



City of Tea Tree Gully

Section 48 Prudential Report:  
Transition of CWMS Customers  
to SA Water

January 2022

Final Report



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## **EXECUTIVE SUMMARY**

### **Purpose**

The following report has been prepared to satisfy the requirements of the City of Tea Tree Gully Prudential Management Policy and Section 48 of the Local Government Act 1999 (Act) which require a Council to consider a report addressing the prudential issues set out in Section 48 subsection 2 of the Act before engaging in a major project.

The purpose of a Prudential Report is to ensure the Elected Members have the necessary information to enable an informed decision whether or not to proceed with a project. Council considered it appropriate to have this report prepared to provide transparency to all relevant stakeholders regarding the issues and risks relating to the Project.

### **The Project**

The staged transfer, for nil consideration, of the City of Tea Tree Gully CWMS network customers to SA Water under the Sustainable Sewers Transition Plan and the decommissioning of CWMS assets that become redundant as a consequence of the transition.

### **Opinion**

In our view, the City of Tea Tree Gully has been provided with sufficient information to satisfy the requirements of Section 48 of the Act and CTTG's Prudential Management Policy. In particular that the Project is capable of achieving identified public benefits and the financial risks have been effectively minimised.

### **Prudential Review Issues and Findings**

The Minister for Environment and Water directed SA Water, with the agreement of the City of Tea Tree Gully (and on terms and conditions acceptable to SA Water), to provide sewerage service to properties serviced by the Tea Tree Gully CWMS network in three stages and to facilitate the transfer of CWMS assets currently owned and operated by the City of Tea Tree Gully where the assets meet SA Water standards or can be upgraded to meet these standards. This is the Sustainable Sewers Transition Plan. The City of Tea Tree Gully and SA Water have not yet been able to reach an agreement on terms and conditions.

The proposed transition of CWMS customers to SA Water's sewer network is consistent with the Council's view that such services are not the responsibility of local government and this is recognised in Council's offer to transfer the CWMS assets to SA Water for \$1.

SA Water has advised it has no interest in the CWMS assets, the CWMS network will need to be decommissioned when it is no longer in use. Although decommissioning of CWMS assets was identified as out of scope in the Sustainable Sewers Transition Plan the Minister has recently expressed State Government support for mitigating decommissioning costs associated with the project and has specifically committed to funding these costs for Stages 1 and 2 of the Project. The Minister has also proposed that SA Water undertake the decommissioning of the CWMS network which need to occur in accordance with the SA Public Health (Wastewater) Regulations and the Infrastructure Standards published by the Office of Technical Regulator pursuant to Section 66 of the Water industry Act 2012.

Due to the nature and location of the assets to be decommissioned the actual cost of decommissioning will not be known without further investigation. However, SA Water has estimated the cost for Stage 1 and 2 at \$8.0 million.

If the City of Tea Tree Gully commits to the Project it will forego the return on capital of the \$45.8 million previously invested in CWMS assets which will become redundant.

The application of the SA Water State-wide sewerage charges will provide a material annual financial benefit for the vast majority of CWMS customers who transition to SA Water through a lower wastewater Service Charge, and in the longer term to all Tea Tree Gully ratepayers through the removal of the current operating subsidy.

However, the staged approach means that this financial benefit is not spread equitably across the CWMS customer base and the majority of customers will be waiting for more than four years for the transition to occur.

Further, the City of Tea Tree Gully will need to restructure its operating cost base during the staged implementation of the Transition Plan to ensure that the Service Charge to remaining CWMS customers does not materially increase with the loss of economies of scale as there are fewer customers to service over the transition period.

As Stage 3 is planned to occur beyond the current regulatory period, the Minister is unable to provide funding certainty for Stage 3 of the Transition Plan which is more than 56% of CWMS customers. This uncertainty exposes the City of Tea Tree Gully and CWMS customers to the likelihood of materially higher CWMS Service Charges for a longer period if the transition does not proceed according to the current timeframe or at all. It would also increase the operational risk associated with the CWMS network.

Notwithstanding the above, the Minister's commitment to meet decommissioning costs for Stages 1 and 2 along with the expressed support to mitigate decommissioning costs associated with this project, implies a commitment to also fund the Stage 3 decommissioning costs removes significant financial risk for the City of Tea Tree Gully. While the Project has some financial, equity and risk impacts in our view these are understood and Council has sufficient information on which to base a decision whether or not to proceed with the Project.

Our detailed report follows.



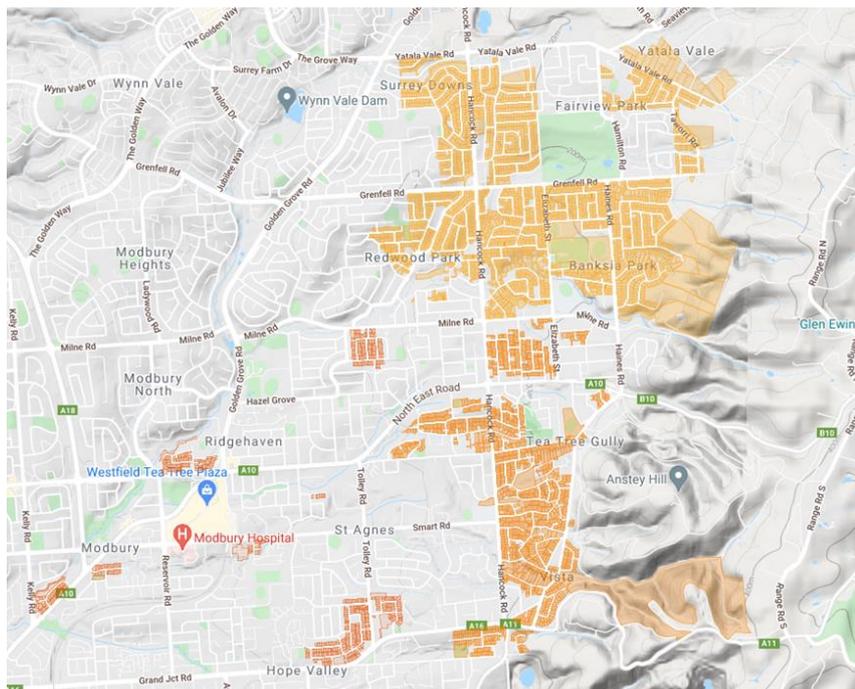
## 1. INTRODUCTION

### 1.1 Background

#### The Community Wastewater Management System

- 1.1.1 The City of Tea Tree Gully (CTTG) owns, operates and maintains a Community Wastewater Management System (CWMS) which was originally constructed in the 1960's by the CTTG due to a lack of a sewer system in the area. Historically, CTTG residents were provided a septic system which relied initially on private land soakage for disposal, while later the individual septic systems were linked to achieve disposal via common CWMS mains. Over time, the CTTG CWMS assets have been acquired by purchase from the original owner, contributions from developers and from rate-funded capital works programs.
- 1.1.2 A CWMS is a wastewater drainage system which takes liquid wastewater (effluent) from properties that have a septic tank system and transfers this to the SA Water sewer mains system or to a facility approved by the Department of Health for treatment. The CWMS is different from SA Water's sewerage system in that those properties that are connected to the CWMS generally have a septic tank that provides basic pre-treatment of the wastewater generated by the property. The liquid from the septic tank flows into the CWMS, which transports the wastewater to an SA Water sewer connection point. The solids, which remain in the tank, are removed by contractors working for the CTTG once every four years.
- 1.1.3 The CTTG CWMS consists of 117 km of pipes and 11,000 structures (inspection points, maintenance shafts and manholes). There are approximately 4,700 individual connections across 70 separate zones, each connected to SA Water's sewer system. The total current replacement cost of these assets is \$55.63 million.

**Figure One: CTTG CWMS Network**





- 1.1.4 Approximately \$3.78 million is required each year to maintain, operate and renew the CWMS infrastructure assets in accordance with the CTTG’s current service levels. This includes the septic tank cleaning program which is designed to minimise the risk of septic tank failure and system blockages.
- 1.1.5 The CTTG manages the CWMS in accordance with:
  - 1.1.5.1 defined service standards in the Office of Technical Regulator (OTR) approved Safety Reliability Maintenance Technical Management Plan (SRMTMP);
  - 1.1.5.2 CWMS Asset Management Plan (CWMS AMP); and
  - 1.1.5.3 the ESCOSA approved Customer Service Charter.

#### State Government Commitment

- 1.1.6 In June 2020, the State Government announced a commitment to connect properties with septic tanks to SA Water’s sewer system providing \$65 million of funding to SA Water to fund the sewer conversion of the CTTG’s CWMS during 2020-2024.
- 1.1.7 The Minister for Environment and Water informed CTTG that he had directed SA Water to invest in CTTG’s CWMS scheme to convert the system to sewer standard, with the aim of transitioning the wastewater service to SA Water. The Minister also outlined a clear expectation ‘that the Council work with SA Water on this comprehensive assessment and make a significant contribution to fixing this problem.’
- 1.1.8 The Ministers direction to SA Water contained in the Government Gazette Notice dated 1 April 2021 identified that \$64.1 million would be allocated to capital expenditure and the balance \$0.963 million would be applied to the operating costs. The Gazettal Notice is included as Attachment One.
- 1.1.9 In November 2021, the Minister was provided with a draft Prudential Report for his consideration, following this a number of meetings were held between the CTTG and the Minister and his ministerial staff.
- 1.1.10 In December the State Government allocated SA Water an additional \$8.2 million over a seven year period as part of the 2021-22 mid-year budget review to support the transition of the Tea Tree Gully Community Wastewater Management System customers to SA Water.
- 1.1.11 In addition, on 25 January 2022 the Minister for Environment and Water wrote to the CTTG to advise that the State Government is supportive of mitigating decommissioning cost associated with this project and committed to funding the costs of decommissioning CWMS assets during the current regulatory period (2020-24). He further stated that any costs above the amount currently allocated would be recovered through the next SA Water regulatory period (2024-2028), via a Section 6 Ministerial Direction issued to SA Water.



## Sustainable Sewers Transition Plan

- 1.1.12 On 13 May 2021 SA Water provided their CTTG Sustainable Sewers Transition Plan (SST Plan), dated 30 April 2021, for the Sustainable Sewers Program (Program) to Council for consideration.
- 1.1.13 The SST Plan is a high-level document that gives an overview of the proposed Program. The total budget currently committed to the Program is \$64.1 million, this is allocated to cover the cost of new sewer mains, augmentation of the existing SA Water network to accommodate the increased flows, on-property infrastructure and work to connect household plumbing and reinstatement. SA Water has identified the following as specific exclusions from the SST Plan Scope of Works:
- 1.1.13.1 “Properties not connected to the CWMS e.g. Properties on soakage trenches etc.
  - 1.1.13.2 Reinstatement of works that improve a property
  - 1.1.13.3 Decommissioning of CWMS assets” (although we note that this exclusion has now been superseded by the Ministers letter dated 25 January 2022, at least for works undertaken in the current regulatory period).
- 1.1.14 The legislative basis for the decommissioning of the CWMS network is dealt with under the SA Public Health (Wastewater) Regulations 2013. Section 3 of the Regulations define what constitutes “Wastewater Works”, which includes decommissioning of a wastewater system. Section 11 details the requirements to be met when undertaking wastewater works which includes approval from the relevant authority. The relevant authority is SA Health.
- 1.1.15 The CTTG staff have assisted SA Water in the development of the SST Plan by providing them with CWMS infrastructure performance data, asset information, technical and historical knowledge and other information considered necessary to evaluate the CWMS network and prioritise the proposed capital works program.
- 1.1.16 The Minister has now proposed that SA Water will undertake the decommissioning process directly which ought to be the most efficient means of undertaking this work and minimising the impact on ratepayers.
- 1.1.17 The SST Plan states that SA Water has undertaken a high level valuation of the CWMS which indicated that the CWMS had no commercial value to SA Water. It also states that it will consider the possible re-use of CWMS assets where they meet the required standard.
- 1.1.18 The SST Plan notes that CTTG is expected to make a significant financial contribution to the Program without directly passing on the additional cost to CWMS customers. It further notes that CTTG has advised they will not provide any direct financial contribution to the Program.
- 1.1.18.1 We understand the Minister has advised CTTG’s CEO that he would accept Council’s realignment of its various works programs such as, road



reconstruction, resealing, new and upgraded footpaths and tree planting as satisfying his requirement of a “significant contribution”.

- 1.1.18.2 At the Special Council meeting held on 16 November 2021 Council resolved (resolution 1036) that if decommissioning costs/responsibility to ensure that householders will not have to pay anything for the conversion to sewer Council would realign future works program to support the SA Water Sustainable Sewers Program. This realignment of works will include street tree planting, road resealing, road reconstruction, kerb and gutter, foot path replacement and upgrades, incorporation of water sensitive urban design features into streetscape and other beautification opportunities. Given the Ministers commitment to fund the decommissioning works it would seem to be appropriate for CCTG to plan for this realignment of works.
- 1.1.19 SA Water proposes a staged approach to transition CTTG CWMS customers to SA Water. The SST Plan identifies the following three stages.
  - 1.1.19.1 Stage 1 includes approximately 400 properties and comprises groups of high priority catchments with significant performance issues which reflects the age of the assets, in Modbury North, St Agnes and Banksia Park, aligned with CTTG priorities and feedback from the community. The stated aim was to start construction in late 2021 and complete customer connections by late 2022.
  - 1.1.19.2 Stage 2 includes around 1,600 properties in catchments within the suburbs of St Agnes, Banksia Park, Fairview Park, Tea Tree Gully, Vista and Surrey Downs. Construction is planned to start in mid-2022 and be completed in mid-2024.
  - 1.1.19.3 Stage 3 comprises the balance of over 2,600 properties in the remaining catchments of the CWMS, in the suburbs of Fairview Park, Banksia Park, Tea Tree Gully, Redwood Park, Ridgehaven, Vista, Hope Valley, Highbury and Modbury. Construction is planned to start in 2024 and be completed within SA Water’s 2024-28 regulatory period.
- 1.1.20 Based on the SST Plan approximately 2,000 customers will be transitioned to SA Water by the end of Stage 2.
- 1.1.21 The works planned for Stage 3 are planned to occur outside the regulatory period and are therefore currently unfunded by the State Government, this equates to over 56% of Council’s CWMS customers.

#### Conversion to Sewer

- 1.1.22 The waste from properties connected to SA Water’s sewerage system flows directly unprocessed to a treatment plant. Both systems rely on gravity for the transfer of wastewater.



- 1.1.23 In designing an upgraded system, it is not simply a matter of replacing the existing CWMS network with an SA Water sewer standard pipe. There are many complexities to consider, including:
- 1.1.23.1 Design and construction standards, such as pipe diameter, hydraulic requirements and infrastructure access points.
  - 1.1.23.2 Much of the CWMS runs through the backyard of properties so in order to achieve the required gravity falls connection to the SA Water network will be on the street side of the property and require the rerouting sanitary drains from the house to the new disposal/connection point.
  - 1.1.23.3 The solution proposed by SA Water will require some properties to receive a new pump which will need to be operated and maintained by SA Water.
  - 1.1.23.4 All on-property infrastructure installed by SA Water will be owned and maintained by SA Water.
- 1.1.24 In line with the endorsed CWMS AMP, approximately 5 km of the CWMS network has been upgraded to sewer standard.

#### Continued Operations

- 1.1.25 While the proposed sewer conversion is occurring under the SST Plan, CTTG will:
- 1.1.25.1 will continue to undertake repairs and maintenance work to ensure the system meets the minimum service levels set out in policies, in the CWMS Asset Management Plan, Customer Service Charter and Office of Technical Regulator (OTR) – Safety, Reliability, Maintenance, Technical Management Plan (SRMTMP); and
  - 1.1.25.2 assess new CWMS connections in CWMS serviced areas in accordance with Council’s CWMS Infrastructure Management policy.
- 1.1.26 The maintenance work includes lines flushing, clearing blockages, manhole cleaning and compliance inspections. Based on the SST Plan this obligation would remain with CTTG for up to eight years.
- 1.1.27 Given the lengthy continuing obligation and expected financial impact to connected customers, the CTTG has proposed to SA Water, in a “Draft Transition Management Agreement”, that ownership of Council’s CWMS assets and customers be transferred to SA Water no later than 1 July 2022. This position has not been supported by SA Water.
- 1.1.28 The CTTG has also provided SA Water with a proposal to continue to operate and maintain the CWMS during the life of the SST Plan under a Management Agreement with SA Water.

#### Alternatives to SA Water



- 1.1.29 The CTTG has also received unsolicited contacts from experienced private sector operators of water and wastewater schemes who have indicated an interest in investing in the CWMS scheme, taking over the operations and management of the CWMS network or delivering the proposed upgrades to the network.
- 1.1.30 These unsolicited contacts have also foreshadowed alternate technical and transition methodologies that are significantly different to the approach proposed in the SST Plan. Due to the nature of the State government commitment and the Ministerial directive to SA Water, Council has not been provided with the opportunity to consider the alternatives, nor the associated commercial considerations (which would properly occur through an open and competitive market process).

### Prudential Report

- 1.1.31 Recognising the complexity of the issues and financial impacts that need to be considered under the proposed SST Plan Council considered it appropriate to have this report prepared to provide transparency to all relevant stakeholders regarding the issues and risks relating to the Project and on 2 June 2021 resolved as follows.

*"That having considered the report titled "Prudential Report – Community Wastewater Management System" dated 2 June 2021, Council:*

- 1. Approves the commencement of an independent prudential review and preparation of an associated report that addresses the prudential issues set out in section 48(2) of the Local Government Act 1999.*
- 2. Delegates the authority to Council's Chief Executive Officer and Director Organisational Services & Excellence, in accordance with section 44 of the Local Government Act 1999, to appoint a person, believed to be suitably qualified under section 48(4) of the Local Government Act 1999, to undertake the prudential review.*
- 3. Requests the final prudential report be presented to Council for consideration."*

## 1.2 The Project

The staged transfer, for nil consideration, of the City of Tea Tree Gully CWMS network customers to SA Water under the Sustainable Sewers Transition Plan and the decommissioning of CWMS assets that become redundant as a consequence of the transition.

## 1.3 Project Rationale

The CTTG are of the view that the provision of wastewater management services should not be the responsibility of local government.

## 1.4 Legal Framework and Prudential Issues

- 1.4.1 The Local Government Act 1999 (Act) Section 48 states that a council must develop and maintain prudential management policies, practices and procedures for the assessment of projects to ensure that the council—



- (a) acts with due care, diligence and foresight; and
  - (b) identifies and manages risks associated with a project; and
  - (c) makes informed decisions; and
  - (d) is accountable for the use of council and other public resources.
- 1.4.2 The prudential issues set out in Section 48 of the Act are reproduced in full as Attachment Two.
- 1.4.3 The CTTG has adopted a Prudential Management Policy, last approved on 8 December 2020, Record number D20/10884, which satisfies the requirements of the Act and sets out Council’s approach for prudential management of all its projects. The objectives of the Policy are:
- "a. *To ensure that major Council projects are undertaken only after an appropriate level of Due Diligence is applied to the proposed project; and*
  - b. *To ensure that each major Council project is*
    - *managed during the project*
    - *evaluated after the project*
  - c. *To achieve identified public benefits or needs; and to minimise financial risks."*
- 1.4.4 The Prudential Management Policy and the Act 1999 require Council to consider a report addressing the prudential issues set out in subsection 2 of Section 48 when a project meets certain criteria, specified in (1) (b), namely where a council:
- "(b) engages in any project (whether commercial or otherwise and including through a subsidiary or participation in a joint venture, trust, partnership or other similar body)—*
- (i) where the expected operating expenses calculated on an accrual basis of the council over the ensuing five years is likely to exceed 20 per cent of the council's average annual operating expenses over the previous five financial years (as shown in the council's financial statements); or*
  - (ii) where the expected capital cost of the project over the ensuing five years is likely to exceed \$4 000 000 (indexed); or*
  - (iii) where the council considers that it is necessary or appropriate."*
- 1.4.5 Council commissioned the preparation of this report to ascertain whether the provisions of the Prudential Management Policy and Section 48 of the Act have been satisfied in the due diligence processes that have accompanied the Project.



## 2. RELATIONSHIP WITH RELEVANT STRATEGIC MANAGEMENT PLANS

*Local Government Act, Section 48 (2) The following are prudential issues for the purposes of subsection (1):*

(a) *the relationship between the project and relevant strategic management plans;*

### 2.1 Relevant Strategic Management Plans

2.1.1 Section 122 of the Act requires a Council to develop and adopt strategic management plans; these are required to incorporate the extent to which a Council's objectives are related to regional, state and national objectives.

2.1.2 For the purposes of this report the relationship between the Project and the following plans is considered relevant.

#### 2.1.2.1 City of Tea Tree Gully

- (a) Strategic Plan 2025;
- (b) Annual Business Plan and Budget 2021-2022;
- (c) Long Term Financial Plan 2019-2030; and
- (d) CWMS Asset Management Plan.

#### 2.1.2.2 Regional

- (a) No regional plans have been identified.

#### 2.1.2.3 South Australian State Government

- (a) Ministerial for Environment and Water Direction to SA Water.

#### 2.1.2.4 Commonwealth Government

- (a) No national plans have been identified.

### 2.2 City of Tea Tree Gully Plans

#### 2.2.1 Strategic Plan 2025

2.2.1.1 The Strategic Plan 2025 is the CTTG's plan for a strong and vibrant city. It sets out the vision as:

*"A thriving community with a quality lifestyle that values its people and natural environment."*

2.2.1.2 The aspirations for the city and community are progressed by focussing on the following five key themes.



- (a) Community - We create opportunities for people to connect with one another and to their local community.
- (b) Environment - We are leaders in how we manage and care for our environment, we minimise the impacts of climate change, protect our community from public and environmental health risks, and actively promote sustainable and healthy living.
- (c) Economy - We support a thriving local economy where businesses are successful and people have access to a range of employment and education opportunities.
- (d) Places - We create places where people enjoy living and spending time because they are appealing, safe, accessible and interesting.
- (e) Leadership – We are trusted to make good decisions that are in the best interests of our community.

2.2.1.3 Table One shows the themes that are impacted by progressing the Project.

**Table One: Relationship of Project to Strategic Plan 2025**

Theme	Objective	Project impact
Community	1.5. People can have a say in decisions that affect them and the key decisions of the Council.	The wider community has not yet been consulted on the Project and its associated financial and risk implications.
Environment	2.2. A community that is protected from public and environmental health risks.	The Project transfers responsibility for public health and environmental risks associated with operating and maintaining a wastewater scheme to SA Water.
Leadership	5.1. Leadership and advocacy is focused on the long term interests of the community.	To ensure the Long Term Financial Plan outcomes are maintained, Projects that could significantly impact Council's financial position should be treated in line with the Prudential Management Policy.
	5.5. Decision making is informed, based on evidence and is consistent.	Council has now received sufficient information to understand the financial and risk implications and is able to make an informed decision.
	5.6. Major strategic decisions are made after considering the views of our community.	The community has not yet been consulted on the Project.

2.2.1.4 Under the current SST Plan the decision to transition the CWMS customer network to SA Water had significant financial impacts for the CWMS customers or the broader Tea Tree Gully community. However, the State Government commitment to fund the costs of decommissioning in the current regulatory period (2020-24) provides an effective mitigation at least for the works that are undertaken and completed during the period.



2.2.1.5 The CTTG, sought and received additional information on the financial and risk impacts of the Project. In our view Council now has sufficient information on which to make an informed decision on whether or not to proceed with the Project and inform its community of the impacts which is consistent with the Community and Leadership themes of the Strategic Plan.

## 2.2.2 Annual Business Plan and Budget 2021-2022

2.2.2.1 The CTTG's Annual Business Plan and Budget (ABPB) is a key document in the overall planning framework, and set out the projects, services and programs for the financial year and how Council intends to finance them.

2.2.2.2 There are no specific provisions in the ABPB for the Project.

2.2.2.3 The ABPB contains provisions \$4.2 million to operate, maintain, renew and upgrade the system infrastructure for the CWMS network. This budgeted amount includes an allowance for infrastructure replacement, which is funded through a service fee paid by each connected property unit and each unconnected property unit that uses the system.

2.2.2.4 The ABPB sets the service charges for properties connected to the CWMS network and a reduced charge for those next to the SA Water sewer main, these are:

(a) Connected property \$745; and

(b) Unconnected property \$505.

2.2.2.5 The CTTG will continue to operate the CWMS network in FY2022 and is doing so on a 'fix-on-fail' approach as currently approved by ESCOSA. The current budget provisions are expected to be sufficient for operations subject to any unforeseen 'fail' events that require an unbudgeted 'fix'.

2.2.2.6 Should CTTG proceed with the Project and subject to the final details of that agreement, CTTG may wish to review the current budgeted allowance for infrastructure replacement to ensure this expenditure is required.

## 2.2.3 Long Term Financial Plan

2.2.3.1 The CTTG Long Term Financial Plan (LTFP) expresses, in financial terms, the activities it proposes to undertake over the medium-to-longer term to achieve its stated objectives. The LTFP considers the aggregation of future strategic plans and business initiatives, together with their intended outlays and anticipated reviews, enables the overall financial and economic implications of the projects to be readily identified and, if warranted, proposed future activities to be revised.

2.2.3.2 The LTFP incorporates the impact of CWMS operations and capital works over the life of the Plan. However, the CWMS capital works program has



been put on hold by Council resolution due to the uncertainty of the implementation of the SST Plan.

- 2.2.3.3 The LTFP will need to be amended to reflect the final arrangements negotiated with SA Water for the transition of the CWMS customer base.

## 2.2.4 Asset Management Plans

- 2.2.4.1 The CTTG has adopted a number of Asset Management Plans (AMP) to guide the planning, construction, maintenance and operation of infrastructure. These plans are key components of the LTFP and include detailed information about each asset and define which services will be provided, how they will be provided and what funding is required to cost-effectively deliver them over a 10-year period.
- 2.2.4.2 The CTTG has a specific CWMS AMP which is used to guide the approach to managing CTTG CWMS assets, future demand and risk, compliance with regulatory requirements, and which identifies the estimated capital expenditure necessary to provide CWMS infrastructure and associated services to the community over a 10-year period. The CWMS AMP was last updated in December 2020.
- 2.2.4.3 The CWMS AMP indicates that while elements of the CWMS network are reaching the end of their serviceable life, the vast majority of the network is performing in line with the desired service standards. Maintained and upgraded in line the CWMS AMP, the CTTG estimates that the network will continue to serve customers for the next 100 years.
- 2.2.4.4 The CWMS AMP identifies that approximately \$3.78 million is required each year to maintain, operate and renew the CWMS infrastructure assets in accordance with current service levels. The projected revenue for the planning period is identified as \$39.5 million, which will provide a projected surplus of \$1.73 million. This revenue is based on the annual Service Charge required to comply with ESCOSA's price determination of \$1,038 per tenement. It should be noted that as CTTG currently levies a Service Charge below this amount the balance of the cost of providing CWMS services is currently being borne by the broader CTTG ratepayer base.

## 2.3 Regional Objectives

No regional objectives have been identified that are relevant to the Project.

## 2.4 South Australian State Plans

The Minister for Environment and Water has directed SA Water to invest in CTTG's CWMS scheme to convert the system to sewer standard, with the aim of transitioning the wastewater service to SA Water. This direction is included as Attachment One.

## 2.5 Commonwealth Government

No national objectives have been identified that are relevant to the Project.



### 3. OBJECTIVES OF THE DEVELOPMENT PLAN

*Local Government Act, Section 48 (2) the following are prudential issues for the purposes of subsection (1):*

*(b) the objectives of the Development Plan in the area where the project is to occur;*

#### 3.1 Development Plan

- 3.1.1 Planning and development in South Australia is primarily governed by the Planning, Development and Infrastructure Act 2016 (PDI Act).
- 3.1.2 The PDI Act affects how development policy is formed, how development applications are assessed, and how the community is consulted on planning proposals.
- 3.1.3 A key component of the system is the Planning and Design Code which has replaced all council development plans to become the single source of planning policy for assessing development applications.
- 3.1.4 Neither a decision to transition the ownership of the CTTG CWMS network customers to SA Water or a decision to retain ownership of the CWMS network would constitute development under the PDI Act and therefore the objectives of the Development Plan are not relevant.

#### 3.2 Approving Authority

- 3.2.1 Not applicable.



## 4. ECONOMIC DEVELOPMENT

*Local Government Act, Section 48 (2) The following are prudential issues for the purposes of subsection (1):*

- (c) *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;*

### 4.1 Contribution to Economic Development

- 4.1.1 Economic development can be defined as efforts that seek to improve the economic well-being and quality of life for a community by creating and/or retaining jobs and supporting or growing incomes and the tax base.
- 4.1.2 Although the transfer of the CWMS customers to SA Water will not itself generate economic development it will act as the catalyst for an investment of approximately \$72 million from commencement of the Project until mid-2024. This consists of \$64.140 million to convert the CWMS customers to the SA Water network and an estimated \$8.0 million in decommissioning costs.
- 4.1.3 The Project will contribute to economic development in the CTTG from the associated construction activity undertaken by SA Water and from the decommissioning works that will be required.
- 4.1.4 There are economic and employment multiplier benefits to the broader economy from the economic activity that will be generated by both the construction and decommissioning phases and from the purchase of goods and services relating to the Project. While the contribution to economic development is not a major driver for the Project, the economic impact of the SA Water construction works has been considered.
- 4.1.4.1 The economic impact assessment undertaken to identify the potential jobs and incomes that may be associated with the SA Water construction works is based on a measure of the value added and employment associated with the investment. This is consistent with the predominant measure of national economic activity, Gross Domestic Product.
- 4.1.4.2 The expenditures associated with the SA Water construction works will have direct economic effects, indirect effects of related purchases in the broader economy and induced effects of spending on goods and services by the employees of the companies providing goods and services to the Project.
- 4.1.5 To quantify the benefits from these multiplier effects, CTTG has undertaken economic modelling using the "Remplan Economy" economic impact model, a tool for measuring secondary and tertiary economic effects of a capital investment. The output from the model quantifies the expected impact the Project will have on a council area and on the national economy more broadly. The model is based on data from the Australian Bureau of Statistics which relates to the most recent Censuses.



4.1.6 For modelling purposes, a construction impact of \$72 million has been assumed and the expenditure associated with the Project has been characterised as Construction. It should be noted that the total construction impact of the full transition to the SA Water network will cost more than the amount modelled but the full cost of transition has not yet been quantified.

4.1.7 We note there may also be an additional benefit to CTTG in that some of the properties currently connected to the CWMS network may be able to be sub-divided in future when they are connected to the SA Water sewer network. This potential benefit has not been modelled.

## 4.2 Economic impact of Project Capital Works

4.2.1 Based on the Remplan modelling, the indicative economic output from the SA Water construction works is summarised in Table Two.

**Table Two: Remplan output summary Stages 1 and 2**

Impact Summary	Direct Effect	Supply-Chain Effect	Consumption Effect	Total Effect	Type 1 Multiplier	Type 2 Multiplier
Output (\$m)	\$72.000	\$57.449	\$14.295	\$143.744	1.798	1.996
Employment (Jobs)	175	174	60	409	1.994	2.335
Wages and Salaries (\$m)	\$11.305	\$11.905	\$3.270	\$26.480	2.053	2.342
Value-added (\$m)	\$22.031	\$21.249	\$8.303	\$51.583	1.965	2.341

### 4.2.2 Economic Output

4.2.2.1 From a direct increase in output of \$72.000 million it is estimated that the demand for intermediate goods and services would rise by \$57.449 million.

4.2.2.2 The increases in direct and indirect output typically corresponds to the creation of jobs in the economy, which results in an increase in the total of wages and salaries. A proportion of these wages and salaries are typically spent on consumption and a proportion of this expenditure is captured in the local economy. The consumption effects under this scenario are estimated at \$14.295 million.

4.2.2.3 The combined effect of all direct, industrial and consumption effects would result in total estimated rise in Output of \$143.744 million.

4.2.2.4 The total value-added, including all direct, supply-chain and consumption effects is estimated to increase by up to \$51.583 million.

### 4.2.3 Employment

4.2.3.1 From a direct increase in output of \$72 million the corresponding creation of direct jobs is estimated at 175 jobs. From this direct expansion in the economy there would be flow-on effects creating an additional 174 jobs.



4.2.3.2 This addition of jobs in the local economy would lead to a corresponding increase in wages and salaries, a proportion of which would be spent on local goods and services, creating a further 60 jobs through consumption impacts.

4.2.3.3 The combination of all direct, industrial and consumption effects would result in a total estimated increase of 409 jobs.

### 4.3 **Impact on Business in the proximity**

4.3.1 The transfer in ownership of the CWMS assets will have no impact on business activity carried out in the proximity.

4.3.2 Under the SST Plan those businesses who currently use the CWMS network may in future be liable for trade waste fees and other associated costs.

### 4.4 **Fair Competition**

4.4.1 The transfer of the CWMS network customers to SA Water does not involve CTTG undertaking a Significant Business Activity and does not raise any material competition issues.



## 5. COMMUNITY CONSULTATION

*Local Government Act, Section 48 (2) The following are prudential issues for the purposes of subsection (1):*

- (d) *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;*

### 5.1 Level of Consultation

- 5.1.1 The CTTG Community Engagement and Public Consultation Policy, prepared pursuant to Section 50 of the Act, sets out the steps that Council intends to take to deliver effective community consultation, whilst fulfilling Council's requirements under the Act. The Policy was last reviewed 17 June 2020, record number D20/46942.
- 5.1.2 The purpose of the Policy is to foster and support a culture of effective community engagement to enhance decision making and ensure that Council meets its obligations under the Local Government Act 1999 and other relevant Acts.
- 5.1.3 The Policy applies to all community engagement processes required under the Local Government Act 1999 (unless specifically legislated otherwise) and to any other community engagement process that Council resolves to be submitted to a high standard of community engagement. The Local Government Act prescribes the following topics are to be subject to public consultation.

**Table Three: Matters requiring Public Consultation Under the LG Act**

Topic	Section reference
Representation Reviews	Section 12
Status of Council/Change of Name	Section 13
Commercial Activities – Prudential Requirements	Section 48
Public Consultation Policies	Section 50
Strategic Management Plans	Section 122
Annual Business Plan	Section 123
Rates and charges – Change to Basis of Rating Report	Section 151
Rating – Differential Rates	Section 156
Amendment or revocation of Community Land management plans	Section 198
Passing by-laws	Section 249
Councils to develop policies (power to make orders)	Section 259 (2) (3)

*Source: City of Tea Tree Gully Community Engagement Public Consultation Policy*

- 5.1.4 Having resolved to have a prudential report prepared to address the requirements of the section 48 of the Act, the Council must consider the level of consultation to be undertaken with the community.



- 5.1.5 The level of consultation required is dependent upon the impact of the Project on the community.
- 5.1.6 To date, the CTTG has made available information to the community of the proposed transition to SA Water on a dedicated page on the CTTG website, this includes links to the SST Plan and information from various Council reports along with details of two opportunities for CWMS customers to attend drop-in sessions organised by SA Water to discuss the Program, while a number of sessions were held at the Civic Centre in 2020 the most recent of these sessions were held at:
- 5.1.6.1 Ardtornish Primary School on Friday 9 July 2021, 3.30pm to 6.30pm; and
- 5.1.6.2 Surrey Downs Community Centre on Tuesday 13 July 2021, 2.00pm to 6.00pm.
- 5.1.7 While CTTG staff were not in attendance at the meetings, according to SA Water and those elected members who attended the drop-in sessions there was a positive response from the community to the Project.
- 5.1.8 The Community Engagement Public Consultation Policy includes a number of engagement principles, the first being 'Inclusive Participation':
- "Council believes that all members of the City of Tea Tree Gully Community have a right to be informed about and involved in key decisions affecting their area, lifestyles and particular interests"*
- 5.1.9 The Strategic Plan also contains the following specific objectives which are relevant.
- Objective 1.5. People can have a say in decisions that affect them and the key decisions of the Council.*
- Objective 5.6. Major strategic decisions are made after considering the views of our community.*
- 5.1.10 The Project involves the write-off of a community asset that has future economic value and which has a significant book value, \$45.8 million or around 3% of the CTTG's total asset value, which is a non-cash transaction that does not increase the cost of services to the CTTG community.
- 5.1.11 The Project will also provide direct financial benefits to CWMS customers who will benefit from a lower cost of service through the SA Water's state-wide pricing regime and to the broader CTTG ratepayer community which will not be required to provide a long term subsidy for CWMS operations.
- 5.1.12 On this basis we do not consider the Project to constitute a key decision that would require an extensive community consultation and engagement process under the Act or Council's Community Engagement Public Consultation Policy.
- 5.1.13 Our view on this would be different if any of the decommissioning costs were to be a cost to CTTG.



## 5.2 **Community Influence**

- 5.2.1 The Project has largely positive financial implications for all ratepayers in CTTG.
- 5.2.2 The Project has greater financial implications for CWMS customers the vast majority of whom will pay a lower Service Charge if the Project proceeds as a result of SA Water’s State-wide pricing regime. Connecting to the SA Water network may also result in an increase in property values for those who are currently connected to the CWMS network.
- 5.2.3 This Prudential Report is intended to provide Council with sufficient information to provide a basis for determining the extent of consultation to be undertaken with the broader CTTG ratepayer base, who are affected by the Project. This will satisfy the requirements of the Act by providing those who are impacted with the opportunity to make representations to influence or contribute to the Project or its outcomes.



## 6. FINANCIAL ASSESSMENT

*Local Government Act, Section 48 (2) The following are prudential issues for the purposes of subsection (1):*

- (e) if the project is intended to produce revenue, revenue projections and potential financial risks;*
- (f) the recurrent and whole-of-life costs associated with the project including any costs arising out of proposed financial arrangements;*
- (g) 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;*

### 6.1 Revenue Production, Revenue Projections and Potential Financial Risks

#### 6.1.1 Revenue Production and Projections

6.1.1.1 The Project involves the transition of the CWMS network customers to SA Water in accordance with the SST Plan.

6.1.1.2 The Project is not expected to generate revenue as SA Water is not paying CTTG for these customers (nor for any of the CWMS network assets).

6.1.1.3 As a result of the Project, CTTG revenue will decline by the amount charged to:

- (a) CWMS customers (through the CWMS Service Charge); and
- (b) Developers for new connections to the CWMS network.

6.1.1.4 The CTTG will cease to charge CWMS customers from the time SA Water commences on-property work.

#### 6.1.2 Potential Financial Risks

6.1.2.1 CTTG has identified the following eight risks under the category of 'Financial Management'.

**Table Four: Financial Management Risks**

Risk Name	Risk Description	Rating
Stages 1 and 2 not completed -	Higher CWMS Service Charges needed to cover CWMS costs due to reduction in the number of customers	Medium
Stage 3 does not proceed as planned	Higher CWMS Service Charges needed to cover CWMS costs due to reduction in the number of customers	Medium
Asset write-off	Significant financial write-off of the CWMS asset value	Extreme
Economic value not realised	Future economic value of current CWMS network is not realised	Extreme



Risk Name	Risk Description	Rating
Investigate commercial value	Commercial opportunities presented by alternate service providers are not investigated	Medium
Future Increase in Rates	Increase to Rate Revenue over and above expectations to cover shortfall in costs associated with remedial works and any additional transition costs	Medium
Increased Cost Base	Increase in Council cost base due to loss of revenue source (decrease in number of properties paying the CWMS Service Charge)	Medium
CWMS network decommissioning costs	The CWMS network will need to be decommissioned in accordance with SA Department for Health and Wellbeing regulations Potential legal risk from redundant CWMS infrastructure on private land as per advice from CTTG lawyers	Medium

6.1.2.2 Based on the Risk Assessment undertaken by CTTG the following risks are assessed as 'Extreme' which is the highest rating.

- (a) Significant financial write-off of the CWMS asset value.
- (b) Future economic value of current CWMS network is not realised and (foregone return on capital of the \$45.8 million previously invested in CWMS assets which will become redundant).

6.1.2.3 In our view, when considered from a Council wide perspective neither risk would warrant an 'Extreme' rating.

6.1.2.4 We note that the cost of decommissioning the CWMS network has a 'Medium' risk rating, this reflects that the decommissioning works are likely to be undertaken over a number years and that the State Government has now committed to fund Stages 1 and 2 of these works. However, when considered in total under the CTTG risk assessment matrix, the costs associated with this risk would warrant a rating of 'Extreme' if they were not to be undertaken by SA Water as directed by the Minister.

6.1.2.5 Decommissioning costs

- (a) It is our understanding that the decommissioning will need to be undertaken in accordance with the SA Public Health (Wastewater) Regulations and the Infrastructure Standards published by the Office of Technical Regulator pursuant to Section 66 of the Water industry Act 2012.
- (b) Due to the nature and location of the assets to be decommissioned the actual cost of decommissioning will not be known without further investigation.



- (c) However, the total cost has been estimated at between \$17 million and \$20 million and is subject to SA Health determining the assets that must be decommissioned and what form this decommissioning must take.
  - (i) By way of example SA Health has not yet determined whether CWMS structures such as manholes are required to be removed. Based on the CTTG estimate of ~850 CWMS structures in the CWMS network this could be in the order of \$3.000 million.
- (d) It will not be possible to determine the costs of decommissioning without detailed further investigation and without SA Health approving a decommissioning plan against which works can be costed. The State Government has committed to fund the costs of decommissioning the CWMS network made redundant by the SST Plan. The commitment is made for Stages 1 and 2 of the SST Plan which is the work to be undertaken within the current regulatory period.
- (e) The State Government has expressed its support for 'mitigating decommissioning cost associated with the project' and it is expected that this will extend to funding decommissioning costs for Stage 3 in the new regulatory period.
- (f) While the lack of a binding commitment provides a level of risk to CTTG given the pending South Australian election the SA Labor Party has also committed to convert households to the SA Water network at no cost to the ratepayer which mitigates this risk.

## 6.2 Recurrent and Whole of Life Costs, Financial Arrangements

### 6.2.1 Recurrent Costs

- 6.2.1.1 The Project will result in the disposal of an asset, the CWMS network, which means that in time there will be no recurrent costs.
- 6.2.1.2 However, while the SST Plan is being implemented, CTTG will continue to undertake repairs and maintenance work to ensure the CWMS meets the minimum service levels set out in the OTR SRMTMP and the CWMS Asset Management Plan. Maintenance work includes lines flushing, clearing blockages, manhole cleaning and compliance inspections.
- 6.2.1.3 As the Project is planned to be implemented over a period of up to eight years CTTG will continue to incur the recurrent costs of operating the CWMS network over this period. The categorisation of these costs is shown in Table Five.



**Table Five: CWMS cost categorisation**

Cost category	Cost type
Operation and maintenance	Fixed and variable
Materials and supplies	Fixed and variable
Tools	Fixed
Septic tank desludging	Variable
Plant	Fixed
Depreciation	Fixed
SA Water Discharge fees	Variable

- 6.2.1.4 CTTG currently budgets to operate the CWMS at a breakeven position, with the amount recovered through the CWMS Service Charge supplemented by revenue raised from all ratepayers through General Rates.
- 6.2.1.5 Should CTTG agree to the SST Plan (and the State Government commitment to fund decommissioning costs) it will need to restructure CWMS operations to offset the decrease in revenue with a reduction in operating costs.
- 6.2.1.6 We have prepared an indicative financial model which incorporates a number of changes to the 'Business as Usual' scenario to reflect the change in risk profile given the now finite life of the asset and a continuation of the fix on fail approach along with some other adjustments to operational costs. Based on a Service Charge which increases broadly in line with the forecast CPI (2.5%) the estimated impact on the CTTG financial position is shown in Table Six.

**Table Six: Estimated Impact of SST Plan excluding Disconnection Costs**

\$'000	FY23	FY24	FY25	FY26	FY27	FY28
Income	3,446	2,744	1,914	1,401	862	294
Expenditure	3,446	2,744	1,914	1,401	981	543
Profit / (Loss)	--	--	--	--	(119)	(249)
Loss on disposal <sup>1</sup>	(1,944)	(9,719)	(11,069)	(6,587)	(6,587)	(6,587)
Service Charge	\$764	\$782	\$807	\$827	\$848	\$869
% Increase	2.55%	2.30%	3.25%	2.49%	2.52%	2.48%

<sup>1</sup>The model assumes a residual asset write-off of 1,573 in FY2029

- 6.2.1.7 The financial outcomes shown above are indicative only and will be influenced by the timing of the SA Water SST Plan capital works program given the impact this has on the cost of risk and capital as part of the Service Charge. The projected Service Charge will be set each year after value management of the CWMS operating cost base and consideration of the progress of the roll-out of the SST Plan, this may provide scope for a lower (or higher) Service Charge



6.2.1.8 We note that ESCOSA has recently advised CTTG that as the network transition to SA Water will occur over several years “the CWMS service charge is still relevant, and the City of Tea Tree Gully is still required to meet the requirements of the Price Determination for Minor and Intermediate Retailers.” The financial model indicates the cost of CWMS operations can be met through the revenue derived from Service Charges increasing by broadly CPI other than for the FY2027 and FY2028 years due to the impact of the loss of economies of scale. In these years an increase in Service Charge of 16.6% and 66.3% would be required to fund operations. Clearly, this is inequitable for those CWMS customers who transition later in Stage 3.

## 6.2.2 Whole of Life Costs

6.2.2.1 The Project is to be implemented over time.

6.2.2.2 The Project involves the transfer of an asset, the CWMS customer base and the write-off of the CWMS network, the cost of decommissioning redundant CWMS assets has been excluded given the State Government support for mitigating these cost of the Project.

6.2.2.3 The whole of life cost estimate has been prepared based on the SST Plan assumptions, the revised operating cost base (which reflects lower costs of risk and capital and reductions in certain costs) and incorporating the value of assets to be written-off by CTTG. The whole of life cost is shown in Table Seven.

**Table Seven: Indicative whole of life cost estimate of SST Plan**

Item	Value (\$'000)
Income	14,537
Expenditure	11,956
Assets written-off	44,067 <sup>2</sup>
Net Expense <sup>1</sup>	41,485

<sup>1</sup>This amount is lower than the current carrying value as it is assumed the asset will be depreciated in FY2022

6.2.2.4 It should noted that the net whole of life cost of the Project without decommissioning costs will be the same as with decommissioning costs; this is because the additional financial cost of decommissioning is raised from CTTG CWMS customers or the CTTG ratepayers more broadly.

## 6.2.3 Financial Arrangements

6.2.3.1 There are no financial arrangements to consider, SA Water does not propose to make a payment to the CTTG for the CWMS customer base or for the CWMS assets that will become redundant.



- 6.2.3.2 The financial arrangements do not cover the opportunity cost to CTTG of undertaking the decommissioning works and the impact this will have on the ability of Council deliver other strategic projects.

### 6.3 Financial Viability

- 6.3.1 Financial viability can be defined as the ability to generate sufficient income to meet operating expenses, financial obligations and to provide the potential for future growth.
- 6.3.2 As the Project involves the sale of an asset the question of financial viability can be considered from the perspective of the short and long-term impact on the CTTG financial position.
- 6.3.2.1 The Local Government sector has adopted a consistent set of key financial indicators which provide an indication of a council’s financial performance and sustainability.
- 6.3.2.2 Based on these indicators, the CTTG has adopted the key financial targets shown in Table Eight to ensure it operates in a financially sustainable manner.

**Table Eight: Key Financial Indicators**

Financial Indicator	Council Target
Operating surplus (Operating income less operating expenses)	Break even or better over 3 years
Operating surplus ratio (Operating Surplus divided by total operating revenue)	0% - 10%
Asset sustainability ratio (Expenditure on renewal and replacement of assets less disposal proceeds from replaced assets divided by depreciation expense)	90% - 110% over a rolling 3-year period
Fiscal balance	No target
Net financial liabilities ratio including non-current assets held for sale (Total liabilities less financial assets as a percentage of total operating revenue, net of Regional Landscape Levy)	25% - 35%
Interest cover ratio (Total finance charges expressed as a percentage of rates revenue, net of Regional Landscape Levy)	No target

Source: City of Tea Tree Gully 2021-22 Annual Business Plan

- 6.3.3 The short-term impact of the Project is as follows.
- 6.3.3.1 The CWMS assets are carried in the CTTG Balance Sheet at a value of \$45.8 million.



- 6.3.3.2 As there are no proposed proceeds from the sale of the assets to SA Water, based on the carrying value of the asset this will result in a loss of \$45.8 million being brought to account in the year the agreement is signed with SA Water if all the CWMS network was to transition as a whole, or as the CWMS assets are made redundant due to the transition of CWMS customers to the SA Water network.
- 6.3.3.3 This loss will be reflected in the Statement of Comprehensive Income in the year it is brought to account and ultimately be reflected as a reduction in the Total Council Equity section in the Statement of Financial Position. Total Council Equity at 30 June 2021 was \$1,543,571,000.
- 6.3.4 The longer-term perspective of financial viability considers the impact of the implementation of the SST Plan on the CTTG financial position.
- 6.3.4.1 The assumption has been made that all costs will be recovered either through CWMS customers or by all ratepayers, however, as CTTG will no longer be recovering the cost of risk or the cost of capital on the assets that have been written-off, there is an impact on the financial indicators as follows:
- (a) The Operating Surplus ratio would drop below the approved LTFP but will be maintained within the 0% to 10% target band, not dropping lower than 8% over the plan period;
  - (b) The Asset Sustainability Ratio would increase slightly compared to the approved LTFP but will remain within the 90% to 110% target band, staying between 98% and 102%;
  - (c) The Fiscal Balance Ratio will remain within 2 percentage points of the approved LTFP due to the drop in revenue;
  - (d) The Net Financial Liabilities Ratio will remain under the 35% target maximum falling below the target 25% minimum (consistent with the approved LTFP falling below this band); and
  - (e) Interest Cover Ratio over the plan period is lower than the approved LTFP but falls no lower than 12.9%.
- 6.3.4.2 Impact on CWMS customer
- (a) The current CWMS Service Charge is \$745 per annum.
  - (b) The SA Water Service Charge is based on the (current) rate of \$0.20225 per thousand dollars of property value.
  - (c) Users will have a reduction in their Service Charge where the property value is lower than \$921,000.



- (d) As the average capital value of properties connected to the CWMS is \$403,584, the vast majority of users will receive a reduction in the annual Service Charge under a transition to SA Water.
- (e) An additional statutory easement as all on-property infrastructure will be owned by SA Water.
- (f) Those CWMS customers who require a low pressure sewer system may have additional costs for:
  - (i) the upgrade of electrical systems on some older properties; and
  - (ii) electricity to operate the system (although SA Water has suggested a general rebate scheme based on the estimated cost of running the system there is some risk that this may not be sufficient to cover the cost of operations).

#### 6.3.4.3 Impact on all CTTG Ratepayers

- (a) Ratepayers are currently subsidising the cost of CWMS services at the completion of the SST Plan and assuming the State Government meets all decommissioning costs then this subsidy will no longer be required.
- (b) If CTTG is able to restructure the CWMS operating cost base to adjust for the planned end of life of the CWMS network it is possible that the only subsidy required will be \$119,000 in FY2027 and \$249,000 in FY2028 due to the very small anticipated customer base in these periods.

## 6.4 Financial impacts of alternative scenarios

In evaluating the financial impact on CTTG we have also considered the financial impact of a number of alternative scenarios to the SST Plan. The scenarios are:

### 6.4.1 CTTG retains ownership of the CWMS network

- 6.4.1.1 The approved LTFP reflects the current state, where Council retains ownership of the CWMS network.
- 6.4.1.2 For the CWMS network to operate at a breakeven after recovering the return on risk and return on capital, the CWMS Service Charge per property will require a 2.0% compound annual growth rate over a nine-year period.

### 6.4.2 Stage 3 of the SA Water SST Plan does not proceed

- 6.4.2.1 SA Water has committed funding for stages 1 and 2 of the SST Plan. If funding beyond FY2024 for stage 3 is not secured, then CTTG will have to continue operating the CWMS network to service approximately 2,700 properties that will remain connected to the network.



- 6.4.2.2 CTTG will need to write-off \$19.44 million in CWMS network assets that are replaced by access to the SA Water network.
  - 6.4.2.3 Under this scenario, the CWMS operating cost base cannot be restructured as envisaged due to the ongoing nature of the operation and based on the current 'Business as Usual' scenario we estimate that for those customers who are last to transition in Stage 3 we estimate they will effectively pay 24% more over a 10 year period for the CWMS network to operate at breakeven, including the cost of risk and cost of capital, than they would pay if the SST Plan was not implemented.
- 6.4.3 Whole system is divested to SA Water
- 6.4.3.1 The whole system divestment is an upfront complete transfer of the CWMS customer base to SA Water, with CTTG operating the CWMS network on behalf of SA Water under a full cost recovery management agreement until all the connections are transferred to the SA Water network.
    - (a) The cost of risk and cost of capital will not be recoverable under this scenario, with the risks of operating the network being assumed by SA Water.
    - (b) The value of the CWMS network assets would be written-off in the year the cost recovery agreement is entered into.
  - 6.4.3.2 CTTG will recover the annual operating costs but forego the recovery of the cost of risk and capital. These costs are estimated to be \$1.4 million per annum which has a negative impact on Council's financial indicators compared to the alternative scenarios.



## 7. PROJECT RISK AND MITIGATION STRATEGIES

*Local Government Act, Section 48 (2) The following are prudential issues for the purposes of subsection (1):*

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

### 7.1 Risk Management

7.1.1 This report assesses the risk management actions taken or being considered by CTTG for the Project. It is not the purpose of the report to prepare a comprehensive risk management plan, however a level of assessment has been undertaken on the identified risks and the mitigations that have been developed.

7.1.2 The CTTG has adopted a Risk Management Policy, last reviewed 13 October 2020, Record number D20/77449, the objective of the Policy is for Council to embrace Risk Management as a key management tool as a means of enhancing and creating value for its community, the public and its stakeholders through activities that are planned and carried out.

7.1.3 By operating a CWMS network the CTTG has a wide range of other risks which need to be managed, these are reflected in a Risk Register and include the risk of compliance with licence conditions and regulatory requirements.

7.1.4 ESCOSA has recently assessed and identified instances of non-compliance with CTTG's:

7.1.4.1 regulatory obligations:

- (a) The CTTG declaration of non-compliance in relation to clause 6.2 of the CTTG's water retail licence. Noting that CTTG has declared that is working towards full cost recovery and has increased the annual fees and charges for the CWMS with a view of achieving full cost recovery in 2023; and

7.1.4.2 certain requirements of the regulatory framework:

- (a) the version of the Customer hardship policy on the CTTG website differs from the approved hardship policy;
- (b) the approved customer charter could not be located on CTTG's website;
- (c) the approved version of the Customer Enquiry, Complaint and Dispute Resolution Process could not be located on CTTG's website; and
- (d) the pricing published on CTTGs' website does not include non-drinking water prices.



- 7.1.5 It seems to us, the most material of these risks relates to pricing and in particular to the increase in CWMS Service Charge that will be required to meet ESCOSA’s requirement to achieve full cost recovery.
- 7.1.6 Consistent with the CTTG Risk Management Framework, a Project Risk Register for the Project has been prepared. The Risk Register was prepared as the output to a risk workshop attended by the following Project Team members:
  - 7.1.6.1 Ryan McMahon, Director Organisational Services & Excellence
  - 7.1.6.2 Thornton Harfield, Director Assets & Environment
  - 7.1.6.3 Justin Robbins, Manager Finance and Rating Operations
  - 7.1.6.4 Jonathan Fong, Group Co-ordinator Waste, Waste & Environment
  - 7.1.6.5 Lee Waters, CWMS Project Officer
  - 7.1.6.6 Anna Athanasiou, Risk and Audit Advisor
  - 7.1.6.7 Tony Amato, Communications Co-ordinator
  - 7.1.6.8 Cherie Gill, Senior Strategy Planner
- 7.1.7 The Project Risk Register has been progressively updated as the Project has progressed and currently has 52 active risks each of which has mitigation strategies identified. The risk ratings are shown in Table Nine.

**Table Nine: Project Risk Ratings**

	Extreme	High	Medium	Low
Assets and Infrastructure			1	4
Financial Management	2		6	
Legal / Regulatory			5	4
Natural Environment / Sustainability			1	1
People and Culture				3
Reputation			14	8
Service Delivery			2	1
Total	2	0	29	21

- 7.1.8 The identified controls for the following risks are identified as ‘not effective’ and the risks remain rated as ‘Extreme’.
  - 7.1.8.1 Significant financial write-off of the CWMS asset value.
  - 7.1.8.2 Future economic value of current CWMS network is not realised.



- 7.1.9 When considered from a Council wide perspective in our view neither the impact of the asset write-off or the loss of future economic value is likely to have a financial impact that warrants an 'Extreme' rating.

## 7.2 Risk Mitigation

- 7.2.1 The CTTG has prepared a Project Risk Register that:
  - 7.2.1.1 identifies the risk impact should the risk eventuate;
  - 7.2.1.2 identifies the current controls in places (where they exist);
  - 7.2.1.3 assesses the effectiveness of the identified controls; and
  - 7.2.1.4 determines the risk rating, based on the likelihood and the consequence of an event occurring.
- 7.2.2 CTTG should review and update the Project Risk Register to identify any controls for those risks that are currently uncontrolled.
- 7.2.3 Risk Management has been undertaken consistent with the objectives of the Policy and in accordance with the Enterprise Risk Management Framework.



## 8. PROJECT DELIVERY

*Local Government Act, Section 48 (2) The following are prudential issues for the purposes of subsection (1):*

(i) *the most appropriate mechanisms or arrangements for carrying out the project.*

### 8.1 Mechanism for carrying out the Project

8.1.1 Should the Project proceed on the basis of the current position of SA Water the CWMS customers will transfer to the SA Water network for nil consideration. As a consequence of the transition the redundant CWMS network (an asset) will be decommissioned and the value of this asset will be written-off in the CTTG Financial Statements which is approximately 3% of CTTG's Total Assets. This is a material decrease in asset values.

8.1.2 The CTTG position is that some of these assets have value to SA Water (or others). The CWMS customers may also be considered to be an asset of the Council.

8.1.3 Under the provisions of the Local Government Act 1999, a Council is required to develop a policy for contracts and tenders when disposing of land or other assets to ensure ethical and fair treatment of participants and probity, accountability and transparency in all disposal processes. To fulfil this obligation, CTTG has a Disposal of Land and Assets and Acquisition of Land Policy, last reviewed 11 February 2020, Record number D19/81726.

8.1.4 The Policy sets out a number of principles that the Council must have regard to when disposing of land or an asset. Assuming the CWMS customers are considered to be an asset then how these principles are addressed by the Project is set out in Table Ten. The comments would apply equally to any assets that were to be disposed of to SA Water if this was to occur as part of the SST Plan.

**Table Ten: Disposal of Assets Policy impact**

Policy Principle	Project impact
Open and effective competition	Council is dealing with a sole purchaser although two other parties have expressed interest in the CWMS network assets.
Value for money	CWMS customers are highly likely to have a lower cost of service than presently being charged. Council may need to write-off significant asset value. Operational risk is transferred provided all 3 stages of the SST Plan do in fact occur. There is increased financial risk if Stage 3 is not funded.
Ethical behaviour and fair dealing	Negotiations with SA Water have been conducted in good faith.
Probity, accountability, transparency and reporting	Council is providing regular reports to its community.



Policy Principle	Project impact
Compliance with all relevant legislation and other obligations	Council is complying with legislation and its own policies in progressing discussion and negotiations with SA Water.
Opportunities to enhance local economic development and growth	Not relevant.
Other relevant factors deemed appropriate by Council or the CEO	None identified.

- 8.1.5 Council must also consider a range of factors when taking a decision to dispose of an asset, the following are considered relevant to the Project:
- 8.1.5.1 The current market value of the Asset.
  - 8.1.5.2 The positive and negative impacts of the disposal on the operations of the Council.
  - 8.1.5.3 The remaining useful life of an Asset.
  - 8.1.5.4 A benefit and risk analysis of the proposed disposal.
- 8.1.6 The Project involves Council transferring the CWMS customer network to SA Water and then being required under the relevant accounting standard and financial regulations to write-off assets which have remaining useful life and are carried in the financial statements at a value of \$45.8 million, for nil consideration. Further two additional parties (other than SA Water) have expressed interest in acquiring the CWMS assets which suggests that there is a 'market value' for them.
- 8.1.7 Engaging with a sole 'purchaser' on financial terms which are on face value unfavourable to Council is not an appropriate mechanism or arrangement to carry out the Project without having first explored other options. If this course of action was to be progressed, to comply with its Policy, Council would need to satisfy itself that the proposed transaction was in the best interest of the community.
- 8.1.8 While the asset write-off is a non-cash transaction which will not impact the cost of services provided to CTTG ratepayers generally, there are some significant tangible financial benefits of the proposed transaction including:
- 8.1.8.1 providing CWMS customers with a lower cost of service;
  - 8.1.8.2 removing the obligation on CTTG to provide wastewater management services with all of the associated regulatory and compliance requirements that entails; and
  - 8.1.8.3 removing the current cross subsidisation on the cost of providing the service which is currently borne by all CTTG ratepayers.



## 8.2 Procurement Implications

- 8.2.1 The CTTG Procurement Policy last reviewed 8 October 2019, Record number D19/43911 applies to all Council staff and personnel engaged by Council to undertake procurement activities on its behalf, and it relates to all procurement activities associated with the acquisition of Goods, Works or Services of any value by CTTG.
- 8.2.2 In considering the Project the CTTG has procured legal advice and this Prudential Report. The Procurements have been undertaken in accordance with the Procurement Policy.



## 9. **SALE AND OR DISPOSITION OF LAND**

*Local Government Act, Section 48 (2) The following are prudential issues for the purposes of subsection (1):*

*(i) 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.*

### 9.1 **Valuation of Land**

9.1.1 The Project does not involve the sale or disposition of land and accordingly part (j) of the Act is not considered relevant.



## 10. CONCLUSION

10.1 This report has been prepared to meet the requirements of the Prudential Management Policy and Section 48 of the Local Government Act and to provide Council with a comprehensive understanding of the prudential issues relating to the staged transfer of the CTTG CWMS network customers to SA Water for nil consideration and the decommissioning of CWMS assets that are redundant as a consequence of the transition.

### 10.2 Background

10.2.1 The CTTG owns, operates and maintains a Community Wastewater Management System (CWMS) servicing approximately 4,700 individual connections.

10.2.2 The State Government has directed SA Water to connect CTTG CWMS connected properties to SA Water's sewer system and has provided \$72.1 million of funding to SA Water for the sewer conversion and decommissioning of redundant CWMS assets during 2020-2024. SA Water is proposing to undertake the conversion over three stages, with only Stage 1 and 2 occurring in the current regulatory period these are the only works that are currently funded.

10.2.3 The CWMS network has an estimated replacement cost of \$55.63 million and is carried in CTTG's Balance Sheet at a value of \$45.8 million. SA Water has no interest in acquiring these assets (even for nominal consideration) and the value of the assets will need to be written-off when the CWMS network is no longer required.

10.2.4 To ensure equity across the CWMS customer base and to mitigate the risks of the Stage 3 works, which cover more than 56% of CTTG's CWMS customers, not being undertaken in the proposed timeframe (due primarily to a lack of certain funding) CTTG has proposed that SA Water takes responsibility for the whole CWMS network from 1 July 2022. SA Water has not agreed to this proposal.

10.3 The State government has recently advised that it is supportive of mitigating the significant decommissioning costs of the CWMS network, this has now provided certainty around the financial implications of Stage 1 and 2 of the Project and should give Council some comfort that these same costs will be met in Stage 3. CTTG has provisions in the Long Term Financial Plan and the CWMS Asset Management Plan for the continued future operations of the CWMS network.

10.4 The transition the ownership of the CTTG CWMS network customers to SA Water does not constitute development under the PDI Act and therefore the objectives of the Development Plan are not relevant.

10.5 The transfer of the CWMS customers to SA Water will not itself generate economic development but it will act as the catalyst for a significant capital investment by SA Water. In Stages 1 and 2 of the SST Plan, based on capital expenditure of \$72 million this would generate:

10.5.1 an increase in economic output of \$143.744 million;

10.5.2 a corresponding employment impact of 409 jobs; and



10.5.3 an increase in the value added to the economy of \$51.583 million.

Stage 3 of the SST Plan would also add to the positive economic impact of the Project.

## 10.6 Consultation

10.6.1 The Project involves the write-off of a community asset that has significant value (\$45.8 million) and future economic value. While this represents around 3% of the CTTG's total asset value it is a non-cash transaction that does not increase the cost of services to the CTTG community. This would be different if the decommissioning costs were a cost to CTTG.

10.6.2 In our view given the costs of decommissioning the redundant CWMS network assets, for Stage 1 and 2 of the SST Plan are to be met by the State Government, the CWMS customers will pay a lower price for wastewater management and the CTTG ratepayers will not be required to continue to subsidise the cost of CWMS services longer term, Council is not required to undertake a community consultation and engagement process under the Act or its Community Engagement Public Consultation Policy.

## 10.7 Financial impacts

10.7.1 The Project is not expected to generate revenue as SA Water is not paying CTTG for these customers (nor for any of the CWMS network assets). As a result, CTTG revenues will decline by the amount charged to:

10.7.1.1 CWMS customers (through the CWMS Service Charge); and

10.7.1.2 Developers for new connections to the CWMS network.

10.7.2 There are a number of financial risks to CTTG with the Project that are not able to be effectively mitigated by CTTG under the current proposal.

10.7.3 CTTG currently budgets to operate the CWMS at a breakeven position, through a combination of Service Charges and a wider subsidy from CTTG ratepayers. Under the SST Plan CTTG will need to carefully manage costs to ensure the decrease in revenue is aligned with the reduction in costs.

10.7.4 The State Government has advised that it "is supportive of mitigating decommissioning costs associated with this project", if this support (which is beyond the current regulatory period) does not extend to meeting the decommissioning costs of Stage 3 of the SST Plan then those customers remaining on the CWMS network will be required to pay a substantially higher Service Charge to ensure CTTG complies with the regulatory obligations of ESCOSA.

10.7.5 A majority of those customers who transition to SA Water will have a lower cost of service than is currently charged due to SA Water's State-wide pricing regime.

10.7.6 An alternative to funding the additional costs from remaining CWMS ratepayers is to increase General Rates across the city to finance the decommissioning cost of the redundant assets in the CWMS network. CTTG has sought clarification from ESCOSA



on whether this approach would be consistent with the current regulatory pricing regime which requires full cost recovery from within the CWMS customers.

- 10.8 A Project Risk Register has been prepared in accordance with the CTTG Risk Management Policy. The Project currently has 52 active risks each of which has been assessed and the effectiveness of control measures has been evaluated. CTTG should continue to review and update the Project Risk Register to identify any controls for those risks that are currently uncontrolled.
- 10.9 The CTTG has adopted a Disposal of Land and Assets and Acquisition of Land Policy which sets out certain policy principles that Council must have regard to when disposing of an asset. These principles are generally satisfied by the Project other than the following:
- 10.9.1 'Open and effective competition' - negotiations with a single supplier (SA Water) could not be construed as open and effective competition.
- 10.9.2 'Value for money' – this principle may be satisfied from the perspective of those CWMS customers who in transitioning to SA Water are highly likely to have a lower cost of service than presently being charged and provided all three stages of the SST Plan are implemented then there is a benefit to all ratepayers who will no longer be required to subsidise the CWMS operations through General Rates revenue. CTTG will need to carefully manage the costs of the CWMS operations as it loses the current economies of scale from the reduction in customers over the transition period to avoid substantially higher Service Charges for those CWMS customers who have not yet transitioned to SA Water. This financial risk is further exacerbated if all three stages of the SST Plan are not implemented due to the reduced number of CWMS customers reducing current economies of scale in the provision of CWMS services.
- 10.10 The procurement undertaken by the City of Tea Tree Gully in relation to the Project has been in accordance with the Procurement Policy.
- 10.11 The Project does not involve the sale or disposition of land and accordingly part (j) of the Act is not relevant.



## ATTACHMENT ONE: GOVERNMENT GAZETTE NOTICE 1 APRIL 2021

1 April 2021

THE SOUTH AUSTRALIAN GOVERNMENT GAZETTE

No. 20 p. 1



### THE SOUTH AUSTRALIAN GOVERNMENT GAZETTE

PUBLISHED BY AUTHORITY

ADELAIDE, THURSDAY, 1 APRIL 2021

PUBLIC CORPORATIONS ACT 1993

SECTION 6

*Direction to the South Australian Water Corporation*

**Background:**

- Pursuant to Section 6 of the *Public Corporations Act 1993*, and sections 6 and 7 (2)(f) of the *South Australian Water Corporation Act 1994* the South Australian Water Corporation (SA Water) is subject to control and direction by its Minister, and has the functions conferred on it by its Minister.
- The *South Australian Water Corporation Act 1994* and the *Water Industry Act 2012* are committed to the Minister for Environment and Water (the Minister) as per Gazettal notice dated 22 March 2018 (p. 1256)
- The Minister Directed SA Water on 28 May 2020 over the course of the third regulatory period to provide certain services, in addition to the services it is required to provide pursuant to section 7 of the *South Australian Water Corporation Act 1994*, and the Charter for SA Water, together with a number of other matters and projects, including to progressively assume responsibility for the Tea Tree Gully community wastewater management scheme with the agreement of the City of Tea Tree Gully (with the intent that from transfer of the relevant assets to SA Water, the assets, and their operation and upgrade, will be treated as part of SA Water's sewerage retails services).
- Following recent investigative and planning works undertaken by SA Water, there is merit in clarifying certain provisions in clause M of my Direction dated 28 May 2020 which are unique to this project.
- The Minister intends that this Direction will revoke and replace clause M of the previous Direction made to SA Water pursuant to section 6 of the *Public Corporations Act 1993* on 28 May 2020 and published in the *Gazette* on 11 June 2020 (p. 3378). All other provisions are to remain unchanged.
- This Direction may be revoked and replaced by a subsequent direction pursuant to section 6 of the *Public Corporations Act 1993*.

**Direction:**

I, David Speirs, Minister for Environment and Water, direct SA Water as follows:

M. Tea Tree Gully Community Wastewater Management System

With the agreement of the City of Tea Tree Gully (and on terms and conditions acceptable to SA Water), SA Water must:

- provide sewerage services to properties serviced by the Tea Tree Gully Community Wastewater Management System (the Properties), in a staged manner over the third regulatory period; and
- facilitate the transfer of assets currently owned and operated by the City of Tea Tree Gully Council for the provision of sewerage services to Properties where they meet SA Water standards or can be upgraded to meet standards, and where the assets currently owned and operated by the City of Tea Tree Gully cannot provide the services SA Water must make prudent and efficient investments to provide the services to the Properties, which will include but not be limited to works required to be undertaken on the Properties for SA Water to provide the Services to the Properties.

For the initial works during the third regulatory period, SA Water will fund up to \$64.1 million of capital expenditure progressively as it acquires, upgrades or constructs (including on the Properties) together with associated operating costs (including on the Properties) not exceeding \$963,000 (as per the tables below):

i. In relation to SA Water's capital expenditure:

2020-21	2021-22	2022-23	2023-24
\$3 834 000	\$23 376 000	\$27 385 000	\$9 471 000

ii. In relation to SA Water's operating expenditure:

2020-21	2021-22	2022-23	2023-24
\$82 000	\$160 000	\$328 000	\$393 000

These services and assets will form part of SA Water's sewerage retail services from 1 July 2020 or a date of their provision and acquisition, whichever is later.

Date: 25 March 2021

DAVID SPEIRS MP  
Minister for Environment and Water



## ATTACHMENT TWO: LOCAL GOVERNMENT ACT, 1999 SECTION 48

### Section 48 – Prudential requirements for certain activities

- (aa1) A council must develop and maintain prudential management policies, practices and procedures for the assessment of projects to ensure that the council—
- (a) acts with due care, diligence and foresight; and
  - (b) identifies and manages risks associated with a project; and
  - (c) makes informed decisions; and
  - (d) is accountable for the use of council and other public resources.
- (a1) The prudential management policies, practices and procedures developed by the council for the purposes of subsection (aa1) must be consistent with any regulations made for the purposes of this section.
- (1) Without limiting subsection (aa1), a council must obtain and consider a report that addresses the prudential issues set out in subsection (2) before the council—
- (b) engages in any project (whether commercial or otherwise and including through a subsidiary or participation in a joint venture, trust, partnership or other similar body)—
    - (i) where the expected operating expenses calculated on an accrual basis of the council over the ensuing five years is likely to exceed 20 per cent of the council's average annual operating expenses over the previous five financial years (as shown in the council's financial statements); or
    - (ii) where the expected capital cost of the project over the ensuing five years is likely to exceed \$4 000 000 (indexed); or
    - (iii) where the council considers that it is necessary or appropriate.
- (2) The following are prudential issues for the purposes of subsection (1):
- (a) the relationship between the project and relevant strategic management plans;
  - (b) the objectives of the Development Plan in the area where the project is to occur;
  - (c) 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;
  - (d) 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;
  - (e) if the project is intended to produce revenue, revenue projections and potential financial risks;
  - (f) the recurrent and whole-of-life costs associated with the project including any costs arising out of proposed financial arrangements;
  - (g) 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;
  - (h) any risks associated with the project, and the steps that can be taken to manage, reduce or eliminate those risks (including by the provision of periodic reports to the chief executive officer and to the council);
  - (i) the most appropriate mechanisms or arrangements for carrying out the project;
  - (j) 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.
- (2a) The fact that a project is to be undertaken in stages does not limit the operation of subsection (1)(b) in relation to the project as a whole.
- (3) A report is not required under subsection (1) in relation to—
- (a) road construction or maintenance; or
  - (b) drainage works.



- (4) A report under subsection (1) must be prepared by a person whom the council reasonably believes to be qualified to address the prudential issues set out in subsection (2).
- (4a) A report under subsection (1) must not be prepared by a person who has an interest in the relevant project (but may be prepared by a person who is an employee of the council).
- (4b) A council must give reasonable consideration to a report under subsection (1) (and must not delegate the requirement to do so under this subsection).
- (5) A report under subsection (1) must be available for public inspection at the principal office of the council once the council has made a decision on the relevant project (and may be available at an earlier time unless the council orders that the report be kept confidential until that time).
- (6) However, a 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).
- (6a) For the purposes of subsection (4a), a person has an interest in a project if the person, or a person with whom the person is closely associated, would receive or have a reasonable expectation of receiving a direct or indirect pecuniary benefit or a non-pecuniary benefit or suffer or have a reasonable expectation of suffering a direct or indirect detriment or a non-pecuniary detriment if the project were to proceed.
- (6b) A person is closely associated with another person (the relevant person)—
- (a) if that person is a body corporate of which the relevant person is a director or a member of the governing body; or
  - (b) if that person is a proprietary company in which the relevant person is a shareholder; or
  - (c) if that person is a beneficiary under a trust or an object of a discretionary trust of which the relevant person is a trustee; or
  - (d) if that person is a partner of the relevant person; or
  - (e) if that person is the employer or an employee of the relevant person; or
  - (f) if that person is a person from whom the relevant person has received or might reasonably be expected to receive a fee, commission or other reward for providing professional or other services; or
  - (g) if that person is a relative of the relevant person.
- (6c) However, a person, or a person closely associated with another person, will not be regarded as having an interest in a matter—
- (a) by virtue only of the fact that the person—
    - (i) is a ratepayer, elector or resident in the area of the council; or
    - (ii) is a member of a non-profit association, other than where the person is a member of the governing body of the association or organisation; or
  - (b) in a prescribed circumstance.
- (6d) In this section, \$4 000 000 (indexed) means that that amount is to be adjusted for the purposes of this section on 1 January of each year, starting on 1 January 2011, by multiplying the amount by a proportion obtained by dividing the CPI for the September quarter of the immediately preceding year by the CPI for the September quarter, 2009.
- (6e) In this section—
- employee** of a council includes a person working for the council on a temporary basis;
- non-profit association** means a body (whether corporate or unincorporate)—
- (a) that does not have as its principal object or 1 of its principal objects the carrying on of a trade or the making of a profit; and
  - (b) that is so constituted that its profits (if any) must be applied towards the purposes for which it is established and may not be distributed to its members.
- (7) The provisions of this section extend to subsidiaries as if a subsidiary were a council subject to any modifications, exclusions or additions prescribed by the regulations.