Major Trading Undertaking and Major Land Transaction Business Plan

Disposal by Tender of Materials Recovery Facility – August 2015
Executive Summary

Purpose
A business plan, pursuant to Section 3.59 of the Local Government Act 1995 (WA), has been prepared for a major trading undertaking and major land transaction comprising the disposal, by tender, or alternative means, of the Southern Metropolitan Regional Council (SMRC) Materials Recovery Facility (MRF) located at 350 Bannister Road, Canning Vale.

Background
The SMRC is a statutory local government authority established in 1991 by local governments in the southern part of metropolitan Perth. The SMRC’s vision is to deliver innovative and sustainable waste management solutions.

SMRC has five member local governments in Perth’s south west metropolitan: City of Cockburn, Town of East Fremantle, City of Fremantle, City of Kwinana and City of Melville.

The SMRC operates a state of the art $100 million Regional Resource Recovery Centre (RRRC) in Canning Vale, which receives, recycles, and processes waste from the areas of Cockburn, East Fremantle, Fremantle, Kwinana and Melville. The RRRC includes a waste composting facility (WCF), green waste facility (GWF) and materials recycling facility (MRF).

The $17.5 million MRF was officially opened in November 2012. The MRF has an operational life of 10 years (from November 2012), and currently processes approximately 40,000 tonnes per annum.

The disposal of the MRF is consistent with SMRC’s key focus on business sustainability including strategic objectives to “support an effective and efficient business model” and a “business that is financially viable and sustainable”.

Market Analysis
The Waste Remediation & Materials Recovery Services (WRMRS) industry has faced favourable conditions over the last decade with community attitudes and government policy aimed at reducing the amount of waste going to landfill through waste reduction and recycling. Over the next five years there is expected to be stronger demand for waste recycling, the opening of waste to energy plants and growing economies of scale available to industry participants.

This business plan concerns the disposal of SMRC’s Materials Recycling Facility (MRF) to an existing competitor or new market entrant. Existing competitors or new entrants are likely to already be a part of the Waste Remediation & Materials Recovery Services (WRMRS) industry. Companies in this industry are primarily engaged in:

• Materials recovery and sorting.
• Hazardous material removal.
• Remediation services.

A critical element for customers of MRFs is the gate fee charged to receive a given quantity of waste for processing. Gate fees are commercial-in-confidence and are impacted by complex market and operational factors.

Metropolitan Perth population and household growth along with government policy to reduce waste going to landfill are likely to result in increased recycling tonnages in the future which provides a positive signal for the industry and for the SMRC’s MRF disposal.
Major Trading Undertaking & Major Land Transaction

The MRF comprises:

- MRF site area of 14,436sqm on land leased from the City of Canning.
- MRF plant and equipment.
- MRF recyclable waste processing contracts with Cockburn, East Fremantle, Fremantle, Kwinana and Melville.
- MRF processed recycled material sales contracts.
- MRF labour comprising 17 full time equivalents and 1 casual.

Transaction Details

The following items make up the total and inseparable package of the transaction:

Table E.1 Major Trading Undertaking & Major Land Transaction Elements

<table>
<thead>
<tr>
<th>Element</th>
<th>Description</th>
<th>Likely Parties</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disposal of MRF Structures</td>
<td>Materials Recovery Building</td>
<td>SMRC, Purchaser, Cockburn, East Fremantle, Fremantle, and Melville</td>
</tr>
<tr>
<td></td>
<td>MRF Bale Store</td>
<td></td>
</tr>
<tr>
<td></td>
<td>MRF Fire Protection</td>
<td></td>
</tr>
<tr>
<td></td>
<td>MRF Pump House</td>
<td></td>
</tr>
<tr>
<td>Disposal of MRF Plant &amp; Equipment</td>
<td>Majority of equipment required to operate the MRF (excludes rented equipment)</td>
<td>SMRC, Purchaser, Cockburn, East Fremantle, Fremantle, and Melville</td>
</tr>
<tr>
<td>Sub Lease</td>
<td>A sub lease of the land occupied by the MRF</td>
<td>SMRC, Purchaser, City of Canning</td>
</tr>
<tr>
<td>Recyclable Waste Processing Agreement</td>
<td>Agreement to process kerbside recyclable waste based on contracts already held by SMRC</td>
<td>SMRC, Purchaser, Cockburn, East Fremantle, Fremantle, and Melville</td>
</tr>
</tbody>
</table>

Source: AEC

Any offer for the disposal requires addressing a number of mandatory criteria. These include a willingness to enter into the Sub Lease and Recyclable Waste Processing Agreement along with a purchase offer and gate fee offer and transfer of existing MRF employees and preservation of employment conditions for 12 months.

Alternative offers such as leasing the MRF structures, plant and equipment, or leasing the MRF structures and purchasing the plant and equipment are also considered as part of this business plan.
SMRC Impact

All SMRC operations other than the processing of recyclable waste will continue unchanged post transaction. There will be a reduction in the number of employees associated with operating the MRF.

The two key financial parameters used to analyse a potential disposal of the MRF are the sale price offer and the gate fee offer (per tonne) made by a potential purchaser.

The **sale price offer** proceeds could be used to pay down loans in the most efficient manner avoiding early repayment penalties.

The RRRC debt in 2014-15 is $26.7 million and will be fully repaid as debt matures by 2022-23. The SMRC debt for the Booragoon Office of $1.8 million is an interest only debt that would be retired from any future sale proceeds of the office building and has not been included in the debt total.

The **gate fee offer** has a recurrent financial impact for SMRC’s member councils and would be considered in conjunction with any sale price offer or other proposed offer.

From a whole of waste service or SMRC point of view the financial impacts to be a benefit would need to be a reduction in per household costs.

To determine if a MRF gate fee offer provides value to SMRC and member councils the offer plus any residual SMRC costs allocated to the MRF should be below what is currently charged.

The MRF gate fee offer also needs to contain an acceptable annual escalation formula that considers cost increases but also a share of the economies of scale generated by additional volume that a purchaser may be able to attract.

An alternative transaction to a sale, e.g. leasing the MRF structures or plant & equipment or leasing the MRF structures and purchasing the plant & equipment should still result in a cost reduction to SMRC. However, any alternative transaction is highly dependent on the gate fee offer which would need to be below any residual MRF costs to be of benefit. To determine if a MRF gate fee offer provides value to SMRC and member councils the offer plus any residual SMRC costs allocated to the MRF should be below what is currently charged.

SMRC management has the necessary expertise in MRF operations to manage the operational side of the transaction. However, given the complex nature of the transaction it is recommended that independent legal and financial advice is employed to ensure that legislative requirements are met and the financial implications fully understood.

Third Party Impact

Third party impacts have been considered for customers, ratepayers, market suppliers and recycled materials purchasers. The impacts are dependent on the outcomes of the disposal and the market’s competitive landscape with a sale which could be either a duopoly with a dominant market player, or a duopoly with equal market share but one supplier with significant spare capacity, or a new market entrant. Alternatively there may be a new entrant which would result in a competitive landscape similar to the status quo.
Conclusion

The proposed transaction is in alignment with SMRC’s strategic direction. However, whether it holds a financial benefit to project participants depends on both the sale price offer and the gate fee offer.

Market conditions are favourable for a successful disposal given both community attitudes and government policy aimed at reducing the amount of waste going to landfill combined with a growing population.

Competition regulators may have concerns regarding the nature of the competitive landscape that could result from the disposal should a duopoly result. However, considerations of the benefits from the resulting economies of scale may outweigh these concerns.

Alternative transactions to a disposal such as a combination of lease/sale of the MRF structures, plant and equipment may be proposed. The financial implications of these alternatives will need to be assessed on their merits to determine if SMRC and project participants are better off.

Submissions

Members of the public are invited to make submissions in relation to the business plan. Submissions must be in writing addressed to: Chief Executive Officer, Southern Metropolitan Regional Council, PO Box 1501, Booragoon WA 6954 by 22 September 2015.
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1. **Introduction**

1.1 **Purpose**

The purpose of this document is to present a business plan, pursuant to Section 3.59 of the *Local Government Act 1995* (WA), for a major trading undertaking and major land transaction comprising the disposal, by tender, of the Southern Metropolitan Regional Council (SMRC) Materials Recovery Facility (MRF) located at 350 Bannister Road, Canning Vale.

1.2 **Southern Metropolitan Regional Council**

The Southern Metropolitan Regional Council (SMRC) is a statutory local government authority established in 1991 by local governments in the southern part of metropolitan Perth. The SMRC’s vision is to deliver innovative and sustainable waste management solutions.

SMRC has five member local governments in Perth’s south west metropolitan: City of Cockburn, Town of East Fremantle, City of Fremantle, City of Kwinana and City of Melville. The SMRC region encompasses 340 square kilometres within Perth’s southern metropolitan area and has a combined population of over 275,000 people.

The member local governments have jointly agreed to establish the regional local government under an Establishment Agreement and each member may participate in regional projects that are governed by a Participants’ Project Agreement. Project participants in the MRF are: City of Cockburn, Town of East Fremantle, City of Fremantle, and City of Melville.

The SMRC operates a state of the art $100 million Regional Resource Recovery Centre (RRRC) in Canning Vale, which receives, recycles, and processes waste from the areas of Cockburn, East Fremantle, Fremantle, Kwinana and Melville. The RRRC includes a waste composting facility (WCF), green waste facility (GWF) and materials recycling facility (MRF).

1.3 **Strategic Direction**

All local governments within Western Australia, including Regional Councils, are required to plan for the future in accordance with Section 5.56(1) of the *Local Government Act 1995* and adopt an Integrated Planning and Reporting Framework. The relevant SMRC documents under the framework for this business plan are:

- **SMRC Strategic Community Plan 2013-2023**.
- **SMRC Corporate Business Plan 2013-2017**.

The strategic elements that relate to the major trading undertaking and major land transaction business plan fall under the key focus of “business sustainability” specifically the following objectives, strategies and actions.

<table>
<thead>
<tr>
<th>Strategies</th>
<th>Actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objective 2.1 Our governance model supports an effective and efficient business model</td>
<td></td>
</tr>
<tr>
<td>2.1.2 Investigating alternative business delivery models to ensure our business practices are reflective of the commercial environment</td>
<td>b. Identify opportunities and investigate the feasibility of Public-Private-Partnerships and contracts</td>
</tr>
<tr>
<td>Objective 2.4 Our Business is financially viable and sustainable</td>
<td></td>
</tr>
</tbody>
</table>
| 2.4.1 Achieving consensus on existing and future waste processing services business models | a. Continuously evaluate costing and funding models for each activity of the business  
| | b. As required, develop Business Plans for new projects |

Source: SMRC
The proposed disposal of a major trading undertaking and major land transaction is therefore consistent with SMRC’s planning regarding “business sustainability”.

1.4 History of the Materials Recovery Facility (MRF)

SMRC’s RRRC (incorporating the MRF, in-vessel composting facility (WCF), green waste processing facility (GWF) and an education centre and administration building) began operations in November 2001.

In the same year the SMRC awarded a ten year lease to build, own and operate the MRF to receive and process 30,000 tonnes per annum of dry recyclables. The 2002-03 SMRC Annual Report detailed operational savings of $1.5m for the benefit of the Member Councils.

A new $17.5 million MRF was officially opened in November 2012. The MRF has an operational life of 10 years (from November 2012), has a maximum design capacity of 24 tonnes per hour equating to 120,000 tonnes per annum running 16 hours per day 6 days per week.
2. Major Trading Undertaking & Major Land Transaction

This chapter details what comprises the major trading undertaking and major land transaction that is proposed for disposal in this business plan. It covers:

- MRF site area.
- MRF structures.
- MRF plant & equipment.
- MRF recyclable waste processing contracts.
- MRF processed recycled material sales contracts.
- MRF labour.

2.1 MRF Site Area

The MRF is located at SMRC’s Regional Resource Recovery Centre (RRRC), 350 Bannister Road, Canning Vale, WA, 6155. The legal descriptions of the land titles are:

- Lot 77, an estate in fee simple being Lot 77 on Plan 2903 contained within Certificate of Title Volume 1521 Folio 519.
- Lot 78, an estate in fee simple being Lot 78 on Plan 2903 contained within Certificate of Title Volume 1521 Folio 517.
- Lot 85, an estate in fee simple being Lot 85 on Plan 2903 contained within Certificate of Title Volume 1220 Folio 158.

The registered proprietor of lots 77, 78 and 85 is shown as City of Canning of 1317 Albany Highway, Cannington.

Figure 2.1 SMRC Regional Resource Recovery Centre

The lots that the RRRC occupies are leased from the City of Canning. The lease expires in 2030 but contains four five year options that, if exercised, would extend the lease to 2050. The first extension must occur two years prior to the lease expiry in 2030.
The MRF occupies an area of 14,436sqm as shown in Figure 2.2.

Figure 2.2 SMRC RRRC Leased Area showing extent of MRF Sub Lease

Source: Kanlin Design
2.2 MRF Structures

Structures (improvements or buildings) that constitute the MRF are:

- **Material Recovery Building** – Circa 2012 steel frame and metal clad purpose built material facility on concrete slab with 2 level precast air conditioned concrete tilt panel, limestone and metal clad offices on concrete slab. Includes precast concrete tilt panel, limestone and metal clad motor control room on concrete slab.

Source: Griffin Valuation Advisory (2015a)

- **MRF Bale Store** – Circa 2014 Steel framed storage shed on concrete slab with concrete skirt wall, electrically operated roller doors insulated wall, roof with sodium lighting and fire sprinkler system.

Source: Griffin Valuation Advisory (2015a)
• **MRF Fire Protection System** – Circa 2012 fire protection system comprises of two 272,000L steel storage tanks with associated piping and valves together with diesel powered pump.

Source: Griffin Valuation Advisory (2015a)

• **MRF Fire Pump House** – Circa 2012 steel frame and metal clad general purpose storage shed on concrete slab.

Source: Griffin Valuation Advisory (2015a)

The MRF building also contains an education centre used to educate school and community groups.
2.3 MRF Plant & Equipment
The MRF includes the following major plant and equipment:
- Bag separation line.
- Bailing line.
- Compressor mezzanine.
- Container line.
- Dock.
- Education centre on first floor.
- Fibre separation line.
- Glass line.
- Heavy metal line.
- MCC room.
- Offices on first floor and ground floor.
- Primary sorting line.
- Waste line.
- Tools and spare parts.

There are also three rented items of plant including:
- Battery electric scissor lift elevating work platform.
- Diesel counterbalance forklift fitted with 3 stage container mast & “Bolzoni” rotator & fork tynes.
- Diesel counterbalance forklift fitted with 3 stage container mast & “Bolzoni” bale clamp.

These rented items are not included in the sale and will be returned to the supplier.

2.4 MRF Recyclable Waste Processing Contracts
SMRC holds contracts for the processing of recyclable waste with all member councils. The MRF also accepts recyclable materials from commercial operators.

Table 2.1 SMRC Recyclable Material Purchase Contracts

<table>
<thead>
<tr>
<th>Customer</th>
<th>Volume (2014-15)</th>
<th>Notes/Conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cockburn</td>
<td>13,300</td>
<td>PPA</td>
</tr>
<tr>
<td>East Fremantle</td>
<td>1,100</td>
<td>PPA</td>
</tr>
<tr>
<td>Fremantle</td>
<td>3,600</td>
<td>PPA</td>
</tr>
<tr>
<td>Kwinana</td>
<td>3,426</td>
<td>Expires 30/06/2017 + 5 year option</td>
</tr>
<tr>
<td>Melville</td>
<td>13,000</td>
<td>PPA</td>
</tr>
<tr>
<td>Commercial/Other</td>
<td>5,574</td>
<td>Casual arrangements</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>40,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

Notes: PPA = Project Participant Agreement Source: SMRC
2.5 MRF Processed Recycled Material Sales Contracts

Sales contracts for the processed recyclable material produced by the MRF are entered into every 3 months. The current MRF output is described below.

Table 2.2 MRF Processed Outputs, 2014-15 Estimate

<table>
<thead>
<tr>
<th>Output</th>
<th>Tonnes</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aluminium</td>
<td>167</td>
<td>0.42%</td>
</tr>
<tr>
<td>Steel</td>
<td>1,163</td>
<td>2.91%</td>
</tr>
<tr>
<td>Plastic –PET</td>
<td>281</td>
<td>0.70%</td>
</tr>
<tr>
<td>Plastic –HDPE</td>
<td>371</td>
<td>0.93%</td>
</tr>
<tr>
<td>Plastic –Mixed</td>
<td>1,091</td>
<td>2.73%</td>
</tr>
<tr>
<td>ONP 6+8</td>
<td>7,548</td>
<td>18.87%</td>
</tr>
<tr>
<td>Paper –Mixed</td>
<td>7,842</td>
<td>19.60%</td>
</tr>
<tr>
<td>Cardboard</td>
<td>2,737</td>
<td>6.84%</td>
</tr>
<tr>
<td>Glass Inert</td>
<td>9,980</td>
<td>24.95%</td>
</tr>
<tr>
<td>Glass Mixed</td>
<td>2,018</td>
<td>5.05%</td>
</tr>
<tr>
<td>Putrescible Waste</td>
<td>6,200</td>
<td>15.50%</td>
</tr>
<tr>
<td>Moisture Losses</td>
<td>602</td>
<td>1.50%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>40,000</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Source: SMRC

Due to their short term nature it is not envisaged that concentrated recycled materials sales contracts will continue to the purchaser and will thereby cease upon settlement. It will be a requirement for the purchaser to negotiate concentrated recycled materials sales contracts.

2.6 MRF Labour

Labour employed in the MRF comprises 17 full time equivalents (FTEs) and 1 casual as follows:

- Supervisor and administrative assistant.
- FL Dispatch Operator.
- Team Leader.
- 10 sorters (one of these acts as QA).
- Bailor Operator.
- 2 Forklift operators.
- 1 casual sorter.

Core employment conditions include:

- 38 hour week.
- 4 weeks annual leave.
- Superannuation @ 9.5%.
Additional local government conditions include:
- Enterprise Agreement (Expires May 2016)
- Local Government WA Long Service Leave Regulations 1997 eg 10 years or pro-rata after 7 years.
- Council Co- Contribution Superannuation of 5%.
- Two additional days paid leave.

The overall MRF labour cost is $1.163 million in 2014-15.
3. Market Analysis of the Recycling Sector

This business plan concerns the disposal by tender of SMRC’s Materials Recycling Facility (MRF) to an existing competitor or new market entrant. Existing competitors or new entrants are likely to already be a part of the Waste Remediation & Materials Recovery Services (WRMRS) industry. Companies in this industry are primarily engaged in:

- Materials recovery and sorting.
- Hazardous material removal.
- Remediation services.

3.1 Australian Recycling Sector

The WRMRS industry has faced favourable conditions over the last decade with community attitudes and government policy aimed at reducing the amount of waste going to landfill through waste reduction and recycling. Industry participants have responded by increasing their investment in waste recovery and alternative waste recovery facilities. In addition volumes of waste have been increasing and the proportion available for sorting for recycling has been growing.

3.1.1 Supply Chain & Products

The source of waste suitable for recycling is fairly stable, secured in the main by long term contracts with local governments based on minimal yearly price changes. These long term contracts are necessary to allow the level of investment required in recycling facilities and to build sufficient volumes to give economies of scale thereby improving the ability to compete or maximise profits.

The stable supply of a recycled waste stream is in contrast with price volatility and short term contracts with buyers of concentrated recycled materials (e.g. paper, cardboard, plastic, metals and glass). Faced with multiple revenue streams companies are likely to shift the risk of volatile recycled material prices to the more stable waste stream prices.

In some cases companies also collect the waste stream (i.e. from households) and transport it to their processing and recycling facilities. In this case they can trade off the price of collection with the price of processing and recovery which gives them a competitive advantage when bidding for contracts.

3.1.2 Demand Determinants & Drivers

The demand determinants and drivers for recycling services are dependent on a number of key factors:

- **Population, household & income growth.** Demographic growth factors drive the volume of waste. As the population and number of households increase more waste will be produced. The trend towards smaller households also results in an increase in waste per person due to smaller volumes purchased requiring more packaging (e.g. 1*2l bottle v 2*1l bottles or 2*TVs v 1*TV). Increasing incomes combined with generally falling prices (especially new technology) also results in higher levels of waste. On the other hand the aging of the population and increasing housing density tend to reduce waste volumes.

- **Household recycling.** The volume of recycled materials firstly depends on the household’s ability to separate their waste into recycled products, i.e. they have available to them a recycling service, or commonly a yellow topped bin for recyclables. Secondly the quality of their recycling, meaning that they only include the correct recycled materials in their recycling bin. Poor quality recycling causes increased processing costs but can be address by ongoing education campaigns.

- **Government policy.** Community pressure to improve recycling and reduce the volume of material going to landfill has resulted in successive governments implementing policies aimed at improving recycling rates. Whilst there have been some direct government subsidies aimed at recycling, the general approach has been to increase landfill levies to a level where recycling is a cheaper option.
• **Demand for raw and recycled materials.** The demand for and price of raw products has a positive correlation with the demand and price paid for concentrated recycled materials. This demand and price are generally related to economic cycles in major economies such as China.

• **Alternative use of waste streams.** Waste streams do not have to be recycled. They can go directly to landfill (although government policy is pricing landfill to make it less attractive) or can be converted to energy. Waste to energy is the process of generating energy in the form of electricity and/or heat from the incineration of waste; however, there are other technologies that do not involve incineration. Australia is yet to open a waste to energy plant. ¹

### 3.1.3 Competitiveness

IBISWorld (2014) estimates that there were 1,291 businesses operating in the industry in 2013-14. These businesses generated $5.7 billion in revenue and $480.3 million in profits (8.5% of revenue). Whilst the number of businesses continues to grow (up from 1,291 in 2009-10) the increased competition, rising costs and softening commodity prices has put downwards pressure on margins.

Barriers to entry in the industry are high and continue to increase. This is due to the high cost of plant & equipment, technical expertise and increasing regulation and compliance requirements. Approvals for new facilities can also be a lengthy and costly process. The need to secure long term contracts for waste streams means that opportunities to secure waste volumes are infrequent. As economies of scale in waste processing are necessary for efficiency and capacity utilisation obtaining large tonnages are important for commercial viability.

There is evidence of consolidation in the industry to build economies of scale and to offer a larger range of services over a wider geography. However, there are also niche opportunities for smaller companies and new entrants. Technological innovation also has a role to play such as converting waste to energy.

The key success factors that are important for market participants are:

- Securing large supply contracts for waste streams suitable for recycling as well as re-sale contracts for concentrated recycled products.
- Economies of scale to spread fixed costs over greater tonnages. This gives the ability to offer lower prices for new contracts or improve profit margins.
- Offering a collection and transport service which allows cost shifting and the ability to offer lower prices when tendering.
- Ability to meet environmental standards and comply with government regulations.

### 3.1.4 Major Companies

The WRMRS is dominated by four major companies that comprise almost 30% of total industry revenue in 2014-15. Concentration in these companies has increased over the last decade due to expansion and their success in bidding for outsourced local government waste collection and recovery services. These four major companies are:

- SUEZ Environment: 8.8% market share (by revenue).
- Veolia environmental Services (Australia) Pty Ltd (Veolia): 7.8% market share.
- Transpacific Industries Group Ltd (Transpacific Industrials, Cleanaway, TPI): 6.7% market share.
- Pratt Holdings Pty Ltd (Visy): 5.2% market share.

¹Phoenix Energy has proposed a waste to energy project in Kwinana. On 2 February 2015 the WA Environmental Protection Authority (EPA) released its Report and Recommendations on the Kwinana Waste to Energy Project. The report includes a draft Statement that a Proposal may be Implemented and recommends that the Minister for Environment approve the implementation of the Proposal, subject to the recommended environmental conditions. Source: www.phoenixenergy.com.au.

New Energy Corporation commenced construction in January 2015 of an 18MW waste to energy facility in Port Hedland. The company is also investigating a materials recovery and waste to energy facility for the Perth region, to recover recyclables from the green top bin and extract energy from waste streams that are currently lost to landfill. Source: www.newenergycorp.com.au.
Other well-known waste management companies include:
- Sims Metal Management Limited: < 5.0%
- J.J. Richards & Sons Pty Ltd (JJ Richards): < 2% market share.
- Orora Limited (previously part of Amcor Limited): n/a

In WA Perthwaste Green Recycling is also a major company.

3.1.5 Outlook
Over the next five years there is expected to be stronger demand for waste recycling, the opening of waste to energy plants and growing economies of scale available to industry participants.

Population, household and income growth will drive increased volumes of waste and government policies will continue to emphasise recycling and diversion away from landfill.

3.2 West Australian Recycling Sector
3.2.1 Policy & Strategic Direction
Recycling in WA is governed by the *Waste Avoidance and Resource Recovery (WARR) Act 2007*, the *WARR Levy Act 2007*, the *WARR Regulations 2008*, and the *WARR Levy Regulations 2008*. The legislation is administered by the Waste Authority a State Government statutory body established under the WARR Act. The Waste Authority’s primary roles include developing a waste strategy for Western Australia, providing strategic and policy advice to the WA Government, implementing policies, plans and programs consistent with the Waste Strategy, and applying funding from the Waste Avoidance and Resource Recovery Account to strategic initiatives.

The Western Australian Waste Authority (2012) has developed the *West Australian Waste Strategy Creating the Right Environment*. The strategy aims to engage the Western Australian community over the next decade in moving to a low-waste society by providing the required knowledge, infrastructure and incentives to change behaviour. The Strategy’s success will be measured against its effectiveness in reducing the amount of waste generated, increasing the proportion of material recovered from the waste stream and reducing the proportion of waste destined for landfill.

Target diversion rates and recent performance are shown below. There have been significant increases to the diversion rates both metropolitan and state-wide. The largest increase was for the metropolitan area increasing from 39% in 2011-12 to 45% in 2012-13.

**Table 3.1 WA Waste Strategy diversion rates targets & performance by sector**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Waste Strategy Targets</th>
<th>Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Municipal</td>
<td>50% metro</td>
<td>65% metro</td>
</tr>
<tr>
<td></td>
<td>30% regional centres</td>
<td>50% regional centres</td>
</tr>
<tr>
<td>Commercial &amp; Industrial (WA)</td>
<td>55%</td>
<td>70%</td>
</tr>
<tr>
<td>Construction &amp; Demolition (WA)</td>
<td>60%</td>
<td>75%</td>
</tr>
</tbody>
</table>

Source: ASK Waste Management (2014)
To help divert the amount of waste being dumped at tips in the metropolitan area and encourage investment in alternative waste treatment options and other government initiatives to support increased recycling, the WA Government has announced increases to the landfill levy from 1 January 2015. A five year schedule of levy rates has been announced with the largest impact felt commencing January 2015.

### Table 3.2 WA Government Landfill Levies

<table>
<thead>
<tr>
<th>Period</th>
<th>Putrescible Rate/tonne</th>
<th>% increase</th>
<th>Approx. inert rate per tonne (a)</th>
<th>% increase</th>
<th>Inert Rate/m3</th>
<th>% increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current to 31 Dec 2014</td>
<td>$28</td>
<td>-</td>
<td>$8</td>
<td>-</td>
<td>$12</td>
<td>-</td>
</tr>
<tr>
<td>1 Jan 2015 to 30 Jun 2016</td>
<td>$55</td>
<td>96%</td>
<td>$40</td>
<td>400%</td>
<td>$60</td>
<td>400%</td>
</tr>
<tr>
<td>1 Jul 2016 to 30 Jun 2017</td>
<td>$60</td>
<td>9%</td>
<td>$50</td>
<td>25%</td>
<td>$75</td>
<td>25%</td>
</tr>
<tr>
<td>1 Jul 2017 to 30 Jun 2018</td>
<td>$65</td>
<td>8%</td>
<td>$60</td>
<td>20%</td>
<td>$90</td>
<td>20%</td>
</tr>
<tr>
<td>1 Jul 2018 to 30 Jun 2019</td>
<td>$70</td>
<td>8%</td>
<td>$70</td>
<td>17%</td>
<td>$105</td>
<td>17%</td>
</tr>
<tr>
<td>1 Jul 2019 onwards</td>
<td>$70</td>
<td>0%</td>
<td>$70</td>
<td>0%</td>
<td>$105</td>
<td>0%</td>
</tr>
</tbody>
</table>

Note: (a) One cubic metre of inert waste in situ within the landfill is treated as equivalent to 1.5 tonnes

### 3.2.2 Review of WARR Act


The key potential issues and reforms outlined in Part 3 are replicated below. These potential reforms are important considerations for this business plan:

- **Collection and processing of waste**: Waste collection and processing arrangements vary considerably across the Perth metropolitan region. As a result there are inefficiencies caused by an inability to achieve economies of scale and to coordinate significant supplies of waste. Municipal waste collection is currently individually managed by each local government in the metropolitan area.

  Regional Councils have a role in coordinating waste processing services on behalf of local government members. Those services are largely determined by individual members’ priorities. Experience in other jurisdictions highlights the benefits of aligning local government or regional council waste planning with State plans and strategies, and providing for compulsory membership of groups that coordinate procurement of waste services on behalf of member local governments. This is the direction proposed in the review.

- **Waste groups**: Boundaries of existing Regional Councils are not necessarily ideal to encourage efficient waste collection, transport and processing. There are opportunities to revise boundaries to create statutory Waste Groups having regard to planning and service delivery to support more efficient services. This may result in a reduced number of waste groups (there are currently five Regional Councils) in the Metropolitan area.

  Insecure membership directly affects the ability to make long term contract commitments. No new commitments (aside from those already commenced) to alternative waste treatment facilities have been initiated by Regional Councils in the last five years. Certainty of local government membership of waste groups is essential if long term waste planning and investment decisions are to be made.
• **Infrastructure Planning**: About 43% of Perth’s waste is currently recovered through Material Recovery Facilities, Alternative Waste Treatment plants or by composters. The balance is sent to landfills which have capacity until around 2025 on current projections or until 2030 if the targets in Western Australia’s Waste Strategy, *Creating the right environment*, are met.

One of the Waste Strategy’s initiatives is long-term planning for waste and recycling processing. The focus of the planning is on waste processing and recycling facilities that divert waste from landfill to promote the most efficient use of resources.

• **Reform**: It is proposed to provide for statutory Waste Groups with compulsory local government membership. Each group will be required to operate in a manner that is consistent with a statutory waste infrastructure plan (see below) and targets in the Waste Strategy under the WARR Act. The role of Waste Groups would be to coordinate the procurement of waste processing services to ensure that appropriate services are acquired at least cost and that competition is maximised.

This approach removes investment uncertainty and lack of commitment from local governments, and ensures Waste Groups deliver services consistent with the Waste Strategy and a waste infrastructure plan. It also recognises and broadly aligns with the current position of the local government sector and provides increased certainty for local government investment and a clear role for industry. It would require amendments to the WARR Act and the Local Government Act 1995.

Source: DER (2014)

Submissions to the review were open to be received until 23 February 2015 and are published here: www.der.wa.gov.au/your-environment/waste/249-submissions-received-review-of-the-waste-avoidance-and-resources-recovery-act-2007

### 3.2.3 Households

Responsibility for household waste collection and recovery of recyclable material is the responsibility of local government in WA. Each local government authority (LGA) is responsible for collecting, transporting and disposing of waste generated within its boundary and a variety of methods and contractors are used. In many instances evidenced by SMRC, regional local governments have been formed to aggregate volumes of waste to achieve economies of scale.

The most recent local government waste and recycling census for 2012-13 (DER, 2014) reports that WA householders generated just under 1.5Mt of waste. This is equivalent to each WA household generating around 29kg of waste every week. Metropolitan local governments were responsible for collecting 68% of the material, with 32% collected by local governments outside the metropolitan area. In the metropolitan area 39%, or around 403,810 tonnes, of this waste generated by householders was recovered for recycling.
Table 3.3 Domestic waste collection and recovery, tonnes, 2012-13

<table>
<thead>
<tr>
<th></th>
<th>Metro</th>
<th>Non-metro</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collected (t)</td>
<td>1,023,390</td>
<td>471,845</td>
<td>1,495,235</td>
</tr>
<tr>
<td>Landfill (t)</td>
<td>619,580</td>
<td>376,474</td>
<td>996,054</td>
</tr>
<tr>
<td>Recovered (t)</td>
<td>403,810</td>
<td>95,371</td>
<td>499,181</td>
</tr>
<tr>
<td>Recovery Rate</td>
<td>39%</td>
<td>20%</td>
<td>33%</td>
</tr>
</tbody>
</table>

**Population**

<table>
<thead>
<tr>
<th></th>
<th>Persons</th>
<th>Collected (tpp)</th>
<th>Landfill (tpp)</th>
<th>Recovered (tpp)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collected</td>
<td>1,824,500</td>
<td>0.56</td>
<td>0.34</td>
<td>0.22</td>
</tr>
<tr>
<td>Landfill</td>
<td>639,732</td>
<td>0.74</td>
<td>0.59</td>
<td>0.15</td>
</tr>
<tr>
<td>Recovered</td>
<td></td>
<td></td>
<td></td>
<td>0.20</td>
</tr>
</tbody>
</table>

**Households**

<table>
<thead>
<tr>
<th></th>
<th>Number</th>
<th>Collected (tph)</th>
<th>Landfill (tph)</th>
<th>Recovered (tph)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collected</td>
<td>728,720</td>
<td>1.40</td>
<td>0.85</td>
<td>0.55</td>
</tr>
<tr>
<td>Landfill</td>
<td>257,304</td>
<td>1.83</td>
<td>1.46</td>
<td>0.37</td>
</tr>
<tr>
<td>Recovered</td>
<td></td>
<td></td>
<td></td>
<td>0.51</td>
</tr>
</tbody>
</table>

Source: DER (2014)

Total reported waste generation by WA households state-wide has increased over the past seven years from around 1.35Mt in 2006-07 to around 1.5Mt in 2012-13, growth of 10.6%. Over the same period, annual waste generation per person has decreased from 0.66tpp in 2006-07 to 0.61tpp in 2012-13, decline of 7.6%. However, reported recovery of materials has increased by 47.6% from around 338,200t to 499,181t in 2012-13.

Table 3.4 State-wide domestic waste collection and recovery, tonnes

<table>
<thead>
<tr>
<th>Year</th>
<th>Collected</th>
<th>Recovered</th>
<th>Recovery Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>% change</td>
<td>Per person</td>
</tr>
<tr>
<td>2006-07</td>
<td>1,352,420</td>
<td>-</td>
<td>0.66</td>
</tr>
<tr>
<td>2010-11</td>
<td>1,416,301</td>
<td>4.7%</td>
<td>0.60</td>
</tr>
<tr>
<td>2011-12</td>
<td>1,536,648</td>
<td>8.5%</td>
<td>0.64</td>
</tr>
<tr>
<td>2012-13</td>
<td>1,495,235</td>
<td>-2.7%</td>
<td>0.61</td>
</tr>
<tr>
<td>2006-07 to 2012-13 change</td>
<td>10.6%</td>
<td>-</td>
<td>-7.6%</td>
</tr>
<tr>
<td>2006-07 to 2012-13 average annual change</td>
<td>3.4%</td>
<td>-</td>
<td>-2.6%</td>
</tr>
</tbody>
</table>

Source: DER (2014)

3.2.4 Material Recycling Facilities in Perth

There are currently six MRFs in Perth, (Note: the MRF at Wangara closed in late 2014) with its supply being awarded to Cleanaway. This left five MRFs and three operators being Cleanaway, Perthwaste and SMRC.
Map 3.1 Perth MRF locations

Key:

1. City of Wanneroo, Wangara MRF (closed late 2014)  
2. Cleanaway, Bayswater MRF  
3. Cleanaway, Maddington MRF  
4. SMRC, Canning Vale MRF  
5. Perthwaste, Bibra Lake MRF  
6. Cleanaway, Mandurah MRF

Source: EY (2014)

3.2.5 Gate fees

Gate fees are the fees charged to customers for the processing of waste and due to high fixed costs are sensitive to throughput (i.e. there exist economies of scale). Hence more throughput results in a lower gate fee. Gate fees are influenced by a wide range of operating factors such as:

- Operating costs and overheads.
- Quality of the recyclable material being received and throughput vs capacity of the facility.
- Location of the customer.
- Market issues such as market structure, capacity of the market and market access.
- The inclusion of collection, transport and processing in a single contract which allows internal cross-subsidies.
- Other commercial arrangements of the operator of the facility which can offset the gate fee.
3.2.6 **Outlook**

As detailed in section 3.1.2 there are a number of demand determinants and drivers that affect the demand for recycling services. By examining the trend of these into the future it is possible to form a view on the outlook for recycling.

*Population, household & income growth*

WA Tomorrow (Western Australian Planning Commission, 2012) contains forecasts of population and households for LGAs in WA. Both population and households in the Perth metropolitan area are forecast to grow between 1.5 to 2% per annum.

*Figure 3.1 Projected Population and Household Growth in Perth Metropolitan Area, B and C*

Source: WAPC (2012)

Incomes are also likely to grow into the future although with the fall off in mining activity, particularly mining construction, growth will not be as strong as in the past five years.

*Household recycling*

Waste collection per household will likely change marginally over time perhaps reducing slightly as the number of persons per household continues to reduce. This may be offset by continued education on recycling resulting in an increase in the volume and quality of the recyclable waste stream.

*Government policy*

As mentioned in sections 3.2.1 and 3.2.2 government policy is aimed at increasing the waste recovery rate, including increasing the landfill levy with the result that it may be more cost effective to recycle.

*Demand for raw and recycled materials*

The influence of the demand for raw and recycled materials is difficult to predict due to reliance on global markets and commodity cycles. However, increased demand for concentrate recycled materials will result in better prices which will benefit WRMRS industry participants rather than materially impact waste stream volumes.

*Alternative use of waste streams*

The main potential for alternative use of waste streams such as waste to energy is likely to consume the waste stream post concentration of some recyclable products. Since there are no actual waste to energy facilities currently operating in Australia it is not known with certainty what the impact will be on the volumes of recycling waste streams going to MRFs. In any case the projected growth in collection and recovery is still likely to outstrip the current supply of MRF capacity.
3.3 Conclusion

Community attitudes and government policy is geared to reduce the amount of waste going to landfills by increasing the amount of recovered waste. Population and household growth will continue to increase the volumes of recyclable materials into the future.

These growth signals will increase demand for MRFs and combined with a need for the WRMRS industry to operate with economies of scale means a favourable market for the sale of the SMRC MRF.

However, unless a new market entrant can be enticed, the competitive market in Perth is limited to two private operators, Cleanaway and Perthwaste, effectively creating a duopoly.
4. Transaction Details

This chapter provides an overview of proposed transaction conditions and the essential and desired criteria required to be addressed in a transaction offer.

4.1 Transaction Elements

The following items make up the total and inseparable package of the transaction:

Table 4.1 Major Trading Undertaking & Major Land Transaction Elements

<table>
<thead>
<tr>
<th>Element</th>
<th>Description</th>
<th>Likely Parties</th>
</tr>
</thead>
</table>
| MRF Structures           | Materials Recovery Building  
                          | MRF Bale Store  
                          | MRF Fire Protection  
                          | MRF Pump House | SMRC  
                          | Purchaser  
                          | Cockburn, East Fremantle,  
                          | Fremantle, and Melville |
| MRF Plant & Equipment    | Majority of equipment required to operate the MRF  
                          | (excludes rented equipment) | SMRC  
                          | Purchaser  
                          | Cockburn, East Fremantle,  
                          | Fremantle, and Melville |
| Land Sub Lease           | A Sub Lease of the land occupied by the MRF | SMRC  
                          | Purchaser  
                          | City of Canning |
| Recyclable Waste Processing Agreement | Agreement to process kerbside recyclable waste based on contracts already held by SMRC | SMRC  
                          | Purchaser  
                          | Cockburn, East Fremantle,  
                          | Fremantle, Kwinana and Melville |

Source: AEC

4.2 Conditions of Disposal

The disposal of the MRF will be subject to a number of agreements including entering into a:

- Sub Lease Agreement.
- Recyclable Waste Processing Agreement.

4.2.1 Sub Lease Agreement

The purchaser of the MRF will be required to enter into a Sub Lease with SMRC. The area of the Sub Lease is 14,436sqm as shown in Figure 2.2.

4.2.2 Recyclable Waste Processing Agreement

The agreement will bind the purchaser into processing the recyclable waste delivered to the RRRC by the nominated councils (or their waste collection contractors).
4.3 **Transaction Offer**

The transaction offer documentation will include a number of criteria to be addressed by prospective purchasers, including:

- Willingness to enter into the *Sub Lease Agreement*.
- Willingness to enter into a *Recyclable Waste Processing Agreement*.
- Lump sum offer to purchase the MRF structures, plant and equipment.
- Gate fee offer per tonne to accept recyclable waste detailed in the *Recyclable Waste Processing Agreement*.
- Leaseback of the education centre on 1st floor.
- Willingness to retain current MRF employees at current pay and conditions for a period of 12 months.

4.4 **Alternative Transaction**

It is possible that a non-conforming offer may be received from a potential project proponent. Such an alternative offer may constitute various combinations of sale and lease, for example:

- Lease of the MRF structures, plant and equipment.
- Lease of the MRF structures and purchase of plant & equipment.

An alternative offer will also need to propose a gate fee offer. Any alternative offer will have differing impacts on SMRC depending on its nature.
This chapter examines the impact of the sale on SMRC with-sale including SMRC operations, financials, gate fees, employees and member councils. Possibilities for an alternative transaction to that proposed are also commented upon. The ability of SMRC to manage the transaction is also considered.

5.1 Business options assessment criteria

The following criteria have been identified to support the assessment and comparison of the various business options.

- Ensure that the Materials Recovery Facility has a high degree of availability and reliability and delivers products conforming to industry standards at all times;
- Maintain strict control of operations for community service, environment and safety;
- Ensure the facility is operating with a high degree of reliability, operator safety and electrical efficiency at all times.

Table 5.1: Business option assessment criteria

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Description/objective</th>
<th>Importance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost per tonne for the treatment of the recyclable material</td>
<td>The extent to which each business option has the potential to reduce the cost per tonne for treatment of the recyclable material</td>
<td>High (3)</td>
</tr>
<tr>
<td>Risk mitigation</td>
<td>The extent to which each business option provides for the effective and efficient management and mitigation of risks</td>
<td>Medium (2)</td>
</tr>
<tr>
<td>Security of service</td>
<td>The extent to which each business option provides security of services</td>
<td>High (3)</td>
</tr>
<tr>
<td>Environmental outcomes</td>
<td>The extent to which each business option supports environmentally sustainable waste management solutions, climate change abatement measures and delivers products that conform to industry standards</td>
<td>High (3)</td>
</tr>
<tr>
<td>Reputational risk</td>
<td>The extent to which each business option exposes the SMRC and the Member Councils to reputational risk</td>
<td>Medium (2)</td>
</tr>
<tr>
<td>Contribute to an efficient market</td>
<td>The extent to which each business option contributes to an efficient market for the processing of recyclable material</td>
<td>Low (1)</td>
</tr>
</tbody>
</table>

Source: EY Business Options Review Report 16 January 2015

5.1.1 Assessment of business options against the evaluation criteria

The SMRC and the Regional Executive Group (REG) (Participant representatives) assessed the following business options facilitated by Ernst & Young (EY) in a business option review workshop. The five business options were assessed against the evaluation criteria and were scored based on their ability to contribute to the Project objectives. An overview of the business options is presented below:

- **Option 1A** – maintain the current business and tender on new contracts as they arise and to bid for merged Regional Council volumes in 2016
- **Option 1B** – maintain the business and tender on new contracts as they arise and to attract project participants for the materials recovery facility
- **Option 2A** – sell up to 49 percent of the business to an existing competitor who has existing volume
- **Option 2B** – sell up to 49 percent of the business to a new entrant in the market
Option 3A – sell 100 percent of the business and negotiate a fixed 10/15/20 year processing contract with an existing competitor who has existing volume

Option 3B – sell 100 percent of the business and negotiate a fixed 10/15/20 year processing contract with a new entrant in the market

Option 4 – concession sale leaseback with a fixed 10/15/20 year operating and maintenance agreement

Option 5 – shut down the facility and contract with a third party for processing the waste

The figure below shows the business options on a spectrum of risk, which shows the different risk levels for the different options:

Source: EY Business Options Review Report 16 January 2015

5.1.2 Preferred Business Option

The qualitative scoring approach used in the business options assessment provided a number of options with similar total weighted scores (i.e. there were four options within 4 marks of each other), with no real standout options that meets all of the criteria identified.

It was evident from the discussions during the Workshop that risk of contracting out the service did not necessarily transfer the risk as the public perceived the SMRC and Member Councils as the provider of last resort.

Option 3A

Option 3A is to sell 100 percent of the business and negotiate a fixed 10/15/20 year processing contract with an existing competitor who has existing volume.

The ownership and operations of the plant would be sold to a private sector entity that has existing operations in Western Australia. This entity may be able to utilise the spare capacity, increasing efficiencies and reducing Member Local Governments’ cost per tonne.

Option 3B

Option 3B is to sell 100 percent of the business and negotiate a fixed 10/15/20 year processing contract with a new entrant in the market.

The ownership and operations of the plant would be sold to a private sector entity that is a new entrant in the Western Australian market. This entrant may be able to utilise the spare capacity, increasing efficiencies and reducing Member Local Governments’ cost per tonne.
5.1.3 Assessment of Risk

Table 5.1.3 Risk Assessment

<table>
<thead>
<tr>
<th>Risk</th>
<th>What could happen</th>
<th>Likelihood</th>
<th>Consequence</th>
<th>Risk rating</th>
<th>Treatment</th>
<th>Risk rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost per tonne for the treatment of the recyclable material</td>
<td>Cost exceeds the current SMRC gate fee</td>
<td>3</td>
<td>3</td>
<td>9</td>
<td>Long Term Contract Pricing, Operator achieves design capacity</td>
<td>6</td>
</tr>
<tr>
<td>Security of service</td>
<td>Operator unable to process</td>
<td>3</td>
<td>5</td>
<td>15</td>
<td>Experienced Operator with brand reputation</td>
<td>10</td>
</tr>
<tr>
<td>Environmental outcomes</td>
<td>Delivers products that do not conform to industry standards Councils meet State targets</td>
<td>3</td>
<td>4</td>
<td>12</td>
<td>Experienced Operator with industry standards SMRC / Operator Management Contract</td>
<td>8</td>
</tr>
<tr>
<td>Reputational risk</td>
<td>SMRC or Councils blamed for Operators mismanagement</td>
<td>3</td>
<td>4</td>
<td>12</td>
<td>Experienced Operator with brand reputation</td>
<td>4</td>
</tr>
</tbody>
</table>

Source: SMRC

Advantages of business options 3A and 3B are:

a) Potential for the existing competitor to bring processing contingency to SMRC’s operations enabling the opportunity for impact of unscheduled outages to be mitigated
b) Leveraging off of an experienced operator to improve the operation of the facility
c) Commodity price risk may be eliminated in a fixed price contract
d) Improved cash flow from sale of the facility - the return of capital (equity) to the Member Councils or the repayment of debt over and above the debt specific to the MRF
e) Development of strategic partnerships with an existing competitor that could result in additional services being offered by SMRC or ‘one-stop-shop’ services for collection, transport and processing of waste
f) The ownership of the plant and the associated risks are transferred to existing competitor
g) Potential for lower gate fee to be achieved for Member Councils

Disadvantages of business options 3A and 3B are:

a) SMRC would become a ‘price taker’ after 10/15/20 years, i.e. after the expiry of the original contract, SMRC would compete in the market for processing of the recyclable material
b) It is likely that the private sector partner will mitigate their risks to the potential detriment of SMRC, i.e. the private sector may be less sensitive to the reputational or public interest outcomes of issues that enable them to gain advantage over SMRC in the event of a problem
c) The introduction of a third party will reduce SMRC’s control of the asset

d) The introduction of the third party introduces the potential risk of failure of the third party negatively impacting on SMRC’s operations and the facility

e) The introduction of a third party will result in SMRC being responsible to deal with contract disputes as they arise

f) The introduction of a third party operating the facility could impact on SMRC’s other activities on the site, e.g. housekeeping or operation of the weighbridge etc.

g) The introduction of a third party with control over the facility will increase the contractual risk for SMRC

h) Risk of a liability arising as a result of the arrangement being determined as a finance lease

5.2 SMRC Operations With-sale

All SMRC operations other than the processing of recyclable waste will continue unchanged with-sale. There may be a reduction in the number of employees associated with the MRF. However, there may be a requirement for an increase in employees if production levels rise under a new operator

5.3 Financial Impact

This section examines the financial impact on SMRC and member councils with no-sale and with-sale of the MRF in 2015-16. The sale of the MRF will have the following general impacts on SMRC:

Table 5.1 Sale Transaction Impacts

<table>
<thead>
<tr>
<th>Impact Area</th>
<th>Sale of MRF Facilities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sale of MRF Plant &amp; Equipment</td>
</tr>
<tr>
<td>Cost reduction</td>
<td>Transfer of MRF employee costs</td>
</tr>
<tr>
<td></td>
<td>Transfer of MRF operating costs</td>
</tr>
<tr>
<td></td>
<td>Transfer of MRF maintenance costs</td>
</tr>
<tr>
<td></td>
<td>Reduction in insurance as purchaser required to insure property</td>
</tr>
<tr>
<td>Overheads</td>
<td>No reduction in overheads</td>
</tr>
<tr>
<td>Loans</td>
<td>Sale revenue would assist in financing DSPs</td>
</tr>
<tr>
<td>Gate Fee</td>
<td>Proponent’s gate fee offer plus remaining MRF costs need to be below current gate fee to be of benefit</td>
</tr>
<tr>
<td>Total Financial</td>
<td>Overall cost saving pending gate fee offer</td>
</tr>
<tr>
<td>Employees</td>
<td>Transfer of MRF employees</td>
</tr>
</tbody>
</table>

Source: AEC

A number of documents have been sourced for the analysis and a number of assumptions have been made. Financial impacts are shown as changes in debt service payments (DSP) and gate fees.

5.3.1 Data Sources

The financial analysis is based on SMRC’s December 2014 update of their long term financial model (LTFM). Included in the LTFM are forecasts for population, tonnages, growth and price inflationary parameters. In addition, there have been more recent updates to the loan schedule and asset valuations.
The MRF structures (buildings) and plant and equipment have been valued by Griffin Valuation Advisory (2015a, 2015b) based on instructions from SMRC as at 9 March 2015. The MRF structures have been valued on the basis of market value in-situ to 2030 and in situ to 2050. These dates align with the current ground lease conditions. Plant and equipment has also been valued on the basis of market value in-situ.

**Financial Model & Assumptions**

The two key financial parameters used to analyse a potential sale of the MRF are the sale price offer and the gate fee offer (per tonne) made by a potential purchaser.

The sale price offer proceeds could be used to pay down loans in the most efficient manner avoiding early repayment penalties.

The RRRC debt in 2014-15 is $26.7 million and will be fully repaid as debt matures by 2022-23. The SMRC debt for the Booragoon Office of $1.8 million is an interest only debt that would be retired from any future sale proceeds of the office building and has not been included in the debt total.

The gate fee offer has a recurrent financial impact for SMRC’s member councils and would be considered in conjunction with any sale price offer or other proposed offer.

In addition, SMRC will be charging the purchaser a weighbridge fee once incoming tonnes exceed those of member councils which will provide a growth revenue stream.

From a whole of waste service or SMRC point of view the financial impacts to be a benefit would need to be a reduction in per household costs.

To determine if a MRF gate fee offer provides value to SMRC and member councils the offer plus any residual SMRC costs allocated to the MRF should be below what is currently charged.

The MRF gate fee offer also needs to contain an acceptable annual escalation formula that considers cost increases but also a share of the economies of scale generated by additional volume that a purchaser may be able to attract.

An alternative transaction to a sale, e.g. leasing the MRF structures or plant & equipment or leasing the MRF structures and purchasing the plant & equipment should still result in a cost reduction to SMRC. However, any alternative transaction is highly dependent on the gate fee offer which would need to be below any residual MRF costs to be of benefit.

It is assumed that sale proceeds will be used to pay down loans where possible with any unallocated funds transferred to retained earnings. It is assumed the penalty for early payment of loans is the value calculated from the difference between the interest rate on the existing loan against the current available interest rate plus a bank administration margin. Should the current available interest rate plus administration margin be greater than an existing loan interest rate, the model assumes not to payout this loan, instead this loan would continue to maturity.

All payout of loans is assumed to occur on sale date, not loan maturity date.

The current SMRC administrative overheads charged to the MRF operations have not been redistributed to the other SMRC business activities in the financials so those costs remain with the MRF and are added to the purchaser’s MRF gate fee offer.

The MRF Sub Lease rent is assumed to be the same as that currently paid by SMRC.

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2 Market Value (In-Situ) is defined as “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.” The valuation further assumes that the assets will be sold by way of a private treaty sale where the assets will remain in their existing place and location (In-Situ) following sale. Source: Griffin (2015a).
5.3.2 Gate Fees
To determine if a gate fee offer provides value to SMRC and member councils the offer plus any residual SMRC costs allocated to the MRF should be below what is currently charged.

5.4 Employee Impact
There are 17 full time equivalents employed with the MRF operations. Any proposals to re-employ will be favourably considered. Employees will receive their full entitlements and SMRC will make every effort to find alternative employment.

There are employees within the RRRC Maintenance group that will be impacted by the sale.

No other employees have been identified for change to working conditions, such as reduction of hours.

There may be a requirement for an increase in employees if production levels rise under a new operator.

5.5 Alternative Transaction
An alternative to the sale transaction considered in this business plan would be for a potential purchaser to propose leasing the MRF structures, plant and equipment.

Such an alternative offer may constitute various combinations of sale and lease, for example:

- Lease of the MRF structures, plant and equipment.
- Lease of the MRF structures and purchase of plant & equipment.

The impacts of these on SMRC are detailed in the table below.

For an alternative transaction to be of benefit to SMRC the amount of the lease payments would need to offset loan repayments at least equal to the DSP reduction from a sale, plus cover depreciation, as well as provide for a MRF gate fee offer within the beneficial range calculated above.
In addition maintenance and replacement conditions/liabilities would need to be factored in.

### Table 5.2 Alternative Transaction Impacts

<table>
<thead>
<tr>
<th>Impact Area</th>
<th>Lease of MRF Facilities</th>
<th>Lease of MRF Plant &amp; Equipment</th>
<th>Lease of MRF Facilities</th>
<th>Sale of MRF Plant &amp; Equipment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost reduction</td>
<td>Transfer of MRF employee costs</td>
<td>Transfer of MRF operating costs</td>
<td>Transfer of MRF employee costs</td>
<td>Transfer of MRF operating costs</td>
</tr>
<tr>
<td></td>
<td>Transfer of MRF operating costs</td>
<td>Transfer of MRF maintenance costs</td>
<td>Transfer of MRF maintenance costs</td>
<td>Reduction in insurance as proponent required to insure property</td>
</tr>
<tr>
<td></td>
<td>Reduction in insurance as proponent required to insure property</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overheads</td>
<td>No reduction in overheads</td>
<td>No reduction in overheads</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans</td>
<td>Lease revenues would assist in financing DSP</td>
<td>Lease revenues would assist in financing DSP</td>
<td>Sale receipts would enable loan reduction and DSP reduction</td>
<td>Lease revenues would assist in financing DSP</td>
</tr>
<tr>
<td>Gate Fee</td>
<td>Proponent’s gate fee offer plus remaining MRF costs need to be below current gate fee</td>
<td>Proponent’s gate fee offer plus remaining MRF costs need to be below current gate fee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Financial</td>
<td>Overall cost saving pending gate fee offer</td>
<td>Overall cost saving pending gate fee offer</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employees</td>
<td>Transfer of MRF employees</td>
<td>Transfer of MRF employees</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: AEC

#### 5.6 Ability of SMRC to Manage the Transaction & Agreements

Since SMRC have been running the current MRF since 2012 SMRC management has an in-depth knowledge of how the MRF operates.

The major business undertaking in terms of the proposed transaction is a complex one given the mix of sub lease, parties, contracts and need for continuous operations. Appropriate independent legal advice is required to ensure that the major business undertaking sale process conforms to the Western Australian Local Government Act 1995, is not in contravention of the Commonwealth Competition and Consumer Act 2010 and that the Sale, Sub Lease and Recyclables Waste Processing Agreement achieve SMRC strategic objectives.

Similarly the financial impacts on SMRC are complex and appropriate independent financial modelling advice, similar to that undertaken for this business plan, is also required to ensure that the financial impacts of any transaction are fully understood.

Third Party Impact Assessment

This chapter considers impacts on third parties to the transaction. The impacts potentially vary depending on the competitive landscape existing in the market with-sale.
5.7 Impact on Customers

The intended impact on SMRC customers (participating councils) from the transaction is to reduce the unit cost of waste recovery. This will be achieved through debt reduction from MRF sale proceeds and a reduced gate fee from a potentially more efficient operator, particularly if they can achieve economies of scale through increasing throughput.

Since SMRC is unlikely to proceed with the transaction if there is not a material financial benefit, the likelihood of a reduction in the unit cost of waste recovery is moderate (might occur) but from the financial modelling appears that the consequence is low. The resulting impact therefore is positively low.

Similar impacts may or may not be experience by non-council customers depending on the price setting policy adopted by SMRC/purchaser.

There will be further impacts stemming from the change to the competitive market landscape post transaction. Should there be a lessening of competition (duopoly) then even though economies of scale may indicate lower prices, increased market power may result in higher or unchanged prices as the duopoly seek to maximise profits. In this case there is moderate (might occur) likelihood of moderate consequences resulting in a medium negative impact.

5.8 Impact on Ratepayers

Similar to customers there are two impacts on ratepayers. The impact from the transaction through participating councils and the impact through the resulting competitive landscape post transaction.

Should participating councils benefit from lower unit rates for waste recovery then in theory councils would experience an improvement in their operating position and therefore financial sustainability. This may in turn flow through to ratepayers in terms of lower rates and charges or improved/increased services. Whilst the likelihood of this impact is beneficial and moderate (might occur) the actual consequence is very low and the overall impact low.

The impacts on ratepayers from the resulting competitive landscape will be similar to that for customers in that higher prices may result in higher rates and charges and/or degraded/reduced services.

5.9 Impact on Waste Remediation & Materials Recovery Services Suppliers

The impact on the WRMRS market is dependent on whether one of the incumbents purchases the MRF, or whether there is a new operator. If one of the incumbents purchase the MRF then a duopoly will arise with either a dominant market player (Cleanaway or Perthwaste) or equal market share in throughput but not capacity.

Should a new player purchase the MRF then the competitive situation in the market would remain as it is no-sale. The new operator, however, would be very keen to acquire new tonnage as they would only be utilising 50% of the capacity of the MRF. Therefore there is likely to be downward pressure on prices and profits.

5.10 Impact on Recycled Materials Purchasers

Since the market for recycled materials purchasers is short term and a price taking there would be minimal impacts on purchasers. However, if there is a dominant producer of concentrated recycled materials they may be able to exert upward pressure on prices. It is difficult to say how such an increase in concentrated recycled materials would impact down the supply chain without an in-depth analysis of the market for recycled materials.
### 5.11 Third Party Impact Summary

A summary of the above impacts is shown below.

#### Table 5.3 Third Party Impacts with-sale

<table>
<thead>
<tr>
<th>Stakeholder Impact</th>
<th>Cost/ Benefit</th>
<th>Likelihood</th>
<th>Consequence</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Customers (Member Councils)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reduction in unit cost of waste recovery</td>
<td>Benefit</td>
<td>Moderate</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Duopoly increasing prices</td>
<td>Cost</td>
<td>Moderate</td>
<td>Moderate</td>
<td>Medium</td>
</tr>
<tr>
<td>New entrant lowering prices</td>
<td>Benefit</td>
<td>Moderate</td>
<td>Moderate</td>
<td>Medium</td>
</tr>
<tr>
<td><strong>Ratepayers</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reduction in unit cost of waste recovery</td>
<td>Benefit</td>
<td>Moderate</td>
<td>Very Low</td>
<td>Low</td>
</tr>
<tr>
<td>Improvement in Council financial sustainability</td>
<td>Benefit</td>
<td>Moderate</td>
<td>Very Low</td>
<td>Low</td>
</tr>
<tr>
<td>Duopoly increasing prices</td>
<td>Cost</td>
<td>Moderate</td>
<td>Moderate</td>
<td>Medium</td>
</tr>
<tr>
<td>New market entrant introducing price competition</td>
<td>Benefit</td>
<td>Moderate</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td><strong>Waste Remediation &amp; Materials Recovery Services Suppliers</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Duopoly increasing prices</td>
<td>Benefit</td>
<td>Moderate</td>
<td>Moderate</td>
<td>Medium</td>
</tr>
<tr>
<td>New market entrant introducing price competition</td>
<td>Cost</td>
<td>Moderate</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td><strong>Recycled Materials Purchasers</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Duopoly demanding higher prices</td>
<td>Cost</td>
<td>Very Low</td>
<td>Very Low</td>
<td>Very Low</td>
</tr>
<tr>
<td>New market entrant less market power</td>
<td>Benefit</td>
<td>Very Low</td>
<td>Very Low</td>
<td>Very Low</td>
</tr>
</tbody>
</table>

Source: AEC
6. **Submissions**

The business plan for the disposal, via sale, of the Southern Metropolitan Regional Council (SMRC) Materials Recovery Facility (MRF) located at 350 Bannister Road, Canning Vale is to be made available for inspection for a six week period.

Members of the public are invited to make submissions in relation to the business plan.

After the last day of submissions the SMRC will consider any submissions made and decide by member majority to proceed with the transaction as proposed as long as it is not significantly different from that what was proposed.

**Proposed advertisement:**

<table>
<thead>
<tr>
<th>Southern Metropolitan Regional Council</th>
</tr>
</thead>
<tbody>
<tr>
<td><em>Proposal to enter into a Major Trading Undertaking and Major Land Transaction</em></td>
</tr>
<tr>
<td>For the disposal of the Materials Recovery Facility, 350 Bannister Road, Canning Vale</td>
</tr>
<tr>
<td>In accordance with section 3.59 of the <em>Local Government Act 1995 (WA)</em> a business plan for the proposed disposal, by tender, for the above facility is available for public inspection at the SMRC offices located at 9 Aldous Place, Booragoon or on the SMRC’s website at <a href="http://www.smrc.com.au">www.smrc.com.au</a>, or by phoning 8 9329 2700.</td>
</tr>
<tr>
<td>Members of the public are invited to make submissions in relation to the business plan. Submissions must be in writing addressed to:</td>
</tr>
<tr>
<td>Chief Executive Officer, Southern Metropolitan Regional Council, PO Box 1501, Booragoon WA 6954</td>
</tr>
<tr>
<td>by 22 September 2015.</td>
</tr>
</tbody>
</table>
References


Southern Metro Regional Council (2013a). *SMRC Strategic Community Plan 2013-2023*.


## Glossary

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>C&amp;D</strong></td>
<td>Construction &amp; Demolition waste</td>
</tr>
<tr>
<td><strong>C&amp;I</strong></td>
<td>Commercial &amp; Industrial waste</td>
</tr>
<tr>
<td><strong>Disposal of Property</strong></td>
<td>Local Government Act Section 3.58 defines “Disposal of Property” includes to sell, lease, or otherwise dispose of, whether absolutely or not</td>
</tr>
<tr>
<td><strong>DSP</strong></td>
<td>Debt Service Payment</td>
</tr>
<tr>
<td><strong>Duopoly</strong></td>
<td>Term used where there are two dominant firms operating in a market</td>
</tr>
<tr>
<td><strong>Gate Fee</strong></td>
<td>The charge levied upon a given quantity of waste received at a waste processing facility</td>
</tr>
<tr>
<td><strong>Gate Fee Offer</strong></td>
<td>A per tonne amount charged to process recyclable materials</td>
</tr>
<tr>
<td><strong>GWF</strong></td>
<td>Green Waste Facility</td>
</tr>
<tr>
<td><strong>LTFP</strong></td>
<td>Long Term Financial Plan</td>
</tr>
<tr>
<td><strong>Project Participants</strong></td>
<td>Cockburn, East Fremantle, Fremantle, Melville</td>
</tr>
<tr>
<td><strong>MRF</strong></td>
<td>Material Recycling Facility</td>
</tr>
<tr>
<td><strong>Member Council</strong></td>
<td>Cockburn, East Fremantle, Fremantle, Kwinana, Melville</td>
</tr>
<tr>
<td><strong>Recovery; Resource Recovery</strong></td>
<td>Solid waste recycled or recovered, net of contaminants/residuals disposed to landfill</td>
</tr>
<tr>
<td><strong>Recovery rate</strong></td>
<td>Solid waste recycled and recovered (net of contamination/residuals) as a proportion of waste generation</td>
</tr>
<tr>
<td><strong>Reuse</strong></td>
<td>Involves recovering value from a discarded resource in its original state without reprocessing or remanufacture</td>
</tr>
<tr>
<td><strong>Recycling</strong></td>
<td>A set of processes (including biological) that converts solid waste into useful materials or products, net of contaminants/residuals disposed</td>
</tr>
<tr>
<td><strong>RRRC</strong></td>
<td>Regional Resource Recovery Centre</td>
</tr>
<tr>
<td><strong>Sale price offer</strong></td>
<td>A lump sum amount offered to purchase the MRF structures, plant &amp; equipment.</td>
</tr>
<tr>
<td><strong>SMRC</strong></td>
<td>Southern Metropolitan Regional Council</td>
</tr>
<tr>
<td><strong>Solid waste</strong></td>
<td>Waste products and materials that are ‘spadeable’</td>
</tr>
<tr>
<td><strong>Waste generation</strong></td>
<td>The sum of products and materials that are recycled, recovered for energy or disposed to landfill</td>
</tr>
<tr>
<td><strong>Waste avoidance</strong></td>
<td>Actions or approaches which result in the reduced generation of waste</td>
</tr>
<tr>
<td><strong>WCF</strong></td>
<td>Waste Composting Facility</td>
</tr>
</tbody>
</table>