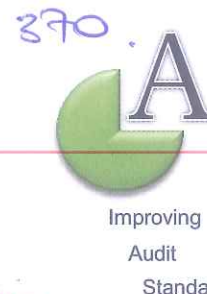


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ABN 37 158 328 655



10 November 2015



Mr Wayne Hart
Chief Executive Officer
District Council of Mount Remarkable
PO Box 94
MELROSE SA 5483

| | |
|--------------|------------|
| Mail Item: | C2015-6285 |
| File Ref: | DCMR0223 |
| Agenda Item: | |
| Meeting: | |
| Copy to: | |
| | |
| | |

Dear Wayne,

Please find enclosed the finalised Prudential Review Reports for the Wirrabara CWMS scheme.

If further information is required please do not hesitate to contact us.

Yours sincerely,



Ian McDonald

Enc.

234 Waymouth St
Adelaide SA 5000

PO Box 75
Henley Beach SA 5022

☎ 0419 620 906 / 0408 832 848
☎ 08 8356 6397

✉ ianmcdonald@creativeauditing.com.au

✉ nancytran@creativeauditing.com.au

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Auditing Pty Ltd.
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District Council of Mt Remarkable

Prudential Review

Wirrabara Community Wastewater Management System

Ian G McDonald FCA
Chartered Accountants
234 Waymouth Street
ADELAIDE SA 5022

November 2015

www.creativeauditing.com.au

234 Waymouth St
Adelaide SA 5000

PO Box 75
Henley Beach
SA 5022

Mobile 0419 620 906
0408 832 848
Facsimile 08 8356 6397

ianmcdonald@creativeauditing.com.au
nancytran@creativeauditing.com.au

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1. Introduction

The District Council of Mount Remarkable (Council) intends to construct a community wastewater management scheme (CWMS) for 180 allotments in the town of Wirrabara. There will also be a wastewater treatment plant (WWTP) located at the existing transfer station site, with a winter storage lagoon sited opposite. Land has been purchased for this purpose. Treated wastewater to be used in lieu of potable water on the town oval. The system is linked to Council's recently-constructed stormwater capture and re-use system to produce a total integrated water strategy for Wirrabara.

The estimated construction cost is \$4,110,000. Council's contribution will be approximately \$500,000.

2. Prudential review legislative requirements

Section 48 of the Local Government Act 1999 requires that Council obtain and consider a report that addresses the prudential issues set out in subsection (2) before the Council engages in any project where the expected capital cost of the project over the ensuing five years is likely to exceed 20% of average annual operating expenditure as is the case with this project.

3. Relevant strategic management plans

Council's existing strategic plan is for 2008 to 2020. The relevant sections of the strategic plan are as follows:

5. BUILT AND NATURAL ENVIRONMENT

Attaining Sustainability There is strong evidence, now accepted by the broader community, that mankind's population growth, industrial expansion and resources use is contributing to climate change and will ultimately make the planet an unfriendly environment for us. We have a duty as custodians for future generations to ensure our environments are healthy and our ways of life are sustainable. We must alter our activities to stop further damage to the environment, and adjust our behaviours and lifestyles accordingly.

6. INFRASTRUCTURE AND ASSETS

Developing the Foundation for Our Future a range of reliable infrastructure is required to cater for the current and future transportation, communication, water, electricity and quality of life needs of our residents, businesses and communities. We acknowledge that Council has a leadership role in encouraging the adoption of alternative

technologies and sharing of facilities and resources, to deliver infrastructure and services in a sustainable and environmentally sensitive manner.

Included are the following strategies;

6.8.2. Prepare, implement and maintain a management plan for the harvesting and re-use of township stormwater water run off 6.8.3. Introduce CWMS (Community Wastewater Management Schemes) at Pt Germein, Wirrabara and Pt Flinders

6.8.5. Investigate methods of management and re-use of "grey water" for town parks and recreational areas 6.8.6. Pursue funding from State and Federal Governments for water conservation and re-use initiatives

6.8.8. Investigate, implement and participate in appropriate water conservation activities to reduce water usage within communities

6.8.12. Investigate options to develop and implement sustainable water supplies to meet community and economic growth demands 6.8.13. Work with government and agencies to ensure the sustainability of existing water supplies

4. Development plan compliance

The WWTP and winter storage lagoon require Development Assessment Commission (DAC) approval. However these cannot be obtained "up front" because they involve actual design details, which form a part of the WWTP contract scope of works.

Regardless, if any changes are required in order to achieve DAC approval, these will be funded by the Subsidy Fund and will not increase Council's capital exposure.

5. Other legislative requirements

Currently the Environment Protection Agency (EPA) does not require specific licences and approvals to operate an effluent treatment facility of this size in this region. Council does need to consider its public health responsibilities in relation to the treatment of effluent.

6. Economic development impact

A significant improvement in the amenities for residential property.

7. Community consultation

The proposal was presented to a public information meeting in the Wirrabara Hall on Thursday 26th February 2015. It is designed to collect, treat and dispose of sewage from those properties in the township of Wirrabara.

The community demonstrated an overwhelming desire to have the scheme installed, for the future well-being and attraction of the town. The public information meeting ended with a standing ovation by the residents and landowners of the announcement of Council's desire to proceed.

8. Potential risks

The main economic risk is the community's capacity to pay the ongoing service rates. This includes the risk of financial hardship for some individual ratepayers.

The risk of Council taking no action is the additional costs to the community of not meeting public health and environmental obligations.

9. Potential Revenue

No potential revenue streams for the CWMS have been considered in the funding models over and above annual service charges applied to all serviced properties.

10. Financial assumptions

Any financial model contains assumptions. Below (Table 1) is a brief explanation of the assumptions used to prepare the financial plan.

Table 1 – Assumptions to the model

| Assumption | Quantity | Description |
|----------------------------|-----------------|--|
| Consumer price index (CPI) | 3% | Inflation rate |
| Separate rate increase | 3% | In line with the CPI |
| Interest rate on loans | 6.0% | Borrowing interest rate |
| Term of loan | 20 years | Period over which loans are to be repaid |
| Connection fee | \$170 | Capital contribution for new connections |

| | | |
|--------------|-------|-------------------------------|
| Service rate | \$550 | 2015/2016 annual service rate |
|--------------|-------|-------------------------------|

11. Financial plan

The funding of the project is being sourced as follows:

Table 2 – Funding source for project

| Source | \$ |
|-----------------------|--------------------|
| LGA CWMS Subsidy Fund | 3,655,000 |
| Loan funding | 455,000 |
| Total | \$4,110,000 |

A ten year financial plan has been prepared based on the above assumptions (refer to attachment one). Below is an explanation of the terms in the plan:

Operating expenditure – this is what it costs to operate the service without allowing for financing costs nor the depreciation of assets.

Interest on loans – this is the financing costs of the loans taken out to fund capital expenditure.

Depreciation – assets purchased to aid with the provision of a service only have a limited life before they need to be replaced. Depreciation represents the cost of using the asset over its life.

Support services allocation – external financial reports produced by Council must include an appropriate allocation of administrative overhead for each function.

Operating income – this represents any revenue generated by the provision of the service including the service rates and charges raised.

Operating surplus/(deficit) before capital amounts – income less expenditure before capital amounts.

Capital income – this is any revenue specifically for new or upgraded assets. Generally this would be grants received from State or Commonwealth Governments or contributions by developers to help fund new assets.

Net surplus/(deficit) – all income less expenditure. This represents the net surplus that can be used to fund capital expenditure and loan repayments or the deficit that will need to be funded from general rates.

Capital expenditure existing assets – the amount spent to renew or replace existing assets.

Capital expenditure new assets – the amount spent on new or upgraded assets.

Add back depreciation – income received to offset depreciation expense does not have to be spent until the asset needs to be replaced. As this may not be required for some time these funds can be used for other services thereby reducing the reliance on general rates income.

Loans – funds that need to be externally sourced. If further grant funding can not be found the funds will need to be borrowed.

Loan repayments – scheduled loan repayments for any loans drawn.

Net impact on budget – this is the surplus that can be used to fund other services or the final deficit after capital expenditure that will need to be funded from general rates.

12. Financial viability

An annual service rate of \$550 has been used in the financial plan (refer to attachment one) which will cover the cost of the scheme.

13. Risk management

The project addresses a current risk for Council which is that there are a significant number of existing septic tanks in the township area which are malfunctioning or the associated soakage trenching is no longer serving its purpose. This is evidenced by periodic sewerage spillages and significant odour concerns.

14. Report preparer qualifications

I, Ian G McDonald, am a Fellow Chartered Accountant and registered company auditor with thirty five years of specific local government financial experience. This included the responsibility for the external audit of over fifty percent of the local governments in South Australia together with regional subsidiaries and commercial enterprises.

15. Presentation of report

This report must be made available for public inspection at the principal office of the Council.

However, Council may take steps to prevent the disclosure of specific information in order to protect its commercial value or to avoid disclosing the financial affairs of a person (other than the Council).

16. Conclusion

Malfunctioning septic tanks and periodic sewerage spillages resulting in rancid odours have an adverse effect on the public health and environment within the Council areas. The CWMS project addresses this current risk for Council. Using the assumptions to model the scheme, if an annual service rate of \$550 is used, there will be a small budget surplus.

Attachment One – Long term financial plans

DISTRICT COUNCIL OF MT REMARKABLE- WIRRABARA CWMS

| | | |
|----------------------|----|-----|
| Service Rate | \$ | 550 |
| Capital Contribution | \$ | 170 |
| Life of CWMS | | 50 |

| YEAR | 2016 (\$000) | 2017 (\$000) | 2018 (\$000) | 2019 (\$000) | 2020 (\$000) | 2021 (\$000) | 2022 (\$000) | 2023 (\$000) | 2024 (\$000) | 2025 (\$000) | 2026 (\$000) |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Operating Expenditure - Maintenance | | 55 | 57 | 58 | 60 | 62 | 64 | 66 | 68 | 70 | 72 |
| Interest on Loans - CWMS | - | 28 | 28 | 27 | 26 | 25 | 24 | 23 | 22 | 21 | 19 |
| Depreciation - CWMS | | 82 | 85 | 87 | 90 | 93 | 95 | 98 | 101 | 104 | 107 |
| Operating Expenditure | - | 166 | 169 | 172 | 176 | 179 | 183 | 187 | 191 | 194 | 198 |
| Operating Income | | (99) | (103) | (108) | (113) | (118) | (123) | (129) | (135) | (140) | (147) |
| Operating Deficit/(Surplus) Before Capital Amounts | - | 67 | 65 | 64 | 63 | 61 | 60 | 58 | 56 | 54 | 52 |
| Capital Income | (3,633) | (31) | | | | | | | | | |
| Net Deficit/(Surplus) | (3,633) | 36 | 65 | 64 | 63 | 61 | 60 | 58 | 56 | 54 | 52 |
| Capital Expenditure New Assets | 4,110 | - | - | - | - | - | - | - | - | - | - |
| Add Back Depreciation | - | (82) | (85) | (87) | (90) | (93) | (95) | (98) | (101) | (104) | (107) |
| Add Loans | (477) | - | - | - | - | - | - | - | - | - | - |
| Less Loan Repayments | - | 13 | 14 | 14 | 15 | 16 | 17 | 18 | 19 | 21 | 22 |
| Net Impact on Budget | - | (33) | (6) | (9) | (12) | (15) | (18) | (22) | (26) | (30) | (34) |
| <i>Number of Occupied Assessments</i> | | 180 | 183 | 185 | 188 | 191 | 194 | 196 | 199 | 202 | 204 |
| <i>Service Rate per Assessment</i> | | 550 | 567 | 583 | 601 | 619 | 638 | 657 | 676 | 697 | 718 |