



AGENDA

SPECIAL COUNCIL MEETING

TIME: 6.00PM

THURSDAY 26 JUNE 2014

CITY OF VINCENT

Managing waste and recovering resources responsibly
Constituent Members: Cities of Perth, Joondalup, Stirling, Vincent and Wanneroo
Towns of Cambridge and Victoria Park



**MINDARIE REGIONAL COUNCIL
NOTICE OF MEETING**

6 June 2014

Councillors of the Mindarie Regional Local Government are advised that a Special Meeting of the Council will be held in the Council Chambers of the City of Vincent, 244 Vincent Street, Leederville, at 6.00pm on Thursday 26 June 2014.

The agenda pertaining to the meeting is attached.

Your attendance is respectfully requested.

**BRIAN CALLANDER
CHIEF EXECUTIVE OFFICER**

MINDARIE REGIONAL COUNCIL - MEMBERSHIP

Cr R Fishwick JP (Russ) - Chair	City of Joondalup
Cr J Bissett (John) – Deputy Chair	Town of Victoria Park
Cr S Withers (Simon)	Town of Cambridge
Cr K Hollywood (Kerry)	City of Joondalup
Cr J Davidson OAM JP (Janet)	City of Perth
Cr D Boothman (David)	City of Stirling
Cr S Proud (Stephanie)	City of Stirling
Cr E Re JP (Elizabeth)	City of Stirling
Cr B Stewart (Bill)	City of Stirling
Cr J Carey (John)	City of Vincent
Cr R Driver (Russell)	City of Wanneroo
Cr D Newton JP (Dot)	City of Wanneroo

NB: Although some Councils have nominated alternate members, it is a requirement that a Council carries a specific resolution for each occasion that the alternate member is to act.

CONTENTS

1	DECLARATION OF OPENING / ANNOUNCEMENT OF VISITORS.....	4
2	ATTENDANCE / APOLOGIES / LEAVE OF ABSENCE	4
3	DECLARATION OF INTERESTS.....	4
4	PUBLIC QUESTION TIME	4
5	ANNOUNCEMENTS BY THE PRESIDING PERSON	4
6	APPLICATIONS FOR LEAVE OF ABSENCE	4
7	CHIEF EXECUTIVE OFFICER REPORTS	5
	7.1 Budget Approval Financial Year 2014/15.....	5
8	NEXT MEETING	14
9	CLOSURE	14

1	DECLARATION OF OPENING / ANNOUNCEMENT OF VISITORS
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2	ATTENDANCE / APOLOGIES / LEAVE OF ABSENCE
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3	DECLARATION OF INTERESTS
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Declaration of Financial/Conflict of Interest to be recorded prior to dealing with each item.

Disclosure of Financial and Proximity Interests

- (a) *Members must disclose the nature of their interest in matters to be discussed at the meeting. (Section 5.65 of the Local Government Act 1995).*
- (b) *Employees must disclose the nature of their interest in reports or advice when giving the report or advice to the meeting. (Sections 5.70 and 5.71 of the Local Government Act 1995).*

Disclosure of Interest Affecting Impartiality

- (a) *Members and staff must disclose their interest in matters to be discussed at the meeting in respect of which the member or employee has given or will give advice.*

4	PUBLIC QUESTION TIME
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5	ANNOUNCEMENTS BY THE PRESIDING PERSON
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6	APPLICATIONS FOR LEAVE OF ABSENCE
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7 CHIEF EXECUTIVE OFFICER REPORTS
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7.1	BUDGET APPROVAL FINANCIAL YEAR 2014/15
File No:	FIN/140
Appendix(s):	1. Statutory Budget and Supplementary Information
Date:	6 June 2014
Responsible Officer:	Gunther Hoppe

SUMMARY

The purpose of this Item is to present the Budget for 2014/15 to the Council for approval and adoption.

BACKGROUND

The 2014/15 budget process commenced in February 2014 and included one workshop held with Councillors and Officers on 24 April 2014. There was further discussion of the budget with Officers at a combined Strategic and Technical working group meeting held on 20 May 2014.

The underlying operating budget has been developed from a 'zero base' in discussion with the managers across the business and has been reviewed in detail to ensure that the Mindarie Regional Council (MRC) continues to deliver its current service offering in an efficient, cost effective manner.

The budget has been premised largely on a 'business-as-usual' basis. Feedback from Councillors and Officers, as well as developments in the broader environment, has been incorporated in this final draft of the budget. In particular, allowance has been made for the increases in the landfill levy and repeal of the Carbon Price Mechanism (CPM).

Some of the significant changes between the 2013/14 and 2014/15 budgets include:

- The decrease in expected Non-member tonnes from 40,000 to 35,450 based on current year trends;
 - The inclusion of an additional 51,175 tonnes from the City of Stirling (Stirling) over and above the 73,000 tonnes of waste included in 2014 (total of 124,175 tonnes);
 - The increase of the landfill levy from \$28 per tonne to \$55 per tonne landfilled, effective from 1 January 2015, impacting on both the Members' and Non-members' gate fees; and
 - The removal of the carbon price of \$7.40 per tonne landfilled from both the Members' and Non-members' gate fees in anticipation of the repeal of the Carbon Price Mechanism, which is going to be backdated to 1 July 2014.
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The table below outlines the changes in the Members' and Non-members' gate fees (excluding GST).

	2013/14	2014/15	
		1 st 6 months	2 nd 6 months
Members' Gate Fee	\$120.00	\$116.00	\$138.50
Non-members' Gate Fee	\$150.90	\$143.60	\$170.60

This represents an underlying increase in operating costs of \$1.44 per tonne (1.3%) year-on-year in the Members' gate fee. The \$1.44 increase relates to normal operating cost increases across various areas of the business, offset by benefit of the additional Stirling tonnes.

The underlying Non-members' gate fee has remained unchanged for the third year in a row, with the exception of the changes arising from proposed repeal of the carbon price and the increases in the landfill levy.

Keeping the Non-members' gate fee static is part of a strategy to assist in slowing the reduction in Non-member tonnes experienced over the past three years.

At the combined Strategic and Technical working group meeting held on 20 May 2014, Member Council Officers expressed a preference for two distinct gate fees for the year to reflect the increase in the landfill levy, as opposed to a single blended rate applied evenly across the year.

DETAIL

Budget 2014/15

The Budget for 2014/15 has been set to achieve a \$1.774 million surplus. The proposed surplus has been set intentionally to assist with the funding of future short-term capital acquisitions and long-term site post closure liabilities in equal proportions.

Significant changes in costs year-on-year are outlined in more detail below.

Employee costs

Employee costs have increased by \$586,512 (12.7%) which is driven by:

- the current Enterprise Agreement which contemplates an annual increase of 4% (approximately \$184,000)
- an IT role which has been internalised and an additional 2.6 full time equivalent employees added in the business (\$402,512).

Communication expenses

Communication expenses have increased by \$232,500 which is primarily made up of project costs of \$200,000 in respect of a "Keep Glass out of the Green Bin" campaign, aimed at reducing the glass fraction in the RRF compost. This is intended to increase the marketability of the compost and improve recycling outcomes at the RRF.

RRF costs

The Resource Recovery Facility (RRF) costs have decreased by \$577,614 which reflects the fact that the 2013/14 budget was initially set with a Members' gate fee of \$149 per tonne, not reflecting the benefit of the Stirling tonnes. In the current budget, the reduction in the RRF costs is driven by the comparative drop in the Members' gate in 2014/15.

Utilities

Utility costs have decreased by \$194,400 primarily as a result of negotiations with the City of Wanneroo with respect to normalising the rateable value of the land at Tamala Park.

Depreciation

Depreciation costs have increased by \$246,500 as a result of the revaluation exercise conducted in July 2013 which was not taken into account in the 2013/14 budget, with the increase in asset values resulting in an increased depreciation charge.

Borrowing costs

Borrowing costs have increased by a net \$82,000 mainly due to additional funds borrowed to fund the clay lining of Stage 2 Phase 3 of the landfill. Consistent with the 2013/14 budget, capital expenditures and associated borrowings for the purchase of a new landfill site and a sorting shed have been budgeted for the last day of the financial year. As a result, there are no borrowing costs in respect of these projects included in the budget.

DEP Levy

The DEP or landfill levy has increased by \$4,954,200 which is as a result of the increase in overall tonnes expected to be landfilled in 2014/15, coupled with the increase in the landfill levy expected to come into effect from 1 January 2015.

The levy is set to increase from the current \$28 per tonne to \$55 per tonne for each tonne of putrescible waste landfilled. The full \$27 per tonne increase will be passed on to Non-members from 1 January 2015. The increase per tonne delivered for Members is limited to \$22.50, as only 84.5% of the waste delivered to the MRC by Members actually goes to landfill as a result of the RRF.

Carbon price

With the anticipated repeal of the Carbon Price Mechanism, which will be made retrospective to 1 July 2014, no carbon price expenditure has been budgeted for, with the exception of the funds required to acquit the emissions for the 2013/14 year.

The repeal of the CPM is still to be ratified by Parliament, however when approved, it will be made retrospective to 1 July 2014. The Australian Competition and Consumer Commission (ACCC) have been given a mandate to ensure that there are no 'windfall gains' made by suppliers during this period. The ACCC have flagged that they intend to pursue landfills particularly in this regard to ensure that any funds collected from customers in the new financial year are returned to those customers once the repeal takes effect.

In discussions with the Australian Landfill Owners Association, there is a high degree of confidence within the industry that the CPM will be repealed in the coming months. As a result, a number of significant commercial landfill operators are choosing not to pass through any carbon price costs in the new financial year, as the task of trying to refund customers for the carbon cost component of fees charged post 1 July 2014 is considered overly onerous, if in fact it is possible at all. In the MRC's case, it would be impossible to refund this component to cash customers who had used the landfill after 1 July 2014.

As a result, the MRC has adopted a similar view in preparing the budget, by not charging the carbon price from 1 July 2014 onward. The revenue which may be lost by not charging the carbon price component of the fee to Non-members for the period from 1 July 2014 until the date of repeal would likely be in the region of less than \$20,000 per month.

As a risk mitigation strategy however, the MRC has still made provision to charge a carbon price in the schedule of fees and charges, in the event that the CPM is not successfully repealed. No proceeds have been included in the budget in this regard.

Amortisation of cell development expenditure

The allocation of cell development expenditure costs have increased by \$974,900 for the year. This is driven by an increase in tonnes and a change in the allocation rate. The additional tonnes, primarily from Stirling, account for the majority of the increase. The remainder of the increase relates to a change in the rate at which the costs are absorbed, which includes the additional clay lining costs incurred during the year.

Tonnages

Approximately 329,043 tonnes (Budget 2013/14: 270,994 tonnes) of waste are expected to be delivered to the MRC by Member Councils during the course of the year.

Of this, 100,000 tonnes (Budget 2013/14: 100,000 tonnes) is expected to be diverted to the RRF, which will in turn generate 48,700 tonnes (Budget 2013/14: 48,700 tonnes) of residue which will be sent back to Tamala Park. The RRF waste diversion target is set at 51.3%.

Non-members are expected to deliver 35,450 tonnes (Budget 2013/14: 40,000 tonnes) to Tamala Park.

RRF composter replacement

No provision has been made for the replacement of the composters at the RRF in the 2014/15 budget. The timing of the replacement is still uncertain and as a result, has not been included in the budget. Any changes required will be dealt with through the half-yearly budget review process or in the 2015/16 budget.

Capital Expenditure

The following capital expenditures have been included in the Budget for 2014/15:

New capital expenditures

		\$
• Cell lining		2,800,000
• Building upgrades		35,000
• Office furniture and equipment		42,000
• Computer equipment		66,300
- Server upgrades	48,000	
- New hardware	18,300	
• Plant and equipment		245,000
- Tarpomatic tarps	60,000	
- Hook lift bins	40,000	
- Hook lift bin truck body	85,000	
- Radio system	60,000	
• Infrastructure		25,000
- Gas well installations	25,000	
• Vehicles		2,032,000
- Bin truck	190,000	
- Landfill compactor	1,500,000	
- Ute	40,000	
- Education vehicle	47,000	
- Director Corporate Services	48,000	
- Chief Executive Officer	52,000	
- Skidsteer	105,000	
- Recycling manager ute	45,000	
- Lawnmower	5,000	
		5,245,300

Carried forward capital expenditures

• Land Purchase (new Landfill Site)		6,000,000
• Sorting shed		4,000,000
• Cell lining		1,000,000
• Admin office renovation		25,000
• Recycling centre and education redevelopment		90,000
		11,115,000

Total Capital expenditure **16,360,300**

Reserves

The revised Cash Backed Reserves with the projected balances at 30 June 2015 would be as follows:

Site rehabilitation Reserve

Estimated balance at 30 June 2015: \$9,126,915

Purpose: *To be used to fund post closure site rehabilitation costs associated with the Tamala Park landfill site.*

A transfer of \$471,197 to this reserve is anticipated during the course of the year with no anticipated drawdowns on the reserve. This is in addition to the allocation of approximately \$2,773,769 of the 2013/14 budgeted surplus to the reserve which was approved by Council at its meeting in February 2014. It is further proposed to allocate half of the surplus for the 2014/15 financial to this reserve – approximately \$925,000.

This will result in a funded reserve of approximately \$10.1 million to cover a post closure liability of approximately \$14.5 million. As a result, the post closure liabilities will be 70% funded which is broadly in line with the amount of the landfill that has been consumed (73%). The unfunded portion of the post closure liabilities will be funded over the remaining life of the landfill.

Reserve for Capital Expenditure

Estimated balance at 30 June 2015: \$209,652

Purpose: *To be used to fund the ongoing capital expenditure requirements.*

A transfer of \$1,500,000 to this reserve is anticipated during the course of the year with drawdowns to fund capital expenditures of \$2,560,300 withdrawn from the reserve. This is in addition to the allocation of \$1,000,000 of the 2013/14 budgeted surplus to the reserve which was approved by Council at its meeting in February 2014. It is further proposed to allocate half of the surplus for the 2014/15 financial to this reserve – approximately \$925,000.

This will result in a funded reserve of approximately \$1.1 million to cover future capital expenditures.

Participants' Surplus Reserve Account

Estimated balance at 30 June 2015: \$2,000,000

Purpose: *To be used to fund any deficit or part of a deficit as shown in the annual financial report of the MRC.*

An allocation of \$902,382 of the 2013/14 budgeted surplus to the reserve was approved by Council at its meeting in February 2014.

Carbon Price Reserve

Estimated balance at 30 June 2014: \$3,434,699

Purpose: *To be used to fund the MRC's liability arising from the Carbon Price Mechanism.*

A transfer from the reserve to operating surplus of \$88,000 is anticipated during the course of the year to acquit the MRC's carbon price liability for the 2013/14 financial year.

Surplus

The Budget shows a forecast surplus of \$1,773,782. It is proposed that the surplus will be split evenly between the Capital Expenditure and Site Rehabilitation Reserves.

Funding Plan

- Operational expenditures will be funded from the Members' and Non-members' gate fees.
- Capital Expenditure (excluding landfill cell development, the construction of the sorting shed and the purchase of land) will be funded from the Capital Expenditure Reserve.
- Other Capital expenditure relating to cell development, construction of the sorting shed and the purchase of land will be funded from dedicated new loans.

SUMMARY OF APPENDICES

Attachment to this Item is as follows:

- Appendix 1 – Statutory Budget and Supplementary Information

CONSULTATION

One workshop for Councillors and Officers was conducted in April 2014 to discuss the 2014/15 Budget. The budget was also discussed at the combined Strategic and Technical working group meeting held on 20 May 2014, where Member Council Officers indicated that they did not feel a second budget workshop was required. Feedback from the workshop has been taken into account in compiling this final draft of the budget.

STATUTORY ENVIRONMENT

Budget approval is required by end of August 2014 in accordance with section 6.2 of the Local Government Act 1995 (as amended).

Modifications of existing reserves and creation of new reserves is done in compliance with section 6.11 of the Local Government Act 1995 (as amended).

POLICY IMPLICATIONS

The 2014/15 budget process is consistent with existing MRC policy.

FINANCIAL IMPLICATIONS

The Members' gate fee will be set at \$116 per tonne and \$138.50 per tonne (excluding GST) for the periods 1 July 2014 – 31 December 2014 and 1 January 2015 - 30 June 2015 respectively.

The Non-members' gate fee will be set at \$143.60 per tonne and \$170.60 per tonne (excluding GST) for the periods 1 July 2014 – 31 December 2014 and 1 January 2015 - 30 June 2015 respectively.

An estimated surplus of \$1.774 million is budgeted for the 2014/15 financial year.

Capital expenditure of \$16,360,300 is budgeted for the 2014/15 financial year, of which \$11,115,000 is carry forward expenditure.

STRATEGIC IMPLICATIONS

The Budget for 2014/15 has been derived from the MRC's new Strategic Community Plan, the Corporate Business Plan, the Asset Management Plan, the Workforce Plan and the 20 year Financial Plan and is consistent with these documents in all respects, in compliance with section 6.2(2) of the Local Government Act 1995 (as amended).

VOTING REQUIREMENT

Absolute Majority

ADDITIONAL COMMENTS

Subsequent to the budget workshop held on 24 April 2014, the following adjustments have been made to the budget:

- Additional communication costs of \$200,000 have been included in the budget to fund the "Keep Glass out of the Green Bin" campaign
- Borrowing costs associated with the purchase of a new landfill site and the construction of a sorting shed have been removed
- The carbon price pass through has been removed from both the Members' and Non-members' gate fee
- The \$27 per tonne increase in the landfill levy has been included in both the Members' and Non-members' gate fee, effective 1 January 2015
- An additional \$700,000 has been included as carry forward capital expenditures in recognition of delays to the clay lining project

The Members' gate fee has been reduced to reflect the net impact of these changes.

RESPONSIBLE OFFICER RECOMMENDATION

That Council:

- (i) adopt the Budget for the Mindarie Regional Council for Financial Year 2014/15
- (ii) endorse the on-going strategy of deferred payment of operational surplus, as approved by Council at its August 2005 meeting, for the Financial Year 2005/06 and future years to meet its on-going capital requirement
- (iii) approve the use of an on-going overdraft facility of \$1 million to manage cashflow 'short falls' during Financial Year 2014/15 and future years
- (iv) Approve the Capital Budget Program of \$16,360,300 for 2014/15 as follows:

New capital expenditures

	\$
• Cell lining	2,800,000
• Building upgrades	35,000
• Office furniture and equipment	42,000
• Computer equipment	66,300
• Plant and equipment	245,000
• Infrastructure	25,000
• Vehicles	<u>2,302,000</u>
	5,245,300

Carried forward capital expenditures

• Land Purchase (new Landfill Site)	6,000,000
• Sorting shed	4,000,000
• Cell lining	1,000,000
• Admin office renovation	25,000
• Recycling centre and education redevelopment	<u>90,000</u>
	11,115,000

Total Capital expenditure 16,360,300

- (v) approve that \$471,197 will be transferred from the Operating Surplus to the Site Rehabilitation Reserve.
- (vi) approve that \$1,500,000 will be transferred from the Operating Surplus to the Reserve for Capital Expenditure.
- (vii) approve that \$2,560,300 be transferred from the Reserve for Capital Expenditure to Operating Surplus to fund capital expenditures.
- (viii) approve that the funds required to acquit the MRC's carbon price liability at 30 June 2014 will be transferred from the Carbon Price Reserve to the Operating Surplus.
- (ix) approve that all interest earned on cash funds associated with cash-backed reserves will not be credited to the reserve.

(Absolute Majority Required)

8 NEXT MEETING

Next meeting to be held on Thursday 3 July 2014 in the Council Chambers at City of Stirling commencing at 5.30pm.

9 CLOSURE
