

SA17.59 Future of Human Waste Removal Services

HPERM Ref: D17/27138

Group: Shoalhaven Water Group
Section: Water Customer & Business Services

Purpose / Summary

To provide Council with details concerning the current contract for human waste removal services, results of a survey of all the customers that use this service and options for a continuation or cessation of Council future involvement.

Recommendation

That Council;

1. Seek tenders for human waste removal services
2. Apply full cost recovery to all fees and charges relating to human waste removal services commencing 1 July 2018

Options

1. Council accept the recommendations as presented

Implications: Tenders will be sought early to allow charges to be resolved as part of the 2018/2019 annual Delivery Program & Operational Planning process and avoid future cross subsidy upon the sewer fund.

2. Amend the recommendation

Implications: Any significant change should consider the impact upon users of the service and cost implications to the sewer fund.

3. Cease providing a Council contracted human waste removal service to unsewered properties

Implications: This option will leave the servicing needs up to each property owner and to that available within the commercial market. Such would be contrary to the high percentage of customers that seek Shoalhaven Water to retain a contract managed service.

Background

Shoalhaven Water provided a report to the Strategy and Assets meeting in July 2016 regarding the future of effluent services under a continued contract arrangement. The report detailed;

- the reduction in the demand for effluent services consequent to the backlog sewerage program,
- the likely high cost of any new contract, historical charging policy, absorption of cost increases and cross subsidy to the sewer fund, and
- potential commercial interest to undertake the services.

Council were advised that before any future contracts were considered, it was proposed to hold discussions with private operators to ascertain whether a commercial market alternative existed and to gauge the level of interest by the operators and capacity to perform a larger demand. If a commercial market existed, it was proposed to undertake a survey of all effluent customers to gauge their level of interest in a market choice arrangement including cost increases and to seek feedback on the current contract.

For clarity, this report provides a precis of the matters reported previously and includes the results of the market enquiries and the comprehensive survey of effluent customers.

Reduction in demand for effluent services

The services are made available to all properties within the city which are not connected to the sewerage scheme and include;

- Effluent removal (cyclic and scheduled Pumpouts to urban located premises),
- Septic tank and aerated cleanouts (some urban but mostly rural properties with seep away septic systems), and
- Sewerage supporting services (provision of adhoc pumpout services to support sewerage operations at short notice when required eg power outages)

The large number of scheduled effluent pumpout services had historically allowed a contracted option through a competitive tendering arrangement. This enabled a bulk purchasing power to be achieved for what was a citywide benefit to customers requiring such a service. The number of effluent removal customers has significantly reduced with the commissioning of backlog sewerage schemes and therefore it makes the demand for the bulk service less financially viable. Table 1 below shows the reduction of services over the contract years since 2001;

Table 1

Year	Effluent Schedule Properties	Septic Cleanouts annually
2001	1579	853
2006	1735	698
2012	769	921
2015	686	558

The current contract expires on 28 February 2018 and the number of properties requiring effluent removal services is not likely to alter dramatically in the long term.

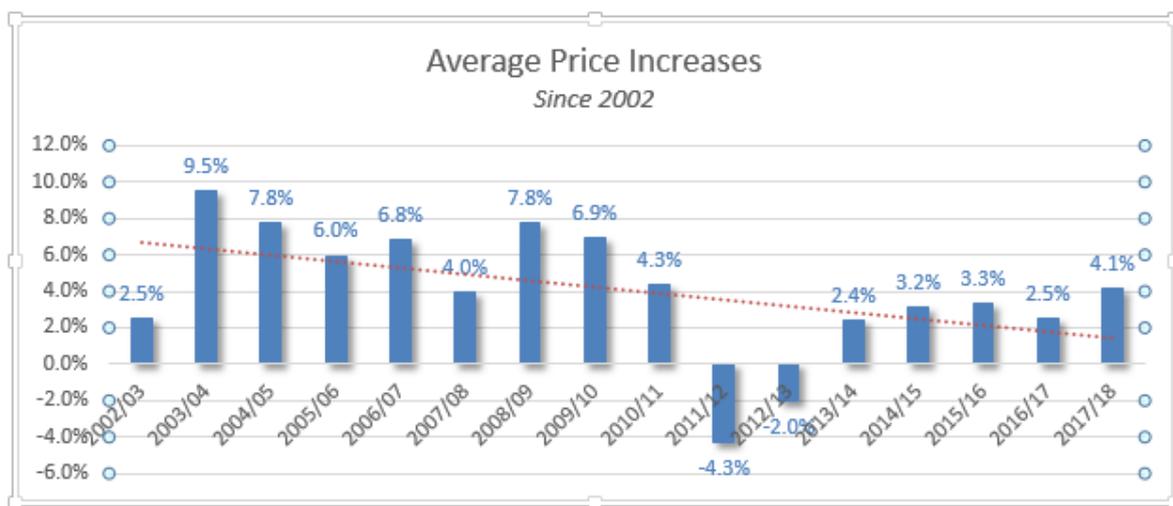
Increase in costs of new contract and charging policy

The current contract commenced in 2013 with a 3 + 2 contract period. This was a strategic decision mindful of the reducing demand for the services and to negate the frequency of cost increases from new contracts with the anticipated reduced customer numbers. **The increase in contract costs from 2013 were not entirely passed onto customers but were largely absorbed over a period of time through the re-organisation of staff duties within Shoalhaven Water and not allocating capital to address software functionality used to manage accounts. This was done as a short term measure given the level of uncertainty for a continued contract arrangement with reducing demand but this situation cannot continue if the service is to be retained.**

The cross subsidy to the sewer fund from the provision of effluent services has decreased since 2001 as a consequence of the “full cost recovery” resolution of Council.

Year	Cross subsidy to sewer fund
2001-2002	\$185,783
2015-2016	\$7,472

Full cost recovery is largely now being achieved but with parity yet to be reached for one aspect of the charging tariff due to the limit of increase under the previous resolution (increase by 5% + inflation) and the low base cost of that charge component. Regardless, effluent annual removal charges have generally remained stable despite fuel costs which heavily drive the contract pricing.



In 2012 the current contract saw tendered price increases ranging from 23.4% to 70.8% and it is expected that similar increases will occur from 2018. In addition to the contractor costs, more accurate allocation of Shoalhaven Water resources (waste treatment and contract administration including staff allocation and an effluent system upgrade) across each of the services will be required. The pressure on the sewer fund cannot sustain a large cross subsidy and therefore full cost recovery without a limiting increase must be undertaken with any continued contract arrangement.

As part of the information provided to customers about the review of effluent removal services, details were provided about the likelihood of cost increases. A specific question was asked regarding the preference of a continued service under a Shoalhaven Water contract arrangement, even when charges increase. Results of the survey are covered extensively in the Community Engagement section of this report.

Commercial interest

The contracted arrangement provides a service that **may** be used by customers but Council cannot legally require customers to utilise this service. Shoalhaven Water has effectively been providing an optional service as historically there had not appeared to be a competitive market.

In more recent times two commercial operators have been approved to discharge waste to the Shoalhaven Water sewage treatment plants and this brings the number of commercial

operators approved in the city area to three. In addition, there are a number of commercial waste removal businesses operating in areas adjacent to the Shoalhaven. Discussions have been held with commercial operators to ascertain the degree of interest in conducting services in the Shoalhaven outside of a contract arrangement. It is Shoalhaven Water’s opinion that a suitable market exists.

Of relevant note from the survey was the degree of resistance to the commercial option by customers regardless of increased costs. There was also a belief that it is a core requirement of Local Government to provide this service which is not accurate. In reviewing the results of the survey, staff contacted many customers that voiced this concern and the information portal was updated to address this and other points of concern. It remains that Council is not obliged to provide a means by which properties can be serviced nor can Council bind customers to only use a contract facilitated by Council.

Community Engagement

Shoalhaven Water communicated with every property owner that utilises the effluent removal service. This was done as part of an annual letter which outlines the upcoming service dates to individual properties over the peak season and provides a facility to arrange extra servicing needs. The letter included a comprehensive information sheet about the review being undertaken on the future of human waste removal services, background to the situation including the likelihood of significant increases to current charges, points of contact, website link to obtain further information and updates. A survey was also included and customers were requested to provide their feedback on the current contract, property use and preference for future servicing arrangements. The following summarises the results of that survey;

Response Rates

Total number of customers: 759

Number of survey returns: 304 (40%)

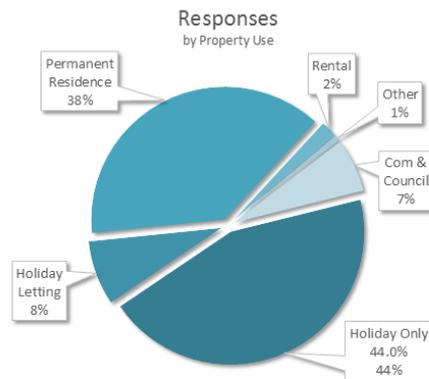
Percentage of follow up calls to customer surveys by staff: 10%

Bawley Point Kioloa Community Association submission to GM: 1

Individual submissions: 2

Responses by Property Use
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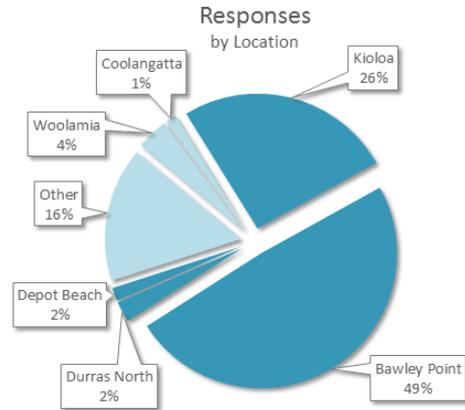
Property Use	Total	% of Total Customers	Number of Responses	% of All Responses
Holiday Only	n/a	n/a	135	44.0%
Holiday Letting	n/a	n/a	24	7.8%
Permanent Residence	n/a	n/a	117	38.1%
Rental	n/a	n/a	6	2.0%
Other	n/a	n/a	2	0.7%
Commercial & Council	57	7.5%	20	6.5%
Commercial	35	4.6%	12	3.9%
Council	22	2.9%	8	2.6%



Responses by Location

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Property Use	Total	% of Total Customers	# of Responses	% of Response
Woollamia	29	3.8%	13	44.8%
Coolangatta	10	1.3%	2	20.0%
<i>Locations South of Lake Tabourie</i>	598	78.8%	251	42.0%
Kioloa	195	25.7%	89	45.6%
Bawley Point	372	49.0%	142	38.2%
Durras North	19	2.5%	15	78.9%
Depot Beach	12	1.6%	5	41.7%
Other	122	16.1%	38	31.1%



The response rate across the range of users (property type, frequency and location) indicated a good spread of return by which to gauge the general customer view on the issues with a high level of confidence.

Overall satisfaction with the effluent removal services currently

(Q1) Overall Satisfaction

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Frequency	Satisfied	Dissatisfied
8 Weekly	152 94%	9 5.6%
7 Weekly	3 100%	0 0%
6 Weekly	31 97%	1 3%
5 Weekly	11 100%	0 0%
4 Weekly	55 95%	3 5.2%
3 Weekly	13 81%	3 18.8%
2 Weekly	15 94%	1 6.3%
Weekly	7 100%	0 0%
Bi-Weekly	3 100%	0 0%
Totals	290 94.5%	17 5.5%

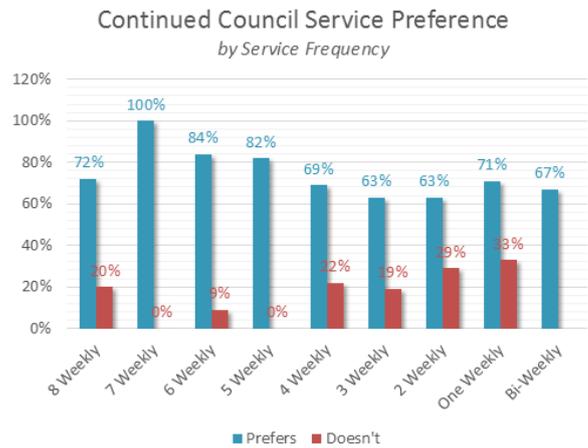


The customer level of satisfaction to the current service provision was extremely high. The 5.5% indicating dissatisfaction was further assessed and the highest reason was related to the lack of a sewerage service.

Preference for continued service under a Shoalhaven Water contract arrangement, even when the charges increase

(Q2) Prefer Continued Council Service
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Prefer Continued Council Service				
	Yes		No	
Total	222	72%	56	18%
8 Weekly	116	72%	32	20%
7 Weekly	3	100%	0	0%
6 Weekly	27	84%	3	9%
5 Weekly	9	82%	0	0%
4 Weekly	40	69%	13	22%
3 Weekly	10	63%	3	19%
2 Weekly	10	63%	2	13%
Weekly	5	71%	2	29%
Bi-Weekly	2	67%	1	33%



The higher “yes” response % against the frequency of service corresponded with differing property and degree of use types (ie permanent resident with more frequent servicing and higher demand or holiday use with less frequency of service). The survey results indicated that customers seek a continuation of a contracted service regardless of an increase to charges. The overall total (72%) of customers who indicate a preference to continue under a contracted arrangement is considered very high.

Financial Implications

Should Council resolve to continue with a contracted service under the full cost recovery principle there will be limited financial impact on the sewer fund.

It would be intended to undertake competitive tendering early in order that Council can set the 2018/19 fees and charges as part of the DPOP process next year. This would capture any contract pricing increases stemming from a new contract and allow customers to consider the cost impact of remaining under the Council contract umbrella for services or seeking alternative commercial providers.