

CONFIDENTIAL ITEMS 2003 – JULY 2022

#	Date	Item Title	Confidential Order Details	Item being kept confidential - Agenda/ Attachment/ Minutes	Reason regarding retention or recommendation to release	Resolution Regarding Action	Last Review Date	Next Review Date	Date Released
161	15 July 2021	Wastewater Service Delivery Report	<p><u>Pursuant to Section 90(3)(b)</u> Pursuant to Section 90(2) of the Local Government Act 1999 the Audit and Risk Committee orders that all members of the public except Alex Oulianoff, Chief Financial Officer; Brian Clancey, Deputy Chief Executive Officer/General Manager Governance and Wastewater/Recycled Water; Phil Burton, General Manager, Infrastructure, Chris Reynolds Commercial Manager Wastewater Councillor Leach and Maree Barns, Administration Officer, Governance be excluded from attendance at the meeting for Agenda Item 12.1 Wastewater Service Delivery Report.</p> <p>The Audit and Risk Committee is satisfied that pursuant to Section 90(3)(b) of the Act, the information to be received, discussed or considered in relation to this Agenda item is commercial information of a confidential nature (not being a trade secret) the disclosure of which could reasonably be expected to prejudice the commercial position of the Council.</p> <p>In addition, the disclosure of this information would, on balance, be contrary to the public interest. The public interest in public access to the meeting has been balanced against the public interest in continued non-disclosure of this information. The benefit to the public at large resulting from withholding the information outweighs the benefit to it of disclosure of the information. The Audit and Risk Committee is satisfied that the principle that the meeting be conducted in a place open to the public has been outweighed in the circumstances because the disclosure of Council's commercial position may prejudice Council's ability to be able to negotiate a cost-effective proposal for the benefit of the Council and the community in this matter.</p> <p>Pursuant to Section 91(7) 5. That having considered Agenda Item 12.1 Wastewater Service Delivery Report in confidence under 90(2) and 3(b) of the Local Government Act 1999, the Audit and Risk Committee pursuant to Section 91(7) of the Act orders that the agenda item, attachment and all minutes be retained in confidence until the council determines that this order should cease to apply.</p>	Agenda item, attachment and all minutes	The Audit and Risk Committee is satisfied that the principle that the meeting be conducted in a place open to the public has been outweighed in the circumstances because the disclosure of Council's commercial position may prejudice Council's ability to be able to negotiate a cost-effective proposal for the benefit of the Council and the community in this matter.	Retained in confidence until the council determines that this order should cease to apply.	6 Sep 21	Within 12 months	<i>Report, Attachments and Minutes released on website 14 July 2022</i>

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RELEASED

12. CONFIDENTIAL REPORTS

12.1 REPORT TITLE: WASTEWATER SERVICE DELIVERY REPORT

DATE OF MEETING: 15 JULY 2021

FILE NUMBER: DOC/21/108553

ATTACHMENTS: 1) Frontier Economics Final Report 21/108519

Key Contact Brian Clancey, Deputy CEO/General Manager
Governance and Wastewater/Recycled Water

Sponsor Andrew Stuart, Chief Executive Officer

Community Plan 2020-2035:

Ecological Sustainability

ES Objective 5.1 Continue to build on Council's reputation as a leader in wastewater management and promote water recycling and reuse.

Annual Business Plan 2021/22:

Not applicable

Audit & Risk Committee Terms of Reference:

Wastewater and Recycled Water Strategy

1.10.1 The Committee shall provide advice on the management of risk and the implications to Council associated with the provision of wastewater and recycled water services.

Purpose:

For the Audit and Risk Committee to consider the Wastewater Service Delivery Report prepared by Frontier Economics (attached) and provide recommendations to the council.

Summary – Key Issues:

- The Wastewater Service Delivery Report prepared by Frontier Economics has been completed and is attached (this remains confidential); and
- With the benefit of this report, a number of recommendations from the Audit and Risk Committee to council have been prepared (see below).

Recommendation:

That the Audit and Risk Committee:

Section 90 (3) (b) Order

Pursuant to Section 90(3)(b)

1. Pursuant to Section 90(2) of the Local Government Act 1999 the Audit and Risk Committee orders that all members of the public except Alex Oulianoff, Chief Financial Officer; Brian Clancey, Deputy Chief Executive Officer/General Manager Governance and Wastewater/Recycled Water; Chris Reynolds Commercial Manager Wastewater and Maree Barns, Administration Officer, Governance be excluded from attendance at the meeting for Agenda Item 12.1 Wastewater Service Delivery Report.

The Audit and Risk Committee is satisfied that pursuant to Section 90(3)(b) of the Act, the information to be received, discussed or considered in relation to this Agenda item is commercial information of a confidential nature (not being a trade secret) the disclosure of which could reasonably be expected to prejudice the commercial position of the Council.

In addition, the disclosure of this information would, on balance, be contrary to the public interest. The public interest in public access to the meeting has been balanced against the public interest in continued non-disclosure of this information. The benefit to the public at large resulting from withholding the information outweighs the benefit to it of disclosure of the information. The Audit and Risk Committee is satisfied that the principle that the meeting be conducted in a place open to the public has been outweighed in the circumstances because the disclosure of Council's commercial position may prejudice Council's ability to be able to negotiate a cost-effective proposal for the benefit of the Council and the community in this matter.

2. That the Audit and Risk Committee recommends to Council that:
 - a) Council continue to own the wastewater/recycled water service;
 - b) Council continue to separate the funding arrangements and financial reporting for the wastewater/recycled water service from the remainder of council's service delivery in order to enhance transparency and reaffirm that the wastewater/recycled water service is required by council to be financially sustainable on a standalone basis;

- c) Recommendations 1 – 8 inclusive in the Wastewater Service Delivery Options Report prepared by Frontier Economics (attached) be endorsed by council, whilst noting and respecting that portion of recommendation 8 relates to council staffing which is a matter for determination by the council's Chief Executive Officer;
- d) A prioritised program (inclusive of responsibility, timing and resources) with proposed actions to implement the actions arising from the Wastewater Service Delivery Options Report be prepared for consideration at a council meeting as soon as practicable, and by no later than 5 October 2021; and
- e) Reporting on the progress of the implementation of the program is to occur to future council meetings on a quarterly basis.

Section 91(7) Order

Pursuant to Section 91(7)

3. That having considered Agenda Item 12.1 Wastewater Service Delivery Report in confidence under 90(2) and 3(b) of the Local Government Act 1999, the Audit and Risk Committee pursuant to Section 91(7) of the Act orders that the agenda item, attachment and all minutes be retained in confidence until the council determines that this order should cease to apply.

Background:

1. The brief for the Wastewater Service Delivery Report was endorsed at a council meeting in 2020 and has previously been forwarded to members of the Audit and Risk Committee (ARC).
2. Members of the ARC were given the opportunity to participate in two confidential informal gatherings conducted by Frontier Economics – the first of these being held early in the process and the second upon receipt of a draft report.
3. The final report from Frontier Economics is attached and remains confidential.

Discussion:

4. The report concluded that "... the fundamentals of the wastewater/recycled water business are sound, but further work is required to ensure Council is able to meet its current challenges and better position Council to make future decisions on its service delivery model."
5. It also found that "the business is undergoing significant transformation."
6. A key risk identified in the report is that "... to immediately progress any alternative serviced delivery options would create significant disruptions to the delivery of the capital program currently being progressed to meet the future growth and service requirements of the region."
7. In that context and as has recently been publicly reported, there has been a significant spike in growth rates following the HomeBuilder stimulus and other circumstances. This requires regular monitoring of both the existing flow rates in the council wastewater network and growth so as to inform the forecast timing of when capacity of existing wastewater assets will be fully consumed and new/upgraded assets will need to be operational.
8. The brief required consultation with SA Water. The report recommends further engagement by council with SA Water (recommendation 5).
9. The implementation of the recommended actions in the attached report would be staged according to priority and risk. As identified below under Staff Resource requirements, this will have resource implications that will need to be funded from the wastewater service.
10. The option for council to consider alternative service delivery for the wastewater operation and maintenance needs (either wholly or partially e.g. possibly outsource the operation of the WWTP on Springs Road as part of the stage 1 upgrading that is to occur) remains open under the above proposed recommendations from the ARC to council.
11. The ARC may also wish to make comment to council on the process that was put in place via the brief whereby the ARC members were invited to participate in the two confidential informal gatherings that were held.

Community Engagement:

Informing only	The attached report remains confidential at this time. Refer recommendation 4 in the attached report.
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Policy:

Commercial Policy
Strategic Partnerships Policy
Wastewater Accounting Principles Policy

Long Term Financial Plan:

Refer recommendation 3 in the attached report.

Budget:

The report was completed within budget. The total fee payable to Frontier Economics was \$41,000 ex GST.

Statutory/Legal:

Refer annexure B in the attached report.

Staff Resource Requirements:

Implementation of the ARC recommendations to council are able to be progressed within existing staff resources.

Implementation of the recommended prioritised program (inclusive of responsibility, timing and resources) with proposed actions to implement the actions arising from the Wastewater Service Delivery Options Report will require additional resources, including some external expertise.

Environmental:

Refer recommendation 6 in the attached report.

Social:

A key consideration is the continued provision of a quality, reliable and affordable wastewater service to ratepayers.

Risk Assessment:

Refer recommendation 7 in the attached report.

Asset Management:

Refer recommendation 2 in the attached report.

Conclusion:

The process to have independent assessment via Frontier Economics has been a very worthwhile in a number of respects and to capitalise on that, the preparation of a prioritised program of actions arising from the attached report is now being recommended.



Wastewater service delivery options



A report for Mount Barker Council | 30 June 2021



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Executive Summary

Scope and approach

Council provides wastewater/recycled water services in an increasingly complex operating environment

Mt Barker District Council (Council) operates the largest council-run wastewater treatment plant and recycled water scheme in South Australia, comprising wastewater collection, treatment and recycling. Council is facing the significant challenge of delivering large-scale investment required to meet rapid population growth and transitioning to a contemporary wastewater/recycled water system.

In this context Council retained Frontier Economics, together with our partner Shaun Cox of Inxure Strategy Group, to undertake an independent assessment of the service delivery options for wastewater/recycled water to serve the townships within the Mount Barker District that currently receive a Council wastewater service. Council is seeking an independent, balanced assessment of risks and opportunities intended to inform decision making on the future role of Council in the provision of wastewater/recycled water.

Our interim report found the fundamentals of the wastewater/recycled water business are sound, but further work is required to ensure Council is able to meet its current challenges and better position Council to make future decisions on its service delivery model. As a result, this report provides a high-level comparison of the service delivery options, but places greater focus on a roadmap for improving the performance of the wastewater/recycled water business.

This report presents our findings and recommendations, for discussion with Council.



Findings

We adopted a systematic approach for this study

We conducted a holistic assessment of the health of the wastewater/recycled water business compared to industry standard for peer organisations across a range of areas:



We also undertook a high-level review of the pros and cons of a series of alternative service delivery models.

Based on our analysis we make the following findings:

Transformation brings challenges	➔	The business is undergoing significant transformation. To immediately progress alternative service delivery options runs the risk of disrupting the significant capex program
Issues with current arrangements	➔	Based on our high level review we believe the fundamentals of the business are sound, but work is required to ensure the business is sustainable (financially and capability), delivering services prudently and efficiently, and is able to demonstrate this
Options require trade-offs	➔	Identifying the preferred option involves trade-offs between risks and opportunities. Addressing issues with the current arrangements will enable Council and potential partners to make informed decisions about future options
Role for SA Water	➔	Involving SA Water in addressing the issues with the current arrangements will ensure improvements are best practice and are able to make an informed decision about a potential future relationship



Each of these findings is discussed in more detail below:

- The wastewater/recycled water business is undergoing a significant transformation in the way it manages wastewater in the region to respond to the challenges of growth and transition to a contemporary wastewater collection, treatment, and recycling system. This introduces significant challenges to the capacity and capability of the wastewater/recycled water business. In our view to immediately progress any alternative service delivery options would create significant disruptions to the delivery of the capital program currently being progressed to meet the future growth and service requirements of the region. This would potentially impact levels of service and the ability to service growth in the region. This may lead to developers pursuing alternative private service providers and a consequential loss in revenue.
- Our high-level review found that the fundamentals of the wastewater business are sound, but further work is required to get the business “match fit”. In particular, we found a number of gaps and issues with the current arrangements that threaten Council’s ability to deliver the



required changes to the capacity and standards of wastewater service delivery. To be “match fit”, Council needs to be confident about three key attributes:



Prudency and efficiency

Is the wastewater/recycled water business delivering its services prudently and efficiently?



Sustainability

Can the wastewater/recycled water business provide its services sustainably into the future, from a financial and capability perspective?



Accountability

Is the wastewater/recycled water business achieving these outcomes, and able to demonstrate this to Council, customers and the community?

To get “match-fit” it is necessary to:

- Mitigate the immediate risks with the current service delivery model, ensuring the business is able to meet its obligations to provide wastewater/recycled water services
- Better position Council to make any future decisions on whether to change its service delivery model.
- We have undertaken a high level and general assessment of alternative service delivery options. A more specific review of service delivery options requires clear strategic priorities for the wastewater/recycled water business and work to address the issues with the current arrangements. Alternative service delivery models can be revisited once the wastewater/recycled water business is “match fit”.
- The high-level assessment of alternative service delivery options indicates identifying the preferred option involves making trade-offs between the risks and opportunities facing the wastewater/recycled water business. The divestment options are most effective in addressing the risk and capacity issues currently faced by Council. However, these options also involve a loss of the potential opportunity the wastewater/recycled water business offers to Council, through potentially improved environmental and commercial outcomes. Recommended improvements to address issues with the current arrangements will ensure Council and potential partners are able to make informed decisions about alternative service delivery options. This can be viewed as a “no regrets” approach which will lead to significant benefits in its own right but will also facilitate informed consideration of potentially more far-reaching options in the future.
- Involving SA Water in addressing issues with the current arrangements could ensure the changes are best practice and consistent with SA Water’s approach. There are a range of benefits Mt Barker could realise from a more proactive relationship with SA Water, including capacity building and accessing opportunities including zero-carbon. Involving SA Water in ensuring Mt Barker is match fit will help both parties make informed views about potential future options.

Recommendations

As a result of these findings, we make a number of recommendations. Our recommendations set out the actions required to ensure the wastewater/recycled water business is able to approach industry standard:



Recommendation 1: Council should develop a business plan for the wastewater/recycled water business.

Developing a robust Business Plan and strategic direction should be a fundamental precedent to any service delivery decision making. Being clear about the broader community outcomes Council is seeking from the wastewater function must guide the analysis and selection of a preferred service delivery option.

Recommendation 2: Council should update and maintain its asset management plan

Robust asset management is crucial to the sustainability of a wastewater business. An asset management plan is a holistic means of bringing together the management of infrastructure and associated customer service levels and is an essential foundation for operating prudently and efficiently. The asset management plan must set the basis for growth capital expenditure, renewals and asset management activities and inform long-term financial planning in real time.

Recommendation 3: Council should ensure all revenue and expenditure is included in long-term financial planning, drawing on and informing related plans

Based on our high-level review we conclude there are sound foundations for a financially sustainable wastewater/recycled water business. However, our review found there is an incomplete understanding of some issues, including potential future expenditures, and a number of other areas for improvement. We make a number of suggestions to enable Council to make an informed view of the long-term sustainability of the wastewater/recycled water business reflecting these improvements, including ensuring the long-term financial planning draws on the Asset Management Plan and Risk Management Plan, informs the Council Long-Term Financial Plan and is consistent with the Business Plan.

Recommendation 4: Council should develop a structured Stakeholder Engagement Plan

Council has a wide range of stakeholders with an interest in wastewater/recycled water management, including Council members and staff, the community, developers, regulators, SA Water, competitors and recycled water customers. A structured plan to guide interactions with stakeholders on wastewater management issues will ensure stakeholders are front of mind, and stakeholder related risks are understood and mitigated.



Recommendation 5: Council should renew and invigorate a Memorandum of Understanding with SA Water

During this review, SA Water indicated a strong willingness to work proactively with Mt Barker to assist them in meeting the challenges of growth in the region and enhancing their overall approach to managing wastewater. In doing so, SA Water made it clear they could only provide a limited amount of “in-kind” support, beyond which Mt Barker would need to pay for any additional support. There are clear benefits to Council from working with SA Water. We recommend that Council renew and thus reinvigorate their MOU with SA Water.

Recommendation 6: Council should develop an Environmental Management System with clear objectives, targets and a continuous improvement plan

The need to upgrade the standard of wastewater treatment has become one of the key drivers of the increase in Mt Barker’s capital program. It is recommended that Council establish an Environmental Management System to bring about more proactive management of the impact its wastewater services can have on the environment, including greenhouse gas emissions.

Recommendation 7: Council should develop and maintain a structured Risk Management Plan, including documenting links with the Long-Term Financial Model

Due to the significant growth in the region, Council is facing a wide range of risks. We saw evidence of various Council staff managing these risks, albeit in an informal manner. While Council has an overarching risk management framework, there was no evidence of this being formally applied to the wastewater business. The development of a Business Plan would provide the opportunity to develop a robust Risk Management Plan, identifying key risks and associated mitigations. Once established, this plan can be regularly updated.

Recommendation 8: Council should revisit the governance and structure of the wastewater/recycled water business

Council should augment the terms of reference for the Strategic Advisory Panel to ensure it provides additional oversight for the wastewater/recycled water business, including assisting with overseeing the establishment and delivery of the Business Plan.

Responsibility for wastewater management in Council is spread across a range of divisions. Council should appoint a dedicated manager of the Wastewater/Recycled Water Business to ensure it has the right level of capacity, capability and accountability to deliver its desired outcomes.

Roadmap

We present a clear set of sequenced actions for Council to improve the operation of the wastewater/recycled water business

We have developed a roadmap drawing on the recommendations. It sets out the steps required to ensure the wastewater/recycled water business is able to become match fit on a timely basis. We have prioritised actions to identify a series of clear and sequenced actions.

An early and important task is to develop the Business Plan which sets the strategic priorities and can guide the roadmap over subsequent years. Governance and structure changes to improve capacity and accountability are also important near term changes, together with reinvigorating the relationship with SA Water.



We have enjoyed a high level of cooperation and engagement with Council staff in this review and have noticed actions being initiated by Council staff over the course of this project consistent with our findings and recommendations. This gives us confidence there is significant goodwill and capacity within Council staff to deliver the roadmap, best positioning the wastewater/recycled water business for the future.

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1 Introduction

1.1 Background and context

Council provides wastewater/recycled water services in a complex operating environment

Mt Barker District Council (Council) is a local government area just outside metropolitan Adelaide. Council covers an area of over 595 square kilometres and a population of 37,481 (as at 2020/21). Council is experiencing strong population growth (2.82% per annum), with Mt Barker set to become the second largest South Australian city after Adelaide. Council's values include accessibility, commitment, involvement, fairness, long-term decision making and resourcefulness (**Figure 1**).

Council's key responsibilities relate to overseeing and facilitating the delivery of civil infrastructure projects (wastewater operations and infrastructure planning and delivery) and a range of community services (e.g. the public library, health and public safety programs, recreational facilities). The wastewater/recycled water business accounted for around 12% of Council funding and 24% of expenditure in 2020/21.¹

Council operates the largest council-run wastewater treatment plant and recycled water scheme in South Australia, comprising wastewater collection, treatment and recycling. Sewage from Mount Barker, Littlehampton, Nairne, and Brukunga is treated at Mount Barker Wastewater Treatment Plant. Treated effluent is discharged to the Laratinga Wetlands and reused in several other ways including watering of parks and gardens in nearby housing estates, the Council's dust suppression program and irrigation by market gardeners. As Council responds to servicing regional growth, the wastewater system is evolving from a Community Wastewater Management System to a contemporary system that is prevalent across most of Australia.

In December 2010 the South Australian Government approved the Mount Barker Urban Growth amendment as part of the 30-year plan for Greater Adelaide. This process resulted in the rezoning of 1,310 ha of land around Mount Barker and Nairne to allow for an initial forecast of more than 10,000 new dwellings. At the time of the 2010 rezoning decision, the Government indicated that SA Water would take responsibility for wastewater management for the growth. However, at the present time Council is the main wastewater service provider in its region.

Council operates in a wider regulatory context that impacts its activities, including its provision of wastewater services. This includes regulation by the economic regulator (the Essential Services Commission of South Australia), the safety and performance regulator (the Office of the Technical Regulator), the environmental regulator (the Environment Protection Authority) and the water quality regulator (SA Health). Council faces competition from third party providers in the provision of wastewater/recycled water services in their service area.

¹ Mount Barker District Council, 2020-21 Annual Business Plan, p8.

**Figure 1:** Mount Barker District Council values

Source: Mount Barker District Council, 2020-21 Annual Business Plan, p5.

1.2 Scope of this study

This study is an independent review of wastewater/recycled water servicing options to inform Council decision-making

Council retained Frontier Economics, together with our partner Shaun Cox of Inxure Strategy Group, to undertake an independent assessment of the service delivery options for wastewater/recycled water to serve the townships within the Mount Barker District that currently receive a Council wastewater service. Our engagement with Council identified the key driver for this study is the requirement for an independent, balanced assessment of risks and opportunities intended to inform Council decision making on the approach to and future role of Council in the provision of wastewater/recycled water (see **Figure 2**).



Figure 2: Drivers for this study



Source: Frontier Economics

This independent assessment is intended to have regard to community needs and expectations, the adequacy and risk of the current arrangements and potential alternative future service delivery options, including the option of retaining the wastewater/recycled water business in Council ownership. This study is intended to present key findings, including the implications for Council and the community, and recommends a strategy and proposed pathway for Council relating to the delivery of wastewater/recycled water.

Our interim report found the fundamentals of the wastewater/recycled water business are sound, but improvements are required. This work is necessary to ensure Council is able to deliver its substantial capital expenditure program and better position Council to make future decisions on whether to change its service delivery model. As a result, this report provides a high-level comparison of the service delivery options (see Attachment A), but places greater focus on the roadmap for improving the performance of the wastewater/recycled water business. We have enjoyed a high level of cooperation and engagement from Council staff, and have noticed improvements being implemented by Council staff over the course of our engagement.

This is a relatively high-level study, undertaken with limited resources over a short timeframe, with the aim of establishing the key issues, risks and appropriate direction. This study does not include community engagement, technical evaluation of options, service delivery to townships in addition to those currently serviced by Council or preparation of a business case on retrospective provision of a sewer service to the Mount Barker City Centre.

This study is focused on the management of wastewater and recycled water in the Mount Barker District, including the townships serviced by the Mount Barker and Meadows wastewater plants. In this report we focus on the wastewater/recycled water business as a whole.

1.3 Approach

Frontier applied a systematic approach to this review

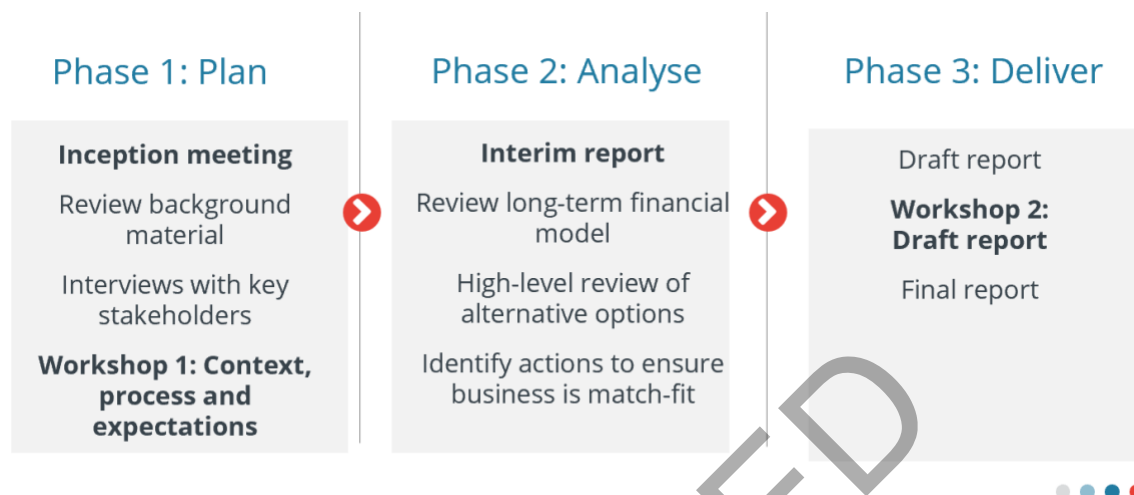
Frontier Economics adopted a staged approach to this review, as set out in **Figure 33**. We began by establishing a sound understanding of the wastewater business and Council’s expectations for this activity based on:

- An extensive review of documentation made available by Council
- A workshop with Councillors and members of the Audit and Risk Committee



- Interviews with key personnel, including Brian Clancey (Deputy CEO), Andrew Stuart (CEO), Phil Burton (GM, Infrastructure), Chris Reynolds (Commercial Manager, Wastewater), Alex Oulianoff (CFO) and Julie Arbon (SA Water Representative).

Figure 3: Frontier Economics' approach



Source: Frontier Economics

Our analysis was carried out across a range of aspects of the wastewater business to allow a holistic understanding of the “health” of the wastewater business. Such an analysis allows a comparison of how other providers would provide such services across a range of key areas. We identified improvements in each of these areas, and developed a roadmap of actions for Council to ensure the wastewater/recycled water business is well-positioned for the future.

1.4 About this report

This report sets out our analysis and recommendations for discussion. It is structured as follows:

- Section 2 presents the issues with the current arrangements
- Section 3 sets out the actions required to ensure the wastewater business is ‘match-fit’.

Appendix A includes a high-level assessment of alternative service delivery options. Appendix B provides an overview of the regulatory and commercial framework within which Council’s wastewater/recycled water business operates.



2 Issues with the current arrangements

This section sets out the issues we have identified with the current arrangements. An understanding of the risks and issues with the current arrangements is a necessary prerequisite to considering alternative options and develop recommendations that address these issues and risks. We consider in turn the issues discussed during our engagement with Council and the Risk and Audit Committee (Section 2.1) and the issues identified through our structured assessment against best practice benchmarks (Section 2.2). We conclude this section by presenting our summary and conclusions.

2.1 Issues raised in stakeholder engagement

During engagement with Council and the Risk and Audit Committee a series of issues with the current arrangements was raised. These issues related to concerns about potential funding and capability gaps, the risks associated with competition from third-party providers, environmental and technical risks associated with the treatment and management of wastewater and recycled water, and concerns about affordability for customers given current and potential future investment requirements (see **Figure 4**).

Figure 4: Issues with the current arrangements raised in stakeholder engagement



Source: Frontier Economics



2.2 Assessment of current arrangements

2.2.1 Overview

As a foundation to this review of delivery options for Mt Barker's wastewater/recycled water services, Frontier undertook a rapid assessment of the current state of these activities within Council. The assessment was carried out for a range of business functions, which if managed in an integrated and effective manner, would deliver sustained value to Council, its customers and community. This approach provides a holistic and high-level understanding of the "health" of the wastewater business. It also enables a comparison against other providers. The business functions assessed are set in in **Figure 5**, and discussed in more detail in turn below.

Figure 5: Business functions assessed



Source: Frontier Economics

It should be stressed that this review is not intended to be a comprehensive analysis of the current state of the wastewater management business. It is a rapid assessment of several key business functions that help inform the consultancy objective of assessing alternative service delivery options. This rapid assessment helped inform our recommended way forward and the high-level assessment of service delivery options. There is a range of important business functions, such as operations and maintenance and safety that are not part of this review – given a holistic and deep analysis of the health of the wastewater business was not the objective of this consultancy.

In undertaking our assessment we compared the current arrangements for the wastewater/recycled water business against industry standard for peer organisations delivering similar services (**Figure 6**). This enabled us to identify and prioritise a clear set of actions to improve the health of the wastewater/recycled water business.

**Figure 6:** Our assessment approach

Source: Frontier Economics

2.2.2 Business planning

A business plan is a formal statement of business goals and incorporates or outlines the associated plans for reaching these goals. It should contain background information on the business activity and team tasked with achieving those goals. Business plans should guide the priorities for the activity over a forward period of no less than 3 years. Preparing a business plan should draw upon the knowledge of different parts of Council including finance, human resource management, asset management, operations management, and specialist skills relating to wastewater management. Good engagement in the development of a Business Plan will lead to sound alignment and buy-in from staff on the future direction of these services.

A further key input to any business planning is risk identification and assessment. This can be done in several different ways. One of the more common approaches is to assess the Strengths, Weaknesses, Opportunities and Threats (SWOT) for a business. Several of these aspects are addressed within this report. This in turn informs the actions and priorities for a business for the forward planning period. Importantly these priorities must be tied to a long-term financial model and plan for the business, along with performance measures, which set the basis for measuring performance. These should be holistic measures, and not just in relation to asset performance.

In our view a business unit such as Mt Barker's wastewater business, should have a business plan. This is irrespective of whether it is a stand-alone business or part of a broader organisation such as the Council. At present there is no dedicated business plan for the wastewater business that outlines its objectives and the coordinated plans for achieving those outcomes. Council does have an overarching annual business plan, which incorporates three pages relating to the wastewater business. This falls well short of what other contemporary wastewater/recycled water businesses would have in place to guide their various activities.

There are several reasons why Council would benefit from establishing a business plan for the wastewater business:

- Council must respond to significant growth in the region. Such growth is driving the need to increase both the standard and capacity of wastewater services. This requires a coordinated response across a range of disciplines including asset management, capital planning and delivery, financial management and building organisational capacity. A business plan would assist with coordinating an integrated response.



- Responsibility for the wastewater function is spread across a range of disparate groups within Council. A business plan would help coordinate activity across these groups to ensure the service is being provided in the most prudent and efficient manner.
- It is evident from this review that there is not a common view across Council and management as to the future direction for the wastewater business and the role it should play in delivering upon Council's strategic themes of community wellbeing, economic prosperity, and ecological sustainability. Hence there is a divergence of views on how the function should be delivered.
- Developing a robust Business Plan and strategic direction should be a fundamental precedent to any service delivery decision making. Clarity on the broader community outcomes Council is seeking from the wastewater function must guide the analysis and selection of a preferred service delivery option.

It is recommended that Mt Barker use an Investment Logic Mapping (ILM) process to help establish their desired outcomes for wastewater management in the region. Building Queensland's "Business Case Development Framework: Investment Logic Mapping Guide, Release 2, December 2016" notes that ILM is "a technique to ensure that robust discussion and thinking is done up-front, resulting in a sound problem definition, before solutions are identified and before any investment decision is made. It is a technique to ensure the 'story' about any proposed investment makes sense (the 'logic' part of ILM) and to test and confirm that the rationale for a proposed investment is evidence-based and sufficiently compelling to convince decision makers to commit to invest in further investigation and planning." Hence the ILM methodology is well suited to creating the foundation for a business plan.

The ILM process will help establish the desired objectives, irrespective of the delivery model. Furthermore, it will help identify the main risks to managing this service and the expectations of key stakeholders. A further outcome is identifying the strategic responses necessary to deliver upon the desired outcomes. This process is a very useful precursor to and foundation for any business planning.

2.2.3 Asset management

Robust Asset Management is crucial to the sustainability of a wastewater business. This is an asset intensive activity, involving long lived assets. The Institute of Asset Management describes asset management as a process of "*balancing of costs, opportunities and risks against the desired performance of assets, to achieve the organisational objectives*". Hence asset management is a holistic means of bringing together the management of infrastructure and associated customer service levels. In well-functioning water utilities, asset management is an essential foundation for operating prudently and efficiently. For example, economic regulators who set the revenue caps and prices for certain utilities will always scrutinise the robustness of an organisation's asset management plans as part of any review.

In the past two decades, the Australian water industry has increased its focus on asset management. Most water utilities have developed or are developing asset management plans that align with the ISO Standard for Asset Management, ISO55000. Furthermore, the Water Services Association of Australia (WSAA) has developed an asset management benchmarking tool named "Asset Management Customer Value". This tool is now used by 50 utilities across Australia and internationally to benchmark their asset management processes. The tool examines performance across each stage of the asset life cycle, including Asset Planning, Asset Acquisition, through to disposal. The tool and the benchmarking process enable the continuous



improvement of participating organisations, which has in turn driven a step change in performance over the past two decades.

Mt Barker has a draft but incomplete Asset Management Plan (AMP) for the wastewater business, which was developed in 2019 and most recently updated in April 2020. Observations in relation to this plan include:

- Aspects of this draft plan have been rolled up into Council's Strategic Asset Management Plan 2020, which provides a high-level overview of Council's approach to asset management for all of its asset types.
- The plan is reasonably well structured, though does not fully align with the requirements of ISO55000. For instance, the plan sets out service standards for the wastewater assets but makes it clear that these were internally developed and not informed by views of the customers and community. Furthermore, there is not a strong link to Council's Strategic Plans and objectives. It is important that the wastewater assets are being managed in a way that meets the community's expectations and such a link would help achieve this outcome.
- In respect of risk assessment, the draft AMP focusses just on asset related risks and does not consider broader implications such as the capability to deliver on the plan, and the capacity to fund the plan. Consequently, there are no actions within the plan for addressing such risks.
- The Mt Barker AMP does not incorporate a robust consideration of audit, review, and continuous improvement, which is a key aspect of ISO55000. These are foundational elements to any management system. Not to have such elements leads to the situation that Council now finds itself in, where the plan is not a living document, nor does any person or function take ownership of it and it is not informing any business decisions within Council.
- The AMP does not specify the use of any standards to which infrastructure should be built. We were advised verbally during the interview process that Council constructs their reticulation assets to contemporary standards, but no evidence was provided to support this.
- The AMP has no connection with the Long-Term Financial Model for the wastewater function. The key assumptions within the model relating to renewals, operations and maintenance and quantification of risks, have no clear relation to the AMP. It is difficult therefore to validate the robustness or otherwise of these key assumptions, given they are not underpinned by a rigorous asset management process.
- The AMP is not informing the actual renewals program and asset maintenance regimes. This weakens the organisation's capacity to know whether these programs are effective at achieving the asset management outcomes, that in turn link to the service outcomes sought by the community. Most organisations will take their maintenance regimes of their AMP's for example, and load this directly into the maintenance scheduling software for execution. There is no evidence of this occurring at Council. It is unclear what provides the basis for Council's maintenance regimes and renewals.

A final point in relation to Council's approach to asset management, is that the organisation is not part of any water industry associations, nor does it participate in any asset management benchmarking. Other utilities find this very useful as it provides a reference point for the robustness or otherwise of their asset management processes. Furthermore, the water industry is very collegiate and willing to share practices, which enables a rapid lifting of asset management standards and efficacy.

In conclusion, Council is to be commended for having a draft Asset Management Plan and linking this to Council's overall Strategic Asset Management Plan. However, the wastewater plan is draft



and incomplete. Consequently, there is no evidence of it being used or informing key business decisions. Furthermore, Council has not engaged in any external benchmarking activity to help drive the continuous improvement of its AMP.

2.2.4 Capital planning and delivery

The Mt Barker region is currently experiencing significant growth, largely due to the region becoming a dormitory suburb for Adelaide. As noted in Mt Barker's Environmental Improvement Plan with the EPA *"In December 2010 the South Australian Government approved the Mount Barker Urban Growth amendment as part of the 30-year plan for Greater Adelaide. This process resulted in the rezoning of 1,310 ha of land around Mount Barker and Nairne and to allow for an initial forecast in excess of 10,000 new dwellings."*

Prior to this amendment and the consequential growth in the region, wastewater was managed via a Community Wastewater Management System (CWMS). A CWMS is a system designed to collect, treat, re-use and/or dispose of primary treated effluent from septic tanks on individual properties. The collection system is a network of pipes and pumping stations which transport the partially treated effluent from the septic tanks to the treatment site.

In Mt Barker's case, the treatment systems were once all facultative (oxidation) lagoons where effluent is stored and treated by aerobic action. Wetlands are also part of the treatment process. Mt Barker also has had in the past - high levels of effluent reuse. The standard of treatment is progressively being upgraded across the 4 treatment sites.

Council needs to respond to several challenges relating to the regional growth:

- To expand the capacity and reach of its network to both connect the new areas of growth and accommodate the additional flows coming from the growth.
- Council must upgrade its infrastructure to contemporary standards. Septic tanks are not acceptable in higher density settings and lagoon-based treatment will not deliver the desired levels of treatment to achieve desired environmental outcomes. This means progressively abandoning the use of septic systems and collecting and transporting untreated sewage to contemporary treatment facilities, in higher density settings across the region. It is noted that septic tanks may still play a role in lower density regions.
- When accommodating growth in existing areas such as the Mt Barker city centre, Council must progressively decommission existing septic sewer systems and retrofit contemporary sewer networks within these areas. This becomes challenging when urban renewal cannot be sequenced in a manner that would align with the orderly delivery of a new sewer system.

The challenges from growth in the Mt Barker region are unique. Most water utilities accommodate growth within the context of a contemporary wastewater network and typically the issue they must deal with is just providing additional capacity. Hence these organisations can leverage off their existing expertise and knowledge of the system. Council on the other hand must quickly develop and acquire new knowledge in relation to contemporary sewer systems to ensure they stay ahead of the demands caused by regional growth. This growth also places pressure on the Council's governance and decision making, which does not have a background in advanced wastewater management and treatment. Finally, such growth necessitates significant capital investment, which must be planned carefully to not compromise the financial sustainability of Council.

This review found that wastewater planning is being undertaken across the region on a "just in time" basis. Extensive planning has been undertaken in relation to the collection and transfer



network, the treatment facilities and the disposal and reuse infrastructure. In the circumstances, Council is doing well to carry out this planning and deliver the projects ahead of the demand. However, it is evident that the pace at which the planning is being carried out and the general lack of capability and capacity is creating certain challenges, including:

- From the interview process, Frontier observed there was not an aligned understanding across Council as to the extent and status of the capital program, including major works such the upgrading of the Springs Road WWTP.
- The scope and nature of the program was creating challenges for key decision makers to understand and properly exercise their fiduciary duties. Of particular concern was whether the right decisions were being made and whether the financial sustainability of Council was being compromised.
- It was not possible to determine whether there had been robust optimisation of the various plans and designs for major infrastructure such as the Springs Road WWTP upgrade. This project was being designed at the time of the review. Such optimisation may have been taking place, but the outcomes were not available for us to assess as the Business Case was under development.
- Council has a project management framework it follows for the delivery of major infrastructure. There was some evidence of this being applied in the development of business cases for larger projects and prudential reviews being undertaken of these projects. It would appear the prudential reviews primarily consider the financial risks relating to these projects.
- There was limited evidence of Council undertaking a robust analysis of delivery options for its capital program. For a program of the size Council is facing, it would be typical to look for opportunities to strategically bundle like programs of work with similar risk profiles. Following this step, most utilities would run through a process to determine the optimum delivery vehicles for various programs of work, based on desired outcomes and risk appetite. For example, given Council does not have extensive experience in operating sophisticated wastewater treatment plants, consideration could be given to incorporating a proving and operating period into delivery of the treatment plant upgrade. The reviewers were advised that an Execution Plan was being developed for the Springs Road WWTP, which was to include an assessment of delivery options.
- While Council had commenced delivery of several projects, they were not sufficiently advanced for us to determine the effectiveness of their project delivery processes and benefits realisation assessments.

Council is to be commended for responding quickly to the pressures of growth in respect of wastewater management in the region and having robust project management frameworks to guide this activity. It would be prudent for Council to have an independent review of its project management frameworks and major projects to provide it with assurance it is delivering the right solutions in the most efficient manner. Such an approach is common across more mature businesses responsible for major infrastructure programs.

2.2.5 Financial assessment

Current approach

Council has a Long-Term Financial Plan out to 2029-30 which sets out the forecast financial position of the Council, including the wastewater/recycled water business. Based on the



information presented in the Long-Term Financial Plan the financial position of the wastewater/recycled water business is sound.

During interviews it became clear Council staff have been working to develop an improved understanding of the financial sustainability of the wastewater/recycled water business through the updating and development of the long-term financial model (the model). The model assumes the Council owns and operates the wastewater/recycled water business and meets its economic, environmental, public health, technical and safety obligations. Our financial assessment focuses on the model since it is the most up to date and comprehensive financial record of the wastewater/recycled water business.

The model calculates financial statements (income, cash flow and balance sheet) for the wastewater/recycled water business for a 40 year period from 2022. The model generates these financial statements based on assumptions on key inputs including growth rates, revenue based on wastewater fees and charges and recycled water revenue, operating and capital expenditure requirements, the cost of capital and developer income.

Operating and capital expenditure in the model reflects the need to invest in new and upgraded assets to cater for growth and recycled water storage. The model excludes some capital investment where the future requirements are uncertain and are the subject of pending business cases, including:

- Capital expenditure and ongoing operating and renewals expenditure on new and upgraded assets in Nairne to cater for growth
- Capital expenditure and ongoing operating and renewals expenditure to retrospectively provide a sewer service to the Mount Barker City Centre.

The long-term financial model is intended to draw on the wastewater/recycled water asset management plan, but as discussed earlier, this does not currently occur. The model is used to inform Council decision making on capital investment, the Wastewater Infrastructure Fee (the once-off fee payable by developers) and Annual Service Charges (payable by ratepayers each year). The model also informs Council's Long Term Financial Plan; however, it is noted that this is not a dynamic link. The model was developed by Council's finance team. Key inputs have been developed in discussion with the wastewater team and with some input from external advisors.

Assessment

We undertook a high-level review of the wastewater/recycled water long-term financial model as the most recent and comprehensive assessment of the wastewater/recycled water business. This review involved:

- Reviewing the model to check for completeness and consistency
- Discussing the model with the CFO and financial manager for the wastewater business to confirm our understanding of the model and its calculations
- Comparing financial ratios produced by the financial model to commonly used financial sustainability ratios; and
- An in-principle review of the financial model against the regulatory and commercial framework for the wastewater/recycled water business.

We did not undertake a review of the completeness or accuracy of the calculations in the model, nor verify the source or validity of key inputs. We did not undertake an audit of the model, or a



detailed review of its compliance against economic regulatory requirements. We did not review wastewater/recycled water pricing and commercialisation policies.

In summary, we found the approach to financial modelling was appropriate. In particular we found:

- The 40 year modelling period is consistent with the Council's Long-Term Financial Plan, which is appropriate.
- Revenue is modelled as a function of user numbers and fees and charges, which reflect assumptions about growth by district. This enables flexibility to test the sensitivity of model outcomes to key variables including the annual increase in fees and charges and growth rates. Growth rates are based on independent analysis, and are conservative compared to current growth rates. Customer fees and charges are assumed to increase by 1.3%-2.7% above inflation until 2024 (to fund growth expenditure required), then remain constant in real terms.
- Revenue forecasts are sensitive to the growth assumptions used in the model. However, these forecasts are based on the best inputs available, and can be updated to test specific alternative scenarios of interest, such as lower or higher growth scenarios.
- Expenditure in the model is based on expert reports (where available), historical performance and discussions with wastewater business staff. Based on our interviews we were advised that changes in assets and service standards are reflected in expenditure assumptions. However, it robust documented evidence to support these statements could not be provided. Staff indicated renewals expenditure was based on an expert report, supplemented by additional analysis to ensure the renewal of all key assets is provided for at the end of their useful lives. Ideally, this expenditure should be driven by the AMP. Most expenditure is assumed to increase over time using an input cost index, either the annual wage increase from the enterprise bargaining agreement (for labour costs), or the local government price index (for most other costs). This is a reasonable assumption.
- There is a considerable capital expenditure program proposed for the wastewater and recycling business over the next three years. From 2022 to 2024 this includes:
 - **Wastewater:** \$36 million of new capital expenditure and \$34 million of renewals. This is a very significant increase in assets for the business, when compared to the opening written down value of assets in 2022 of \$81 million.
 - **Recycled water:** \$5m of new capital expenditure. The opening written down value of assets in 2022 is \$13 million.
- Council corporate overheads are allocated to the wastewater/recycled water business.
- Annual charges are set to recover operating expenditure, corporate overheads, depreciation, and a return on capital, consistent with economic regulatory requirements.
- Wastewater Infrastructure Fees are modelled with an escalation applied to historic fees, and the same growth rates in lots as other fees. The historical discount is reflected in forward looking fees. Like rates, the charges increase at a rate greater than inflation for five years (by 2.3%-3.2%) and then remain constant in real terms thereafter.
- It is clear from discussions with Council staff that they have considered the key risks likely to face the wastewater/recycled water business and have attempted to quantify all contingent liabilities. However, there is limited transparency around this analysis.



- Based on the forecasts in the model the finances of the wastewater/recycled water business appear sound. The model includes a number of financial indicators for the wastewater/recycled water business, based on those set out by the Local Government Association of South Australia.² In particular:
 - The operating surplus is typically forecast to be around 0-10% in the short and medium-term in line with guidance, and greater than 10% over the long term.
 - The net financial liability ratio is as high as 479% in some forecast years, but this is reasonable given the large capital program and pathway to reduce debt in the medium term. The forecast interest cover ratio is within a reasonable range in these years.
 - The asset sustainability ratio requires data from the asset management plan.
- There is a risk of asset stranding associated with third party provision of wastewater services to key development areas. This risk is being actively managed by selective discounting to developers. However, this would reduce the Wastewater Infrastructure Fee revenue received by the wastewater business. It may also raise issues about compliance with ESCOSA regulatory requirements (see attachment B).
- There is considerable uncertainty over recycled water revenue. The model therefore appropriately adopts conservative assumptions about the potential contribution of recycled water to the wastewater business.
- The model does not include trade waste or miscellaneous revenue, but we note this revenue is likely to be small and offset by the costs of monitoring and collecting trade waste charges.

Areas for improvement

In our review we identified a number of potential areas for improvement outlined below. We note that some of these relate to improvements in the financial modelling process whilst others raise more fundamental issues for pricing and commercialisation policies:

- **Completeness and transparency:** We welcome the changes that have been made to the model since our initial discussions with Council staff in April to improve its completeness and transparency. We recommend its completeness and transparency could be improved by:
 - Ensuring all revenue and expenditure relevant to the wastewater/recycled water business is included in the model. This includes likely future expenditures that have not yet been the subject of a Council-approved business case. Where there is uncertainty regarding key inputs, we suggest the wastewater and financial teams work together to develop appropriate assumptions for base case and alternative future scenarios.
 - Ensuring the model draws on the AMP and informs the Council Long-Term Financial Plan. We note Council staff have advised this is their intention. In particular, Council should ensure that the capital program is consistent between the two. This could be achieved by linking a 'live' version of the model to a working version of the long-term financial plan. A wastewater/recycled water business plan would also help to improve the transparency around key model assumptions and outputs.
- **Scenario and sensitivity analysis:** It was clear from our discussions with staff that the model has been used to inform scenario and sensitivity analysis, including changes to key input assumptions including growth rates. The model could be developed to improve the capacity to

² Local Government Association of South Australia, Revised May 2019, 'Information Paper 9: Financial Indicators', available online https://www.dit.sa.gov.au/local_govt/finances



run scenarios and sensitivities, for example by colour coding inputs, referencing source documents for all key inputs and including sensitivity assumptions. In particular, it would be useful to build scenario functionality to vary:

- Customer growth assumptions
 - Cost and inflation indices, including where these diverge more materially than in the base case
 - Alternative rates of return (discussed below)
 - Alternative capital expenditure programs
 - Assumed step changes to expenditure or revenue.
- **Rate of return:** The rate of return in the model is set at the risk free rate for local government agencies, currently 2.0%. This is a relatively low rate of return for a business of this nature. We would suggest considering transitioning to a weighted average cost of capital more consistent with an infrastructure business. As a reference point, the most recent Essential Services Commission of South Australia price determination for SA Water used a real post-tax weighted average cost of capital of 2.96%, dropping to 2.42% by 2023-24 (corresponding to post-tax nominal weighted average cost of capital of 5.10% to 4.55%).³ We recognise that adopting this approach would generate higher estimated prices which would require Council consideration.
 - **Relationship with Council:** The wastewater/recycled water business does not currently pay rent for the land on which it operates which is owned by Council. Similarly, Council does not currently pay charges for wastewater services. We suggest considering arms-length commercial arrangements for these services.
 - **Disposal:** The model assumes treated wastewater disposal via usual means, including recycled water. It may be necessary to explore alternative disposal mechanisms, which could involve additional costs, as wastewater volumes grow.
 - **Gearing:** The rate of return doesn't clearly distinguish between different sources of funding (debt or equity), with a single rate of return that doesn't make reference to gearing. The financial sustainability assessments are conducted with reference to forecast actual debt which we consider appropriate.
 - **Wastewater Infrastructure Fees:** There is a risk these fees do not fully reflect the costs involved, noting that they are usually set as a result of a commercial negotiation. We note that in principle ESCOSA is responsible for regulating developer charges in accordance with National Water Initiative Pricing Principles which generally require cost-reflective charges (see Attachment B). When offering discounts Council should consider the full cost of the service, to ensure it is consistent with the National Water Initiative Pricing Principles. In undertaking this analysis it is also important to have regard to the willingness to pay principle.
 - **Funding sewer backlog:** Council should consider developing a methodology for funding the sewer backlog program where conventional sewage systems will replace septic systems.
 - **Long-run marginal cost:** The model contains an estimate of long-run marginal cost which does not reflect a typical calculation of this parameter. Estimating the long-run marginal cost

³ Essential Services Commission of South Australia, June 2020, 'SA Water Regulatory Determination. Final Determination: Statement of Reasons', available online <https://www.escosa.sa.gov.au/industry/water/retail-pricing/sa-water-regulatory-determination-2020>



requires calculation of long-run costs under alternative growth forecasts. Council should consider relabelling this model output or further investing to develop an estimate of long-run marginal cost.

2.2.6 Customer and stakeholder management

It is noted in the draft wastewater Asset Management Plan, that Council has yet to establish customer service standards for this activity. Furthermore, there has been no engagement with the local community to determine their desired levels of service, having regard to different pricing scenarios. Council is facing several key considerations, particularly in respect of the standard of effluent treatment and reuse options. It is common in more mature businesses for such decisions to be determined in consultation with customers, taking into account their capacity and desire to pay for certain outcomes.

In Victoria for example, the economic regulator (the Essential Services Commission) has introduced the “Performance, Risk, Engagement, Management and Outcomes” Framework (PREMO), which incentivises water utilities in that state to actively engage with customers in respect of levels of service to help inform the development of their pricing submissions to the regulator. One of the stated objectives of the PREMO framework is to *“pivot the businesses’ attention squarely towards their customers. The water businesses would be required to express their price submissions in terms that reflect the outcomes they will be delivering to their customers.”*

We note that ESCOSA also places considerable emphasis on ensuring customers are effectively engaged in establishing services levels and associated prices, as reflected, for example in its latest guidance paper for SA Water’s next price review process⁴. Furthermore, one of the National Water Initiative Principles by which ESCOSA regulates Councils’ wastewater charges (Principle 5: Pricing transparency) states that “urban water tariffs should be set using a transparent methodology, through a process which seeks and takes into account public comment, or which is subject to public scrutiny” (see Attachment B).

From the interview process it was evident that Mt Barker has a wide range of stakeholders with an interest in wastewater management. Such stakeholders include, but are not limited to:

- Council, including Councillors, and the different divisions of Council and its management
- The community, including both current and future customers (which is a key consideration given the rate of growth in the region)
- Developers
- Regulators, including ESCOSA, the EPA and the Department for Environment and Water, the Office of the Technical Regulator and SA Health
- SA Water
- Competitors
- Recycled water customers.

Council does appear to undertake stakeholder engagement with respect to wastewater management on a project by project or issue by issue basis. However, Council had no apparent structured plan for engaging with stakeholders on wastewater management issues. Mature

⁴ ESCOSA, 2021, SA Water Regulatory Determination 2024 - framework and approach, Consultation Paper February, pp.18-23.



water utilities have such plans which guide the interactions with stakeholders, including identifying key stakeholder related risks and putting in place mitigations for such risks.

If Council were to establish a Business Plan for the Wastewater Business, a stakeholder plan could be developed as part of that process. Such a plan should be renewed every 12 months to ensure it is contemporary and has appropriate strategies for managing the needs of stakeholders. Such a plan also ensures stakeholders are front of mind, and not an ancillary issue to be considered once there is a complaint or issue arise.

Engagement with SA Water

A key stakeholder worthy of note in this report is SA Water. An SA Water representative was interviewed as part of this review. It is noted that Council has a Memorandum of Understanding (MOU) in place with SA Water. However, there was no evidence of this MOU being actively used. The relationship between both parties was described as “stop / start”. There have been periods of activity followed by periods of inertia. There are a range of benefits Council could realise from a more proactive relationship with SA Water including:

- Peer reviews of major planning and infrastructure decisions and projects, given SA Water’s strong technical background in this area
- Working jointly on recycled water opportunities
- The possible secondment of staff to assist with development or delivery of certain programs and to lift the overall standard and capability of Mt Barkers approach to managing wastewater
- Potential opportunities to leverage SA Water’s purchasing power for commodities such as chemicals and electricity; and
- Potential opportunities to leverage important initiatives such as SA Water’s shift to become a zero-carbon business
- Stronger shared understanding of potential future service delivery models, including the pros and cons of models involving SA Water.

During this review, SA Water indicated a strong willingness to work proactively with Mt Barker to assist them in meeting the challenges of growth in the region and enhancing their overall approach to managing wastewater. In doing so, SA Water made it clear they could only provide a limited amount of “in-kind” support, beyond which Mt Barker would need to pay for any additional support.

It is strongly recommended that Council renew and thus reinvigorate their MOU with SA Water. This should be preceded by strategy session with both parties to ensure there is a clear purpose to the MOU and it will deliver value to both parties. It would be beneficial for Council to also precede any such MOU negotiations with the development of a Business Plan for the wastewater activity, so it is clear on what they are seeking to achieve from any such relationship.

2.2.7 Environmental management and recycled water use

Council entered into an Environmental Improvement Plan (EIP) with the EPA for their wastewater treatment activities at the Springs Road treatment plant in June 2020. The driver for this agreement is the poor standard of wastewater treatment at Springs Road and the EPA’s concern regarding the impact this is having upon the environment. The EIP notes that *“In addition to the development in the sewer catchment area increasing, the reuse of treated wastewater by recycling has also faced challenges. For a number of years, MBDC has had an agreement with Hillgrove Resources at*



Kanmantoo who has taken an average of 884 ML/y of recycled water. However, the ore body at Kanmantoo is exhausted and Hillgrove Resources have ceased open cut operations which is expected to reduce recycled water usage to 630 ML/y in the year ended July 2020 before falling to zero. The combination of the above factors has resulted in additional pressure on the Mount Barker Creek through additional discharged organic and nutrient load via the Laratinga Wetlands. This EIP will propose mitigation of the above challenges to improve the quality of the Mount Barker Creek."

The need to upgrade the standard of wastewater treatment has become one of the key drivers of the increase in Mt Barker's capital program.

The MBDC operates the Spring Road WWTP under the Environmental Authorisation (or EPA Licence) number 1912, issued 1 June 2015, which expires on the 31 May 2025. The requirement for an EIP is covered by this licence. Hence, Council has a legislative responsibility to implement the continuous improvement actions set out in the EIP. The EIP sets out a range of onerous actions and associated timelines for Council. There was anecdotal evidence from this review that these actions were being worked on, but there was not good visibility as to whether they would be delivered on time and to the necessary standard.

A major area of concern for Council was finding a new major recycled water customer to replace Hillgrove Resources. At the time of the review several options were being assessed. As noted in the earlier section of this review, this could be an area where Council could leverage their relationship with SA Water.

An overall observation in respect of environmental management is that Council is now in a situation where it is being forced through a legislative instrument to address the impact of its wastewater activities on the environment. Mature water utilities typically seek to manage their impacts upon the environment proactively by having in place Environmental Management Systems based on the international standard ISO44000. This standard requires the business to identify their key environmental risks and put in place clear objectives and targets for addressing these risks. From the review process, it was noted that Council places a strong importance on environmental sustainability.

Hence it is recommended that Council consider establishing an Environmental Management System to bring about more proactive management of the impact its wastewater functions can have on the environment. Such a system would lead to more proactive consideration of issues such as moving to minimal greenhouse gas impact from the wastewater operations. Wastewater treatment plants are major contributors to greenhouse gases.

2.2.8 Risk management

Due to the significant growth in the region, Council is facing a wide range of risks. We saw evidence of various staff managing these risks, albeit in an informal manner. While Council has an overarching risk management framework, there was no evidence of this being formally applied to the wastewater business. The potential impacts of this approach include:

- Risks will be viewed and managed through the prism of the person addressing an issue. For instance, an engineer will typically look at issues of technical viability but potentially overlook stakeholder or financial considerations
- Council cannot be confident that it has identified and is managing the key risks associated with the wastewater business. Put another way – there is little to no transparency about how the organisation is going about identifying and managing key risks. This shortcoming is arguably a major driver of this review



- Council cannot be confident that it has adequately costed key risks and potential contingent liabilities as part of its long-term financial model and plan. Hence Council is uncertain about the impact the wastewater business is having upon Council's financial sustainability
- The lack of documented risks and associated mitigation plans does not give Council and management visibility of such issues and the confidence that plans are in place to move the business forward. This will in turn erode confidence in the management of wastewater in the region.

Should Council develop a Business Plan for the wastewater business, this would provide the opportunity to develop a robust risk management plan, inclusive of an identification of key risks and associated mitigations. Once established, this plan can be regularly updated.

2.2.9 Governance and structure

Governance

During the review, Council expressed concern about its capacity to oversee and govern the important decisions that need to be made in respect of wastewater across the region. This concern arises due to the transition being made from a Community Wastewater Management System to a contemporary wastewater network and treatment system. Both the technical complexity of the network is increasing along with the financial investment required.

It is noted that Council has recently set up a Strategic Advisory Panel to assist it on a wide range of matters, not just wastewater. One of the Panel members is a former General Manager of SA Water. In Queensland, several Councils which remain responsible for water and sewerage services have established Advisory Boards to assist with their governance of these activities. These Boards provide specific expertise relating to water and sewerage service provision and hence another level of assurance for Councils. In all cases, Councils remain the ultimate decision makers and these Boards are advisory only.

Mt Barker could consider augmenting the terms of reference of the newly established Strategic Advisory Panel to ensure it provides some additional form of oversight of the wastewater business. In general terms, this could involve assisting with overseeing the establishment and delivery of the Business Plan for the wastewater business (as recommended earlier in this report). The membership of this committee could be augmented with a small number of Councillors to help both grow the capability and provide a conduit back to Council who are the ultimate decision makers.

Also as recommended earlier in this report, Council should consider commissioning peer reviews of major infrastructure investments. SA Water may be able to assist in this regard.

Structure

Responsibility for wastewater management in Council is spread across a range of divisions. Overall responsibility for the function sits with the Deputy CEO/General Manager – Governance, Strategic Projects, and Wastewater/Recycled Water. However, this General Manager has a range of other duties and relies upon resources in other divisions within Council to deliver upon key aspects of wastewater management. The General Manager does undertake certain tasks directly, such as the negotiation of development agreements and related charges. Technical responsibility for planning, capital delivery, operations and maintenance and asset management sits within the Infrastructure division. Within that division there is a Commercial Manager Wastewater, who is



responsible for most technical tasks. There is a small group who don't report directly to this manager that provide civil maintenance and operations services.

Council's Chief Financial Officer provides the long-term financial planning support along with other services such as Information Management, and records management. The General Manager of Community Services provides support for people and culture issues.

While the purpose of this review was not to focus on structural issues relating to the wastewater business, the following observations can be made from this review:

- For Councils which provide water and sewerage services, it is typical for the function to be spread across a range of groups or divisions in those Councils. Councils must deliver a diverse range of services to its community and must look for synergies and economies of scale by grouping together certain activities such as corporate services functions like finance, IT, and people management. There is no compelling reason why Council should be any different in its approach to managing its wastewater business
- It is noted that the General Manager responsible for the wastewater business has several other major responsibilities and no direct responsibility for key staff delivering upon that function. We consider that to be a shortcoming and recommend that a dedicated manager be put in place for the wastewater business. It would ultimately be a decision for Council as to whether that manager is at a General Manager level or a level below that. The important outcome would be there is clear accountability for the function through a manager with the authority and capacity to deliver on the outcomes expected of the wastewater function – as determined by the business plan; and
- The current emphasis with respect to wastewater management is on technical issues. This is being driven by the need to deliver upon a major capital upgrade program. This focus appears to be at the expense of broader business outcomes, such as good governance, robust stakeholder engagement, proactive risk management (including proactive environmental management), asset management and integrating these aspects robustly with long-term financial management. Managing all aspects of the wastewater business are critical to providing sound levels of service in a financially sustainable manner; and
- There does not appear to be any plan to either develop or sustain the capability required to manage the wastewater business in a holistic manner. Council appears to have had a history of staff turnover in the wastewater business, which has been to the detriment of ensuring sustainable business outcomes. Such a plan should consider the capability required to robustly deliver the wastewater function and how to develop and retain those skills. Such a plan could contemplate leveraging external capability such as that which exists within SA Water.

In conclusion, Council should consider whether it has the right level of accountability to deliver upon its desired outcomes for wastewater management and if it has sufficiently robust plans to establish and maintain the capability to deliver upon these outcomes.



2.3 Summary and conclusions

Council is undergoing a significant transformation in the way it manages wastewater in the region to respond to the challenges of growth and transition to a contemporary wastewater collection, treatment, and recycling system.

Based on our analysis of issues with the current arrangements, undertaken through stakeholder engagement and a structured assessment against best practice benchmarks, we believe that the fundamentals of the wastewater business are sound. Considerable focus and effort are being put to the planning and delivery of infrastructure necessary to accommodate the future growth in the region. Furthermore, we believe Council has comparatively robust long-term financial models for the wastewater business, which should provide a level of assurance that Council's overall financial sustainability should not be compromised.

However, our analysis concludes that more work is required to maintain and enhance the robustness of these plans. We believe further work is required to get the business "match fit". This work is necessary to better position the business to make any future decisions on whether to change its service delivery model, or to continue to "self-perform" the management of wastewater in the region in a prudent and efficient manner.

A summary of our analysis is provided in the following table, along with an overview of how a well-functioning water utility would go about delivering against each of the business functions assessed as part of this review.

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**Table 1:** Summary of scope for improvement

Business Function	Mt Barker	Good Practice Benchmark
Business planning	No Business Plan	Business Plans are critical to setting business direction and strategic forward agendas
Asset management	Draft, incomplete wastewater AMP, not being actively used by the business. Wastewater assets are incorporated into Council's overall Strategic AMP 2020	AMP's are a key foundation to the business and provide the basis for a wide range of activities including financial management and pricing
Capital planning and delivery	Reasonably robust but being delivered "just in time" – limiting time for optimisation. A project management framework being used for planning and delivery	Forward capital plans set the basis for pricing. Capital delivery options are systematically considered. Planning and delivery supported by whole of life cycle project management frameworks. Planning frameworks and major projects are periodically peer reviewed
Financial management	Reasonably robust financial model – but needs to be linked to business plan/long term financial plan	Essential underpinning to price plans (typically 5 years in advance). Budgets actively managed to the price plan benchmark
Customer & stakeholder management	No structured stakeholder engagement plan in place. Engagement managed "project by project"	Structured stakeholder engagement plans in place and well-resourced to manage stakeholder risks and good business outcomes
Environmental management & recycled water use	Environmental Improvement Plan with the EPA is dictating the forward program of work	Environmental Management Systems based on ISO14000, ensure proactive identification and management of environmental risks
Risk Management	No structured risk management plan for the wastewater business. Risks being managed informally by key personnel across Council	Structured risk management underpins business planning, financial management and strategic business initiatives
Governance and structure	Governance can be strengthened to provide more robust oversight of the wastewater business. A lack of accountability for the wastewater business	Skills based Boards or Advisory Boards provide business oversight. Clear accountabilities for delivering against business plan outcomes



3 Roadmap

3.1 Developing the roadmap

Council should focus on ensuring the wastewater/recycled water business “match fit”

Based our analysis of issues with the current arrangements, we believe that the fundamentals of the wastewater business are sound, but further work is required to get the business ‘match fit’ (see **Figure 7**). To be “match fit”, Council should be confident:

- It is delivering its services prudently and efficiently
- It can provide its services sustainably into the future, both from a financial and capability perspective; and
- It can assure itself that these outcomes are being achieved and demonstrate this transparently to its customers and community.

This work is necessary to better position the business to make any future decisions on whether to change its service delivery model, or to continue to self-perform the management of wastewater in the region in a prudent and efficient manner.

Figure 7: What do we mean by “match fit”?



Source: Frontier Economics

We note that we have enjoyed a high level of cooperation and engagement with Council staff in this review. We have also observed actions being initiated by Council staff over the course of this project consistent with our findings and recommendations, including for example development of the financial model and reviewing delivery models for upcoming capital expenditure. This gives us confidence there is significant goodwill and capacity within Council staff to deliver the roadmap.

Table 3 sets out the key tasks required to shift the wastewater/recycled water business from its current status towards best practice. The key tasks involve:



- Developing a wastewater/recycled water Business Plan, which can also involve the development of a wastewater/recycled water Stakeholder Engagement Plan and wastewater/recycled water Risk Management Plan
- Finalising the wastewater/recycled water Asset Management Plan
- Making improvements to wastewater/recycled water business long-term financial planning, including improving links to the Asset Management Plan, Business Plan, Risk Management Plan and Council Long-Term Financial Plan
- Engaging with SA Water
- Establishing the Strategic Advisory Panel to ensure it provides some additional form of oversight of the wastewater/recycled water business, similar to a Board
- Appointing a wastewater/recycled water business manager.

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Table 2: Summary of tasks for improvement

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Business Function	Current status	Roadmap tasks	Good Practice Benchmark
Business planning	No Business Plan	<ul style="list-style-type: none"> Develop business plan based on robust engagement, including workshops 	Business Plans are critical to setting business direction and strategic forward agendas
Asset management	Draft, incomplete wastewater AMP, not being actively used by the business. Wastewater assets are incorporated into Council's Strategic AMP 2020	<ul style="list-style-type: none"> Finalise and update the AMP to align it with ISO55000 and make an active link with the long-term financial model 	AMP's are a key foundation to the business and provide the basis for a wide range of activities including financial management and pricing
Capital planning and delivery	Reasonably robust, but being delivered "just in time" – limiting time for optimisation	<ul style="list-style-type: none"> Undertake an audit of the Project Management Framework and key wastewater projects to ensure they are being delivered prudently and efficiently (consider using a Gateway Review process) 	Forward capital plans set the basis for pricing. Capital delivery options are systematically considered. Planning and delivery supported by whole of life cycle project management frameworks. Planning frameworks and major projects are periodically peer reviewed
Financial management	Reasonably robust financial model – but needs to be linked to business plan/long term financial plan	<ul style="list-style-type: none"> Council should ensure all revenue and expenditure is included in long-term financial planning, drawing on the AMP and informing the LTFP 	Essential underpinning to price plans (typically 5 years in advance). Budgets actively managed to the price plan benchmark
Customer & stakeholder management	No structured stakeholder engagement in place	<ul style="list-style-type: none"> Develop a structured Stakeholder Engagement Plan (could be done as part of the Business Plan development) Renew and reinvigorate the MOU with SA Water 	Structured stakeholder engagement plans in place and well-resourced to manage stakeholder risks and good business outcomes



Business Function	Current status	Roadmap tasks	Good Practice Benchmark
Environmental management & recycled water use	Environmental Improvement Plan with the EPA is dictating the forward program of work	<ul style="list-style-type: none"> Develop an Environmental Management System with clear objectives and targets and an associated continuous improvement plan, that aligns with ISO55000 	Environmental Management Systems based on ISO14000, ensure proactive identification and management of environmental risks
Risk Management	No structured risk management plan for the wastewater business. Risks being managed informally by key personnel across Council	<ul style="list-style-type: none"> Develop and maintain a structured Risk Management Plan including mitigations, for the wastewater business Document the links between this plan and the Long Term Financial Model 	Structured risk management underpins business planning, financial management and strategic business initiatives
Governance and structure	Governance can be strengthened to provide more robust oversight of the wastewater business. A lack of accountability for the wastewater business	<ul style="list-style-type: none"> Reset the Strategic Advisory Panel's Terms of Reference to provide oversight of the wastewater business (on an advisory basis only) Put in place a full-time manager with clear accountability for the whole wastewater business / function as defined by the Business Plan 	Skills based Boards or Advisory Boards provide business oversight. Clear accountabilities for delivering against business plan outcomes



3.2 A roadmap for improvement

We have sequenced a series of actions to ensure the wastewater/recycled water business becomes match fit. We have identified several near term priorities, including developing a Business Plan (including a Risk Management Plan) which will confirm the strategic direction and set out a consolidated list of priority actions for the business.

Figure 8 summarises the roadmap of key actions. **Table 3** sets out the key actions identified in the previous section, indicating the proposed priorities over the next three years.

An early and important task is to develop the Business Plan which sets the strategic priorities and can guide the roadmap over subsequent years. There is scope to combine the development of the Business Plan, Risk Management Plan and Stakeholder Engagement Plan through a structured workshop with appropriate follow-up documentation.

Governance and structure changes to improve capacity and accountability are also important near term changes, together with reinvigorating the relationship with SA Water.

Figure 8: Roadmap of key actions



Source: Frontier Economics

**Table 3:** Roadmap

Business function	Task	Y1	Y2	Y3
Business planning	Develop Business Plan based on robust engagement, including workshops			
Asset management	Finalise and update the AMP to align it with ISO55000			
Capital planning and delivery	Undertake an audit of the Project Management Framework and key wastewater projects to ensure they are being delivered prudently and efficiently (consider using a Gateway Review process)			
Financial management	Council should ensure all revenue and expenditure is included in long-term financial planning, and update links to Asset Management Plan, Business Plan, Risk Management Plan and Long-Term Financial Plan			
Customer & stakeholder management	Develop a structured Stakeholder Engagement Plan (could be done in Y1 as part of the Business Plan development)			
	Renew and reinvigorate the MOU with SA Water			
Environmental management & recycled water use	Develop an Environmental Management System with clear objectives and targets and an associated continuous improvement plan, that aligns with ISO55000			
Risk Management	Develop and maintain a structured Risk Management Plan including mitigation			
Governance and structure	Reset the Strategic Advisory Panel's Terms of Reference to provide oversight of the wastewater business (on an advisory basis only)			
	Put in place a full-time manager with clear accountability for the whole wastewater business / function as defined by the Business Plan			



A High-level options assessment

This attachment presents a high-level assessment of alternative future service delivery options for the wastewater/recycled water business. We begin by describing the key options before presenting our high-level assessment. Finally, we present our summary and conclusions.

We have undertaken a high level and general assessment of alternative service delivery options. A more specific review of service delivery options requires clear strategic priorities for the wastewater/recycled water business and work to address the issues with the current arrangements. Alternative service delivery models can be revisited once the wastewater/recycled water business is 'match fit'.

Options

We systematically identified key options

The service delivery options assessed below were identified during our initial consultation and analysis of issues with the current arrangements. Council were keen to emphasise that the status quo should be considered as a future option, and compared to the alternative of outsourcing or divestment. Our analysis of the issues with the current arrangements identified the alternative of the status quo with improvements as another option. Our discussions with SA Water identified a potential divestment to SA Water (rather than the private sector) as a future option.

This review of options is not intended to be exhaustive, but rather to characterise key alternatives by flexing parameters including ownership and responsibility for service delivery to identify option(s) that merit further consideration.

The options discussed in this section and described in more detail below include:

	Status quo with improvements	Council owns wastewater/recycled water assets and maintains responsibility for service delivery, with changes to ensure Council is match fit
	Outsource via contract to private sector	Council owns wastewater/recycled water assets and maintains customer relationship, but contracts with another entity to deliver services and meet growth
	Divestment to private sector	Council divests the wastewater/recycled water business including responsibility for service delivery and meeting growth to the private sector
	Divestment to SA Water	Council divests the wastewater/recycled water business including responsibility for service delivery and meeting growth to the private sector

Base case: Status quo

This option involves Council continuing to provide wastewater/recycled water services to customers using the current institutional and governance arrangements. Council continues to own the wastewater/recycled water assets and remains responsible for current and future service delivery. It does not preclude involving the private sector in service delivery, for example through a build-develop-operate arrangement for the wastewater treatment plant upgrade.



Option 1: Status quo with work to improve match fitness

This option involves Council continuing to own the wastewater/recycled water assets and maintaining responsibility for current and future service delivery, but making changes to the current processes and governance arrangements. These changes are described in Section 3, and include changes to clarify and improve accountability, and changes to reporting to improve transparency. As for the status quo, this option does not preclude contracting with the private sector to provide services, including the development and operation of an upgraded wastewater treatment plant. This option does also not preclude adopting another option at a later stage. In practice the changes recommended will be required to support a future divestment.

Option 2: Outsourcing to private sector via operating and maintenance contract

This option involves Council continuing to own the wastewater/recycled water assets but contracting with a third party to provide wastewater/recycled water services to customers. Council would delegate all its responsibilities to provide wastewater/recycled water services to the third party. The third party would be responsible for all day-to-day operations and maintenance as well as ensuring infrastructure is available to service new areas and meet growing demand. Council would maintain the customer relationship, including billing.

Option 3: Divestment to private sector

This option involves Council divesting ownership in the wastewater/recycled water assets to a third party via a transaction. The transaction would involve transferring all its wastewater/recycled water assets, contracts and the responsibility to provide wastewater/recycled water services to the third party. The third party would be responsible for all day-to-day operations and maintenance, as well as for capital investment to ensure infrastructure is available to service new areas and meet growing demand, and maintaining all aspects of the customer relationship, including billing.

Option 4: Divestment to SA Water

This option involves Council divesting ownership in the wastewater/recycled water assets to SA Water via a transaction. The transaction would involve transferring all its wastewater/recycled water assets, contracts and the responsibility to provide wastewater/recycled water services to SA Water. SA Water would be responsible for all day-to-day operations and maintenance, as well as for capital investment to ensure infrastructure is available to service new areas and meet growing demand and maintaining all aspects of the customer relationship, including billing.

High-level assessment

Our high-level assessment compares the pros and cons of the options

We compare the pros and cons of each option to the status quo, having regard to a range of parameters, including:

- The key drivers for this study, including the risks, opportunities and requirement for an independent and balanced assessment.
- Council's strategic goals of promoting community wellbeing, economic prosperity, urban environment, natural environment and sustainable living and governance and leadership.
- Council's economic, environmental, public health, technical and safety regulatory compliance obligations.



- Resilience to potential changes in operating environment, recognising uncertainties associated with growth, competition, environmental outcomes and climate change.

A more focused set of assessment criteria could be developed through an investment logic map (ILM) workshop to clarify strategic priorities for the wastewater/recycled water business, as discussed in Section 2.2.2. This would provide Council with a structured approach to surface problems and opportunities.

Option 1 is a 'no regrets' option

Option 1 involves taking a series of actions to improve the governance and operation of the wastewater/recycled water business. This option has the benefit of being relatively easy to implement, drawing on the roadmap presented in this report. Council retains ownership and control of the wastewater business in this option, promoting its capacity to deliver affordable wastewater services to the community and achieve desired service outcomes, including environmental and community outcomes. The wastewater/recycled business would continue to make a contribution to Council corporate overheads under this option.

The main disadvantage of this option is that Council retains the risk and capacity issues associated with managing a large and growing wastewater/recycled water business which motivated this review.

Option 2 means Council retains risk

Option 2 involves Council outsourcing operation of the wastewater business. Under this option Council would retain ownership and control of the wastewater assets, ensuring it is able to make decisions to achieve its strategic objectives. This option addresses the capacity issues Council is facing relating to the operation and management of the wastewater business. An experienced contractor may be able to provide wastewater/recycled water services more efficiently than Council. The wastewater/recycled business would continue to make a contribution to Council corporate overheads under this option. This option is likely to ensure customers receive desired service outcomes, although the operator is likely to seek additional compensation for any increase in costs associated with a change in service standards or delivery methods (for example backlog sewerage).

However, an experienced contractor will factor risks into its proposal to Council which are not currently reflected in pricing, or seek to allocate those risks to Council. Placing constraints on the operator (for example to achieve Council's environmental objectives) could reduce the pool of potential operators or impose additional costs. A private sector operator will seek a rate of return above that currently being sought by Council, placing further pressure on pricing, however this could be offset by other efficiencies. This could place Council in the difficult position given its customer-facing role and responsibility for setting and collecting charges.

Option 3 means a loss of Council control

Option 3 effectively addresses the risks and capacity issues associated with the wastewater/recycled business by transferring ownership of the business to an independent operator. Under this option the risks and potential contingent liabilities facing the wastewater/recycled water business would become the responsibility of the private sector.

Council would no longer receive a contribution for corporate costs from the wastewater/recycled water business. However, this option would remove the necessity for staff and Council to plan and manage the wastewater/recycled water business, freeing up valuable resources to devote to other activities.



In valuing the wastewater/recycled water business a private sector entity is likely to have regard to a range of factors, including current prices, growth rates, asset condition, future expenditure requirements (including new and replacement capex required to support growth) and potential contingent liabilities (including the cost of providing backlog sewerage to unsewered areas in the future and potential future disposal costs) and risk (including the risk of increasing standards and/or customer expectations). A private sector operator is likely to have a higher cost of capital than the current rate assumed for the wastewater/recycled water business. This assessment could result in a private sector operator placing a lower value on the wastewater/recycled business than Council.

A private sector operator is likely to be effective at ensuring the community receives appropriate service outcomes. The private sector operator would face scrutiny from the Essential Services Commission of South Australia in setting charges, thereby addressing affordability concerns. However, there is considerable flexibility in the relevant pricing guidance. A private sector entity may be able to provide wastewater/recycled water services more efficiently than Council, but is likely to face a higher cost of capital than Council and may factor other costs and risks into prices. The outlook for wastewater/recycled water charges is therefore uncertain.

It will be difficult to impose Council strategic priorities on the wastewater/recycled water business after its divestment. However, it may be possible to select a private sector operator whose strategic objectives broadly align with those of Council.

This option is likely to be relatively time consuming to implement, but will require limited Council managerial attention after the transaction.

Option 4 means more economic regulatory oversight

Like Option 3, this option addresses the risk and capacity issues associated with the status quo that have motivated this review. This option therefore shares the pros and cons of Option 3, with one important distinction: SA Water faces a more rigorous economic regulatory regime than small scale operators, recognising its role as the dominant provider of water and wastewater services in South Australia (See Attachment B). This economic regulatory regime imposes requirements on SA Water to ensure its prices reflect only the prudent and efficient level of expenditure required to deliver the desired service outcomes to customers. This higher level of scrutiny may manage any affordability concerns of Option 4. As a public sector entity there may be more strategic alignment between SA Water and Council's objectives.

Summary and conclusions

Identifying the preferred option involves making trade-offs between the risks and opportunities facing the wastewater/recycled water business. The divestment options are most effective in addressing the risk and capacity issues currently faced by Council. However, these options also involve a loss of the potential opportunity the wastewater/recycled water business offers to Council.

We recommend sequencing the options as an optimal approach. Proceeding with Option 1 ensures the wastewater/recycled water business is in good shape, preparing it for a potential partnership or transaction. This can be viewed as a 'no regrets' approach which will lead to significant benefits in its own right, but will also facilitate informed consideration of potentially more far-reaching options in the future.

The steps required to implement the option will improve the governance and management of the wastewater/recycled water business. This in turn will ensure Council is in a good position to make



a decision about next steps, including a potential partnership or divestment. Involving SA Water in the implementation of Option is likely to ensure the changes are best practice and consistent with SA Water's approach, maximising the likely sale price in any future divestment to SA Water.

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B Regulatory and commercial framework

Introduction

In order to fully assess current and possible alternative wastewater and recycled water delivery options they need to be understood in the context of the broader regulatory and commercial framework within which they operate or would operate.

Council operates in a wider regulatory context that impacts their activities, including in their provision of water-related services. The regulatory bodies most relevant to Council water-related operations are outlined in **Box 1**.

Box 1: Water industry regulatory bodies

- The **Essential Services Commission of South Australia** (ESCOSA) is the economic regulator relevant to the Council and is responsible for ensuring consumers of regulated services are adequately protected. Its role covers pricing, licensing, performance monitoring and reporting, compliance and scheme administration across the industries it regulates (water, electricity gas, railways and port services).
- **Office of the Technical Regulator** (OTR) is responsible for the safety and performance of the electrical, gas and water industries. It enforces safety measures and standards across the industries it regulates. All entities licensed by ESCOSA are required to periodically submit a Safety, Reliability, Maintenance and Technical Management Plan (SRMTM) to OTR. For water entities, the SRMTM must demonstrate compliance with *Water Industry Act 2012* and *Water Industry Regulations 2012*.
- The **Environment Protection Authority** (EPA) regulates air and water quality, and control of pollution, waste, noise and radiation. The EPA's water quality and monitoring activities aim to protect South Australian waters from the adverse impacts of pollution so that this water may support a variety of organisms and sustain public health and agricultural applications.
- **SA Health** provides a portfolio of health-related services aimed at protecting and improving the health of South Australians. It is responsible for regulated water quality standards.

This Attachment provides an overview of key elements of the economic regulatory and commercial framework with potential to impact on the pricing and financial outcomes of alternative models (rather than the technical regulation of public health and environmental aspects).

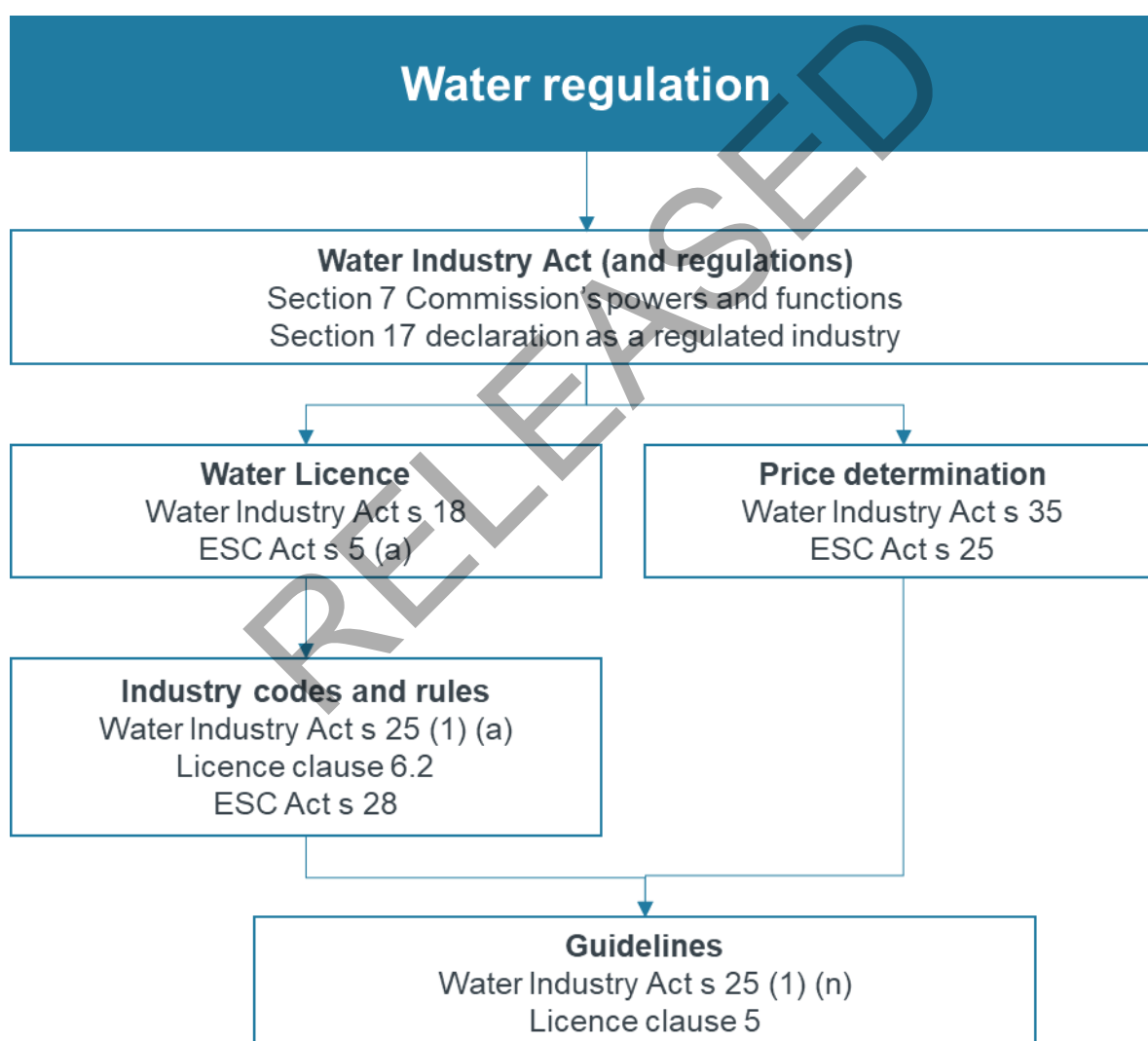


Economic regulatory framework - overview

The Water Industry Act 2012 establishes the regulatory framework for the water and sewerage industry covering economic regulation, technical regulation, water planning and customer complaint handling.

The water, electricity and gas industries are also declared to be regulated industries for the purposes of the Essential Services Commission Act 2002 (ESC Act), meaning that the Essential Services Commission of South Australia (ESCOSA) has economic regulatory powers and functions in relation to water and sewerage services in South Australia. In particular, ESCOSA is responsible for industry licensing, consumer protection and retail pricing.

Figure 9: Water, wastewater and recycled water regulatory framework



Source: Adapted from Essential Services Commission of South Australia, *Inquiry into regulatory arrangements for small-scale water, sewerage and energy services*, DRAFT Inquiry Report, August 2020, p2.

Any person or entity providing a water or sewerage “retail service” in South Australia is required to be licensed by the Commission, and to comply with consumer protection codes through mandatory licence conditions. The Water Industry Act defines a “retail service” as:



- sale and supply of water to a person for use where the water is to be conveyed by a reticulated system; or
- the sale and supply of sewerage services (the collection, storage, treatment or conveyance of sewage through a reticulated system) for the removal of sewage, even if the service is not actually used.

Mt Barker's principal activities which are subject to economic regulation by ESCOSA include the provision of sewerage services and recycled water/stormwater services.

While ESCOSA's regulatory functions apply to both SA Water and small-scale network service providers such as Mt Barker Council, the approach to regulating SA Water and smaller providers differs reflecting the nature and scale of their operations.

The State Government provides full sewage collection, treatment and disposal services for metropolitan Adelaide and the major provincial cities, about 90% of the State's 'wastewater' population, while Local Government is responsible for effluent and some sewage collection, treatment and disposal services for other country towns. Local Government currently operates 175 Community Wastewater Management Systems (CWMS) in 50 councils throughout the state. Most CWMS in SA are owned and operated by the Local Authority (Councils) in which they are situated.

In addition to ESCOSA's regulatory oversight, as discussed further below the Local Government Act also imposes some constraints on rates and charges levied by councils for prescribed services (including the treatment or provision of water; and the collection, treatment or disposal (including by recycling) of waste)) and also limits the use of funds raised from these services for other purposes.

Framework for regulating prices

Section 35 of the Water Industry Act 2012 empowers ESCOSA to make a determination under the Essential Services Commission Act 2002 regulating prices, conditions relating to prices, and price-fixing factors for water retail services.

ESCOSA has made separate price determinations to apply to SA Water and minor and intermediate water retailers.

For SA Water, ESCOSA undertakes a major and detailed price review process and directly regulates SA Water's services via a Determination which specifies recommended maximum prices for individual services.

For small-scale providers such as Mt Barker, ESCOSA adopts a much more 'light-handed' approach to regulation of prices and services. Rather than directly setting the level or structure of prices for services, ESCOSA's Determination only specifies some principles with which charges must comply. ESCOSA then monitors compliance by requiring the small providers to report to it on how the prices the service providers charge comply with specific principles set out in ESCOSA's Determination.

ESCOSA made its first price determination for minor and intermediate retailers in June 2013 to apply for the period 1 July 2013 to 30 June 2017. The price determination requires minor and intermediate retailers to comply with certain pricing principles set out in the National Water Initiative Pricing Principles (part of an industry reform blueprint agreed between the Commonwealth State Governments) when charging for water and sewerage services. It also requires the regulated suppliers to report to ESCOSA on how they are complying with those



principles. In particular, a retail licensee must provide the Commission, by 30 November each year:

- a Pricing Schedule containing the retail prices, fees and charges for water services and retail services imposed by the licensee, for the current and previous financial year; and
- a Pricing Policy Statement demonstrating compliance of those retail prices with the National Water Initiative Pricing Principles relevant to the retail services offered by the licensee

The NWI Pricing Principles are designed to ensure service provision is financially sustainable both now and into the future and that appropriate price signals are sent to users on the cost of their consumption decisions. Those principles are categorised into:

- recovery of capital expenditure
- setting of urban water tariffs
- recycled water and stormwater Use

The price determination for minor and intermediate retailers was amended in July 2015 to enable ESCOSA to simplify the reporting requirements for these entities.

The price determination was extended indefinitely from 1 July 2018, pending the outcome of a broader review of the regulatory framework for minor and intermediate retailers. An inquiry is currently being undertaken by ESCOSA to identify the potential for enhancements and refinements to the nature and scope of its existing economic regulatory framework for small-scale and off-grid water, sewerage and energy services. ESCOSA released a Draft Report in August 2020 which proposed three changes to the current regulatory framework:

- Introducing a verified trust and accountability regulatory model – including regulatory reporting requirements
- Harmonisation of industry codes and guidelines, and
- Mandatory Energy and Water Ombudsman SA (EWOSA) membership.

The Local Government Association responded to the Draft Report and broadly supported ESCOSA's proposed refinements, but noted the need for the proposed role of EWOSA to be clearly communicated to avoid duplication with existing complaint processes within local government and resultant confusion for ratepayers.

The inquiry is scheduled to be finalised by May 2021

The following discussion outlines how prices for each of Mt Barker's services are affected by ESCOSA's regulatory requirement for them to adhere to the nominated NWI Pricing Principles.

Wastewater services

ESCOSA's Determination provides that where sewerage services are supplied, prices must comply with the NWI Pricing Principles relating to the Recovery of Capital Expenditure set of principles (Principles 1, 2, 3, 4, 5, and 6) and the Setting Urban Water Tariffs set of principles (Principles 1, 4, 5, 6, 7, 8, 9 and 10).

Together, these principles constrain both the level and structure of charges which Mt Barker can levy for wastewater services.



In relation to the level of costs, the NWI principles seek to ensure waters suppliers achieve full cost recovery (including provision for a return on capital and depreciation) whilst not being able to earn monopoly profits⁵. Other key requirements for the level of costs to be reflected in prices are:

- For new or replacement assets, charges should be set to achieve full cost recovery of capital expenditures (net of transparent deductions/offsets for contributed assets and developer charges) through either a return of and on capital or a renewals annuity
- New and replacement assets should be initially valued at efficient actual cost
- The RAB comprising prudent new investments and legacy investments should be rolled forward each year in accordance with a specified formula
- New contributed assets (i.e. grants/gifts from governments and contributions from customers (e.g. developer charges)) should be excluded or deducted from the RAB or offset using other mechanisms
- Water businesses should be moving to recover efficient costs consistent with the National Water Initiative (NWI) definition of the upper revenue bound: 'to avoid monopoly rents, a water business should not recover more than the operational, maintenance and administrative costs, externalities, taxes or tax equivalent regimes, provision for the cost of asset consumption and cost of capital, the latter being calculated using a Weighted Average Cost of Capital (WACC).

In relation to the structure of wastewater charges, the applicable NWI pricing principles provide that:

- The service availability charge could vary between customers or customer classes, depending on service demands and equity considerations.
- Tariffs should be set using a transparent methodology, through a process which seeks and takes into account public comment, or which is subject to public scrutiny
- Water charges should be differentiated by the cost of servicing different customers (for example, on the basis of location and service standards) where there are benefits in doing so and where it can be shown that these benefits outweigh the costs of identifying differences.

Recycled water

In addition to providing residents with a wastewater disposal solution, Mount Barker also stores, distributes and retails recycled water.

Prices for these services are also regulated by ESCOSA. In particular, ESCOSA's Determination provides that for recycled water services all nine of the NWI Recycled Water and Stormwater Use principles should apply to charges levied by small providers.

These principles provide for considerable flexibility in how prices for the supply of recycled water are set, recognising that recycled water schemes can provide benefits going beyond the direct

⁵ • The NWI Pricing Principles state that water businesses should be moving to recover efficient costs consistent with the National Water Initiative (NWI) definition of the upper revenue bound: 'to avoid monopoly rents, a water business should not recover more than the operational, maintenance and administrative costs, externalities, taxes or tax equivalent regimes, provision for the cost of asset consumption and cost of capital, the latter being calculated using a Weighted Average Cost of Capital (WACC).



users and that customers' willingness to pay for recycled water will be constrained by the price of alternatives (e.g. potable water). More specifically, the applicable NWI pricing principles provide that:

- Prices for recycled water should contain a water usage (i.e. volumetric) charge.
- Regard to the price of substitutes (potable water and raw water) may be necessary when setting the upper bound of a price band.
- Pricing structures should be able to reflect differentiation in the quality or reliability of water supply.
- Where appropriate, pricing should reflect the role of recycled water as part of an integrated water resource planning (IWRP) system.
- Prices should recover efficient, full direct costs — with system-wide incremental costs (adjusted for avoided costs and externalities) as the lower limit, and the lesser of stand-alone costs and willingness to pay (WTP) as the upper limit. Any full cost recovery gap should be recovered with reference to all beneficiaries of the avoided costs and externalities. Subsidies and Community Service Obligation (CSO) payments should be reviewed periodically and, where appropriate, reduced over time.
- Prices should be transparent, understandable to users and published to assist efficient choices.

Developer charges

Developer charges are upfront charges imposed on developers (and subsequently recovered from property owners) as a condition of connection to a water business's water or sewerage network infrastructure. Developer charges are a mechanism for funding growth infrastructure have been applied in the urban water industry across Australia for many years. They typically encompass:

- Reticulation assets within the development put in by the developer and usually then gifted to the utility.
- Extensions to connect to an existing network put in by the developer and gifted to the utility.
- Cash payments (often known as 'headworks charges') to the utility for defined costs of new or existing assets deemed to be attributable to the new development.

As noted above, ESCOSA's Determination provides that where sewerage services are supplied, prices must comply with the NWI Pricing Principles relating to the Recovery of Capital Expenditure set of principles and the Setting Urban Water Tariffs set of principles.

This latter set of principles include some which relate specifically to developer charges, namely:

- Developer charges should reflect the investment in both new and existing assets required to serve a new development and have regard to the manner in which ongoing water usage and service availability charges are set. Where there are benefits beyond the boundary of the development, the developer charge should have regard to the share of capacity required to serve the development.
- Developer charges should not exceed the costs of serving new developments which includes investment in both new and existing assets required to serve a new development.



ESCOSA's Determination effectively requires small service providers to demonstrate compliance with these principles if they levy developer charges.

Competition from alternative suppliers

As noted above, the current regulatory framework for provision of water and wastewater services in SA provides for supply by any party which is licensed to do so.

This means that private firms are able to provide wastewater services within Mt Barker's area provided they hold a licence issued by ESCOSA to do so.

It is understood that Alano Utilities holds a water industry retail licence (classified as a minor retailer) issued by the Essential Services Commission of South Australia, and provides services to the Aston Hills, Adore Estate, Parkfield Glades developments at Mount Barker.

It is important to note that as a small supplier, Alano (or any other private supplier), will be subject to economic and other regulation in the same way as Mt Barker is.

Another part of the economic regulatory framework in SA is a third party access regime which came into effect on 1 July 2016. Third party access can be broadly defined as encompassing those situations where a third party wishes to obtain access to a bottleneck facility in order to be able to provide goods and services to customers in upstream or downstream markets. This is typically seen as being most relevant to facilities that are natural monopolies – such as transportation networks – that would be uneconomic to duplicate.

An access regime is a regulatory framework which provides an avenue for firms to use certain infrastructure services owned and operated by others when commercial negotiations regarding access are unsuccessful (typically the ability to access the use of infrastructure services, or the price at which such access is provided). At present the third party access regime in the SA water sector applies only to SA Water but does not apply to community facilities (e.g. small water distribution systems).

Council must also observe the principle of competitive neutrality. As such it cannot and does not regulate competitors. Furthermore, it cannot unreasonably withhold certain approvals. For example, in the case of Alano Utilities, Council granted consent to them to lay their infrastructure (a sewer collection main to their treatment facility) within council road reserves. Council did not seek to use its powers to prevent or restrict this activity.

Local Government Act

In addition to ESCOSA's regulatory oversight, the Local Government Act also imposes some constraints on rates and charges levied by councils for prescribed services (including the treatment or provision of water; and the collection, treatment or disposal (including by recycling) of waste)) and also limits the use of funds raised from these services for other purposes.

The constraints on rates and charges for these service imposed by the Local Government Act are along similar lines to those imposed by the ESCOSA and the NWI pricing principles in that they seek to ensure charges do not exceed the costs of service provision. In particular, Section 155 (5) states that



“a council must not seek to recover in relation to a prescribed service⁶ an amount by way of service rate, annual service charge, or a combination of both exceeding the cost to the council of establishing, operating, maintaining, improving and replacing (including by future capital works and including so as to take into account the depreciation of any assets) the service in its area (being a cost determined taking into account or applying any principle or requirement prescribed by the regulations)”.

Notably, the Act also provides that in the event of any inconsistency between the provision of the Local Government Act and a Determination by ESCOSA regulating prices, conditions relating to prices, and price-fixing factors for the provision of a prescribed service, the Determination made by ESCOSA will prevail.

The Local Government Act also limits the use of funds raised from these services for other purposes. Section 155 (5) provides that any amounts held in a reserve established in connection with the operation of a prescribed service must be applied for purposes associated with improving or replacing council assets for the purposes of the relevant prescribed service. This means that any surplus funds must effectively be quarantined and reinvested back into the CWMS, rather than diverted to other council functions.

However, if a prescribed service is, or is to be, discontinued, any excess of funds held by the council for the purposes of the service (after taking into account any expenses incurred or to be incurred in connection with the prescribed service) may be applied for another purpose specifically identified in the council's annual business plan as being the purpose for which the funds will now be applied.

Another important part of the financial and commercial framework relates to the provision of finance by the Local Government Finance Authority (LGFA) to local councils in South Australia. While all South Australian Councils are automatically Members of the LGFA, use of its services for investment and loans is entirely voluntary. The LGFA provides a range of borrowing options including credit financier style loans; interest only borrowings; specially structured loans; and cash advance suite of products.

It is understood that while the LGFA provides access to low cost debt it also imposes obligations on councils' capacity to borrow and gear up the business.

The LGFA states that it applies stringent credit criteria to assess the ability of a council to meet its repayment requirements for any borrowings. The LGA recommends that a council's net financial liabilities ratio is between zero and 100% of its total operating income, but acknowledges it could be higher in some circumstances. In particular, it notes that some South Australian councils have borrowed relatively high levels of debt to finance Community Wastewater Management Systems (CWMS), where these schemes generate revenue streams to service the debt associated with the scheme.

It is noted that Council has initiated a request to meet with the CEO of the LGFA to brief them on Council's forward capital requirements and financing capabilities etc with a view to securing confidence from the LGFA about supporting those requirements.

⁶ A prescribed service includes the treatment or provision of water; and the collection, treatment or disposal (including by recycling) of waste



NWI Pricing Principles referred to in the ESCOSA Determination

RELEASED



Principles	Detail
Recovery of capital expenditure pricing principles	
Principle 1: Cost recovery for new capital expenditure	<p>For new or replacement assets, charges will be set to achieve full cost recovery of capital expenditures (net of transparent deductions/offsets for contributed assets and developer charges through either:</p> <p>a) a return of capital (depreciation of the RAB) and return on capital (generally calculated as rate of return on the depreciated RAB); or</p> <p>b) a renewals annuity and a return on capital (calculated as a rate of return on an undepreciated asset base (ORC)).</p> <p>The rate of return should be consistent with the Weighted Average Cost of Capital (WACC) with the cost of equity derived from the Capital Asset Pricing Model (CAPM).</p>
Principle 2: Valuation of new assets	New and replacement assets should be initially valued at efficient actual cost
Principle 3: Valuation of legacy assets	Legacy assets that are to be retained should be valued at Depreciated Replacement Cost (DRC); Depreciated Optimised Replacement Cost (DORC); Optimised Replacement Cost (ORC), indexed actual cost, Optimised Deprival Value (ODV) or using another recognised valuation method.
Principle 4: Recovery of legacy capital expenditure	In respect of legacy investment decisions, and on the assumption that assets are to be retained, charges will achieve cost recovery by way of a depreciation charge or annuity charge and a positive return on an asset value used for price setting purposes as at the legacy date. If assets are to be sold then they are to be valued at their net realisable value.
Principle 5: Rolling forward asset values after the legacy date	The RAB comprising prudent new investments and legacy investments should be rolled forward each year in accordance with a specified formula
Principle 6: Contributed assets	New contributed assets (i.e. grants/gifts from governments and contributions from customers (e.g. developer charges)) should be excluded or deducted from the RAB or offset using other mechanisms so that a return on and of the contributed capital is not recovered from customers. If a renewals annuity is used, it should include provision for replacement of contributed assets.



Principles	Detail
Setting Urban Water Tariffs	
Principle 1: Cost recovery	Water businesses should be moving to recover efficient costs consistent with the National Water Initiative (NWI) definition of the upper revenue bound: 'to avoid monopoly rents, a water business should not recover more than the operational, maintenance and administrative costs, externalities, taxes or tax equivalent regimes, provision for the cost of asset consumption and cost of capital, the latter being calculated using a Weighted Average Cost of Capital (WACC).
Principle 4: Setting the service availability charge	<p>The revenue recovered through the service availability charge should be calculated as the difference between the total revenue requirement as determined in accordance with Principle 1 and the revenue recovered through water usage charges and developer charges.</p> <p>The service availability charge could vary between customers or customer classes, depending on service demands and equity considerations. Unattributable joint costs should be allocated such that total charges to a customer must not exceed stand-alone cost or be less than avoidable cost where it is practicable to do so.</p>
Principle 5: Pricing transparency	Urban water tariffs should be set using a transparent methodology, through a process which seeks and takes into account public comment, or which is subject to public scrutiny.
Principle 6: Over recovery of revenue	Where water usage charges lead to revenue recovery in excess of upper bound revenue requirements in respect of new investments, jurisdictions are to address the over recovery. In addressing the over recovery, revenues should be redistributed to customers as soon as practicable.
Principle 7: Differential water charges	Water charges should be differentiated by the cost of servicing different customers (for example, on the basis of location and service standards) where there are benefits in doing so and where it can be shown that these benefits outweigh the costs of identifying differences and the equity advantages of alternatives
Principle 8: Setting developer charges	<p>Developer charges should reflect the investment in both new and existing assets required to serve a new development and have regard to the manner in which ongoing water usage and service availability charges are set.</p> <p>Notes: Where there are benefits beyond the boundary of the development, the developer charge should have regard to the share of capacity required to serve the development.</p>



Principles	Detail
Principle 9: Capping developer charges	Developer charges should not exceed the costs of serving new developments which includes investment in both new and existing assets required to serve a new development.
Principle 10: Revenue from developer charges	To avoid over-recovery, revenue from developer charges should be offset against the total revenue requirement either by excluding or deducting the contributed assets from the RAB or by offsetting the revenue recovered using other mechanisms.

Pricing principles for recycled water and stormwater use

Principle 1: Flexible regulation	Light handed and flexible regulation (including use of pricing principles) is preferable, as it is generally more cost-efficient than formal regulation. However, formal regulation (e.g. establishing maximum prices and revenue caps to address problems arising from market power) should be employed where it will improve economic efficiency.
Principle 2: Cost allocation	When allocating costs, a beneficiary pays approach — typically including direct user pay contributions — should be the starting point, with specific cost share across beneficiaries based on the scheme's drivers (and other characteristics of the recycled water/stormwater reuse scheme).
Principle 3: Water usage charge	Prices to contain a water usage (i.e. volumetric) charge.
Principle 4: Substitutes	Regard to the price of substitutes (potable water and raw water) may be necessary when setting the upper bound of a price band.
Principle 5: Differential pricing	Pricing structures should be able to reflect differentiation in the quality or reliability of water supply.
Principle 6: Integrated water resource planning	Where appropriate, pricing should reflect the role of recycled water as part of an integrated water resource planning (IWRP) system.



Principles	Detail
Principle 7: Cost recovery	<p>Prices should recover efficient, full direct costs — with system-wide incremental costs (adjusted for avoided costs and externalities) as the lower limit, and the lesser of stand-alone costs and willingness to pay (WTP) as the upper limit. Any full cost recovery gap should be recovered with reference to all beneficiaries of the avoided costs and externalities. Subsidies and Community Service Obligation (CSO) payments should be reviewed periodically and, where appropriate, reduced over time.</p> <p>Notes:</p> <p>Direct costs include any joint/common costs that a scheme imposes, as well as separable capital, operating and administrative costs. This definition of direct costs does not include externalities and avoided costs.</p>
Principle 8: Transparency	Prices should be transparent, understandable to users and published to assist efficient choices.
Principle 9: Gradual approach	Prices should be appropriate for adopting a strategy of 'gradualism' to allow consumer education and time for the community to adapt.

RELEASED

Frontier Economics

Brisbane | Melbourne | Singapore | Sydney

Frontier Economics Pty Ltd
395 Collins Street Melbourne Victoria 3000

Tel: +61 3 9620 4488

<https://www.frontier-economics.com.au>

ACN: 087 553 124 ABN: 13 087 553 124

12. CONFIDENTIAL REPORTS

12.1 REPORT TITLE: WASTEWATER SERVICE DELIVERY REPORT
DATE OF MEETING: 15 JULY 2021
FILE NUMBER: 21/108553

Moved Michelle Hammond that the Audit and Risk Committee:

Section 90 (3) (b) Order

Pursuant to Section 90(3)(b)

1. Pursuant to Section 90(2) of the Local Government Act 1999 the Audit and Risk Committee orders that all members of the public except Alex Oulianoff, Chief Financial Officer; Brian Clancey, Deputy Chief Executive Officer/General Manager Governance and Wastewater/Recycled Water; Phil Burton, General Manager, Infrastructure, Chris Reynolds Commercial Manager Wastewater Councillor Leach and Maree Barns, Administration Officer, Governance be excluded from attendance at the meeting for Agenda Item 12.1 Wastewater Service Delivery Report.

The Audit and Risk Committee is satisfied that pursuant to Section 90(3)(b) of the Act, the information to be received, discussed or considered in relation to this Agenda item is commercial information of a confidential nature (not being a trade secret) the disclosure of which could reasonably be expected to prejudice the commercial position of the Council.

In addition, the disclosure of this information would, on balance, be contrary to the public interest. The public interest in public access to the meeting has been balanced against the public interest in continued non-disclosure of this information. The benefit to the public at large resulting from withholding the information outweighs the benefit to it of disclosure of the information. The Audit and Risk Committee is satisfied that the principle that the meeting be conducted in a place open to the public has been outweighed in the circumstances because the disclosure of Council's commercial position may prejudice Council's ability to be able to negotiate a cost-effective proposal for the benefit of the Council and the community in this matter.

Seconded Pamela Lee

CARRIED
ARCM20210715.04

Moved Councillor Hardingham

2. That the Audit and Risk Committee recommends to Council that:

- a) Council commit to ownership of the wastewater/recycled water service during the implementation phase of recommendations 1-8 of the Frontier Economics Final Report (attached);
- b) Council continue to separate the funding arrangements and financial reporting for the wastewater/recycled water service from the remainder of council's service delivery in order to enhance transparency;

9.13 am Michelle Hammond left the chamber.

9.15 am Michelle Hammond entered the chamber and took her chair.

- c) The wastewater/recycled water service is required by council to be financially sustainable in the long-term on a standalone basis;
- d) Recommendations 1 – 8 inclusive in the Wastewater Service Delivery Options Report prepared by Frontier Economics (attached) be endorsed by council, whilst noting and respecting that portion of recommendation 8 relates to council staffing which is a matter for determination by the council's Chief Executive Officer;
- e) A prioritised program (inclusive of responsibility, timing and resources) with proposed actions to implement the actions arising from the Wastewater Service Delivery Options Report be prepared for consideration at a council meeting as soon as practicable, and by no later than 5 October 2021; and

- f) Reporting on the progress of the implementation of the program is to occur to future council and Audit and Risk Committee meetings on a quarterly basis.

Seconded Gary Hughes

CARRIED
ARCM20210715.05

Moved Pamela Lee

3. That the Audit and Risk Committee recommends that Council ensure adequate resources (financial, human and infrastructure) are provided to support the implementation of Recommendations 1-8 of the Frontier Economics report (attached) and failure to do so will pose a risk to the program of work.

Seconded Gary Hughes

CARRIED
ARCM20210715.06

Moved Michelle Hammond

4. That the Audit and Risk Committee note and commend Council's inclusive and comprehensive process around the development and delivery of the Frontier Economics report (attached) including the involvement of the Audit and Risk Committee throughout.

Seconded Pamela Lee

CARRIED
ARCM20210715.07

Moved Councillor Hardingham

Section 91(7) Order

Pursuant to Section 91(7)

5. That having considered Agenda Item 12.1 Wastewater Service Delivery Report in confidence under 90(2) and 3(b) of the Local Government Act 1999, the Audit and Risk Committee pursuant to Section 91(7) of the Act orders that the agenda item, attachment and all minutes be retained in confidence until the council determines that this order should cease to apply.

Seconded Pamela Lee

CARRIED
ARCM20210715.08