

Background

Mid Murray Council presently has 28 Community Wastewater Management Systems (CWMS), and is responsible for the maintenance, renewal and compliance requirements of SA Health, the Essential Services Commission of South Australia (ESCOSA), and the *Local Government Act and Regulations*.

An annual service fee is raised to maintain the systems. The revenue raised from this charge can only be applied to maintenance, renewal and upgrades of the specific scheme and only to those properties that have the ability to access the service are levied.

In previous years, the fee setting did not include the recovery of all internal indirect/overhead costs or the funds necessary to cover the future renewal of the system's infrastructure costs.

The exception to this is the Truro and Cowirra Schemes that have been constructed in recent years, funded with the support of State Government Grants, that have the requirement that the annual service fee is based on the operating costs of the schemes and to cover the annual depreciation expense.

As a result of not including indirect/overhead and renewal of infrastructure costs, general ratepayers (including those who do not receive the CWMS service) have been subsidising the true cost of providing the service. This cross-subsidisation is not permitted under legislation, which requires that only those who benefit from the service bear its full cost.

Comparison to SA Water

In benchmarking the CWMS annual service fee to the current SA Water sewerage charge, Council is charging approximately \$159 less per connection on average. With 28 schemes, each averaging 65 connections (SA Water averaging 13,250 connections) and with a total distance of 111km from Council's most northern scheme, North West Bend to Bolto in the South, SA Water's cost to service each connection is also lower than Council's due to the economies of scale that SA Water would have by servicing a significantly larger number of connections in higher-density areas.

The table below provides a comparison of SA Water to Mid Murray:

	Mid Murray Council	SA Water
Number of schemes	28	43
Total connections	1,855	563,803
Average connections per scheme	66 <i>(6 being the smallest number of connections)</i>	13,112
Annual Service Fee 2025/26	\$454 <i>(74% of SA Water's Fee)</i>	\$613 <i>(if raised by SA Water Fee)</i>

Full Cost Attribution

In response to a recommendation by Council's external auditors and the legislative requirement of the Section 11(3) of the [Local Government \(Financial Management\) Regulations](#) (the Regulations), Council committed to implement a Full Cost Attribution

project across the 2024/25 financial year, with the establishment of associated policies and procedures.

The Regulations require councils to report on each function, activity, good or service of the council, on a full cost attribution basis.

A full cost attribution basis means that all direct costs, and appropriate indirect and overhead costs, are allocated to the function, activity, good or service on a reliable and consistent basis.

Indirect and overhead costs are costs that are not directly attributable to a specific service, however are necessary for the overall operation of the organisation.

To comply with the Regulations, Council has now implemented the recovery of the appropriate proportion of the following internal indirect/overhead costs for each external service:

- Occupancy
- Information Technology / Records Management
- Customer Service
- Rates / Revenue Collection
- External/Internal Audit
- Finance & Accounting
- Work Health & Safety / Risk Management
- Human Resources / Payroll
- Corporate Services.

Essential Services Commission of South Australia

The Essential Services Commission of South Australia's (ESCOSA) pricing principles guidance requires all councils to set water and sewerage service charges to achieve full cost recovery, including direct operational and maintenance costs, as well as internal indirect/overhead costs, and to recover adequate funds for the future renewal of the system's infrastructure.

Moving forward

With many of Council's CWMS now entering mid-life (on average 58% of assets being "As New Condition"), the frequency and cost of renewal of capital items will now increase. For the financial sustainability and viability of the schemes, it is important that sufficient funds are raised to ensure that ongoing preventative maintenance and planned renewals are able to occur in a timely manner.

As mentioned above, historically, the CWMS annual service fee for all schemes (except Cowirra and Truro) has principally been set to only recover the direct operational and maintenance cost and have excluded indirect/overhead costs and also excluded the collection of the funds necessary to cover the timely future renewal of the system's infrastructure costs.

The table below shows the costs that Council is proposing to recover from the schemes as per the ESCOSA costing principles:

	Direct costs	Indirect & Overhead costs	Capital (Renewal Annuity) charge
ESCOSA costing principles	✓	✓	✓

Section 155(5) of the [Local Government Act 1999](#) (the Act) restricts the maximum amount that can be charged to a user to ensure that councils do not seek to recover an annual service charge that exceeds the cost to the council of establishing, operating, maintaining, improving and replacing (including future capital works) the services provided in its area.

Phasing in the Cost Recovery

In 2025-26 for the first time the Council's Budget was prepared to include full cost attribution to provide a true cost of providing individual services, including direct, indirect and overhead costs. This ensures that expenses are fairly assigned to functions, leading to better cost management, informed decision making and where applicable, recovering the appropriate user pays service charge.

As a result, from a total indirect cost amount of \$5.1million across the organisation, an amount of \$355,000 was distributed to the external service area of CWMS schemes.

In addition, as mentioned above, the ESCOSA pricing principles guidance requires all councils to set water and sewerage service charges to achieve full cost recovery including:

- Operational, maintenance, indirect and overhead costs; and
- Provision for asset renewal (renewal annuity or depreciation expense).

With many of the schemes now entering mid-life, a total amount of \$23.6million of capital renewal has been budgeted across the next 25 years, compared to total scheme funds of \$923,000 as at 30 June 2025.

The majority of the CWMS scheme assets were previously gifted to Council, either by private bodies (individual owners, Shack Associations) and/or Government grants. Due to this, the most appropriate method (as per ESCOSA pricing principles) to recover future asset replacement costs is by a renewal annuity. The renewal annuity relies on the information contained within Council's CWMS Asset Management Plan (AMP) that specifies the prudent and efficient capital expenditure for renewing, upgrading or extending assets over a medium to long-term time period, and to convert the capital expenditure forecasts to a future annualised capital charge, rather than recovering the amount of depreciation. The future annualised capital charge is calculated to ensure there are available funds to cover capital renewal in the future years.

In calculating the future annualised capital charge from the CWMS Asset Management Plan, the next 10 years, being 2026/27- 2035/36, of indexed capital expenditure (incorporating forecasted CPI) totalling \$11.8million is used in an annuity calculation for each individual schemes' annual future planned capital expenditure.

Due to the majority of the schemes being mid-age, several schemes have material capital amounts of capital renewal in this next 10-year period. Many of the schemes also have large amounts in either the first year, or several early years, and due to these situations a

very high annual annuity capital amount will be calculated in 2026/27 under the proposed methodology as a result of the delay of calculating and raising renewal funding in the previous decades. In extreme circumstances if the fund balance of an individual scheme becoming a material deficit, Council may raise a special capital contribution against each property, and many schemes now have the legacy of a lack of funds being collected in the earlier years of the schemes for capital renewal that will occur in the near future.

Due to the combination of now recovering indirect/overhead costs and also calculating a capital charge, the modelling has indicated that the majority of the schemes will require a very high annual fee increase. As a result, when considering the potential financial strain and the ability for some owners to pay, it is recommended that the increase of the CWMS Annual Service Fee be phased over five (5) years, and that any annual increase should also be capped at \$250.

Overall, if the new methodology is implemented, this will result in an average increase of \$190 per connection in 2026/27, being the first of five year phased increases.

The exception to this is that on the completion of the Cowirra CWMS Scheme, Council resolved to cap the limit of the annual fee to double of the forecasted CPI.

If this model is implemented, over time it will ensure the sustainability of the schemes and the requirements of the ESCOSA pricing principles guidance of achieving full cost recovery, including current shortfalls of operating costs, full cost attribution related to indirect and overhead costs, and the CWMS annualised capital charge, are met.

The following are the budget estimates for 2026/27:

Expenditure

Operational and maintenance costs	\$1,440,000
Capital expenditure (CWMS infrastructure)	<u>\$889,000</u>
Total	<u>\$2,324,439</u>

Income

CWMS Annual Service Fee (Phase 1 of 5 years)	<u>\$1,164,000</u>
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Note - CWMS Annual Service Fee in 2025/26 was \$843,000.

The recovery of the annualised capital charge will in future years reduce the requirement for Council to charge a capital contribution when Capital renewal works are required due to the additional income being held in each scheme's funds. This ensures that the users are contributing to the future renewal of the scheme assets progressively rather than when the renewal is required.

All funds are accounted for within each independent CWMS scheme with all costs and revenue being attributed to either the operational or capital renewal expenditure. The income, expenditure and scheme balances are included in the Council's annual financial audit that is performed by our external auditors.

The table below provides details of each scheme's annual infrastructure requirements, and the current and proposed service charge for 2026/27:

Mid Murray Council Community Wastewater Management Systems

Scheme	No. Property Units	10yr Capital Expenditure (\$)	CWMS Annual Service Charge 2025/26 (\$)	Proposed CWMS Annual Service Charge 2026/27 (\$)
Cwms Big Bend	25	259,072	696	946
Cwms Blanchetown	238	311,646	365	480
Cwms Bolto	44	87,522	564	814
Cwms Bowhill	157	366,771	389	531
Cwms Brenda Park Morphett Flat	133	1,541,631	462	712
Cwms Caloote Landing Area	43	1,071,417	477	727
Cwms Caurnamont	75	793,433	458	708
Cwms Five Mile Kia Marina	13	403,821	1,570	1,820
Cwms Greenways Landing	8	96,633	982	1,232
Cwms Idyll Acres	62	91,373	583	687
Cwms Julanker Younghusband	38	69,628	842	913
Cwms Kroehns Landing	6	240,586	1,303	1,553
Cwms Marks Landing	142	512,164	404	575
Cwms North Punyelroo	12	35,573	321	485
Cwms North West Bend Beaumonts	85	220,102	273	455
Cwms Old Teal Flat	11	74,349	451	701
Cwms Pelican Point	71	58,170	392	593
Cwms Pellaring Flat	24	989,793	565	815
Cwms Rob Loxton & Walker Flat	162	449,531	277	483
Cwms Scotts Creek	101	71,243	459	705
Cwms Scrubby Flat Area	10	222,199	578	828
Cwms Seven Mile	11	401,340	742	992
Cwms South Punyelroo	100	877,552	420	639
Cwms Swan Reach	26	266,660	542	792
Cwms Teal Flat	71	180,363	405	514
Cwms The Rocks	6	190,434	1,078	1,328
Cwms Truro (Refer to split below)	-	109,172	-	-
Truro - Normal	67		746	822
Truro - Aerobic	20		373	411
Truro - Private Pumping	11		716	788
Cwms Cowirra	55	46,218	680	719

Consultation

As part of the process of preparing the Annual Business Plan (ABP) & Budget and the Long Term Financial Plan (LTFP), given the proposed changes to the methodology of calculating the CWMS Annual Service Fee as outlined above, Council is seeking specific feedback from users of Council's CWMS on the proposal before any changes are made and the ABP & Budget and LTFP are finalised.

Information on the consultation is available on Council's [Your Say](#) website, and feedback can be provided by completing the form available on the website, or by providing written feedback via postbox@mid-murray.sa.gov.au

Feedback provided by email should be titled:

- Proposed new methodology for calculating CWMS charges for 2026/27

Submissions in relation to the 2026/27 CWMS annual service charges are to be lodged prior to noon Monday 1 June 2026.

If you have any questions, please contact Council's Director - Corporate & Financial Services, Clive Hempel, on 8569 0100 or via email postbox@mid-murray.sa.gov.au