



MEMORANDUM

TO: Mayor, Jenny Dowell
All Councillors
General Manager, Paul O'Sullivan
Executive Directors

FROM: Strategic Engineer – Water & Wastewater

DATE: 19 February 2010

FILE: EF09/2511 : ED10/2859

SUBJECT: **Southern Trunk Main Wastewater Project - Addendum to Report**

Councillors

The report entitled *Southern Trunk Main Wastewater Project*, as published in the business paper for Council's Extraordinary Meeting of 23 February 2010 provides an overview of the Southern Trunk Main and recent developments in the implementation of this project. This addendum to the above report provides an update of information received regarding the project since the earlier report was written.

Additional information received comprises a final proposal from NSW Public Works for provision of project management services for this project, a revised project schedule and a revised project estimate commissioned by Public Works.

Final Proposal Received from Public Works

At the time of writing the earlier report Council had received a draft proposal for the provision of project management services from NSW Public Works. A final proposal has now been received, including a fee proposal. An amended program schedule has also been received confirming that it is feasible to complete the project within timelines specified by State Government funding guidelines.

The fee proposal covers project management services for all pre-construction activities and completion of surveys, geotechnical assessments, detailed designs, contract documentation, environmental assessment, and property and easement acquisition. It does not include supervision of construction of the project. Once pre-construction activities are complete Council could choose whether to supervise construction using its own engineering staff or seek a further proposal from NSW Public Works to provide this additional service.

The estimated fee for providing the services listed above is \$890,015. While a significant amount, when compared to the estimated overall cost of the project, the amount is within accepted benchmarks for provision of such services for major projects.

The engagement of NSW Public Works to provide project management for this project has several advantages. These include:

- Under Section 55 of the *Local Government Act*, Council is able to engage NSW Public Works to undertake this work without having to go to open tender. Similarly, other government agencies such as NSW Water Solutions and State Property can be engaged in a similar manner, as per the proposal submitted by NSW Public Works. This provides considerable savings in time which, given the strict timeline dictated by State Government funding guidelines, is crucial.
- NSW Public Works has considerable experience and expertise in the implementation of major capital projects, particularly with respect to property and easement acquisition. Through recent involvement in such projects as the Shannon Creek Dam, they can also offer innovative arrangements with respect to contracting of works which are likely to result in reduced costs and improved timelines.
- Engaging Public Works as experienced and proven project managers may enhance Council's case if negotiations with the State Government are necessary.

The recommendation within the earlier report regarding engagement of NSW Public Works to provide project management services for this project is confirmed.

Revised Project Estimate

A revised project estimate has been commissioned from consultants, MWH Australia. MWH was responsible for undertaking the initial computer modelling of the capacity of the Goonellabah sewerage system and subsequent preliminary modelling of the Southern Trunk Main project. The revised cost estimate makes use of the results of this preliminary modelling (ie, indicative pipe and pump station sizes, etc), which was completed in late January 2010.

The revised cost estimate for the project, provided by MWH, is approximately \$15 million. This compares to the current budget within *Council's Strategic Business Plan for Wastewater Services* of \$7.3 million. Council staff have reviewed this cost estimate and consider it to be overly conservative. It includes a 40% contingency allowance and some mains construction is not essential at this stage. A figure of \$12 million is considered to be a more realistic estimate. Greater certainty regarding the cost of this project will become available as investigation and design of the project proceeds.

It is natural that questions be asked as to why the budget included in Council's Strategic Business Plan (SBP) is so different from the current estimate. At the time of preparing Council's current SBP in late 2007/08 the estimate prepared for the Southern Trunk Main was based on the best information available at the time. It has only been in the past six months that a more detailed understanding of the loadings to which the Southern Trunk Main will be subjected to has been developed. The application to the State Government for an interest free loan was lodged in August 2009 and sought a loan of \$6 million with a Council contribution of \$1.3 million. A clear commitment to bring forward the Southern Trunk Main was made in December 2009, following the completion of initial analysis of Goonellabah's sewerage capacity. This decision was made based on the best return for the infrastructure investment. The decision was not driven by the quantum of the investment. Subsequent modelling and development of an initial concept design for the Southern Trunk Main was only completed in late January 2010.

The decision to fast track the main will have contributed to cost increases over a more normal project timeline. Increases related to fast tracking the main will be offset by benefits arising from interest free funding provided by the State Government. The current estimates of project costs also include significant costs associated with survey, investigation, design and contract management. All of these tasks are now proposed to be undertaken externally by consultants. Under normal circumstances some of these tasks would have been undertaken in-house and covered through existing salary allocations. The revised project budget also contains a higher than usual contingency allowance of 30%. This is recommended due to uncertainty still surrounding the route of the STM, land acquisition costs and the fact that detailed design is yet to be completed.

The strategic need for the Southern Trunk Main, as outlined at Council's workshop of 19 October 2009 and subsequent reports to Council, remains unchanged. As outlined in the report published within the Business Paper for Council's Extraordinary Meeting of 23 February 2010, modelling has confirmed the Southern Trunk Main to be an effective strategy for servicing future growth within greater Lismore for the next 15-20 year planning horizon. The need to construct the Southern Trunk Main has not diminished and failure to act would jeopardise the future growth of Lismore. The project should proceed, and the offer of State Government funding provides further impetus to continue now. However, consideration must be given to the financial implications of the increase in budget and associated impacts on Council's Strategic Business Plan (SBP). Financial analysis and modelling of these impacts will be required to identify options to amend the SBP.

At its December 2009 meeting Council had resolved that a report be submitted to Council in March 2010, providing a timeline for completion of major capital wastewater projects. Given that the review of the SBP may affect the timeline of various capital works, it is recommended that submission of the report requested in December be delayed and be included in the report on the review of the SBP.

Comments

Financial Services

Financial modelling has been undertaken based on a Total Project Cost \$12,000,000 and an Interest Free Loan \$6,000,000.

Interest Free Loan

When comparing the

- a) offered interest free 10 year loan plus a standard 10 year loan to the
- b) standard 20 year loan, the interest free loan option results in an estimated \$4.7 million savings to Council.

Strategic Business Plan for Wastewater Services

The *Strategic Business Plan for Wastewater Services* was updated as part of the 2009/10-12 Management Plan and again in December 2009 when the Southern Trunk Main was brought forward and Clunes Wastewater Scheme deferred. As Wastewater Services is a 'user pays' service, typical user charges are required to be set to fund all works and services.

Residential Charges

The Interest Free Loan conditions require the project to be completed within 18 months. This has the effect of increasing anticipated costs on average by approximately \$175,000 per annum (Yr 1, - \$269,700 and Yrs. 2 to 10 - \$164,600). As a result, to fund this project, residential charges will need to increase by \$14.00. This is in addition to the proposed increases already included in the Strategic Business Plan. If approved, the proposed charges would be:-

	2009/10	2010/11	2011/12
Strategic Business Plan	\$545	\$595*	\$645*
Revised Southern Trunk Main	\$545	\$609*	\$659*

* CPI is to be added

Cash Flow

As the proposed increase of \$14.00 is an average, there will need to be some adjustment in capital works in Year 1 (2010/11) as there will be insufficient funds collected to meet all costs. This reduction in Yr. 1 will be offset by an increase in capital works between Yrs. 2 to 10.

Public consultation

As indicated in the earlier report, a consultation plan for the Southern Trunk Main project needs to be developed. Of particular importance will be consultation and negotiation with affected landholders associated with acquisition of easements and land purchases necessary for this project to continue.

Any changes to the timing of proposed capital works, arising from the review of Council's Strategic Business Plan, may necessitate further consultation with affected communities or stakeholders and the preparation of associated consultation plans.

Conclusion

Since the earlier report on this project was forwarded to Councillors, further information has been received from NSW Public Works in the form of a final proposal, revised program schedule and revised project estimate.

The estimated fee for project management of pre-construction activities for this project, and completion of these activities, is \$890,015. This fee is consistent with accepted benchmarks for project management of major projects. Engaging Public Works to undertake pre-construction project management and related activities is considered to provide clear advantages, particularly with respect to meeting strict project timelines required by State Government funding guidelines. A decision will be made in the future as to whether to extend Public Works' engagement to include supervision of construction work, or whether to undertake this supervision 'in house'.

The revised budget estimate indicates a significant budget increase compared to the figure currently adopted within Council's Strategic Business Plan. Despite this increase, strategic imperatives dictate that the project should be proceeded with.

Other recommendations made in the earlier report, as published within the Business Paper for the Extraordinary Meeting of 23 February 2010 remain unchanged.

Amended recommendation (IS16)

That:

1. Council enter into a loan agreement with the State Government, providing \$6.0 million in interest free loans towards financing of the proposed Southern Trunk Main, in accordance with the Local Infrastructure Fund Program.
2. In accordance with Section 55 (3) of the *Local Government Act*, Council enter into a contract with NSW Public Works to provide project management services for pre-construction activities related to the Southern Trunk Main project.
3. The 2009/10-2012 Management Plan be amended to include a \$6.0 million loan from the Local Infrastructure Fund for the Southern Trunk Main.
4. The Division of Local Government be advised of the additional borrowing.
5. Council amend its *Strategic Business Plan for Wastewater Services* to increase the estimate for the proposed Southern Trunk Main.
6. The Mayor and General Manager be authorised to sign and affix the Council Seal to the loan agreement or any other documents deemed necessary to complete this resolution.