

10.2 Waterproofing the South - Update

Consideration of letter of offer from National Water Commission for the implementation of Waterproofing the South Stage 1 and the current status of its rescoping given the lower than requested funding offer.

This is an update on a previously reported project, concept or issue.

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Contact Number:	8384.0621
File Reference:	
Attachments:	1 (6 pages – ARUP Review of Waterproofing the South)
	2 (2 pages - National Water Commission Letter of Offer)
	3 (19 pages – Marsden Jacobs Report)
	4 (1 page - DWL&BC response to Letter of Offer)
	5 (2 pages – Legal advice regarding accepting Letter of Offer)
	6 (2 pages – Draft acceptance of NWC Letter of Offer)

1 Executive Summary

1.1 Topic

Consideration of letter of offer from National Water Commission for the implementation of Waterproofing the South Stage 1 and the current status of its rescoping given the lower than requested funding offer.

1.2 Context

Council last considered WPS at the meeting of 7 August 2007 and resolved as follows:

- *That the report on Waterproofing The South be received and noted, the actions of Council staff be endorsed and that the potential role of Council in the implementation of WPS be acknowledged.*
- *Council note that the significant shortfall of \$18.5 million in projects funds and seeks to move forward with its partners in discussions with the National Water Commission.*

Since the Council meeting a series of meetings have been held with the consortium members to:

- Determine whether WPS Stage 1 could be completed with the funding offer of \$34.5 million. Our consultants ARUP have concluded that, despite the identification of duplication and savings related to more efficient procurement, when escalation of costs over the life of the project (4 years) are considered the savings are eliminated. (ARUP's findings are provided as attachment 1)
- Prepare a rescoped WPS which can be delivered for the reduced subsidy.

We have met with NWC on two occasions to determine their objectives in more detail particularly in relation to project governance (9 August 2007) and to meet with the parties to determine acceptable parameters for a rescoped WPS (5 September).

1.3 Suggested Outcome

Council accept the National Water Commission Letter of Offer of 9 July 2007 and we continue to develop a rescoped WPS Stage 1 with the consortium members and NWC for approval by Council.

2 Recommendation(s)

1. That

- a) under the provisions of Section 90(2) of the Local Government Act 1999 an order be made that the public be excluded from attendance at the meeting in order to consider in confidence this item.**
- b) the Council is satisfied that it is necessary that the public be excluded to enable the Council to consider the report at the meeting on the following grounds:**
 - (b) information the disclosure of which -**
 - (i) could reasonably be expected to confer a commercial advantage on a person with whom the council is conducting, or proposing to conduct, business, or to prejudice the commercial position of the council; and**
 - (ii) would, on balance, be contrary to the public interest;**
 - (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;
 - c) That 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 or discussion confidential.
2. That the report on Waterproofing The South be received and noted
 3. That Council accept the Letter of Offer from the National Water Commission on the following basis:
 - **Condition 1:** Council has received written assurance from the State Government that the State Minister for Environment and Conservation formally adopted the current revised McLaren Vale Prescribed Wells Area Water Action Plan (WAP) on 17 February 2007. This WAP maintains allocations within limits set by the sustainable yield as it is currently understood and is therefore considered to establish sustainable levels of extraction. (The WAP is required to be reviewed at least once every five years under the *Natural Resources Management Act 2004* when further refinements and adjustments may be made to reflect possible impacts from climate change and other emerging issues).
 - **Condition 2:** once these standards (National Water Initiative environmental water accounting) are agreed that they will be able to be undertaken in a cost effective manner for Council.
 - **Conditions 3 and 4:** on the understanding that no additional costs will be generated for the Council (in accordance with the Prime Minister's undertaking that the National Plan for Water Security will not generate additional costs for the States).
 4. That we continue to develop a rescoped Waterproofing the South Stage 1 with the consortium members and the National Water Commission.
 5. That a further report be brought back to Council seeking its consideration of the National Water Commission Funding Deed for the rescoped Waterproofing the South.
 6. That an order be made under the provisions of Section 91(7) and (9) of the Local Government Act 1999 that the abovementioned document (or part of such document) including the minutes and

the report of the Council relating to discussion of the subject matter of that document, having been dealt with on a confidential basis under Section 90 of the Act, should be kept confidential on the grounds of information contained in 90(3)(b), 90(3)(d) until negotiations with the NWC are completed and Council has determined its position on the Funding Deed.

Key Factors

3 Discussion

3.1 NWC Offer and Objectives

The offer to Council dated 9 July 2007 is provided as Attachment 2. The NWC has since advised that the offer of \$34.5 million is contingent upon all eleven project elements being delivered. Whilst they recognise that there is an \$18.5 million shortfall in the funding requested their assessment is that WPS can be delivered with this subsidy. This assessment is based on the Marsden Jacobs Report (provided as attachment 3) which was commissioned by NWC to determine the quantum of assistance to be provided to WPS. Discussions with NWC on 5 September concluded the following:

- Rescoping needed to retain the basis of the original submission:
 - An integrated project
 - Demonstration of collaboration between 3 levels of government;
 - Public and environmental benefits (eg improvement in stormwater quality and reducing discharge to the marine environment);
 - Close as possible to the retention of the 11 projects; and
 - Significant water reuse ie close to the 4.4 gigalitres in the submission.
- Rescoping, which reduced the outcomes initially put forward, would need to be accompanied by a critique of the Marsden Jacobs Report outlining why it is considered that the estimate of \$34.5 million as sufficient to complete WPS Stage 1, to be flawed. NWC have advised that all grant funds from the National Water Initiative are fully allocated. The Marsden Jacobs Report was the basis upon which the quantum of \$34.5 million was considered sufficient by NWC for Waterproofing The South Stage 1 to be delivered.
- Deadline remains at 30 June 2010 for the commitment of NWC funds.

The Department of Water, Land and Biodiversity Conservation (DWLBC) has provided advice on the conditions of offer to Council (provided as attachment 4). Acceptance of the letter of offer does not bind Council to

accepting the funding deed with the NWC which is yet to be negotiated (refer attachment 5 for legal advice on acceptance).

3.2 Waterproofing the South Rescoped

Original Submission

The original Waterproofing the South (WPS) submission comprised 11 project elements which collectively sought to increase reuse capacity by approximately 4,470 ML/annum and contribute substantially to improving the water quality in the river systems and marine environment. This improvement was, in part, to be achieved by a 50% reduction in the outfall from Christies Beach Waste Water Treatment Plant.

The WPS submission sought matching grant funding from the Federal government National Water Initiative. As part of this proposal Council had an in-principle commitment of \$5,237,400 of which \$3,828,500 was intended to be delivered by means of a build, own, operate, transfer scheme.

The Federal government through the NWC subsequently offered grant funds of \$34.5 million to fund the proposal. This offer was based on an analysis undertaken on behalf of the NWC by Marsden Jacobs which concluded the project could be delivered with the reduced grant funding due to the commercial nature of several projects.

ARUP Rescoping

ARUP was retained to determine whether the project could be delivered within the reduced funding expectation. The ARUP conclusion was that the benefits of rescoping were offset by increased costs arising from price escalation since the original submission was lodged. This is detailed in Attachment 1.

The exercise has identified one project element, Sellicks Beach effluent reuse, that is not capable of being delivered within the NWC timeframes. This project will be pursued separately through, either SA Water sewerage or a Septic Tank Effluent Disposal Scheme.

The ARUP rescoping exercise determined that the consortium members would need to make a greater financial contribution than originally envisaged in order to deliver the WPS project as originally conceived.

Consortium Rescoping

The consortium members have each given consideration to rescoping the various projects and the distribution of grant funds to achieve the WPS objectives.

It appears as though the project is technically capable of being delivered. The remaining question is whether the parties can agree on the allocation of grant funds to deliver the various projects.

The status of the various projects is summarised below.

No.	Description	Status
Foundation elements WBWC network		
1.1	expansion and capacity upgrade	Increase in volume of water for reuse possible.
1.2	balancing storage Willunga storage dams	Originally to be funded proportionally by Willunga Basin Water Company (WBWC) and Council. WBWC hold the view that the delivery of Urban Reuse can only occur if Council, or the agency delivering urban reuse, provides sufficient storage capacity to ensure there is no reduction in their supply of water from the Christies Beach Waste Water Treatment Plant (CBWWTP) during irrigation periods. Storage needs to be on a one for one basis ie for 1 kilolitre stored for every kilolitre distributed.
1.3	Aldinga effluent reuse	SA Water evaluating options to provide urban reuse as part of this project.
Integration and support elements Water recycling and reuse		
1.4	Urban water recycling	SA Water officers have indicated an interest in delivering urban reuse, linked to rescoping of 1.3. However, it should be noted that without the creation of additional storage the ability to further expand urban reuse will be constrained. The Seaford area and further south is recognized as having the greatest potential for reuse.
1.5	Willunga effluent reuse	Unchanged
1.6	Sellicks Beach effluent reuse	Project unable to be delivered as part of WPS due to timeframes for completion set by NWC.
1.7	Willunga STEDS trade waste reuse	Rescoped with reduced capital requirements to reflect lower demand than originally anticipated.

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1.8	McLaren Flat stormwater capture and reuse	Unchanged.
1.9	Christie Creek water quality improvements, stormwater detention & reuse	We have maintained this must be substantially delivered as part of any rescoped submission

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1.10	Christies Beach waste water treatment plant quality upgrade	SA Water rescoping to consider urban reuse at Aldinga
Research and development		
1.11	Environmental flows to the Onkaparinga River	Unchanged

WBWC has put forward a proposal for the transport of CBWWTP treated wastewater for reuse at Langhorne Creek which has formed part of the rescoping.

Conclusion

The process of rescoping WPS Stage 1 has highlighted a number of options by which to achieve the NWC objectives. The net result is that the original reuse volumes as originally proposed may be achieved with the loss of only one project ie Sellicks Beach Reuse. However, there still remains further engineering review to finalise the rescoping and commercial negotiations between the parties to determine the distribution of the grant funding.

It is therefore considered appropriate to accept the NWC letter of offer (draft acceptance letter provided as attachment 6).