

## **Attachment 5**



22 May 2003

**Public Excluded**

By: Chief Executive

**Mangawhai EcoCare – Project Update**
**Summary**

Mangawhai has a problem with pollution levels in the estuary and groundwater. This has been consistently demonstrated since 1979 through a series of reports. These reports also identified that the primary cause is from human sources associated with septic tanks of varying quality. Ground conditions at Mangawhai are not conducive to septic tanks.

Te Uri O Hau support the project and the consultative approach adopted.

Council considered all of the issues and the community feedback. Council had elected to proceed with a BOOT style delivery mechanism whereby significant risk could be managed by the private sector while providing pricing certainty for Council and the community. Recent enactment of the Local Government Act 2002 has required this approach to be reviewed. This resulted in Council moving to a Design, Build, Fund, and Operate model. Council also confirmed its intent to proceed providing Simon Engineering could demonstrate competitive financing options. This was considered to be the most effective means of progressing the project given the extent of resources committed to date.

In the opinion of the Project Steering Committee this has now been achieved and hence this paper and recommendation has been prepared. Because of the nature of the contracting process Council is not in a position to release any details immediately following the Council Meeting. It needs to wait until there is a contractual relationship between Council and Simon Engineering.

The contracting process involved selecting a preferred proponent based on their technical skills, financial ability, a priced proposal inclusive of payment regimes. In addition Simon Engineering offered a range of alternatives for various aspects together with a Guaranteed Maximum Price concept. These cannot be finalised until Simon Engineering is satisfied it has a contract with Council. This is quite different from our usual contracts where we design something and ask the contractors to price it. This involved the contractor having to produce the final design after the Council has accepted the offer.

Simon Engineering has been very co-operative in this matter and made significantly more information available than the contract requires at this time. This has enabled the Project Steering Group to develop very robust models on which to base its decisions.

**Recommendation**

- 1 **That** Council endorse the summary outline as the basis for the Project Steering Committee to:
  - a. Prepare formal Statement of Proposal as proposed in the attached draft;
  - b. Conclude negotiations with Simon Engineering and ABN Amro in accordance with this proposal and report to Council;
  - c. Resolve the preferred disposal option with Simon Engineering; and
  - d. Formalise a start date of either 12 or 18 months construction start date.
- 2 **That** Council continue to pursue the Sanitary Works Subsidy Scheme (SWSS) application in parallel with the EcoCare project; and
- 3 **That** Council delegate to the Project Steering Committee authority to release the Project Summary document and commence the special consultative process including issuing the Statement of Proposal.

**Reason for the Recommendation**

The above recommendations provide Council with a way of moving forward with this project that builds on the work carried out to date while taking into account the requirements of the Local Government Act 2002. The process also recognises the commercial and other risks faced by Council and the actions needed to mitigate these. The attached provides further detail of these issues.

### Proposal Summary

The proposal, as recommended by the Project Steering Committee, is summarised in Table 1 below with a summary of the issues and implications of each element discussed below the table.

Table 1: Summary of recommended key elements of Mangawhai EcoCare Project.

ELEMENT	DEFINITION
<b>SYSTEM/ PHYSICAL ISSUES</b>	
▪ Drainage District	Mangawhai Heads extending back onto the upper estuary and Mangawhai Village. Shown in Appendix A.
▪ Treatment Plant Location	Mangawhai Park – to be finalised following discussion with the Golf Club and Council prior to the consenting process.
▪ Reticulation System	Combination of gravity pipes and rising mains.
▪ Disposal Option	Will be either disposal to forests or irrigation to land combined with reuse to Golf Club and other users if possible. Still being investigated but best environmental and community option with sustainable future will be selected. Will be determined before Consent is applied for.
▪ Construction Timing	Expected to commence in early 2004 and be completed by mid 2005.
▪ Connection Approach	Simon Engineering will connect all households as part of the project with costs included in Start Up Fees. [To be confirmed and priced]
▪ Timing of Connections	Physical connections will occur in mid 2005.
▪ Operations Commence	Mid 2005.
<b>FINANCIAL/ CONTRACT ISSUES</b>	
▪ Operating Contract Period	15 Years.
▪ Finance Period	5 Years.
▪ Financing Conditions	Interest only with Council refinancing after 5 years.
▪ Interest Rate	Fixed Rate linked to Government Treasury Rate effective on contract signing.
▪ Start Up Fee	
- Current Ratepayers	\$1380 GST Included.
- Future Ratepayers	\$16,560 GST Included.
▪ Annual Rates	Year 1 \$500 GST Included. Year 2 \$515 GST Included. Year 3 \$530 GST Included. Year 4 \$546 GST Included. Year 5 \$562 GST Included.  This shows the total annual increase provided for in the contract, an inflation factor. The contractor will not be able to claim for additional operating costs.

The Steering Committee has considered all of the above factors and has prepared the Statement of Proposal based on the above positions.

The current indicative Project Costs are as follows:

ITEM	COSTS
<b>CAPITAL COSTS</b>	\$
▪ Treatment Plant	2,600,000
▪ Sewer Reticulation Network	11,300,000
▪ Disposal System	1,100,000
<b>OPERATING FEES</b>	\$
– YEAR 1	500,300
– YEAR 25	1,115,800

These will be subject to final negotiated contracts with Simon Engineering however they will also be subject to the Guaranteed Maximum Price arrangement whereby all costs savings achieved below this will be shared. Council and the community are protected from cost increases except those arising specifically from changes of scope at the Council direction. **These costs exclude GST and any physical connection costs for premises.**

A summary of the implications and issues associated with each of these is outlined below.

**Drainage District** this area basically covers the existing residential areas together with those adjacent areas that are likely to be developed and which fall into logical catchment areas.

This provides for an estimated increase in the number of the current ratepayers from approximately 1,350 to 2,800.

**Treatment Plant Location** has been nominated as within Mangawhai Park requiring approximately 1 hectare of the 33 hectare site. Simon Engineering has identified an alternative site on golf course land, however, to provide certainty at this time it is recommended Council proceeds with the Mangawhai Park option as outlined in the layout plan attached to the Statement of Proposal.

If subsequent negotiations with the Golf Club can be satisfactorily concluded this will be an improved outcome rather than reverse. This will be resolved prior to application for a Consent.

**Reticulation System** this will be using a combination of gravity sewers and rising mains with a network of pump stations. In addition some pumps will be required to connect some households to pump up to the nearest sewer. Simon Engineering has considered the use of STEDS or Septic Tank Effluent Disposal systems where the connection is at the outlet of the septic tank. This will only proceed if it is proven economic in the detailed design stage. Lower rates or charges will not be available to those people if



**Operating Period** will be for 15 years to comply with the Local Government Act.

**Finance Period** will be for 5 years fixed with Council reserving the right to refinance itself after this period or to seek refinancing with Simon Engineering / ABN Amro. Simon Engineering and ABN Amro have offered an attractive and flexible financing arrangement. The finance period can be for any period up to 25 years however they have specifically offered to fix finance rates for 5, 10 or 15 years. A range of residual value options has been offered from 100% at 5 years through to 0% at 15 years. The high risk period is within the first 5 years and therefore the Project Steering Committee recommends pursuing a Five Year Fixed Interest rate with 100% residual value. At the end of the initial five year finance period Council will be in a better position to determine the most appropriate refinancing option.

The offer from Simon Engineering/ ABN Amro is based on the following:

- All inclusive rate will be provided for a five year fixed period.
- Rate will be based on either a 12 or 18 months forward start from date of financial close.

**Cost of Funds (COF)** will be established by links to the bank bill rates and inter bank swap curves and with ABN Amro to derive ABN Amro COF. This will be auditable by PricewaterhouseCoopers to ensure this remains fair. Based on figures provided at 7 April 2003, the indicative financing rate is as follows:

▪ Cost of Funds %	6.35%
▪ Fixed Rate Margin	0.55%
▪ Construction & Other Risk Margin	0.72%
▪ <b>Total</b>	<b>7.62%</b>

This includes all bank fees including establishment fees and a project advisory fee.

In addition ABN Amro has advised that a "break cost indemnity" will be required in the event that the construction start date is delayed. This applies if for example the Consent process delays commencement past the nominated construction start period. This indemnity will apply to enable ABN Amro to recover its costs associated with breaking the existing arrangement and renegotiating and fixing interest rates for a different period. Council has the opportunity to select either a 12 or 18 month forward start date dependant on potential for delays in gaining Consents. The difference in terms of rates is approx 0.1% or some \$1,000 per month. This can be resolved in the final negotiations however it is recommended that the Project Steering Committee be endorsed to negotiate either a 12 month or 18 month arrangement based on these parameters.

**Fees/ Rates:** It is recommended that Start Up Fees be levied against current and future ratepayers primarily to recover capital costs and ensure intergenerational equity are addressed with future ratepayers paying the appropriate finance charges to reflect the cost of reserving capacity within the system now. It is also recognised that the future ratepayers will exacerbate the problem by increasing density and demand for services. This places an obligation on them to appropriately fund the required infrastructure. Annual rates based on a uniform rating model should be used primarily to fund operating costs and depreciation charges or equivalent.

PricewaterhouseCoopers has developed a model that optimises the revenues over a 40 year period to provide a theoretical zero balance at the completion of 40 years. To balance cashflow over this period an overdraft facility is required to meet cashflow shortfalls in the earlier years. However the model demonstrates the affordability of the project over the 40 year period. The Project Steering Group considered this matter carefully and satisfied itself that this approach was appropriate as the full costs were met by the users on a fair basis that reflected intergenerational equity. In addition they have also developed a more conservative position that theoretically ensures the project remains cash positive throughout it's life provided the projected population growth is achieved. This effectively adds some \$200 + GST per annum to the Annual Rates outlined below and will also produce a healthy cash balance at the end of the period. Creating such a cash balance could be considered inappropriate as it compromises the allocation of intergenerational equity included in this project..

The Project Steering Committee has identified a preferred model that aims to ensure affordability for current ratepayers whilst levying a higher charge against future ratepayers.

This model is as follows:

▪ Start Up Fee			
- Current Ratepayers	\$1,200 + \$180 GST	=	\$1,380
- Future Ratepayers	\$14,400 + \$2,160 GST	=	\$16,560
▪ Annual Rates			
	Year 1 \$435 + \$65 GST	=	\$500
	Year 2 \$448 + \$68 GST	=	\$516
	Year 3 \$460+ \$70 GST	=	\$530
	Year 4 \$475 + \$71 GST	=	\$546
	Year 5 \$488 + \$73 GST	=	\$ 561

These costs have been derived from the following cost allocations:

ITEM	TOTAL COST \$000s	CURRENT RATEPAYERS SHARE \$000s	FUTURE RATEPAYERS SHARE \$000s
Depreciation Charge	\$9,500	\$4,750	\$4,750
Interest	\$19,000		\$19,000
Overdraft Costs	\$7,000	\$1,000	\$6,000
<b>TOTAL</b>	<b>\$35,500</b>	<b>\$5,750</b>	<b>\$29,750</b>
Ratepayer Nos	2800	1350	1450
Cost / Ratepayer	\$12.7	\$4.2	\$20.5
Operating Costs (Year 1) (\$s)	\$500,000	\$500,000	N/ A
Ratepayer Nos	1350	1350	N/ A
Cost/ Ratepayer (\$s)	\$370.00	\$370.00	N/ A



**The above table does not include costs for connecting existing premises or households nor allows for GST.**

The Steering Committee felt this outcome reflected too high a reliance on initial Start Up Fees from both current and future ratepayers and that adjustments should be made.

Mangawhai has traditionally been a small coastal community with typical demographic characteristics as follows:

- Older population and a large proportion of the population post employment;
- Comparatively low median income, with a high proportion of the population sourcing their income from Superannuation, Pensions and Annuities;
- A comparatively large proportion of the population living in single person households (approximately 15%)<sup>1</sup>

Mangawhai's ability to fund the required works necessary to address this problem is limited based on current demographics yet this profile is expected to progressively change as increased number of people arrive driven through restricted availability of land closer to Auckland and improved transport access to Mangawhai. Current residents have also invested, admittedly to varying levels, in some form of sewerage infrastructure to service their existing properties.

The proposed adjustment is to reduce current ratepayers start up fees by some \$4,000 and future ratepayers start up fees by some \$6,100. This reduction is offset by increased rates.

***Note that all existing undeveloped sections within the area will be considered as future sections for charging Start Up Fees.***

Whilst the above charges recover the costs over the entire period there will be periods when overdraft facilities will be required to fund the shortfall between rates revenue and annual payment to Simon Engineering. The costs of this shortfall in terms of additional interest payments have been included in the overall calculations.

Council has previously reviewed its Treasury Policy and its Annual Plan and has developed the following position:

*" Total Council debt, excluding third party funded Council-sponsored schemes, should be maintained so that a minimum of 65% of all such debt is fully performing." (Emphasis added)*

In addition, the Project Steering Committee has developed a proposed staging model which provides for some in the community to stage their payments over a 12 month period.

<sup>1</sup> Mangawhai Infrastructural Asset Study, Summary Report: Recommendations & Implementation – Beca Carter Hollings and Ferner Ltd August 1999.

This is outlined below:

<b>Option 1</b>	<b>Single amount March 2004</b>	<b>\$1,380 plus connection</b>
<b>Option 2</b>	<b>Total</b>	<b>\$1,432 plus connection</b>
	Payment 1 - March 04	\$358 plus connection
	Payment 2 – September 04	\$358 plus connection
	Payment 3 – December 04	\$358 plus connection
	Payment 3 – March 05	\$358 plus connection
<b>Option 3</b>	<b>Total</b>	<b>\$1,458 plus connection</b>
	Payment 1 - March 04	\$292 plus connection
	Payment 2 – June 04	\$292 plus connection
	Payment 3 – September 04	\$292 plus connection
	Payment 4 – December 04	\$292 plus connection
	Payment 5 – March 05	\$292 plus connection
<b>Option 4</b>	<b>Single Payment March 2005</b>	<b>\$1, 484 plus connection</b>
<b>Option 5</b>	<b>Total</b>	<b>\$1,484 plus connection</b>
	Payment 1 – December 04	\$371 plus connection
	Payment 2 - March 05	\$371 plus connection
	Payment 3 – June 05	\$371 plus connection
	Payment 4 – September 05	\$371 plus connection.
<b>Option 6</b>	<b>Total</b>	<b>\$1,539 plus connection</b>
	Payment 1 – March 05	\$ 385 plus connection
	Payment 2 – June 05	\$ 385 plus connection
	Payment 3 – September 05	\$ 385 plus connection
	Payment 4 – December 05	\$ 385 plus connection
<b>Option 7</b>	<b>Total</b>	<b>\$1,567 plus connection</b>
	Payment 1 – March 05	\$ 313 plus connection
	Payment 2 – June 05	\$ 313 plus connection
	Payment 3 – September 05	\$ 313 plus connection
	Payment 4 – December 05	\$ 313 plus connection
	Payment 5 – March 06	\$ 313 plus connection

Note: These options can be modified to coincide with the Council's rating cycle.