# Confidential Item

For Council meeting to be held on

***Tuesday 18 July 2017 at 7.30 pm***

***Refer Item 11.1***

EastWaste

**Member Councils •Adelaide Hills Council •City of Burnside •City of Norwood, Payneham & St Peters •City of Campbelltown • Corporation of The Town of Walkerville •City of Mitcham**

**Agenda Item 7.6**

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| **REPORT SUBJECT:** | **Potential Incoming Constituent Council Update** |
| **REPORT AUTHOR:** | **General Manager** |
| **MEETING DATE:** | **Thursday 29 June 2017** |
| **ATTACHMENTS:** | **CONFIDENTIAL EXTRACT containing General Manager Summary Report, Thomson Geer correspondence dated 26 June 2017; Proposed Amendments to the East Waste Charter; BDO correspondence dated 27 June 2017** |

**Purpose of the Report**

To provide the Board with an update on the potential for City of Prospect becoming a Member Council of East Waste.

**Background**

Following a competitive tender process, City of Prospect have advised formally that it intends to apply to become a Member Council of East Waste. This enacts a governance process as defined by Clause 14 of the East Waste Charter.

Further to the update provided at the Special Meeting of the Board by teleconference on 25 May 2017, this report serves as an update for the Board.

**Report**

Following a Special Meeting of the East Waste Board by Teleconference on 25 May 2017, it was resolved that;

***6.2 CITY OF PROSPECT INCOMING CONSTITUENT COUNCIL***

*Moved by Mr Barone that*

1. *the General Manager provide regular updates to the Chairman and the Board, on the progress of City of Prospect joining East Waste as a Constituent Council.*
2. *the General Manager be authorised to engage a suitably qualified and experienced Consultant to assess the implications of the City of Prospect joining East Waste as a Constituent Council, including whether the City of Prospect should pay a joining fee to reflect the reduction in shares by the Constituent Councils, and prepare a Business Case for the Board's consideration.*

*Seconded Mr Di Iulio*

Subsequently, East Wastes General Manager has engaged Thomson Geer and BDO to conduct a business, risk and financial review of City of Prospect becoming a Member Council. The terms of engagement were prescribed as, but not limited to;

- *The redistribution of shares*
- *The financial implications - both in terms of what reduction, if any, in collection fees will be experienced by existing Member Councils with the introduction of City of Prospect, and the value/loss through the redistribution of shares*
- *Subject to the financial implications above, whether a joining fee should be considered*
- *Risk – in terms of any reduction, reallocation, or increase in risk through an additional Member Council (eg jointly and severally liable)*
- *Governance - in terms of an Incoming Council being bound by the existing Charter, other matters*

- *Purchasing – the aggregation of more tonnes, buying power, scale of economies*

The Board are referred to the Confidential Extract which contains a summary, a business and risk review conducted by Thomson Geer, a financial review by BDO, and proposed amendments to the East Waste Charter. In summary, the independent review(s) appear to conclude;

- Financial relief in existing Member Councils operating "common fleet" costs through the sharing of the same overhead across another Member Council
- Further financial relief from sharing of the existing Member Councils administration overhead
- Further financial relief from sharing of the existing equity loan (noting legal advice will need to be sought on whether City of Prospect will be liable for this loan)
- A reduction in equity share value for existing Member Councils through a dilution in equal shareholdings
- Amendments will need to be made to the East Waste Charter
- City of Prospect joining East Waste represents an opportunity for East Waste to improve its efficiency and reduce its transaction costs, while providing City of Prospect to reduce its own financial position
- There is no material risk to the shared services model with the introduction of City of Prospect
- There is no argument for a joining fee

Subject to the advice from the Board, the General Manager will now engage with each existing Member Council in order to achieve the Charter's requirements for absolute majority approval of the Incoming Member Council and revised shares.

Also, subject to the Boards advice, the General Manager will also propose a series of amendments to the Charter which may also satisfy the Review of the East Waste Charter (refer Agenda Item 7.5).

It is intended to have absolute majority of Constituent Council approval, the amended Charter, and the Ministers approval prior to the scheduled September 2017 Board Meeting. It is further proposed, subject to the governance process, that the services are to commence for City of Prospect on 2 October 2017.

In line with the East Waste Charter, City of Prospect need to submit a letter of application accompanied with an independent Business Case requesting to become an East Waste Member Council. The General Manager understands that concurrently with East Wastes own business and risk review, City of Prospect have engaged BRM Holdich to undertake their own independent Business Case. At the time of writing this Report, City of Prospects letter of application and accompanied Business Case was not available.

**RECOMMENDATION**

Refer Confidential Minutes of East Waste Board Meeting

**Agenda Item 7.6 – CONFIDENTIAL EXTRACT SUMMARY REPORT**

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| **REPORT SUBJECT:** | **General Manager Summary Report** |
| **REPORT AUTHOR:** | **General Manager** |
| **MEETING DATE:** | **Thursday 29 June 2017** |
| **ATTACHMENTS:** | **Thomson Geer correspondence dated 26 June 2017; Proposed Amendments to the East Waste Charter; BDO correspondence dated 27 June 2017** |

**Report**

The General Manager engaged Thomson Geer and BDO to conduct a business, financial and risk review of City of Prospect becoming a Member Council of East Waste. Attached are the independent letters, and the proposed amendments to the East Waste Charter.

It is worth noting that City of Prospect are existing members of Eastern Regional Alliance, Eastern Heath Authority, and previously Waste Care SA, so already operate in shared services arrangements with many of the East Waste Member Councils.

**Risk**

Thomson Geer considered several levels of risk for existing East Waste Member Councils in accepting City of Prospect as an Incoming Constituent Council, including;

- Legal and commercial risk
- External risks
- Internal risks
- Risks moving forward

The legal and risk review concluded that *Prospect joining East Waste represents an opportunity for East Waste to improve its efficiency and reduce its transaction costs*. It says the *risks to the existing Member Councils doesn't change materially*, and *the addition of Prospect does not change the existing risk sharing model*. It goes on to discuss the benefits of the shared services model, proposes obvious amendments to the East Waste Charter, and concludes that a joining fee is not recommended.

The review is silent on whether City of Prospect is liable to contribute to the existing equity loan relating to the Highbury Landfill, and this point will be clarified before taking this matter to Member Councils.

**Charter Amendments**

The Thomson Geer review proposes that two (2) amendments to the East Waste Charter be administered, being;

1 That the definition of 'Constituent Council' as it appears in the East Waste Management Authority Charter published in the Government Gazette on 24 September 2015 at page 4433 be amended to insert the words 'The City of Prospect' after the words 'Corporation of the Town of Walkerville' where it appears in clause 1 of the Charter.

2 That clause 21.1 of the Charter be amended to delete the word 'seven' where it appears in that clause and replace it with the word 'eight'.

It is proposed to obtain absolute Member Council approval of these Charter amendments concurrently with any Agenda Item relating to the acceptance of City of Prospect becoming a Member Council of East Waste.

**Financial**
BDO reviewed the financial modelling undertaken by East Wastes administration, submitted to the Special Meeting of the East Waste Board on 8 December 2016.

The BDO review identifies some recalculations from the preliminary costings prepared by East Waste, but essentially comes up with a common fleet collection fee cost for City of Prospect of $864,531. The calculation prepared by East Waste, and verified by BDO is a working estimate based on known collection costs for other Member Councils, and the application of a GPS time (%) of approximately 8%. The concrete costs for City of Prospect will be based on the actual costs as prescribed by the East Waste Charter and the Common Fleet Costing Methodology. Both the BDO and East Waste workings identify a collective financial relief to existing Member Councils common fleet (operating) costs of approximately $180,000 (BDO $183k, versus East Wastes $185k)

BDO go on to apply a share of the existing East Waste administration overhead ($30k) and a share of the existing equity loan ($14k), bringing the total financial benefit for existing Member Councils to $214,000.

It is not clear how BDO come to a revised total collection fee figure of $1.093M, but its review, importantly, does substantiate the financial benefit to existing Member Councils identified by East Waste of at least $180,000, potentially up to $214,000. East Waste will work with its external accountancy firm Dean Newbery and Partners to confirm the final estimated collection fee charge for City of Prospect prior to commencing the services, however it is stressed that under the Charter, City of Prospect are simply charged whatever it is that the service costs.

The BDO report goes on to suggest that Member Councils will receive a reduced equity share of $7,000 each or $39,000 collectively. This is a result of splitting the existing equity position of $272,000 across seven (7) equal shareholders instead of the current six (6). Existing Member Councils 16.69% shareholding will reduce to 14.29%. Dean Newberry and Partners provided a (revised) current East Waste equity position of $272,000.

The issue of equity only becomes live if any Member Council resolves to exit East Waste.

The BDO report concludes that the *benefit to existing Member Councils in Year 1 is $214,000, as opposed to East Wastes estimated $185,000.* And goes on to summarise that *given the reduction in net equity is estimated as being significantly offset by the benefit received in Year 1, a joining fee is not recommended.*

**Moving forward**
Should the Board accept that City of Prospect joining East Waste forms no material risk to the shared services model, and in fact benefits existing Member Councils financially, then the General Manager will seek City of Prospects letter of application and supporting business case.

The General Manager would seek to facilitate a meeting or conference call with the Chief Executive Officers and Governance/Finance Managers of Member Councils to present the findings of the independent risk, financial and legal review, with a view to addressing any questions and concerns of the CEO's and with the aim of facilitating a smooth and expedient carriage through the respective chambers. The General Manager will make himself available to attend all Council Meetings as requested and required.

East Wastes independent review, and City of Prospects letter of application and supporting business case, would then be forwarded to each member Council for carriage through their respective chambers for absolute majority approval. Concurrently the necessary changes to the East Waste Charter would also be proposed for Member Councils to endorse.


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Subject to this process proceeding in a seamless fashion, a letter would be drafted to the Minister for Local Government for his approval as per the Charter. This approval, and the absolute majority approvals of Member Councils would be brought to the September 2017 East Waste Board Meeting.

The General Manager would seek approval from the Board to send the amended Charter for gazettal.

Synchronised to this governance process, East Wastes operations arm are proceeding with necessary arrangements with view to a service "go-live" date of Monday 2 October 2017.

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Our ref FMB: 4014519

26 June 2017

**adam@eastwaste.com**

Mr Adam Faulkner
General Manager
East Waste
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OTTOWAY SA 5013

Dear Adam

**Business Case Advisory Services – City of Prospect**
**Application for Becoming an Incoming Constituent Council of East Waste**

I refer to your letter of 31 May 2017 and our recent discussions.

You have asked us to review the Independent Business Case that determines or provides advice on:

1 The proposed redistribution of shares;

2 the financial implications – both in terms of what reduction, if any, in collection fees will be experienced by existing Member Councils with the introduction of The City of Prospect, and the value/loss through the redistribution of shares;

3 subject to financial implications above, whether a joining fee should be considered;

4 risk – in terms of any reduction, reallocation or increase in risk through an additional Member Council (eg jointly and severally liable);

5 governance – in terms of an Incoming Council being bound by the existing Charter; and

6 other matters.

BDO have looked at the financial issues associated with the business case and relied on the documents that are set out in their report.

Our review of the Independent Business Case looks at the questions of legal and commercial risk and governance.

**Legal and Commercial Risk**

As you know, East Waste is a regional subsidiary established by two more Councils under Part 2 of Schedule 2 of the *Local Government Act 1999*. (**the Act**)

East Waste's current Charter is published in the Gazette of 24 September 2015.

**Review of Charter**

The first point to note is that on or before 24 September 2017, the Charter must be reviewed (clause 3.6). We would suggest that the work associated with this analysis concerning The City of Prospect (**Prospect**) being admitted to East Waste form part of a general review of the Charter, particularly given that we are making a recommendation that a number of amendments need to be made to the Charter.

**The Benefits of the Shared Services Model**

The starting point for a regional subsidiary such as East Waste is the recognition of the benefits of collaboration between local Councils to tender for the provision of waste services to their communities.

This model is recognised around Australia and 27 arrangements of this type have been approved by the Australian Competition and Consumer Commission (**ACCC**).

In this regard, we set out below a quote from the determination of the ACCC in respect of the authorisation application lodged by Council Solutions, Adelaide City Council, City of Charles Sturt, City of Marion, City of Tea Tree Gully and City of Port Adelaide Enfield dated 20 September 2016.

> 'It is common practice throughout Australia for groups of local councils to collaborate to jointly tender for the provision of waste services. The objective of such collaboration is to reduce transaction costs, pool resources and expertise and achieve the economies of scale. The ACCC has previously authorised 27 arrangements of this type, concluding that these were likely to result in a net public benefit through improved quality of services at lower cost to the councils participating in these arrangements.'

The reason for highlighting this point is to reinforce the starting proposition of the benefits of a regional subsidiary, namely that Member Councils generally derive a lower cost of services through these arrangements than they would outside these arrangements. Clearly the magnitude of those costs and savings depends on the commercial arrangements within the regional subsidiary as opposed to the prevailing market and market conditions.

On that basis that Prospect joins East Waste, as a matter of first principles the additional waste volumes and additional tenements serviced will increase the opportunities to achieve lower cost outcomes by increasing the economies of scale for each of the Member Councils whilst at the same time producing a net public benefit through the improved quality of waste collection services.

The extent of that improvement in the financial performance reflected in the financial analysis forms part of the business case and the review conducted by BDO.

The benefits for Prospect are likewise reflected in the differential between the costs incurred by Prospect under its existing arrangements as opposed to the costs which it believes it will incur by becoming a member of East Waste. That is a matter for Prospect, but our understanding is that the analysis undertaken by Prospect based on the information provided by East Waste was to the effect that Prospect saw merit in joining as a Member Council.

**Risks to East Waste**

**External Risks**

The main risk to an enterprise such as East Waste is the extent to which the demand for its services diminish over time, or competition from the market becomes so great that costs at which East Waste provides the service are not competitive in the market ie they are external risks.

Clause 9 of the Charter sets out the purpose and functions of East Waste and we set out clause 9.1 in full as follows:

> 'The Authority is established by the Constituent Councils for the purpose of the collection and disposal of Waste, primarily within the areas of the Constituent Councils and has the following functions in this regard:

9.1.1 to predominantly operate or obtain services for the collection of Waste on behalf of Constituent Councils and/or other approved Councils;

9.1.2 to provide waste management services whether in or (so far as the Act allows) outside the area of the Constituent Councils, including waste collection, recycling of organic and inorganic materials, disposal of waste; and

9.1.3 to undertake management and collection of Waste (in accordance with regulatory approvals) and kerbside materials recovery, on behalf of Constituent Councils (and/or other approved Councils) in an environmentally responsible, effective, efficient, economic and competitive manner'.

These services are long established services within the local government sector across Australia and it is reasonably certain that local government will continue to demand those services over time. Certainly there has been an increase in the level of private competition in the waste industry over the previous decades. However the plain fact will always remain that one of the largest segments of the community which needs efficient and low cost waste management services will be local government representing their rate payers. I would have very few concerns about the extent to which the demand for waste management services which could be met by an organisation such as East Waste would cease in the future.

What is more likely is that the market will continue to become more competitive (particularly if waste volumes decline) such that the private sector will be able to provide waste management services at a more cost effective rate than East Waste is able to do.

The waste industry is largely a 'materials handling business' based on the logistics and scale and as the ACCC have identified in the determination I have referred, collaboration can involve a reduction in transaction costs and economies of scale. Accordingly, whilst East Waste focuses on the efficiencies associated with economies of scale and reducing its transaction costs, East Waste should continue to be in a position to compete effectively with service providers in the private sector. As East Waste grows, the benefits from economies of scale also grow.

Changes that have been occurring in the waste collection market in South Australia in recent times have suggested that aggregation of services is likely to continue. For example, the Councils I have referred to in the ACCC determination sought to aggregate their services for the 'joint procurement, negotiation and contracting of waste collection receipt and reprocessing recycles, receipt and processing of organics and waste disposal services'. Those are effectively the services that East Waste provide.

My understanding is that those group Councils will make another application to the ACCC for a determination to approve that arrangement sometime during the course of this calendar year.

Given that other Councils are following the East Waste 'model', I think East Waste can draw comfort that its model is the 'model of the future' in terms of managing waste collection services in a cost effective manner in South Australia.

Accordingly, provided there is sound management, appropriate risk management and the effective use of resources, East Waste should continue to be in a position where it can effectively compete with other waste service providers in the South Australian market so it can continue to provide low cost efficient solutions to the Constituent Councils.

On that basis, the risks associated with this business view largely relate to how the business is run rather than the external factors such as competition or the changes in the market.

**Internal Risks**

In terms of internal risk management, the choice of appropriately trained personnel, relevant training sessions, relevant external support, where required, and strong leadership at a Board level are all hallmarks of a well run adaptable organisation that can continue to operate in competitive economic times.

To date, East Waste has demonstrated from its financial performance the capacity to continue to operate effectively and efficiently. To the extent that Prospect have assessed East Waste's financial viability and seen fit to apply to join East Waste, the Board can draw comfort that an independent third party has made a positive assessment of the financial strengths and rigor associated with East Waste by seeking to join as a Member Council.

**Consequential amendments to the Charter**

There are a number of consequences of a new Member Council joining which need to be highlighted.

First, all the Member Councils referred to in the Charter are referred to by name and therefore the definition of a 'Constituent Council' needs to be amended to include 'The City of Prospect'.

Second, clause 21 refers to appointment of Directors and currently provides there will be 7 directors on the Board. 6 of these directors are individual directors appointed by each Member Council and there is an independent Chair. With the addition of Prospect, this clause needs to be amended to provide that there will be 8 directors. Accordingly an amendment to the Charter is required in that regard.

This raises a procedural issue which brings into play clause 35.15 of the Charter which in turn picks up Schedule 2 of the Act. That schedule applies to the proceedings of the Board of East Waste.

Clause 21(3) of Schedule 2 reads as follows:

> 'A decision carried by a majority of votes cast by Board members at a meeting is a decision of the Board of Management.'

Clause 21(4) reads as follows:

> 'Each Board member present at a meeting of the Board of Management has one vote on a question arising for decision and, if the votes are equal, the Board member presiding the meeting does not have a second or casting vote'.

Currently, provided there are 7 Board members at a meeting, there is no possibility of a deadlock if **all** Board members vote on a particular matter.

If Prospect is admitted as a Member Council, there will be 8 Board members and there is a possibility of a deadlock in those circumstances if all Board members vote on a particular issue.

The Charter needs to be consistent with Schedule 2 of the Act and accordingly, by virtue of clause 21(4) of that Schedule, the Charter is not able to be amended to enable the Chairman to have a second or casting vote in the event of a deadlock. Therefore East Waste needs to understand that moving forward following this amendment, the Board will need to operate on the basis that a deadlock is possible on certain matters.

In those circumstances, any particular resolution which is put to a vote would not be passed given that there would be no majority of votes as is required under clause 21(3) of Schedule 2 of the Act. In those circumstances, the Board will need to reconsider its position and the resolution would need to be put (either at the same time or a subsequent Board meeting) to take into account the modifications required to enable a majority of votes to be passed one way or the other.

We don't see this particular issue as a matter of governance, but rather a matter of Board procedures. Schedule 2 has made it clear that all votes are equal in the context of Board members a regional subsidiary and therefore the Board needs to work on that basis.

I have **attached** to this advice resolutions for the proposed amendments that are contemplated in this advice, namely the amendment to the definition of 'Constituent Council', and the amendment to clause 21.1 of the Charter relating to the number of Board Directors.

**Risks Moving Forward**

In terms of the risks moving forward, it is important to recognise that each Member Council is able to leave East Waste in circumstances set out in clause 15 of the Charter. In this regard I suggest that it is important for each of the Member Councils to see themselves very much as part of a partnership in a sense that they are sharing both the 'upside and downside' of the joint endeavour. This is particularly important given that each Member Council will be an equal shareholder and therefore an equal 'partner'. This is reflected in the recognition that Member Councils are jointly and severally liable for all debts and liabilities of East Waste after an Incoming Council becomes a Member Council. (Clause 14.2.1)

It is also important to recognise (under clause 15.2 of the Charter) that a departing Council retains a residual liability, much in the way as a departing partner in a partnership who is responsible for debts and liabilities that are incurred whilst that person was a partner.

Clause 15.2 requires particular attention in that it establishes 3 categories of 'liability' that might accrue to East Waste for which an outgoing Member Council remains liable into the future.

The first are debts ie money owed to third parties by East Waste. The second are general 'liabilities' such as breach of contract claims. The third is depreciation of an asset that was acquired during the time the outgoing Member Council was a member.

In circumstances where a debt, liability or depreciation charge is incurred in any particular year on the basis of debt was incurred, or an acquisition of an asset occurred or a contract that was entered into whilst the outgoing Member Council was a member, the debt, liability or depreciation charge has to be met by the outgoing Constituent Council to **the extent of its share**.

It is also important to note that clause 15.3 of the Charter provides that a former Member Council is not entitled to a refund of its contributions and that it relinquishes any beneficial interest in the assets of East Waste. Importantly if there is a separate contract in force between East Waste and the former Constituent Council in respect of the provision of services, the contract remains in force.

**Disclosure to Prospect**

Finally, from a governance point of view, I draw your attention to clause 14.2.2 of the Charter.

A Member Council is 'bound by a decision made or taken by the Board in the affairs of the Authority before it became a Constituent Council to the extent that such a decision or step was recorded in Minutes of the Board's meetings or otherwise notified to Incoming Constituent Council before it made application to become a Constituent Council'.

As you know clause 14 contemplates an application by the Incoming Council. In these circumstances however, the dialogue has occurred between Prospect and East Waste as part of an Expression of Interest process. Therefore a significant amount of information was exchanged between Prospect and East Waste as part of that EOI process before the formal application was made. It is important in my view that all of that information be restated as part of a disclosure document provided to Prospect **before** it makes its application to become a Member Council. If there is any information that is shared with Prospect **after** it made its application, that information is treated differently to the information disclosed **prior** to the application to become a Constituent Council.

In particular I suggest that all of the Board's Minutes be made available to Prospect in respect of any existing arrangements, any existing potential debts or liabilities that could come to rest on the shoulders of the Authority moving forward.

**Conclusion**

Prospect joining East Waste represents an opportunity for East Waste to improve its efficiency and reduce its transaction costs much as the same way as 27 other arrangements of similar type around Australia operate in the waste collection service.

The arrangement also provides Prospect with an opportunity to improve its financial position vis-à-vis the waste collection services.

Consequential changes are required to the Charter of East Waste to recognise the introduction of 'The City of Prospect' and a change in the number of directors.

The risks to the existing Member Councils don't change materially.

The addition of Prospect does not change the existing risk sharing model.

BDO have pointed out that the combined contributions of the existing Member Council's drops by $214,000 in year 1 if Prospect joins and yet their individual equity value only drops by $7,000. In our view therefore, there is little need for a joining fee.

Yours sincerely



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**Amendments to East Waste Management Authority Charter**

Pursuant to clause 3.4 of the Charter, the Charter may not be amended 'except as all the Constituent Councils may agree by each passing resolution in the same term. An amendment is not effective unless and until published in the Gazette'.

The following resolutions should be put to each Constituent Council.

1 That the definition of 'Constituent Council' as it appears in the East Waste Management Authority Charter published in the Government Gazette on 24 September 2015 at page 4433 be amended to insert the words 'The City of Prospect' after the words 'Corporation of the Town of Walkerville' where it appears in clause 1 of the Charter.

2 That clause 21.1 of the Charter be amended to delete the word 'seven' where it appears in that clause and replace it with the word 'eight'.

Fraser Bell
Partner
Thomson Geer
19 Gouger Street
ADELAIDE SA 5000

27 June 2017

Dear Fraser

**Review of East Waste Business Case for City of Prospect to become a Constituent Council**

This letter outlines the results of the procedures undertaken to assist Thomson Geer in undertaking a review of the East Waste (EW) Draft Non-Core Plan (NCP), for City of Prospect (CoP) to become an EW Constituent Council.

The procedures performed were solely to assist Thomson Geer hence the findings should not be used for any other purpose.

## 1. Scope of review

The scope of the review was limited to providing advice on the impact to existing EW Constituent Councils of CoP becoming a Member Council including:

- The redistribution of shares to existing EW Constituent Councils;
- The financial implications – both in terms of what reduction, if any, in collection fees will be experienced by existing Constituent Councils and the value/loss through the redistribution of shares; and
- A joining fee, should one be considered, subject to the preceding financial implications.

In undertaking the review and unless otherwise noted, it is assumed that all data and assumptions provided are correct and appropriate. The review is not an audit of the financial numbers provided within the business case.

For the purpose of this Review "The Entity" refers to all Constituent Councils of EW before CoP becoming a Constituent Council of EW, being the date of the NCP, 8 December 2016.

## 2. Scope Exclusions

The assignment is a consulting engagement as outlined in the 'Framework for Assurance Engagements', issued by the Auditing and Assurances Standards Board, Section 17. Consulting engagements employ an assurance practitioner's technical skills, education, observations, experiences and knowledge of the consulting process. The consulting process is an analytical process that typically involves some combination of activities relating to: objective-setting, fact-finding, definition of problems or opportunities, evaluation of alternatives, development of recommendations including actions, communication of results, and sometimes implementation and follow-up.

The nature and scope of work has been determined by agreement between BDO and Thomson Geer. This consulting engagement does not meet the definition of an assurance engagement as defined in the 'Framework for Assurance Engagements', issued by the Auditing and Assurances Standards Board, Section 10.

Except as otherwise noted in this report, we have not performed any testing on the information provided to confirm its completeness and accuracy. Accordingly, we do not express such an audit opinion and readers of the report should draw their own conclusions from the results of the review, based on the scope, agreed-upon procedures carried out and findings.

The review did not include a review or comparison, of the scenario for a 'Conforming Tender Submission' included within the NCP, which would make City of Prospect a Client Council of East Waste.

## 3. Procedures Undertaken

To address the objectives of this assignment, it was agreed BDO would:

- Review all documentation provided (Appendix 2) including the NCP to assess the impact on the Entity, being all Constituent Councils of EW as at before CoP becoming a Constituent Councils of EW, of introducing CoP as a member council
- Review additional supplementary information including the costings included within the NCP
- Conduct interviews with persons as required (Appendix 1) to assess the basis of any assumptions and validate the arithmetic accuracy of the costings associated with the NCP
- Provide an estimate for any joining fee, should one be applied, for CoP to become a Constituent Council
- Prepare an Agreed Upon Procedures report including Scope of Review, Scope Exclusions, Procedures Undertaken, Observations, and Summary and Conclusion.

## 4. Observations

Following a tender call process, CoP resolved to accept EW Non-Conforming Tender Submission inviting Council to consider becoming a Member Council of East Waste. We understand the acceptance of CoP as a Member Council would require the absolute majority approval of Member Council's and Board approval. "Should CoP accept the invitation to become a Member Council, the services would be regarded as a Core Activity and the CoP would be bound by the Charter."

The NCP prepared by the General Manager EW, includes a scenario for "*A non-conforming Member Council submission that, if successful, would invite City of Prospect to become a Member Council of East Waste and simply pay the actual costs of the service as per the Charter and GPS Cost Allocation[1] Methodology.*" The proposed duration of the service is 7 + 3 years commencing 1 July 2017.

### CoP Collection Fees

EW Collection Costs, including the addition of CoP collection fees, will be distributed to all Constituent Councils using the GPS common fleet methodology. The following table summarises the amount EW Total Collection Costs will increase by, as presented in the NCP, along with some adjustments following a review of the arithmetic accuracy of the NCP and discussions with the EW General Manager.

| CoP Cost Component | From NCP | Revised |
|---|---|---|
| East Waste Equity Loan | $14,389 | |
| Collection Fees | $681,042 | $681,042 |
| Green Waste Processing | -$87,044 | |
| Audits | $15,000 | |
| Recyclables Income | $55,846 | |
| **CoP Collection Fees** | **$679,233** | **$681,042** |

[1] GPS Cost Allocation is based on the percentage of time, relative to all other Constituent Councils, required for waste collection.

Details of the CoP Collection Fee (Appendix 3) include vehicle maintenance costs which we were advised are outsourced including full maintenance and the provision of temporary vehicles as required. Disposal fees are also paid by each respective member council through individual disposal contracts and have not been included as fees.

**CoP Cost Components**

The NCP costing assumptions associated with CoP becoming an EW Constituent Council are included as Appendix 4. The "Tender Price Member Council" as presented in the NCP is the total of the "Cost components of the Non-Conforming Member Council Tender Submission" (Appendix 5).

A review of the individual components and the total presented as the "Tender Price Member Council" found:

- The pass through cost to CoP of $87k for Green Waste Processing was excluded from the total.
- The mid-tier rate for recyclables rebate is $20.5 per tn, reducing recyclables income benefit to CoP from $55k to $41k
- Payroll Tax is included as part of the collection fee (Appendix 3)
- Kitchen caddy replacements and annual liner distribution costs have been excluded from the Collection Fee (Appendix 3) as opposed to the comment "Including kitchen caddy replacements and annual liner distribution". This will further decrease the benefit to existing members as the total cost of collections will be increase.
- The NCP presents the collection fee component for the "Tender Price Member Council" as the 'direct cost' associated with CoP. However, we were advised this would be substituted with CoP's GPS costing allocation of the Total EW Collection Cost. The impact for CoP is an increase in the collection fee from a direct cost of $681k to an allocation of $864k.

The following table summarises the impact on the CoP "Tender Price Member Council", following a review of the arithmetic accuracy and discussions with the EW General Manager.

| Description | Cost from NCP | Revised Cost | Comment |
|---|---|---|---|
| East Waste Equity Loan | $14,389 | $14,389 | CoP allocation of existing principle and interest commitments |
| Payroll Tax | $0 | | Review found payroll tax is included in CoP Collection Fee. |
| CoP Collection Cost | $681,042 | $864,531 | Revised as distributed amount and confirmed as excluding kitchen caddy replacements and annual liner distribution. |
| Administration Fee Fixed | $30,829 | $30,829 | Equal allocation to all Constituents |
| Green Waste Processing | Excluded from total | $87,044 | Pass through cost, excluded from NCP total. |
| At-call Hard Waste Collection | $98,980 | $98,980 | Pass through cost |
| Litter and Public Place Bin Collection | $24,169 | $24,169 | Pass through cost |

| Description | Cost from NCP | Revised Cost | Comment |
|---|---|---|---|
| Audits | $15,000 | $15,000 | Pass through cost |
| Recyclables Income | -$55,846 | -$41,198 | Pass through benefit, reflecting adjusted mid-tier rate of $20.5 per tn |
| **Tender Price Member Council** | **$808,564** | **$1,093,744** | |

**Net Impact to the current EW Entity**

The NCP proposes a "*reduction in existing Member Council Fees for the six (6) existing Member Councils of approximately $185,153 or 1.8% in Year 1*". Adjusting for the errors outlined above, the total reduction in 'Collection Fee' allocated to existing members would be reduced to $183k, summarised in the following table.

| MEMBER COUNCILS | Common Fleet | FY2017 Budget (Pre CoP) | Revised Cost Allocation | Revised Variance |
|---|---|---|---|---|
| Adelaide Hills Council | 23.21% | $2,553,208 | $2,495,741 | -$57,467 |
| City of Burnside | 16.70% | $1,825,015 | $1,795,729 | -$29,286 |
| Campbelltown City Council | 19.08% | $2,090,911 | $2,051,647 | -$39,264 |
| City of Mitcham | 14.57% | $1,592,356 | $1,566,693 | -$25,663 |
| City of NP&SP | 15.23% | $1,662,859 | $1,637,662 | -$25,197 |
| Corporation Town of Walkerville | 3.17% | $347,478 | $340,866 | -$6,612 |
| City of Prospect | 8.04% | | $864,531 | |
| Total | | $10,071,827 | $10,752,868# | -$183,489 |

# includes CoP Collection Cost $681,042

The inclusion of a reduction in fixed administration fees ($30k) and Equity Loan repayment commitments ($14k) would see an estimated total benefit to the current Entity of $214k.

**Joining Fee**

We understand a joining fee for CoP to become an EW Constituent Council is being considered. The March 2017 Quarter Financial Statement, as provided by Dean Newberry Partners, illustrates that East Wastes current equity position is $740,339. However, Dean Newberry Partners has provided a revised *"balance sheet as it would stand for 1 July 2017. You will note a differing starting equity balance, as John (*Jovicevic*) is of the view that the previous accountancy number is incorrect."* (EW General Manager).

We understand the revised Equity position from 1 July 2017 will be $272k. EW General Manager advised there will be no impact if CoP become a Constituent council as, "*the truck assets are simply balanced out by the borrowings*".

Shares are equally distributed based on the number of Constituent Councils, currently 1/6$^{th}$ each for the six existing Constituent Councils. EW General Manager advised "*as it is only at the point of exit that the equity position becomes live. The equity position will vary substantially if someone were to exit, due to the protections in the Charter*". We were also advised any existing loans associated with collections (ie RACV's) for the exiting council would need to be finalised. The net impact on share holdings less outstanding loan commitments may result in a negative asset position for the exiting council.

We understand the total reduction in share value for existing Constituent Councils is estimate to be $39k or $7k per council. The total fees apportioned to the current Entity in year one is also estimated to reduce by $214k from a reduction in collection costs, administration fees and Equity Loan commitments.

## 5. Summary and Conclusions

A number of arithmetic errors identified in the NCP, impact the estimated total collection fees distributed to existing Constituent Councils, should CoP become a member council. Reductions in the distribution of administration fees and loan commitments also provide an estimated total benefit to existing members of $214k in year 1, as opposed to $185k presented in the NCP.

The total 'Tender Price Member Council' applicable to CoP in year one is estimated as $1.094m as opposed to $809k presented in the NCP.

The impact on net equity is believed to be $7k for each existing member totalling $39k. However, we understand several Parts of the Charter, impact any exiting Constituent Council and the value of the equity entitlement upon exiting.

Given the reduction in total equity to all existing Constituent Councils is estimated as being significantly offset by the benefit received in year 1, should CoP become a member, a joining fee would not be recommended.

If you have any queries regarding this letter, then please do not hesitate to contact me on (08) 7421 1400. Thank you for this opportunity to be of service to Thomson Geer, we look forward to working with you again.

Yours sincerely

**BDO Advisory (SA) Pty Ltd**



Kyffin Thompson
Partner

## APPENDIX 1: Person(S) Consulted

| Position | Name | Organisation |
|---|---|---|
| Partner | Fraser Bell | Thomson Geer |
| General Manager | Adam Faulkner | East Waste |
| Partner (EW Accountant) | John Jovicevic | Dean Newbery & Partners |

## APPENDIX 2: Files Reviewed

The following files were provided by Thomson Geer:

| Document | Provided by | Date |
|---|---|---|
| East Waste Management Authority, Local Government Act 1999, Charter | Partner - Thomson Geer | 31 May 2017 |
| Briefing Note for Business Case Advisory Services – City of Prospect Application to Becoming an Incoming Constituent Council of East Waste | Partner - Thomson Geer | 31 May 2017 |
| East Waste Metropolitan Council Non-Core Plan | Partner - Thomson Geer | 1 June 2017 |
| Costing Workbook for Issue | Partner - Thomson Geer | 7 June 2017 |
| Email – East Waste Equity | Partner - Thomson Geer | 16 June 2017 |
| Email – Re East Waste Equity | Partner - Thomson Geer | 19 June 2017 |

## APPENDIX 3: CoP Collection Fee Details

The following table provides the details associated with the collection fee.

| | Waste<br>1 truck | Recycle<br>1 truck | Organic<br>1 truck | Total |
|---|---|---|---|---|
| Fleetmax GPS install | $9,360 | $9,360 | $9,360 | $28,080 |
| GPS tracking fee | $360 | $420 | $420 | $1,200 |
| Botek | $5,040 | $5,040 | $0 | $10,080 |
| Interest | $8,050 | $8,050 | $8,050 | $24,150 |
| Depreciation | $58,667 | $58,667 | $58,667 | $176,001 |
| Fuel & Oil | $16,177 | $8,800 | $7,500 | $32,477 |
| Registration & insurance | $6,927 | $6,927 | $6,927 | $20,781 |
| Maintenance & parts per annum | $37,680 | $37,680 | $37,680 | $113,040 |
| Salary x 5 | $64,997 | $64,997 | $64,997 | $194,991 |
| Overtime | $15,056 | $10,056 | $0 | $25,112 |
| Superannuation | $6,175 | $6,175 | $6,175 | $18,524 |
| Workers Compensation | $2,925 | $2,762 | $2,762 | $8,450 |
| Payroll tax | $3,217 | $0 | $3,217 | $6,435 |
| Casual labour | $7,241 | $7,241 | $7,241 | $21,722 |
| Caddy liners | | | $0 | $0 |
| Caddy liner distribution | | | $0 | $0 |
| Caddy replacements | | | $0 | $0 |
| Total | $241,871 | $226,175 | $212,996 | $681,042 |

## APPENDIX 4: Non-Conforming Member Council Assumptions

The following assumptions were included within the NCP for the Non-Conforming Member Council Tender Submission scenario, being CoP as an EW member:

- All costs amortised over 7 years, negating the plus three year option. All of East Wastes collection vehicles are amortised over 7 years, and replaced in line with the Asset Management Plan
- All costs are listed at-cost with no commercial premium
- Supply and delivery of 3 new RACV
- Use of existing small rear loader litter collection vehicle
- Use of existing second hand rear loader compaction vehicle
- Driver labour at cost including overtime, on-costs, and casual labour replacement
- Borrowing $1.1M from Local Government Finance Authority at 3.5% (prevailing rate)
- Straight line depreciation over 7 years
- Independently verified vehicle maintenance costs
- Bin supply at cost
- Sub-contractor rates at cost
- Green waste processing charges at Member Council rate
- Recyclables processing royalty at Member Council rate

## APPENDIX 5: Cost components of the Non-Conforming Member Council Tender Submission

The following table is an extracted from the NCP pg9.

| Member Council | Fee Component | Proposed Fees Year 1 | Comment |
|---|---|---|---|
| CoP | East Waste Equity Loan | $14,389 | Councils contribution to the equity loan. Expires 2019/2020 |
| | Payroll tax | $0 | Not required |
| | Administration Fee Fixed | $30,829 | Fixed administration fee overhead to cover costs of customer service centre, dedicated waste hotline, hard waste bookings, customer queries, complaints and monthly reporting |
| | Collection Fees | $681,042 | Fees for the collection of kerbside waste, recyclables and organics. Excluding disposal and processing costs. Including kitchen caddy replacements and annual liner distribution. Second "additional "bin register, invoicing and servicing included. |
| | Green Waste Processing | $87,044 | Processing of green organics at Member Council rate of $30.66/tonne |
| | GPS, RFID, Education, Promotion, Auditing monthly reporting | included | All additional core services are included in the collection fee rate, including the maintenance of East Waste website, and soon to come microsite (hosting an AZ public directory). Member Councils receive an annual 50 bin waste audit, and kerbside MRF recyclables audit and professional report. |
| | At-call Hard Waste Collection | $98,980 | Proposed fees for Councils at-call hard waste service. Excludes disposal fees. Actual fees are "at-cost" |
| | Litter and Public Place Bin Collection | $24,169 | Proposed fees for Councils litter, street, and public place bin collection service. Excludes disposal fees. Service is provided "at-cost" and therefore fees are subject to change |
| | Audits | $15,000 | Annual audit contribution |
| | Sub Total | $864,410 | Proposed Year 1 fees for City of Prospect if they are to become a Member Council. Fees will be pro rata subject to the membership request. |
| | Recyclables Income | -$55,846 | Mid tier rebate available to East Waste Member Councils of $30.50/tonne |
| | Tender Price Member Council | $808,564 | Represents a reduction in existing Member Council Fees for the six (6) existing Member Councils of approximately $185,153 or 1.8% in Year 1 |

EastWaste

● Adelaide Hills Council ● City of Burnside ● Campbelltown City Council

● City of Mitcham ● City of Norwood, Payneham & St. Peters ● Corporation of the Town of Walkerville

**CONFIDENTIAL EXTRACTS OF THE MINUTES OF THE MEETING OF ORDINARY MEETING OF THE BOARD OF MANAGEMENT OF EASTERN WASTE MANAGEMENT AUTHORITY**

Held on Thursday 29 June 2017

**7.5 POTENTIAL INCOMING CONSTITUENT COUNCIL UPDATE**

Moved by Cr Piggott that pursuant to Section 90(2) and Section 90(3) of the Local Government Act 1999, an order be made by the East Waste Board that the public be excluded from attendance at the meeting to the extent (and only to the extent) that Board considers it necessary and appropriate to act in a meeting closed to the public in order to receive, discuss and consider in confidence:

(h) legal advice; and

That the Board is satisfied that, the principle that the meeting should be conducted in a safe place open to the public, has been outweighed by the need to keep the receipt, discussion and consideration of the information confidential.

That an order be made under the provisions of Section 91(7) of the Local Government Act 1999, that the report and minutes of the subject matter, having been dealt with on a confidential basis under Section 90(3) of the Act, should be kept confidential on the grounds that disclosure of information could confer commercial information of a confidential nature (not being a trade secret) the disclosure of which would, on balance, be contrary to public interest in Section 90 (3) (b) (ii) until the matter is finalised.

Seconded Cr Green **Carried**

Moved Mr Di Iulio:

(1) That the Board authorise the General Manager to write to City of Prospect seeking their letter of application and business case as per the East Waste Charter to request to become a member council of East Waste, and

(2) That the Board support the inclusion of City of Prospect as an Incoming Constituent Council of East Waste subject to City of Prospect accepting the Charter and equity loan payable, with no joining fee applicable, and

(3) That the Board authorise the General Manager to engage with Member Councils seeking absolute majority approval, accepting City of Prospects application to become a Member Council, and;

(4) That subsequent to resolution (3) above that the Board authorise the General Manager to write to, and seek the approval of, the Minister of Local Government

Seconded Mr Barone **Carried**

28 June 2017

Mr Adam Faulkner
General Manager
East Waste
1 Temple Court
OTTOWAY SA 5000

Dear Adam,

**Application to become a Constituent Council of East Waste – Commercial in Confidence**

We refer you to the Eastern Waste Management Authority's (East Waste) response to the tender call COP 1029 2016/17 Collection and Processing of Wastes, Recyclables and Organics issued by City of Prospect (Prospect) and to subsequent discussions and correspondence relating to the Member Council Model Tender (Member Model Tender) proposed in East Waste's tender response.

We also note the East Waste Charter (Charter) which binds East Waste and each Constituent Council and specifically Section 14.1, which sets out the requirements for an Incoming Constituent Council.

14 INCOMING CONSTITUENT COUNCILS

14.1 Any Council may become a Constituent Council (an Incoming Constituent Council) if:

14.1.1 it makes written application (in a form approved by the Board) to become a Constituent Council and agrees to be bound by this Charter (noting that Shares will change);

14.1.2 its application is supported by a thorough, realistic, independent, and diligent Business Case analysis."

In accordance with the requirements of Section 14.1.1 of the Charter, it is with great pleasure that we write to apply to become a Constituent Council of East Waste (Application) and submit the attached Business Case for your consideration. The Business Case is provided on a '*commercial in confidence*' basis.

Civic Centre
128 Prospect Road
PO Box 171
Prospect SA 5082

Telephone (08) 8269 5355
Facsimile (08) 8269 5834
Email admin@prospect.sa.gov.au
Web www.prospect.sa.gov.au

We acknowledge that our Application is subject to the approval of other Constituent Councils and the East Waste Board and has been made based on the understanding that upon acceptance:

1. Prospect will become a Constituent Council of East Waste and be bound by the Charter;
2. Prospect will be issued with shares in East Waste;
3. The number of shares in East Waste will be varied to result in an equal shareholding of all Constituent Councils (including Prospect); and
4. Shares in East Waste will be issued to Prospect for $nil consideration.

On behalf of the City of Prospect, we would like to thank you for considering this Application and for your professionalism and patience throughout the tender process. We look forward to a long a mutually beneficial relationship as a Constituent Council of East Waste.

Yours sincerely

Ginny Moon
Acting Chief Executive Officer

# BUSINESS CASE

Prepared in accordance with Section 14.1.2 of the Eastern Waste Management Authority Charter supporting the City of Prospect's Application to become a Constituent Council

June 2017

- COMMERCIAL IN CONFIDENCE -

## Introduction

### East Waste

The Eastern Waste Management Authority (East Waste) is a regional subsidiary established under Section 43 of the Local Government Act 1999 with a purpose to provide effective waste collection services to its Constituent Councils.

The Constituent Councils are Adelaide Hills Council, City of Burnside, City of Campbelltown, City of Norwood Payneham and St Peters, City of Mitcham and the Corporation of the Town of Walkerville.

East Waste services approximately 30% of metropolitan Adelaide collecting over 100,000 tonnes of recyclables, organics and residual waste in the 2016 financial year.

### Background to the Business Case

City of Prospect's (Prospect) major contract for the collection of residual waste and collection and processing of recyclables and organics is due to expire on 30 June 2017. In order to ensure the continuation of service, in late 2016, Prospect commenced a process to seek a waste service provider at the end of the existing contract period. A chronology of events outlining the process undertaken by Prospect is detailed below.

1. On 15 November 2016, Prospect issued an open tender in accordance with its Procurement Policy for its kerbside waste collection and disposal including hard waste, organics and recycling as well as street litter bins via Tenders SA. The tender specifications and the resulting tender responses were based on existing service levels being the weekly collection of residual waste, the fortnightly collection of recycling and organics and three eligible collections of hard waste per annum.

2. To support the tender process a detailed Tender Evaluation Plan was put in place which was managed by a Tender Evaluation Team consisting of two members of the Prospect Administration and an external subject matter expert. The Tender Evaluation Plan established the criteria by which the tenders would be assessed.

3. 11 responses to the tender were received including responses from most major industry participants.

4. One of the tender responses received was the East Waste Member Model Tender (Member Model Tender). The Member Model Tender was a non-conforming tender. Legal advice was obtained regarding Prospect's capacity to consider the Member Model Tender as part of the Tender process due to the identified areas of non-conformance.

5. During January and February 2017, the Tender Evaluation Team considered the tenders and accordingly rated each tender against the assessment criteria in the Tender Evaluation Plan.

6. Based on this assessment, in March 2017, the Tender Evaluation Team shortlisted four of the tender responses for further consideration, one of which was the Member Model Tender. The shortlisted tenderers were given the opportunity to clarify specific elements of their tender.

7. Adjustments were made to the initial tender assessment based on the clarifications received.

8. The final outcome of the tender evaluation process resulted in the Member Model Tender being selected as the preferred tender.

9. Additional due diligence was then undertaken to ensure that the risks and costs of the Member Model Tender were fully understood by Prospect and that the basis for comparison to conforming tenders was reasonable.

10. A comprehensive risk assessment was undertaken focusing on the risks and opportunities associated with being a Constituent Council of East Waste.

11. Following completion of the risk assessment and tender evaluation process, a report was presented to the Prospect Audit Committee for consideration, in confidence, on 27 April 2017.

12. A final report titled 'Award of Waste Contract' was presented and debated by the Prospect Council, in confidence, at a Special Meeting of Council on 9 May 2017. At that meeting, Council made a decision to accept the East Waste Member Model Tender submission.

13. As a consequence of this decision, and in accordance with Section 14.1 of the East Waste Charter, the following steps are required of an incoming Constituent Council of East Waste:

    1) It makes written application (in a form approved by the Board) to become a Constituent Council and agrees to be bound by this Charter (noting that Shares will change);
    2) It's application is supported by a thorough, realistic, independent, and diligent Business Case analysis;
    3) It pays any joining fee or other payment as may be required by the Board;
    4) The Constituent Councils approve the application and revised Shares by Unanimous Decision; and
    5) The Minister approves.

Prospect has prepared this Business Case in support of the application to become a Constituent Council of East Waste (Application).

This Business Case has been prepared specifically to:

- highlight Prospect's strategic rationale for the Application;

- summarise the analysis and due diligence that has been undertaken by Prospect; and

- demonstrate that Prospect has a comprehensive understanding of the risks associated with becoming a Constituent Council of East Waste.

Where necessary, Prospect has sought independent professional advice in relation to the preparation of this Business Case.

## Strategic Rationale

Prospect has a strong history of regional collaboration and a strategic intent to continue to collaborate with other Councils to deliver services to the community. As demonstration of this commitment, Prospect is a founding and current member of the Eastern Regional Alliance (ERA).

By actively seeking opportunities to work collaboratively, the six ERA Councils[1] benefit from knowledge sharing, administrative efficiencies and opportunities to seek State and Commonwealth funding.

Prospect's continued commitment to regional collaboration can been demonstrated by:

- Being a Constituent Council of the Eastern Health Authority;
- Partnership with Port Adelaide Enfield Council to deliver the Public Lighting Environmental Committee (PLEC) works along Prospect and Hampstead road for the undergrounding of overhead cables;
- The North Parklands Collaboration project with Adelaide City Council to enhance the north parklands;
- The Digital Transformation Project delivering an investigation of a facilities booking system across several Councils.

Applying for membership of East Waste is another example of regional collaboration which is expected to lead to benefits for the Prospect community.

In addition, the decision to apply for Membership of East Waste is linked to a number of the strategies in the Prospect Strategic Plan 2020. These are shown in the table below.

| **Strategic Plan 2020 Linkages** | **How becoming a member of East Waste aligns to the Strategic Plan** |
|---|---|
| Theme 1 – People "Know, empower, celebrate, educate and activate our community"<br>Strategy 1.2: Environmentally active, sustainably focused | East Waste have demonstrated a commitment to educating residents and decreasing the proportion of waste to landfill amongst Constituent Councils. |
| Theme 2 – Place "Loved heritage, leafy streets, fabulous places"<br>Strategy 2.4: A greener future | East Waste are committed to working with Council to implement innovative new waste measurement measures to reduce Council's waste to landfill and hence Council's environmental footprint. |
| Theme 4 – Services "Leaders of the sector providing efficient, responsive, accessible services"<br>Strategy 4.3: Responsible Waste Management | As an 'at cost' service, East Waste provides the opportunity for Prospect to access a value for money waste management service.<br>East Waste has demonstrated market leading commitments to innovation trials which aligns to Prospect's desire to achieve one innovative waste management practice per year. |

The Application for membership of East Waste is seen to be strongly aligned to Prospect's Strategic Plan 2020 and to the objectives linked to regional collaboration in the Eastern Regional Alliance Memorandum of Understanding.

[1] Current ERA Councils are: City of Burnside, City of Campbelltown, City of Norwood, Payneham and St Peters, City of Prospect, City of Unley and Town of Walkerville

## Analysis

The assessment to support the Application to become a Constituent Council of East Waste was performed in two stages. The first stage being analysis of the East Waste Member Model Tender as part of the waste tender evaluation process and the second stage being due diligence performed on East Waste which included analysing the risks and opportunities of becoming a Constituent Council.

Waste tender process

It is not the purpose of this Business Case to detail the comparative performance of each tender assessed as part of the tender evaluation process. However, specific details of East Waste's performance in relation to the tender criteria has been provided to demonstrate the value that Prospect are expecting to derive from Membership.

The East Waste Member Model tender performance against the stages of the tender assessment is detailed below.

### 1. Compliance

The Member Model Tender met the compliance requirements of the tender.

### 2. Non-Financial Performance

The Member Model Tender received the highest non-financial performance score of any of the tenderers based on the non-financial criteria established.

East Waste's commitment to innovation and technology was assessed particularly favourably by the Tender Evaluation Team.

### 3. Financial performance

Based on the Member Model Tender estimated pricing, the tender evaluation team calculated a present value of estimated savings of $1.066 million over a seven year period compared with the East Waste Commercial Tender Submission.

Collection rates estimated for residual waste, organics and recyclables were between $0.06 and $0.08 per lift cheaper under the Member Model Tender than under the Commercial Tender submission and savings in the order of between 9% and 12% were estimated on processing costs.

Prospect also considered the additional governance and other associated membership compliance costs relating to becoming a Constituent Council in the financial assessment.

Based on the tender assessment process undertaken, the tender evaluation team determined that the East Waste Member Model Tender was the preferred tender.

Due Diligence on East Waste

The second phase of assessment performed included due diligence on East Waste and developing a comprehensive understanding of the risks and opportunities associated with becoming a Constituent Council.

The due diligence process included:

- Obtaining and reviewing key East Waste strategic planning documents including:
    - Business Plan
    - Budget worksheets

    - Financial Statements for previous three financial years
    - Asset Management Plans
    - Long Term Financial Plan[2]
- Meetings with East Waste senior executives to further understand the pricing model and business structures;
- Comprehensive review of the East Waste Charter with a particular focus on the responsibilities and obligations of Constituent Councils; and
- Performing a risk assessment (further detailed below).

**Risk Assessment**

A risk assessment was undertaken in accordance with Prospect's Risk Management Framework. As part of the assessment, a risk workshop was performed which included key members of the Prospect Executive Team, the Prospect Risk Management Officer and external consultants. The risk assessment undertaken identified the following key risks:

- Pricing risk – that estimated unit rates fluctuate relative to actual unit rates under a Commercial Waste Contract;
- Financial risk – being required to make a contribution towards the working capital requirements or exposure to potential liabilities of East Waste;
- Governance risk – the responsibilities of Council under the East Waste Charter and the requirement to appoint a person as Director and a person as Deputy Director to the Board of East Waste; and
- Exit risk – understanding the process to cease being a Constituent Council.

The risk assessment provided Prospect with a comprehensive understanding of the major risks associated with pursuing Membership of East Waste.

## Financial impact

In the tender submission, East Waste commented (Schedule 3, p12), that savings in the order of $125k per annum could be expected under the Member Model compared to the Commercial Tender submission and noted this was a 'conservative estimate' based on providing an 'at cost' service to Prospect.

Assuming a $125k per annum in perpetuity, the present value of this saving, at an assumed discount rate of 4%, is in excess of $3.0 million. This demonstrates the potential significant value of the Member Model to Prospect when compared to East Waste's Commercial Tender submission.

## Conclusion

A comprehensive body of work has been performed by Prospect to consider the merits of various options for the performance of the City's waste contract.

Through the tender evaluation process and subsequent due diligence investigations, Prospect has developed a detailed and well documented understanding of the opportunities and risks of the Member Model Tender and becoming a Constituent Council of East Waste.

Accordingly and in considering and evaluating all options, Prospect Council has resolved to apply to become a member of East Waste.

[2] It was noted in the correspondence dated 6 March 2017 that the Long Term Financial Plan obtained was in the process of being updated. East Waste has committed to providing the updated Long Term Financial Plan once complete.