of the comparison of different pricing options it is assumed that the unoccupied rate has been decreased from $500 to $450 to continue the reduction towards the calculated cost of $280. This change has minimal impact on the analysis of pricing options as unoccupied properties only contribute approximately 3% of the total value of CWMS fees.

The table below summarises the three options.

	Option 1	Option 2	Option3
Occupied Service Charge	$895.00	$864.00	$879.00
Increase in service charge	$31.00	$0.00	$15.00
Percentage charge in service charge	3.6%	0%	1.7%
Change in revenue	$73,000	$12,000	$42,000
Percentage increase in revenue	4.2%	0%	2.4%
Amount under Upper Bound Revenue	$2,800	$63,800	$34,300

Revenue increases more than the increase in the service charge because the number of properties are expected to increase.

The graph below illustrates the price history and possible trajectory of CWMS prices for occupied properties.



The graph above assumes that prices in 2021/22 will reach upper revenue bound.

The blue line, being Option 1, sees prices rise in 2020/21 and then flatten in 2021/22. Option 2, the orange line, sees a steep increase in prices in 2021/22, whilst Option 3 sees a gradual increase over the next two years. There is nothing to say that this is what Council should do in 2020/21 but it is illustrative of a possible path of CWMS prices.

Due to the reduction in the value of the Return on Capital the upper bound revenue has fallen to within 4% of revenue that would be achieved if prices were unchanged. This is Option 2. From a compliance perspective a 4% difference is reasonable and can be viewed as complaint with the NWIPP and therefore with Council's licence commitment to ESCOSA.

Council could increase the price to $895 (i.e. Option 1), which is probably where it might have been looking to set its price this year, had all other things been equal. Given the impact of the COVID19 pandemic and recent bushfires have had on the community consideration of a smaller increase has merit. To achieve an increase in income equal to the current cpi of 2.4% (i.e. March 2020) would equate to an occupied property price of $879 (i.e. Option 3).

Recommended fees

Two fees have been recommended for occupied properties. Which one is chosen will depend on how much assistance Council wishes to provide to its CWMS customers and what its own budgetary needs are.

The following fess are recommended

Unoccupied properties	$450.00
Occupied properties	$864.00 or $879.00
Capital Connection fee	$5,100.00

About Utintja Consulting

Utintja Consulting is a South Australian consulting firm which specialises in providing financial governance services to local government. The owner, and author of this report, is Alan Rushbrook.

Alan Rushbrook is a Fellow of CPA Australia and has over 25 years local government experience. He has worked for four South Australian councils and during his 10 years working as a consultant he has provided services to most Councils in South Australia, the SA Local Government Financial Management Group, Local Government Association SA, and the Office of State / Local Government Relations. Alan currently provides services to clients throughout Australia.

Appendix 6

CWMS Expansion Review Final Report

Adelaide Hills Council

Community Wastewater Management Scheme

Expansion Modelling Report

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22 November 2019

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Contents

Executive Summary

Utintja Consulting was appointed to undertake modelling for Adelaide Hills Councils to assess the financial viability of extending the existing Community Wastewater Management System.

The modelling used updated engineering estimates of the cost of extending the CMWS to Mylor, Summertown / Uraidla and Inglewood / Houghton. It also used non-binding advice from the Local Government Association (LGA) regarding potential grants. No grants have been approved, and it is unlikely that Council will receive any CWMS grants in the next three to five years. The financial modelling assumes AHC has been successful in receiving grant funding.

The modelling concentrated on one scenario and assumed that unoccupied property charge would be $500 per annum and there would be a $6,100 connection fee.

The significant financial information used in the model is summarised in the table below.

Details	Inglewood Houghton	Mylor	Summertown Uraidla
Number of properties	202	85	278
Capital cost $'m	$7.8m	$2.6m	$9.3m
Potential capital income from grants and property owners	$5.7m	$2.0m	$6.7m
Net Capital to be funded by Council	$2.2m	$0.6m	$2.7m
Annual operating cost per property	$1,930	$1,656	$1,448

If operated as part of the existing Council network the addition of one or more new schemes would put upward pressure on the existing service charges. The exact impact of this would depend on the polices determined at the time of construction but as a guide existing CWMS customers would probably experience fee increases of approximately 11% if the Inglewood / Houghton scheme was installed, no change if the Mylor scheme installed and approximately 7% if the Summertown / Uraidla scheme installed. If all schemes were installed the service charges of existing CWMS customers would increase by 11%

In addition to the impact on service charges there would be an immediate impact on Council's' budget which would affect the wider community. Depending on which scheme is developed the initial negative impact on the Council budget would be between $45k and $150k. However, if prices were transitioned towards 90% of the maximum allowable prices within five years these schemes could, in total, be making a positive impact on the Council budget.

If Council was to identify a priority scheme, presumably in consultation with the community, detailed financial planning could be undertaken to see what opportunities there are to reduce the negative financial impacts of the development of a new scheme.

If Council was to maintain a similar pricing policy to what it currently uses the introduction of two of the three schemes would result in higher prices for existing CWMS customers and an initial negative impact on Council's budget. With a flexible approach to pricing the negative impacts on existing customers could be softened and over time the impact of the new schemes on Council's budget is likely to move from a negative impact to a positive impact.

Introduction

Utintja Consulting was appointed to prepare financial models, undertake scenario modelling and produce a valuation for the Adelaide Hills Council (AHC) Community Wastewater Management System (CWMS). The modelling was required to support Council and Council staff during the assessment of responses to a proposed Request for Tender for the divestment of the CWMS.

The project has several components. The first is a valuation component and the second a scenario modelling component.

This report addresses the second component of the project. A separate report has been provided to summarise the results of the valuation modelling.

Project Scope

The modelling was to assess the financial impact on Council and CWMS customers on the possible expansion of the existing CWMS to Mylor, Summertown / Uraidla and Inglewood / Houghton.

In addition, the project was to provide a series of linked spreadsheets which are easy to follow and able to be easily adjusted for different scenarios.

A collaborative approach between the consultant and staff of the AHC was employed which ensured there was a clear understanding of the business, the valuation philosophy and the inputs into the model.

No consideration was given to the environmental, social, economic and equity issue surrounding the development of new CWMS schemes.

Data

The following data was used during the development of the model:

- Adelaide Hills Council – CWMS Preliminary Costing Updates from Wallbridge Gilbert Aztec and supporting spreadsheets (referred to as WGA Report)
- AHC Preliminary Indicative Subsidy Calcs spreadsheet and accompanying email (Gaylor spreadsheet and Gaylor email)
- AHC Draft 2019-20 Budget (2019-20 BUDGET WASTE AND EMERGENCY MANAGEMENT spreadsheet)
- AHC 2017 Asset data (Sub Divs 12246 - 03 Adelaide Hills Council - Reconciliation Rt 21.09.17 spreadsheet)

Modelling Assumptions

The “base” model used the following assumptions

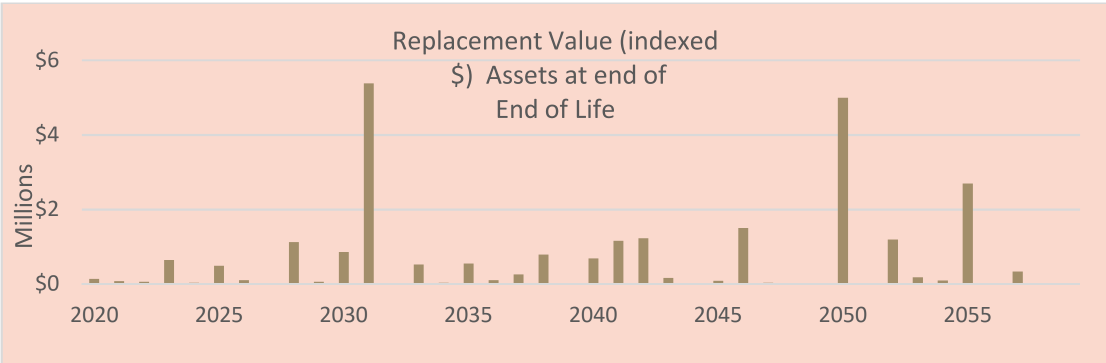
- All figures are in real dollars.
- Base income and expenditure derived from AHC’s draft 2019/20 budget
- Capital expenditure and operating costs derived from the WGA report.
- The Weighted Average Cost of Capital used is 4.21%
- Service Charges were calculated using the methodology set out in the National Water Initiative Pricing Principles as required by the Essential Services Commission of SA (ESCOSA). These principles refer to Lower Bound Revenue, which is the minimum revenue that should be received and Upper Bound Revenue, which is the maximum revenue allowable.
- In the calculation of the service charge, Depreciation expense is reduced by the depreciation attributable to contributed assets. Similarly, the value of contributed assets is deducted from the total value of CWMS assets in the calculation of the cost of capital.
- All funds raised by the CWMS are available for use on the CWMS, excluding the Cost of Capital charge.
- Council does not need to incur addition internal support to operate any or all of the new schemes.
- New loans will have an interest rate of 4.05% and a term of 20 years.
- 95% of all potential existing properties are connected to the scheme and 80% of all properties in the new scheme are connected.
- The unoccupied property charge is set at $500 per property per year.

Existing Scheme

The finances of the exiting CWMS scheme will form the foundation of any future network that AHC may decide to develop. As part of the work undertaken to determine a valuation for the existing CWMS some important information was determined. The following observations should be read in conjunction with the valuation report.

If the CWMS pricing was to be maintained at approximately 90% of Upper Bound Revenue the scheme will operate in a financially sustainable manner. It will be able to fund anticipated capital renewals and operate with a small but consistent operating surplus. Currently AHC's service charges are about 90% of Upper Bound Revenue

Using the existing database of assets the following table illustrates the anticipated capital renewal expenditure required over the next 40 years



Should prices be set at higher than 90% of Upper Bound Revenue significant operating and cash surpluses would be generated.

New Schemes

WGA estimated the construction cost of the schemes using concept plans created in 2009. The concept plans have been updated for legislative and design criteria changes that have occurred in the intervening years, and the cost estimates have been revised.

The capital cost of each of the new schemes is significant as can be seen from the table below.

Details	Inglewood Houghton $'000	Mylor $'000	Summertown Uraidla $'000	Total Capital $'000
Construction costs	$ 7,107	$ 2,359	$ 8,492	$ 17,958
Number of properties	202	85	278	565

An important partner in any expansion would be Local Government Association CWMS Program which coordinates the allocation of State Government funding to assist in the construction of Council wastewater management schemes. Council staff sought information on the size of any potential grants from the CWMS Program from their Program Manager. This advice was received, and understandably it was heavily qualified. In summary, the qualifications were:

- The figures provided were an “officer” opinion and have no formal status with the LGA.
- The figures are speculative due to the nature of the estimates provided.
- The LGA CWMS program would not have sufficient funds to assist AHC with these schemes without additional external support.
- Funds would not be available for at least 3 to 5 years from now (i.e. from 2019).
- Each scheme has a very high per connection cost.

It was also noted in the correspondence that all schemes were in Water Protection Zones which ensures they receive funding priority.

Given these comments, it was decided that it would be too speculative to attempt to establish the likely timing of the construction of any of the schemes. Therefore, all the financial analysis has been undertaken in real dollars with no adjustments for inflation.

In the absence of other external funding, the net capital expenditure required to construct the new schemes would need to be funded by the Council. It has been assumed that a loan would be taken out to pay for this expenditure.

Funding Construction Costs

Most new CWMS schemes are funded through a combination of LGA subsidy, property owner's connection fees and Council funds. A quick investigation of possible grants was undertaken, but no other grant opportunities were identified.

For the purpose of this analysis, the full amount of LGA grant funding was assumed to be available and property owners would be charged a once off fee of $6,100, which is consistent with the current fee.

The spreadsheets used to make these calculations have been provided to AHC. Council staff will be able to manipulate the spreadsheets and change any of the assumptions made in this report and see the impact of those changes.

The Net Capital requirements of each scheme are set out in the table below.

Details	Inglewood Houghton $'000	Mylor $'000	Summertown Uraidla $'000	Total Capital $'000
Total Construction costs	$ 7,107	$ 2,359	$ 8,492	$ 17,958
Capital Income				
State Govt Subsidy fund	$4,433	$1,521	$4,978	$10,932
Augmentation fees	$1,232	$519	$1,696	$3,447
Total Capital Income	$5,665	$2,040	$6,674	$14,379
Net Capital Expenditure	**$1,442**	**$320**	**$1,818**	**$3.580**

Operating Costs

Operating costs for CWMS are funded through service charges charged to property owners who have access to the scheme.

The service charges are calculated to cover the cost of operating the scheme, plus the recovery of capital (i.e. depreciation) plus a charge for the cost of capital. The revenue required to recover operating costs and depreciation is referred to as Lower Bound Revenue and is the minimum that can be charged according to ESCOSA pricing guidelines. Lower Bound Revenue plus the cost of capital is Upper Bound Revenue and is the maximum that can be recovered.

Using the operating costs identified in the WPA report an estimate of the operating cost of each of the schemes was determined

Details	Inglewood Houghton $'000	Mylor $'000	Summertown Uraidla $'000	Total Capital $'000
Annual Operating costs				
Network Maintenance	$21	$11	$25	$57
Utilities	$53	$23	$30	$106
Depreciation	$178	$55	$199	$428
Staffing	$19	$11	$-	$30
Sludge disposal	$29	$12	$36	$77
Monitoring & Compliance	$5		$16	$21
Finance costs	$47	$12	$59	$118
Overhead allocation	$25	$11	$18	$54
Net Operating Expenditure	**$358**	**$124**	**$364**	**$864**

Details	Inglewood Houghton	Mylor	Summertown Uraidla	Total
Annual Net Expenditure per connection	**$1,774**	**$1,461**	**$1,308**	**$1,498**

The operating cost for each new scheme is significant.

The following table shows the range of service charges that would be considered for each scheme if it were to operate on a standalone basis.

Details	Inglewood Houghton $'000	Mylor $'000	Summertown Uraidla $'000
Lower Bound costs			
Net Operating Expenditure	$358	$124	$364
less: Finance costs	-$32	-$7	-$40
less: Depreciation from contributed assets	-$23	-$7	-$26
	$303	$110	$298
Fee per occupied connection	**$1,753**	**$1,494**	**$1,215**
Upper Bound costs			
Lower Bound costs	$303	$110	$298
Cost of Capital	$61	$13	$77
	$364	$123	$375
Fee per occupied connection	**$2,131**	**$1,685**	**$1,561**

This analysis assumes that the schemes are operated independent of each other and of the existing system. The scale of these fees is unlikely to be acceptable to property owners who would be connected to the new schemes. These figures illustrate the high capital and operational costs of each of the proposed schemes

Impact on Network Pricing

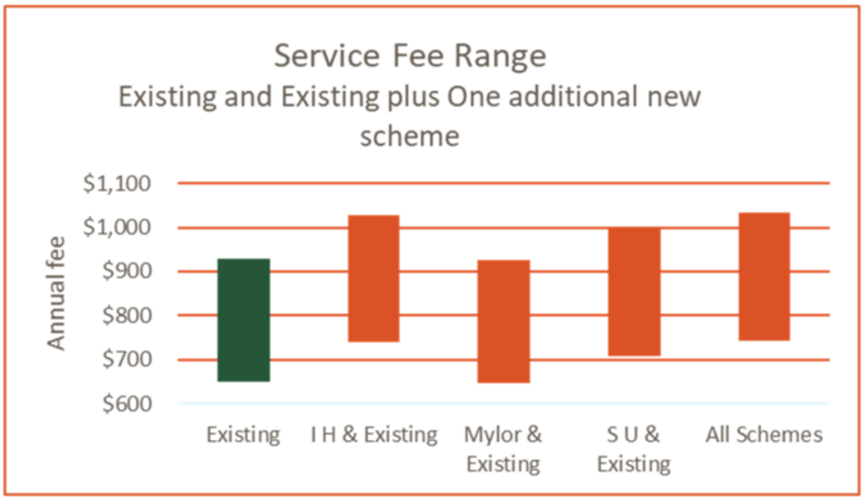
AHC has a policy of setting one price for all of its CWMS operations, a practice called Network pricing. This policy means that those connected to less costly schemes subsidise the property owners serviced by more costly schemes. This a common practice amongst South Australian Councils and is a policy used by SA Water throughout South Australia. It has the benefit of simplicity and helps provide universal access to wastewater infrastructure.

The table below illustrates the potential impact of each new scheme would have individually, and as a group, on the current service charge.

	Existing	Existing scheme plus		
		Inglewood Houghton	Mylor	Summertown Uraidla
Lower bound fee	$649	$740	$647	$708
Upper bound fee	$930	$1,028	$925	$996

If Council were to decide to construct and operate the Houghton / Inglewood scheme lower bound pricing would increase from $621 to $708 and upper bound pricing from $934 to $996.

This is illustrated in the following graph.



This graph shows that for existing CWMS customers there could be a seamless pricing transition when a new scheme is added to the system. The Upper Bound Revenue fee is always more than the fee associated with Lower Bound Revenue when a new system becomes operational.

However, there would then be a period of transition as the fee moves to what would be the new higher fee. The exact amount of the increase would be set by Council.

Assuming the detailed analysis shared earlier in the report was still relevant and a fee of about 90% of Upper Bound Revenue is an appropriate long term target, then existing property owners would probably experience significant fee increases of approximately 11% if the Inglewood / Houghton scheme was installed, no increase if the Mylor scheme installed and approximately 7% if the Summertown / Uraidla scheme installed.

If multiple schemes were installed existing property owners would be looking at a fee increase of about 11% over an extended period to keep the fee income at the 90% benchmark level of Upper Bound Revenue.

Given the new schemes do not require significant asset renewal expenditure in the near future with creative long term planning, the size of these potential increases could probably be ameliorated. For instance, recognising the contribution that the CWMS scheme makes to the AHC budget in the short term there may be an opportunity for the AHC budget to partially fund some of the operating deficits caused by the new scheme. Also, long term cash flows in real terms may identity better long-term strategies.

The development of a new CWMS scheme is likely to have a small positive impact on Council's rates income through increased property values in the area serviced by the new CWMS scheme.

Impact on Council budget

Currently, the AHC Council budget receives a significant annual benefit each year from the CWMS to the extent of approximately $750,000 each year.

The introduction of a new scheme will incur additional expenses for the Council. These expenses would only be partially offset by the additional income from the scheme. As described earlier, except for the Mylor scheme, without a significant increase in the network service charge, it is likely that the additional income would not cover the additional costs. As a result, there would be a negative impact on the Council budget.

The estimated impact on the Council budget is described below.

	Estimated impact on AHC Annual Budget		
	Inglewood Houghton $'000	**Mylor $'000**	**Summertown Uraidla $'000**
Year 1	$(150)	$(45)	$(93)
Year 5	$66	$(55)	$57

This assumes that Council has a policy of Network Pricing and there is a five-year transition to Upper Bound Pricing (i.e. existing CWMS customers service charges increase to the new service charge over a 5 year period).

As these figures are subject to a large number of variables and are only illustrative.

Modelling Options

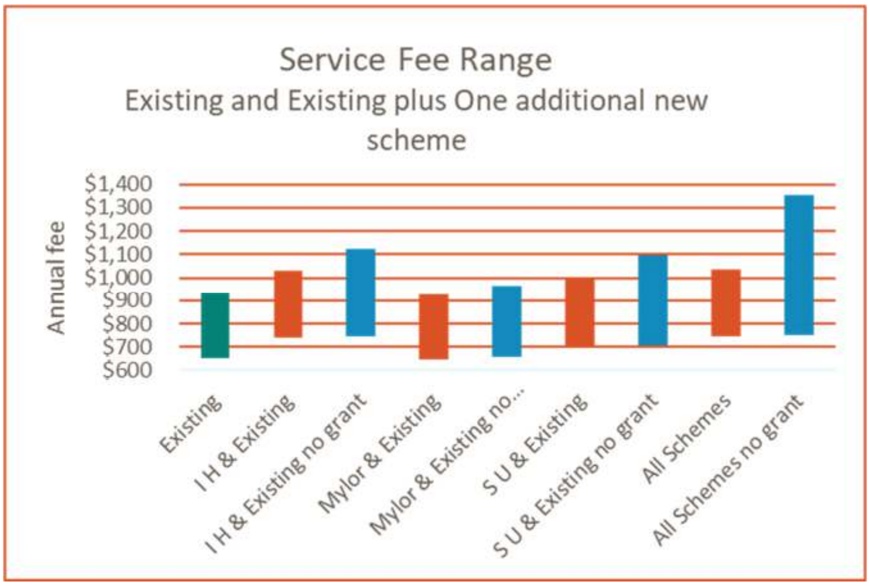
The spreadsheet developed for this project has been provided to AHC. The model provides the opportunity to change a range of assumptions and to see the impact of those changes. For instance, the impact of different connection fees, vacant property charges, number of properties, number of vacant properties, changes in expenses can all be assessed.

No Grant funding

The "baseline" model described above assumes that the Council will receive capital grants from the State Government Subsidy Fund, up to $10.9m for all three new schemes. The model was updated to see what the impact of not receiving any grants .

Without grant funds being available the Council would need to fund the balance of the capital requirements. For all three schemes this would require financing of $16.3m, resulting in average interest payments of $359k per year. This would be less if not all three schemes were constructed.

The new loans would be funded by the service charges on CWMS properties. The graph below compares the Lower and Upper Bound Revenue service charges with and without the grant funding.



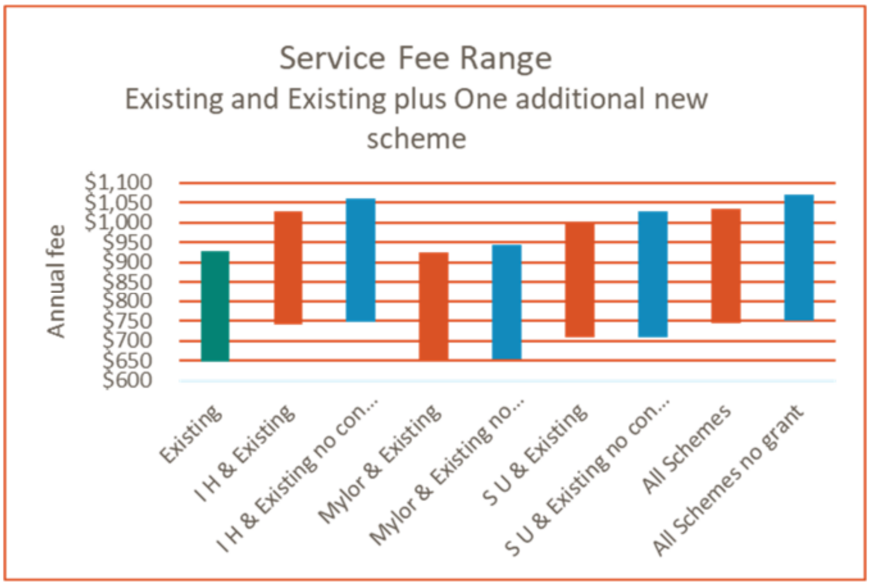
The increase in the Upper Bound service charge that would be required if no grant funding was available is substantial. Using a service charge of 90% of Upper Bound Revenue, the service charges for existing CWMS customers would increase by 29% if Inglewood Houghton scheme was installed, 5% if Mylor was installed, 26% for Summertown Uraidla and 40% if all schemes were constructed.

No connection fee charged to new customers

Another model was developed which changed the “baseline” model by reducing the connection fee of $6,100 to nil $. This would be relevant should the proposed connection fee of $6,100 be considered to be too high for new CWMS customers to pay keeping in mind that they would have to pay additional “on property” expenses to connect to the new scheme.

The impact of no connection fees is less dramatic than no grant funding. The reduction in connection fees results in a loss of income of $3.4m over the three schemes.

The change in the 90% of Upper bound fees is illustrated in the graph below.



Using a service charge of 90% of Upper Bound Revenue, the service charges for existing CWMS customers would increase by 14% if Inglewood Houghton scheme was installed, 1% if Mylor was installed, 11% in Summertown Uraidla and 14% if all schemes were installed.

Summary

The construction of any new CWMS scheme would be a significant undertaking. The operating expenditure resulting from the operation of the new schemes will, in the case of the, Summertown / Uraidla and Inglewood / Houghton schemes, put upward pressure on the current service charge and put negative pressure on the Council’s budget. However, the analysis indicated that the development of these schemes is not beyond the Council’s financial capacity should it receive LGA CWMS scheme funding. While detailed financial planning could identify ways to reduce some of the negative impacts of the new schemes they will, with the expectation of the Mylor scheme, put upward pressure on existing service charges.

If Council was to decide, presumably in consultation with the community, on a priority scheme, detailed financial modelling should be undertaken to ascertain the more precise financial implications as well as investigate opportunities to reduce the potential negative impacts.

Appendix 7

WHS Risk Assessment Table

Work unit/activity being assessed: CWMS | **Assessment conducted by: David Collins and Kim Pearson** | **Assessment date: December 2020**

Context:

Section 1: Risk identification				Section 2: Inherent Risk				Section 3: Controls		Section 4: Residual Risk				Section 5: Risk Evaluation		Section 6: Risk Mitigation			
No	**Risk Statement (use the situation-consequence technique)**	**Causes & Impact**	**Risk Owner**	**Category**	**Consequence**	**Likelihood**	**Risk Rating**	**Details**	**Effectiveness**	**Consequence**	**Likelihood**	**Risk Rating**	**Date of assess-ment**	**Mitigation actions required**	**Next assess-ment no later than**	**Mitigation Action**	**Responsible Officer**	**Due Date**	**Target Rating**
1	CWMS overflow, spill or leak	**Cause**: Rain event, storage capacity, blocked pipe, system failure, power supply failure, unknown. **Impact**: Environmental contamination, EPA non compliance, DH non compliance, risk to public health	Manager Strategic Assets	Environment	Moderate	Likely	High (3B)	Ongoing monitoring - combination of automatic and manual, high level alarms etc in place and monitored . Lagoons at Kersbrook and Birdwood are now managed and monitored by Trility. CWMS Emergency Management and Contingency plan has been developed.	Good	Moderate	Possible	Medium (3C)	1/07/20	Minimum biannual assessment of residual risk required or when causes or controls change or mitigations are implemented. Risk mitigation (treatment) plan optional.	28/12/20	Ensure call out roster is regularly updated and extra staff available for extreme weather predictions. Emergency Management and Contingency Plan has been developed.	Manager Strategic Assets	30/08/21	Medium
2	CWMS - Unplanned system failure or repair required	**Cause**: Old infrastructure, disjointed management, inadequate renewal programs, insufficient budgeting, natural disaster. **Impact**: Unbudgeted expense, Environmental harm, non-compliance, inability to provide service.	Manager Strategic Assets	Finance & Assets	Major	Likely	Extreme (4B)	Annual budget setting, discussions within departments regarding CWMS requirements, asset renewal program. Some works are disjointed and it is possible that renewal/maintenance is not undertaken due to budget considerations.	Marginal	Moderate	Possible	Medium (3C)	1/07/20	Minimum biannual assessment of residual risk required or when causes or controls change or mitigations are implemented. Risk mitigation (treatment) plan optional.	28/12/20	Ensure Operations and Maintenance Manuals for each site are being reviewed. CWMS asset infrastructure renewal should be prioritised near end of life and included in budget planning. Update of CWMS Asset Management Plan	Manager Strategic Assets	30/07/21	Medium
3	CWMS - Loss of/lack of technical skills	**Cause**: Knowledge of systems is held with staff and not documented and/or communicated, lack of trained operators, don't know what our knowledge gaps are. **Impact**: Information lost, potential error, training of new staff will be required, which could take many years.	Manager Strategic Assets	Service Continuity	Major	Possible	High (4C)	SRMTMP has now been completed approved by OTR. Significant operational knowledge held by staff and regular mothly meetings of stakeholder held and documented.	Marginal	Major	Unlikely	Medium (4D)	1/07/20	Minimum biannual assessment of residual risk required or when causes or controls change or mitigations are implemented. Risk mitigation (treatment) plan optional.	28/12/20	Review CWMS internal structure to formalise arrangements and responsibilities of the CWMS Technical Officer on-going. Consideration of dedicated field CWMS officer.	Manager Strategic Assets		Medium
4	CWMS - Stormwater inundation	**Cause**: Rain events leading to stormwater inundation **Impact**: Overload the system	Manager Strategic Assets	Environment	Moderate	Possible	Medium (3C)	Management of some systems in an attempt to ensure there is enough capacity to handle most events. Emergency responses are in place but not formalised or fully effective.	Good	Minor	Possible	Medium (2C)		Minimum biannual assessment of residual risk required or when causes or controls change or mitigations are implemented. Risk mitigation (treatment) plan optional.	28/06/00	Better monitoring of pump stations and lagoons. Alarm systems and on call staff roster formalised and managed. CWMS Emergency and Contingency Plan in place.	CWMS Technical Officer	on-going	Medium

5	CWMS - Lack of management of the woodlot	**Cause**: No dedicated management of the woodlot or inspections, lack of understanding on how to manage woodlot. **Impact**: Runoff to neighbours, inability to use for irrigation.	Manager Strategic Assets	Environment	Minor	Unlikely	Low (2D)	Amount of waste water irrigating the Woodlot has reduced due to other third party irrigators using the waste water from WWTP. Updated WIMP has been developed for the woodlot and Trility manage the site rather than AHC staff.	Good	Minor	Unlikely	Low (2D)	1/07/20	Minimum annual assessment of residual risk required or when causes or controls change or mitigations are implemented. Risk mitigation (treatment) plan optional.	1/07/21	Use of waste water on Woodlot has significantly reduced due to other third party disposal pathways. Update WIMP being developed and water balance to endure the wood lot is not over or underwatered to prevent run off to neighbouring properties. Woodlot being actively managed by Trility as part of the water balance for the Birdwood/ Mt Torrens scheme	CWMS Technical Officer		Low
6	CWMS - Breach of agreement with third party water users.	**Cause**: Lack of understanding of agreements by both parties, third party user not following water reuse plan. **Impact**: Capacity issues, overflows, EPA and DH non compliance, litigation by third party user, risk to public health.	Manager Strategic Assets	Legal & Regulatory	Minor	Unlikely	Low (2D)	Formal agreements in place. Infrastructure is well maintained.	Good	Minor	Unlikely	Low (2D)	1/07/20	Minimum annual assessment of residual risk required or when causes or controls change or mitigations are implemented. Risk mitigation (treatment) plan optional.	1/07/21	Council unable to provide enough water to third party users. Formal agreements are in place however the Birdwood Park agreement needs to be updated. Non compliance is unlikely due to lack of water supply in recent years.	CWMS Technical Officer	30/05/21	Low
7	CWMS - Contract Management failure	**Cause**: Staff not dedicated to contract management, limited contracts in place. **Impact**: Sites not maintained effectively, failure of systems, EPA and DH non compliance, complaints from public, public health risk.	Manager Strategic Assets	Legal & Regulatory	Moderate	Possible	Medium (3C)	Recent focus has been placed on contractor management, with CWMS Technical Officer position created however further work is required. Contract currently in place with Trility to manage Birdwood and Kersbrook whixh is well managed	Good	Minor	Unlikely	Low (2D)	1/07/20	Minimum annual assessment of residual risk required or when causes or controls change or mitigations are implemented. Risk mitigation (treatment) plan optional.	1/07/21	Dedicated CWMS Technical Officer required to manage contracts with Trility, Cleanaway currently adhoc staff overseeing different contracts. Could be managed by CWMS Technical Officer if position retained.	Manager Strategic Assets	30/03/21	Low
8	CWMS - OWH&S issues specific to CWMS - chemical spill at treatment plants, exposure to effluent, working in isolation, falling into pond or chamber.	**Cause**: No specific training for staff, limited Standard Operating Procedures, long working hours overnight. **Impact**: Staff injury, lost time, lost knowledge.	Manager Strategic Assets	Staff Welfare & Engagement	Minor	Unlikely	Low (2D)	Ponds are now secure and managed by Trility. Only trained personnel allowed onsite. Better training for staff on Work, Health and Safety as documented in SRMTMP. Safety equipment at each site.	Good	Minor	Unlikely	Low (2D)	1/07/20	Minimum annual assessment of residual risk required or when causes or controls change or mitigations are implemented. Risk mitigation (treatment) plan optional.	1/07/21	Updating Operations and Maintenance Manuals in progress and limited access to dangerous sites. Ensuring staff training is adequate	Manager Strategic Assets	30/06/21	Low

9	CWMS - Pump failure	**Cause**: unknown cause, not maintained properly **Impact**: Potential overflow	Manager Strategic Assets	Environment	Moderate	Possible	Medium (3C)	Pumps are checked by staff weekly and alarms are monitored 24/7. Pump failures are common and generally dealt with onsite. Contractors used for any major work/upgrades.	Good	Moderate	Possible	Medium (3C)	1/07/20	Minimum biannual assessment of residual risk required or when causes or controls change or mitigations are implemented. Risk mitigation (treatment) plan optional.	28/12/20	Ensuring parts are available when problems arise. Need better remote technological capability on all sites to sort problems out remotely. Preventative maintainence in line with asset renewal policy. CWMS Technical Officer could manage this issue.	CWMS Technical Officer		Medium
10	CWMS - Complaints from neighbours of noise/runoff/smell	**Cause**: Runoff from treatment plant due to lack of woodlot management, lack of inspections/management of the treatment plant and lagoons. **Impact**: Complaints, environmental damage, EPA and DH non compliance.	Manager Strategic Assets	Environment	Minor	Unlikely	Low (2D)	Both waste water lagoon sites are now manged by Trility and reports are sent to Council monthly. Better management practices on site and remediation of sites in line with Environmental Improvement Programs.	Good	Insignificant	Unlikely	Low (1D)	1/07/20	Minimum annual assessment of residual risk required or when causes or controls change or mitigations are implemented. Risk mitigation (treatment) plan optional.	1/07/21	Woodlot is now managed by Trility and runoff, smell and noise no longer an issue.	CWMS Technical Officer		Low
11	SRMTMP Action Operation & Maintenance Manual	Cause: Out of date information regarding operation and maintenance of CWMS infrastructure Impact: This poses a risk to staff safety and may lead to infastructure being operated incorrectly.	CWMS Technical Officer	Staff Welfare & Engagement	Moderate	Unlikely	Medium (3D)	Council has 3 operational staff who have Operational knowledge of infastructure and Trility undertake operations and maintenace of treatment facility infrastructure within an Operations and Maintenance Contract.	Marginal	Moderate	Unlikely	Medium (3D)	3/11/20	Minimum biannual assessment of residual risk required or when causes or controls change or mitigations are implemented. Risk mitigation (treatment) plan optional.	2/05/21	Update current O&M manuals	CWMS Tech Officer	1/06/21	Low
12	Out of Date Birdwood Recycled Water Agreement	Cause: Agreement regarding using recycled waste water from Birdwood WWTP Impact: Many lead to improper use of waste water/breach of licence conditions	CWMS Technical Officer	Legal & Regulatory	Minor	Unlikely	Low (2D)	Historic agreement has been in place for several years without any issues. Council has alternate disposal paths for treatment waste water.	Good	Minor	Unlikely	Low (2D)	3/11/20	Minimum annual assessment of residual risk required or when causes or controls change or mitigations are implemented. Risk mitigation (treatment) plan optional.	3/11/21	Update the Birdwood Recycled Water Agreement	CWMS Tech Officer	1/06/21	Low
13	Review and update the Wastewater Irrigation Management Plan (WIMP) For Birdwood to reflect current practices	Cause: The recycled waste water management practices at Birdwood have changed since the original Waste water irrigation management plan was created. Impact: Failure to manage the re use of recycled water at Birdwood	CWMS Technical Officer	Legal & Regulatory	Minor	Possible	Medium (2C)	The existing WIMP has been in place for many years even though other practices are now taking place onsite,	Good	Minor	Unlikely	Low (2D)		Minimum annual assessment of residual risk required or when causes or controls change or mitigations are implemented. Risk mitigation (treatment) plan optional.	30/12/00	Waste water irrigation plan has been updated to reflect current practices.	CWMS Tech Officer	WIMP has been updated and renewed.	Low
14	SA Water Discharge Agreement	Cause: Lack of formal agreement Impact: Council effluent can't be disposed of into SA Water infrastructure	CWMS Technical Officer	Service Continuity	Catastrophic	Unlikely	High (5D)	Historic agreement with SA Water to accept waste water into council infrastructure	Good	Major	Rare	Medium (4E)		Minimum biannual assessment of residual risk required or when causes or controls change or mitigations are implemented. Risk mitigation (treatment) plan optional.	28/06/00	Formalise Agreement - currently in negotiations with SA Water	CWMS Tech Officer	1/06/21	Low

15	CWMS Asset Insurance	Cause: Assets not insured Impact: Can impact financial cost to council if major damage	CWMS Technical Officer	Finance & Assets	Major	Rare	Medium (4E)	Accept the risk of no insurance	Poor	Major	Rare	Medium (4E)		Minimum biannual assessment of residual risk required or when causes or controls change or mitigations are implemented. Risk mitigation (treatment) plan optional.	28/06/00	Indentify assets for inclusion on asset schedule	CWMS Tech Officer	1/06/21	Low
16	Captial expenditure budget for CWMS assets should include compliance around EM, WHS and customer connections	Cause: Lack of project scope and stakeholder engagement Impact: Poor overall outcome for CWMS investment	CWMS Technical Officer	Community, Social & reputational	Moderate	Possible	Medium (3C)	End of Year process to capitalise expenditure on CWMS infrastructure between Strategic Assets and Civil services	Marginal	Moderate	Unlikely	Medium (3D)		Minimum biannual assessment of residual risk required or when causes or controls change or mitigations are implemented. Risk mitigation (treatment) plan optional.	28/06/00	Improve processes between all council stakeholders involved in CWMS capital expenditure budget to add compliance sign-off as part of Project Management Framework being developed.	CWMS Tech Officer	1/06/21	Low
17	Potential risk of cross contamination of potable and non potable drinking water supply	Cause: Inappropriate pipe infrastructure that allow for cross contmaination of pipework infrastructure Impact: Contamination of potable water supply	CWMS Technical Officer	Community, Social & reputational	Major	Rare	Medium (4E)	Colour coded pipework used and irrigation occurs at night	Good	Minor	Rare	Low (2E)		Minimum annual assessment of residual risk required or when causes or controls change or mitigations are implemented. Risk mitigation (treatment) plan optional.	30/12/00	Review pipe work and signage	CWMS Tech Officer	1/06/21	Low
18	Birdwood Woodlot approval	Cause: No approved waste water disposal pathway for Birdwood Woodlot Impact: Breach licence conditions	CWMS Technical Officer	Legal & Regulatory	Minor	Likely	High (2B)	Irrigate woodlot under assumed retrospective approval	Marginal	Minor	Rare	Low (2E)		Minimum annual assessment of residual risk required or when causes or controls change or mitigations are implemented. Risk mitigation (treatment) plan optional.	30/12/00	Formal SA Health approval has been received.	CWMS Tech Officer	1/06/21	Low
19	Lack of easements with landholders	Cause: No formal agrrement with landholders regarding access to CWMS infastructure located on their property Impact: Ability to operate and maintain infrastructure in timely manner	CWMS Technical Officer	Service Continuity	Moderate	Unlikely	Medium (3D)	Inform residents if access to their property is required to undertake CWMS maintenance. WI Act Regulations protect council to some extent as it allows essential CWMS maintenance to take place	Marginal	Minor	Possible	Medium (2C)		Minimum biannual assessment of residual risk required or when causes or controls change or mitigations are implemented. Risk mitigation (treatment) plan optional.	28/06/00	To create easements across all property with CWMS infrastructure	CWMS Tech Officer		Medium
20	Asset valuation	Cause: No formal process to capture upgrade works Impact: Asset value does not reflect actual assets installed	CWMS Technical Officer	Finance & Assets	Moderate	Likely	High (3B)	Currently have capitalisation process in place and new infrastructure captured in Confirm Asset Management System	Good	Moderate	Rare	Low (3E)		Minimum annual assessment of residual risk required or when causes or controls change or mitigations are implemented. Risk mitigation (treatment) plan optional.	30/12/00	Continue to review and undertake annual capitalisation and review handover forms and process each year to ensure all necessary data captured.	CWMS Tech Officer	on-going	Low
21	Unsewered towns of Mylor, Uraidla, Inglewood and Houghton	Cause: Installation of CWMS in these towns is not likely to be viable if CWMS is in private ownership Impact: Development of these towns could be stymied through lack of suitable wastewater infrastructure and potential for environmental harm through septic tank run off.	Manager Strategic Assets	Environment	Moderate	Likely	High (3B)	Currently Council (Environmental Health) officers undertake assessments on on-site septic tank systems and require non-compliant or leaking systems to be upgraded by property owners.	Marginal	Moderate	Possible	Medium (3C)	1/07/20	Minimum biannual assessment of residual risk required or when causes or controls change or mitigations are implemented. Risk mitigation (treatment) plan optional.	28/12/20	Council will continue to investigate and develop a business case to provide waste water services to these townships	Manager Strategic Assets		Medium

22	Requirement for Trade Waste Policy and agreement with commercial CWMS customers	Cause: No Trade Waste Policy or commercial customer agreements in place Impact: When required difficult to regulate disposal of inappropriate material into CWMS with potential for down stream infrastructure failure or operational issues. Lack of clarity for commercial CWMS customers on what is and is not appropriate for disposal via Council's CWMS	Manager Strategic Assets	Environment	Moderate	Almost Certain	Extreme (3A)	Council officers are aware of the issues and work with SA Water and known high order trade waste commercial customers to reduce the discharge of these trade wastes. Where necessary Council can utilise the Water Industray Act 2012 and Public Health Act legislation.	Poor	Moderate	Likely	High (3B)	1/07/20	Minimum quarterly assessment of residual risk required or when causes or controls change or mitigations are implemented. Risk mitigation (treatment) plan required.	29/09/20	Council to develop and adopt a trade waste policy to assist in the on-going removal of trade waste from the CWMS network.	CWMS Technical Officer	30/09/21	Medium	

Appendix 8

AEP Valuation Summary

I. Executive Summary (cont.)

Preliminary Findings

AEP makes the following preliminary findings in relation to pricing and revenues:

- The current pricing for the CWMS operations (for CoO and RCMB councils) do not fully cover the costs of the schemes and ***may require an increase to provide a commercial return***. The key assumptions is that there is no write-down in current regulatory asset values (RAV).

- The ***low cost of capital environment*** is tempering forward price increases over the short to medium term. This is driven by low government bonds (referred to as the risk-free rate).

- The current pricing environment ***presents an opportunity to enhance pricing and revenue outcomes***, encourage investment in growth, and/or enhance the state of existing assets (if needed).

- A further ***review of operating and capital cost efficiency and revenue recovery*** will maximise the value to councils on a group basis.

- Based on the model outputs it may be likely that a ***fair market valuation may represent a discount to the current RAV*** if:
  - significant fixed costs are embedded in the schemes;
  - vendor base case operating assumptions and forecasts are successfully challenged; and/or
  - pricing to customers are constrained by ESCOSA.

- The ***CoO alternative water business does not currently generate sufficient revenue*** to be commercially viable, and therefore AEP does not recommend selling these assets unless supported by a strong business case. AEP will work with the CoO to complete this assessment.

- A summary of the valuation outputs are shown below:

Asset / Operation	RAV	WUA – NBIO[1]	'19 Business Value2	'20 AEP Value[3]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
AHC - CWMS	14.0	5.5 - 6.0	11.7 - 19.9	10.1 - 13.1
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

***1** Refers to Water Utilities Australia's non binding indicative offer o 29-May-18; **2** Internal business valuation undertaken by each council (where applicable); **3** AEP valuation applying to CWMS schemes reflects both it's baseline ("model") valuation and a control premium valuation by applying a 30% uplift.*

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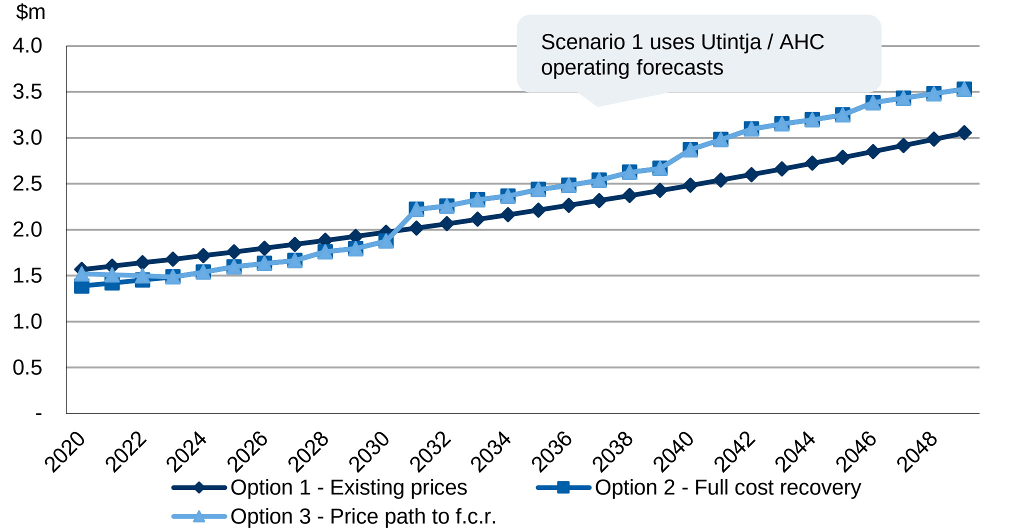
Current pricing for AHC CWMS is consistent with full cost recovery through a long-term cycle

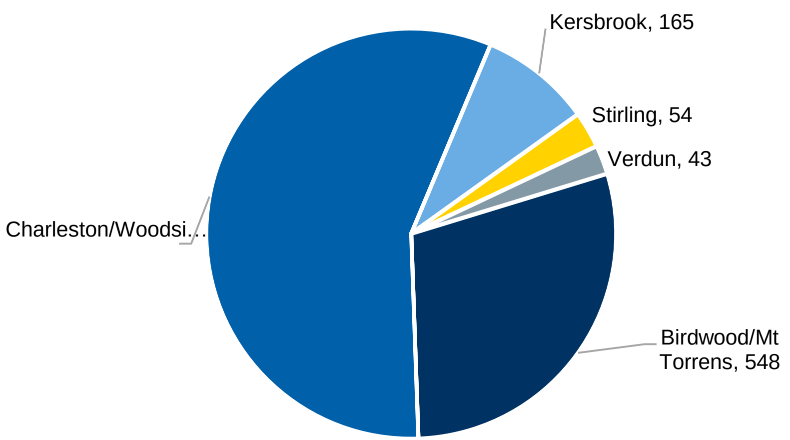
Current Pricing

Item	CWMS
Service Areas	▪ 7 areas
Charge Type	▪ Annual Service Charge (per Property Unit) + Connection Fee (for new developments)
Charge Rate (FY20)	▪ $864 pa. (occupied property); 500 (vacant property) ▪ $6,100 connection fee
Billing Frequency	▪ Quarterly billing
Customer numbers	▪ Residential (occupied): 1,439 ▪ Non-residential (occupied): 274 ▪ Residential (vacant): 85 ▪ Non-residential (vacant): 16

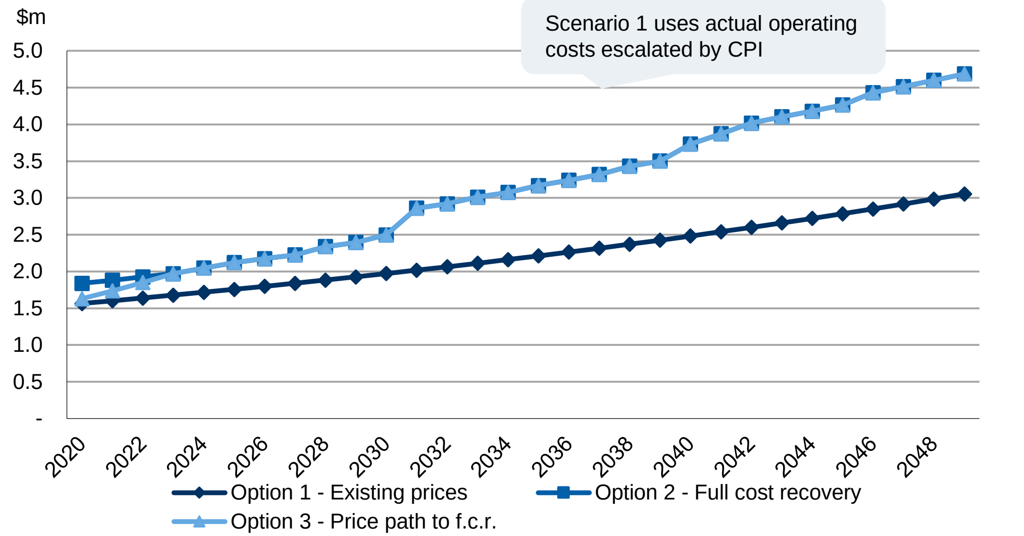
Revenue Path Options – Scenario 1



Customer Connections (FY18)



Revenue Path Options – Scenario 2



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Pricing Options*

Pricing Option	Utinja / AHC – SCEN.1	OpEx (based on actuals) – SCEN.2
Opt. 1: Status quo – retain existing pricing / structure in real terms	Price increases limited to CPI	
Opt. 2: Reset pricing to FCR – e.g., applying from 1-Jul-20	c.11% (one-off) real <u>decrease</u> in prices	c.17% (one-off) real <u>increase</u> in prices
Opt. 3: Gradual price path to FCR	c.3% pa. real <u>decrease</u> over 4 years	c.4% pa. real <u>increase</u> over 4 years
Opt. 4: Mirror SA Water's statewide pricing structure	tba. (capital values per property to be provided)	tba. (capital values per property to be provided)

Options 2 & 3 (under scenario 1) contemplates real decreases in current prices, but overall is aligned to long-term full cost recovery.

Value Outcomes*

Pricing Option	EV & RAVx – SCEN.1	EV & RAVx – SCEN.2
Opt.1 - Status Quo	$9.52m (0.68x RAV)	-
Opt.2 – Full cost recovery*	$10.22m (0.73x RAV)	$10.33m (0.74x RAV)
Opt.3 – Price path to FCR	$10.43m (0.75x RAV)	$9.90m (0.71x RAV)
Opt.4 – SAW Statewide pricing structure	tba.	tba.

* *The analysis does not assume any write-down to the RAV*

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3. CWMS Divestment – Period of Confidentiality

Subject to the CEO, or his delegate, disclosing information or any document (in whole or in part) for the purpose of implementing Council's decision(s) in this matter in the performance of the duties and responsibilities of office, Council, having considered Agenda Item 18.2 in confidence under sections 90(2) and 90(3) (d) of the *Local Government Act 1999*, resolves that an order be made under the provisions of sections 91(7) and (9) of the *Local Government Act 1999* that the report, related attachments and the discussion and considerations of the subject matter be retained in confidence until 30 July 2021.

Pursuant to section 91(9)(c) of the *Local Government Act 1999*, Council delegates the power to revoke the confidentiality order either partially or in full to the Chief Executive Officer.