

SEPTIC TANK EFFLUENT DISPOSAL SCHEMES (STEDS)

1. Background

STEDS remains as a high priority item on the agenda for the Forum and is likely to remain so for at least another six to twelve months as a number of major sub-projects have been commissioned by the STEDS Advisory Committee. The Advisory Committee was established by the President of the Local Government Association and the Minister for State/Local Government Relations to progress the recommendations of the 2002 report – *Review of STEDS in South Australia*. Each of the sub-projects is a significant piece of work in its own right and a brief outline of the status of work is provided below.

However, an important feature of this report to the Forum is the recommendation of the adoption of an interim funding basis guiding the use of State Government funds for STEDS for the next two years. It is hoped that leadership from the Forum in supporting this interim funding basis will send appropriate signals about reform of the sector to councils and State Government agencies.

\$50,000 of 2003-04 Forum Project funds has been allocated to support the STEDS reform sub-projects, in particular supporting items 3 – 6 summarised below.

2. Interim Funding Basis

The Government has clarified its financial commitment for the STEDS program to the Local Government sector for the next two financial years. In addition, State and Local Government have confirmed their commitment to progressing reforms to the STEDS sector, for both existing and proposed new schemes.

The reform program is being progressed with the assistance of the joint State/Local Government STEDS Advisory Committee.

Whilst the investigation of alternative approaches to the provision and management of STEDS occurs, it is recommended that the Forum endorse the following basis for the allocation of State Government funding through the STEDS Program for 2004-05 and 2005 –06.

1. Unless there is an explicit policy decision to the contrary, only the construction of new schemes for existing townships* will be eligible for funding from the STEDS program.

Note: Where new developments are planned which require access to existing or new STEDS services, including any upgrading of existing infrastructure, the full cost of the provision of these services will be met by the developer(s) and/or other funding sources.

2. For a proposed new scheme to be eligible for STEDS Program funding:
 - any existing STEDS in the council area will need to be certified to either be functioning at a sustainable level (both in operational and financial terms) or moving towards such a level through an agreed schedule; and,
 - Note: The proposed certification process will involve an audit using a template currently being developed by the STEDS Advisory Committee.*
 - the council will need to demonstrate that there is no satisfactory, cost effective alternative to the construction of a STEDS and that the existing conditions meet the STEDS Program assessment criteria including demonstrable of public health risk and environmental hazards.
3. The “benchmark” intended to be used for the calculation of any STEDS Program contribution to a new STEDS in an existing township will be the charges that would be applied by SA Water for the establishment and ongoing provision of sewerage services to the same area (including applicable connection fees).
 - Note: SA Water connection fees would be adjusted to reflect the whole of life costs to the owner of the septic tank.*
4. STEDS Program funding is intended to be calculated to ensure that STEDS contributions from ratepayers need be no greater than the benchmark, based on the agreed construction and responsible whole of life costs of the scheme.
 - Note: The amount of STEDS Program funding assistance for eligible townships is intended to be based on the application of the benchmark charges to the properties to be serviced by the new scheme. STEDS Program funding may not be provided if the revenue that would be generated by application of the benchmark (or lower) to ratepayers is sufficient to meet the whole of life costs of the scheme.*
5. A condition of STEDS Program funding will be that the recipient Council fund and maintain the STEDS at whole of life sustainable performance levels.
6. Actual revenue to be generated from property charges will remain entirely the responsibility of the Council, subject to compliance with legislative constraints.

The Forum is asked to endorse this set of principles as the basis of the interim funding basis for the allocation of State Government funds to STEDS for the next two years.

3. Aggregation and Private Sector Pilot Project

The STEDS Advisory Committee, with the support of the LGA and the SA Regional Organisations of Councils (SAROC) has commissioned a pilot

project to “test” some of the possibilities raised in the 2002 review of the STEDS program which suggested that there may be greater efficiencies in the management and operation of STEDS.

In summary the objectives of the project are:

- to allow the practical feasibility of aggregating the provision of STEDS services on a regional basis to be tested, initially in the Central Local Government Region;
- to examine the practicality and cost of a Public Private Partnership model, or other similar arrangement, for the provision of wastewater services to councils in a Region; and
- to provide an opportunity for the private sector, other providers of wastewater services and relevant parties with expertise in managing and funding infrastructure of this type, to present innovative proposals that have the potential to improve the management and provision of wastewater services to regional areas on a cost effective basis.

The Region has published a Call for Proposals to undertake the pilot project and the project steering committee is currently assessing responses with a view to making an appointment in mid June 2004.

It is expected that the pilot project will take at least three months to complete, from the point of commencement, but a progress report will be provided to the next Forum meeting.

4. Financial Modelling

In conjunction with the STEDS Advisory Committee OLG commissioned external consultants (Tonkin Consulting) to conduct financial modelling of the estimated sustainable pricing for hypothetical STEDS in a number of different scenarios relating to scheme size and conditions.

It is important to recognise that the financial modelling is based on a number of factors which many councils with existing schemes do not take into account:

- the whole of life costs of the infrastructure including full depreciation;
- “modern” standards of performance for STEDS including (where practical) effluent treatment and re-use; and,
- calculation of the “cost of capital” as part of the financial model.

When all of these factors are taken into account, the draft figures demonstrate that in almost all scenarios, the hypothetical sustainable cost of STEDS (without external subsidy) is well above the charges imposed by most councils, and also above the average country sewer rate imposed by SA Water. This information, in final form, will be used to encourage councils with existing STEDS to closely examine their schemes to evaluate the whole of life costs and to review their asset management plans and pricing policies, if appropriate.

It is important to note that the financial modelling has indicated significantly higher “sustainable prices” than had been anticipated. For example, a STEDS to service 500 connections in average conditions (based on the model’s operational and technical assumptions which can vary) is estimated to require a sustainable price (assuming no external STEDS Program or council subsidy of any kind) of \$534 per connection per annum.

The final results of the financial modelling will be included in the STEDS Information Package (see 5 below). The Audit Template (see 6 below) will be an additional tool to assist councils review the state of their schemes.

5. Information Package

The STEDS Advisory Committee is overseeing the development of a ‘STEDS Information Package’, which will be distributed to councils in June/July 2004.

The purpose of this package is to collate a brief and non-technical overview of the many aspects of STEDS for the use of elected members and the general public. It will assist in focusing councils’ attention on the STEDS reform process overall, and on the particular issue of STEDS charges. Whilst the reforms to the sector are progressing, the information package will provide councils with an opportunity to familiarise themselves with the main issues involved, and to become more engaged with the reform process.

As it is clear that many councils do not impose sufficient user charges to ensure the adequate long term maintenance and sustainability of their STED schemes, the information package will provide details on all areas of STEDS maintenance. These areas include:

- STEDS and the environment;
- STEDS and public health;
- sustainable pricing;
- maintenance issues.

A significant increase in STEDS charges could be a difficult decision for councils to implement. The information package therefore aims to assist councils to make this decision by providing ideas for a communication strategy. The package will include a two page summary of issues that councils can distribute to members of the public concerned about any proposed rise in user charges that outlines:

- the reasons for rising prices;
- comparisons with SA Water sewer prices (to assure users of STED schemes that they are typically not paying an amount greater than users of sewerage schemes).

It is also expected that a more substantial communication strategy, involving workshops for councils, and public information sessions, will be undertaken when final STEDS reforms are decided upon.

6 STEDS Charging

The *Local Government Act 1999* provides that councils may levy STEDS charges as a fixed **service charge**, or a **service rate** based on property valuation, or a **combination** of the two. Almost all councils with STEDS in their area apply a fixed service charge for STEDS. The STEDS Advisory Committee is investigating the advantages and disadvantages of applying service rates and charges. A discussion paper on this issue is being developed and will be circulated to councils. This is considered to be important information for councils as part of the STEDS reform process. This topic will also be included in the STEDS Information Package.

The Advisory Committee will also be listing those areas of relevant legislation which may warrant consideration of amendment to facilitate the STEDS Reform process. It is anticipated that these matters will be brought to the Forum in the final meeting in 2004.

7. Audit Template

The STEDS Advisory Committee has also commissioned work to produce an "audit template" for existing STED schemes. The template will enable councils to conduct a thorough review of the state of their own infrastructure using industry standard estimates of asset life and performance requirements. This will enable councils to establish an accurate whole of life cost estimate for each scheme, specific to the age, location, topography and other features of each STEDS.

8. Recommendation

That the Forum:

- 1. Support the interim STEDS Funding Basis (points 1 - 6 in section 2 of this report) and recommend that it be referred:**
 - **by the Minister for State/Local Government Relations to Cabinet; and,**
 - **by the President of the LGA to the State Executive;****for formal endorsement and advice to Councils and State agencies.**
- 2. Endorse the proposal to prepare and distribute a council and community STEDS information package as a matter of high priority, promoting better understanding of STEDS sustainability, including pricing.**
- 3. Note the progress on the other matters raised by the STEDS Advisory Committee and comment as appropriate.**

