

Southern Region Waste Resource Authority - Materials Recovery Facility (MRF)

Originating Officer Executive Assistant to CEO - Dana Bartlett

Corporate Manager Manager Finance - Ray Barnwell

General Manager Chief Executive Officer - Adrian Skull

Report Reference FAC191210F01

Confidential



Confidential Motion

That pursuant to Section 90(2) 3(d) (i) and (ii) of the Local Government Act 1999, the Committee orders that all persons present, with the exception of the following persons: Adrian Skull, Tony Lines, Ilia Houridis, Sorana Dinmore, Kate McKenzie, Ray Barnwell, Craig Clarke and Jaimie Thwaites, be excluded from the meeting as the Committee receives and considers information relating to SRWRA Materials Recovery Facility (MRF), upon the basis that the Committee is satisfied that the requirement for the meeting to be conducted in a place open to the public has been outweighed by the need to keep consideration of the matter confidential given the information relates to commercial information, the disclosure of which could reasonably be expected to prejudice the commercial position of the person who supplied the information, or to confer a commercial advantage on a third party and would on balance be contrary to the public interest.

REPORT OBJECTIVE

In response to the structural changes in the global recycling markets, the Southern Region Waste Resource Authority (SRWRA) constituent councils identified a strategic need to ensure the long term security, certainty and control over their kerbside recyclables and in accordance with the objects and purposes of the SRWRA Charter requested the Authority to investigate whether it was feasible for SRWRA to provide a potential solution.

The SRWRA Board at a special Board meeting held on 2 December 2019 resolved to proceed with the construction of a Material Recovery Facility (MRF) subject to the constituent councils approving the budget variation required and the commitment to process their commingled recycling at the SRWRA MRF.

A report will be brought to Council to seek approval for the SRWRA to incur expenditure and borrowings to design, build and operate a Materials Recovery Facility at its resource recovery and landfill site located at 112 Bakewell Drive, Seaford Heights. The MRF will be designed to efficiently manage the municipal commingled domestic recyclables from SRWRA's constituent councils and other customer councils or waste authorities.

RECOMMENDATION

That the Finance and Audit Committee:

1. Notes this report and provides feedback.

2. In accordance with Section 91(7) and (9) of the Local Government Act 1999, orders that this report and attachments, having been considered in confidence under Section 90 (2) and (3)(d) (i) and (ii) of the Act, except when required to effect or comply with Council's resolution(s) regarding this matter, be kept confidential and not available for public inspection for a period of 12 months from the date of this meeting. This confidentiality order will be reviewed at the General Council Meeting in December 2020.

GENERAL ANALYSIS

PROJECT OVERVIEW

The Project is for SRWRA to develop and operate a Materials Recovery Facility (MRF) at its resource recovery and landfill site located at 112 Bakewell Drive, Seaford Heights, to manage the municipal commingled domestic recyclables from SRWRA's constituent councils and other customer councils or waste authorities.

MARKET ANALYSIS

Industry information

In 2017 China enacted its 'China National Sword Policy' which effectively closed the market for kerbside recyclable materials by banning 24 import materials and applying a stringent contamination threshold on imported product. The closure of the Chinese market and the subsequent tightening of controls by other countries importing kerbside recyclable materials has resulted in a collapse in the sale value of these low quality kerbside recovered materials on global markets.

Australia is set to ban the export of its recycling to other countries from as early as July 2020. The ban will apply to all waste that is not being turned into a valuable material overseas. Glass will be the first product to stay onshore, beginning from July next year. Mixed plastics will be banned one year later and tyres by December 2021. The rest including paper and cardboard will no longer be sent overseas by the end of June 2022.

As a result, South Australian councils and national recycled commodity markets are caught up in a structural shift in the international markets for low quality kerbside recyclables.

The increase in the cost for SRWRA's constituent councils to manage their domestic recyclables as a result of this structural change in global markets is estimated collectively at [REDACTED] per annum. The impact for the City of Marion alone is in the order of [REDACTED] per annum. The cost to constituent councils is anticipated to increase as commercial MRF's continue to increase their gate fees in response to market conditions.

The Future - Market Risks, Opportunities and Activities

SRWRA considers that the current challenges with the kerbside recycling markets are a subset of a megatrend of growing environmental problems internationally, which can be framed and managed using a circular economy and materials flow mindset. Accordingly, an underlying objective of SRWRA is to apply a circular economy lens to kerbside recycling markets.

In the meantime, there are many potential improvements that need to occur to kerbside recycling markets and systems.

- packaging design and community education;
- improvement in processes to generate less mixed paper and plastics;
- better collection and sorting infrastructure to produce higher quality sorted recyclable materials, and
- development of Australian re-manufacturing capacity and end-markets for clean material.

BUSINESS NEED

In response to the structural changes in the global recycling markets, the constituent councils identified a strategic need to ensure the long term security, certainty and control over their kerbside recyclables and in accordance with the objects and purposes of the SRWRA Charter requested the Authority to investigate whether it was feasible for SRWRA to provide a potential solution.

MRF PROJECT BACKGROUND

Background

SRWRA is a Regional Subsidiary established in 1998 under Section 43 of the Local Government Act, 1999 by the Onkaparinga, Marion and Holdfast Bay Councils (constituent councils). In accordance with its Charter, SRWRA is responsible for providing and operating waste management services on behalf of the constituent councils, including developing or facilitating activities or enterprises that result in a beneficial use of waste.

SRWRA's resource recovery and landfill site located at Seaford Heights is one of the State's major landfill operations, receiving more than 100,000 tonnes of waste per annum. SRWRA's current catchment extends from Holdfast Bay through the Fleurieu Peninsula and Kangaroo Island, representing an estimated 388,644 people. The constituent councils currently generate around 26,100 tonnes of commingled domestic recyclables (8,100 tonnes from Marion).

The proposed MRF is a key initiative in SRWRA's Strategic Plan 2019-2026. The Business Case for the proposed MRF was approved by the SRWRA Board at its meeting on 4 February 2019 and was included in its 2019/20 Annual Business Plan and Budget as presented to the constituent councils and adopted by the SRWRA Board on 28 June 2019.

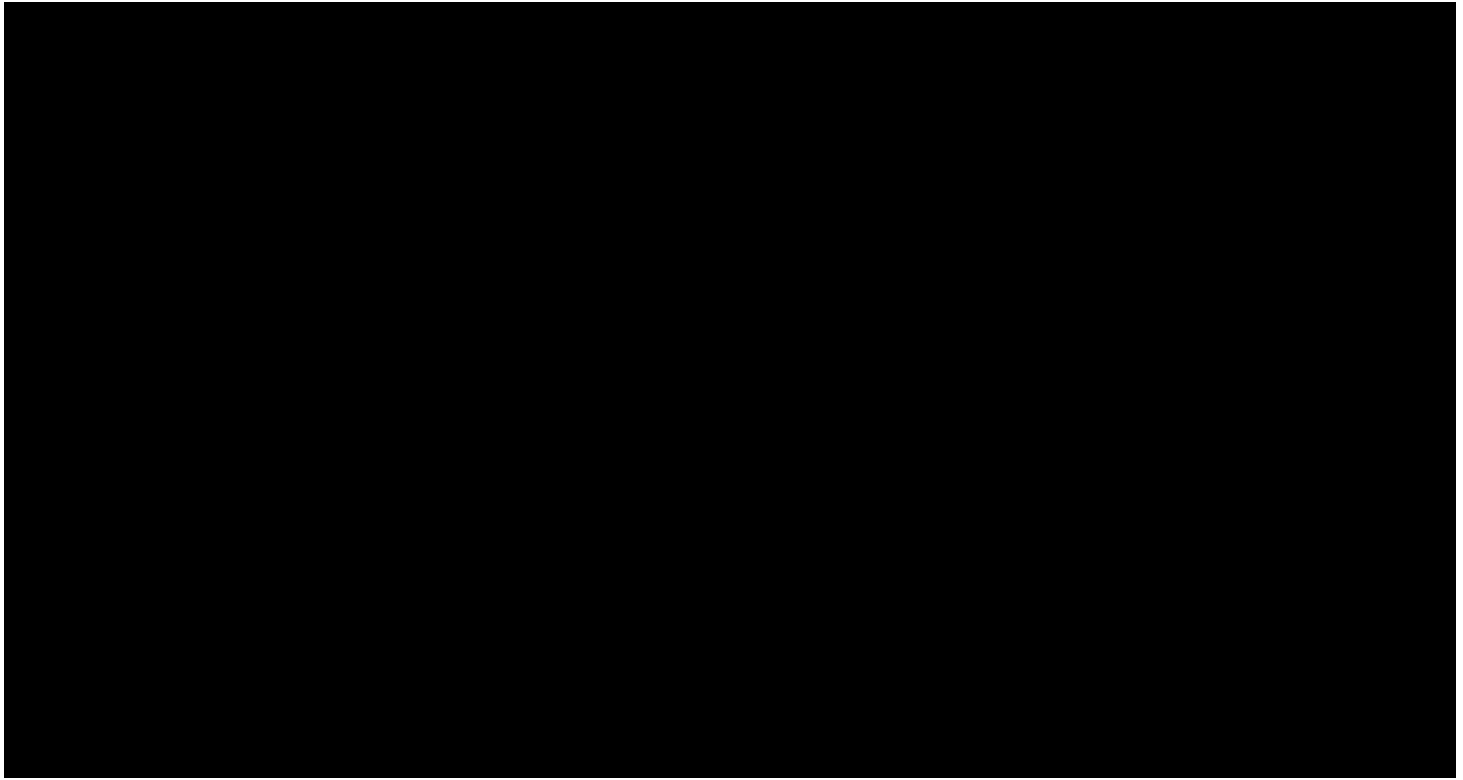
Key benefits

The key benefits for SRWRA in undertaking the MRF Project are:

- Provides SRWRA's constituent councils with long term certainty and control over the management of their municipal commingled domestic recyclable waste in response to the structural shift in global recyclable markets resulting from the China National Sword Policy;
- Provides SRWRA's constituent councils with greater control over the cost of processing their commingled domestic recyclable waste;
- Manages stakeholder and community expectations to efficiently, effectively and socially responsibly deal with their waste;
- Responds to the need for a MRF to service the southern metropolitan and peri-urban areas as identified in SA's Waste and Resource Recovery Infrastructure Plan (February 2018);
- Progresses one of the three objectives of the SA Waste Strategy 2015-2020 to ensure a resource-efficient economy where the best or full value is secured from products and materials produced, consumed and recovered across the State;
- It will create employment; and
- The operation of the MRF creates the opportunity to stimulate the local circular economy through the creation of new industry to re-use, re-purpose and recycle the recovered resources. New industry translates to new local jobs and greater economic prosperity for the community.

Volumes of recyclables

The expected product streams to be recovered by the MRF based on the latest kerbside bin audits of the constituent councils kerbside recyclables is outlined in the table below.



Procurement

Procurement of the MRF plant and equipment and the MRF building has been undertaken as separate design and construct tenders in accordance with SRWRA's Procurement Policy.

Regulatory Environment

Local Government Act

The SRWRA Board, at its meeting on 2 December 2019, considered an updated Prudential Report on the MRF Project prepared by UHY Haines Norton as required by S48(7) of the Local Government Act (i.e. the provisions of S48 of the LG Act requiring a council to consider a prudential report extend to subsidiaries as if a subsidiary were a council). The prudential report is included in attachment B.

Development Approval

The proposed MRF received Development Plan Consent (DPC) from the City of Onkaparinga on 4 June 2019. A variation to the DPC was granted on 21 November 2019 to relocate the building to an alternate location within SRWRA's licensed area due to engineering advice on required footings.

Environment Protection Authority (EPA)

SRWRA has Environmental Authorisation under Part 6 of the Environment Protection Act 1993 for a 'Waste or Recycling Depot'. Under the terms of its Licence, SRWRA must not carry out any activity without the written approval of the EPA. Accordingly, SRWRA has submitted a Section 54C application seeking formal approval from the EPA for the proposed MRF.

SRWRA Charter

In accordance with clause 1.7.1 of the SRWRA Charter, the Authority has the power to incur expenditure and/or to borrow money in accordance with the approved budget of the Authority. The approved 2019/20 budget includes expenditure of [REDACTED] for the proposed MRF and income from grant funding of [REDACTED].

At the time the budget was adopted it was envisaged that the Project would be undertaken as part of the existing joint venture arrangement with IWS, with the investment to be undertaken on a 50/50 basis. IWS have since advised that it does not wish to participate as an equity partner due to their concerns about taking commodity price risk and having alternate investment priorities in their core operations. However, IWS has stated they would consider an operations and maintenance arrangement with SRWRA and remain committed to assisting SRWRA with technical advice and procurement of a suitable MRF as part of the existing JV agreement.

Therefore, in accordance with clause 1.7.1(d) of the SRWRA Charter, as the estimated capital expenditure of the MRF Project is [REDACTED] and SRWRA may need to borrow up to [REDACTED] if no external funding is obtained, before SRWRA proceeds with the MRF Project it requires a formal resolution from all the constituent councils approving the budget variation endorsing the proposed expenditure and borrowings.

Project timeframe

It is estimated that the Project will take 15 months to deliver from the date of approval by the constituent councils. Therefore, contingent on the constituent councils approving the Project at their meetings on 10 December 2019 the MRF will be operational by April 2021.

Key risks

A detailed risk assessment of the MRF Project has been undertaken which was independently verified as part of the Prudential Review. A summary of the key risks for the constituent councils in engaging SRWRA to provide or not provide the MRF service to them is provided in **Attachment A**.

Financial Implications

The total initial capital cost of the MRF is estimated to be [REDACTED] ([REDACTED] for the plant and equipment and [REDACTED] for the building).

Revenue is driven by commodity markets for recovered materials and accounts for approximately 58% of revenue. Revenue from the proposed gate fees paid by the constituent councils and other customer councils or waste authorities for processing the materials is approximately 42%.

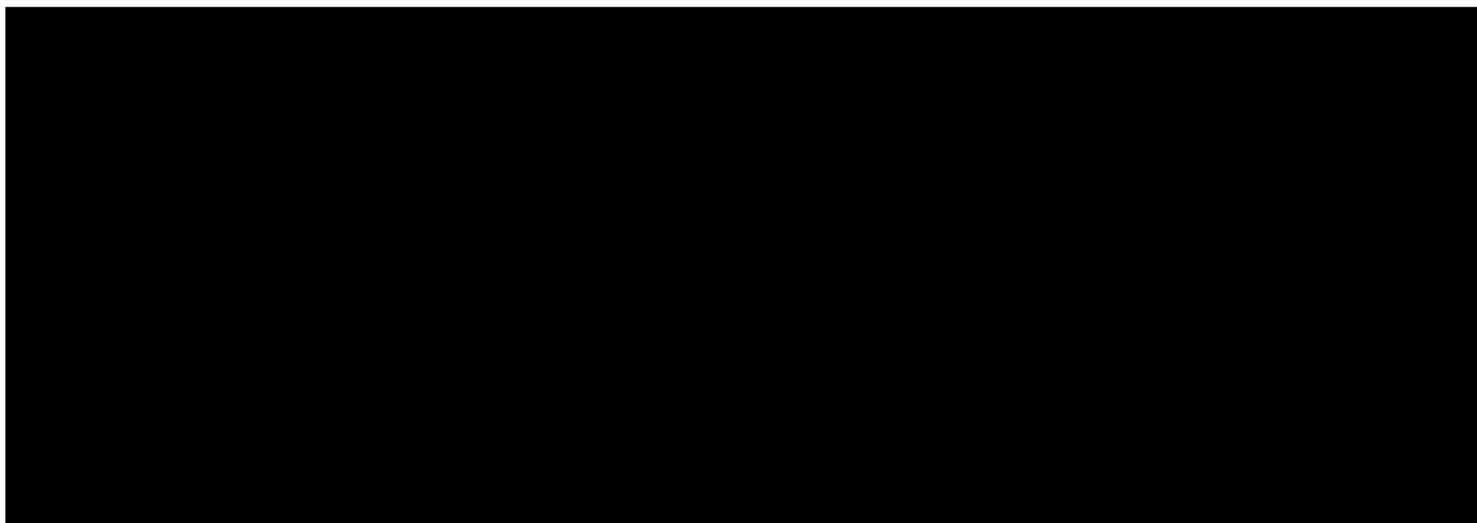
The required borrowings of up to [REDACTED] million would be obtained by SRWRA from the Local Government Finance Authority (LGFA) and budget impacts have been based on a 10 year variable interest loan at 2.7%.

The financial modelling is highly conservative and suggests that SRWRA tonnages alone are not sufficient to justify the investment in a facility, without external funding such as government grants, when compared to the current market rates for recycling. To ensure that the MRF can operate on a sustainable basis, the model requires approximately 31,100 tpa of commingled recyclables or at least [REDACTED] of government funding.

The South Australian State Government has indicated that they would be prepared to provide [REDACTED] towards the MRF for state of the art technology and representations are currently being made to the Federal Government.

With the economies of scale from increased volumes, the financial modelling using a gate fee of [REDACTED] per tonne (indicative market rates are heading towards [REDACTED] per tonne) to process recyclables, at current estimated commodity prices and without government funding the earnings rate before interest and tax is estimated at 3.4%. This provides SRWRA a return on investment marginally higher than that achieved from cash deposits (SRWRA LTFP rate is 1.5%).

A financial summary for the MRF Project over a 15 year period is provided in the table below.



The volume of recyclables not able to be recycled and requiring disposal to landfill (estimated at 8,314 tpa) will provide an additional income stream for SRWRA.

Contract terms

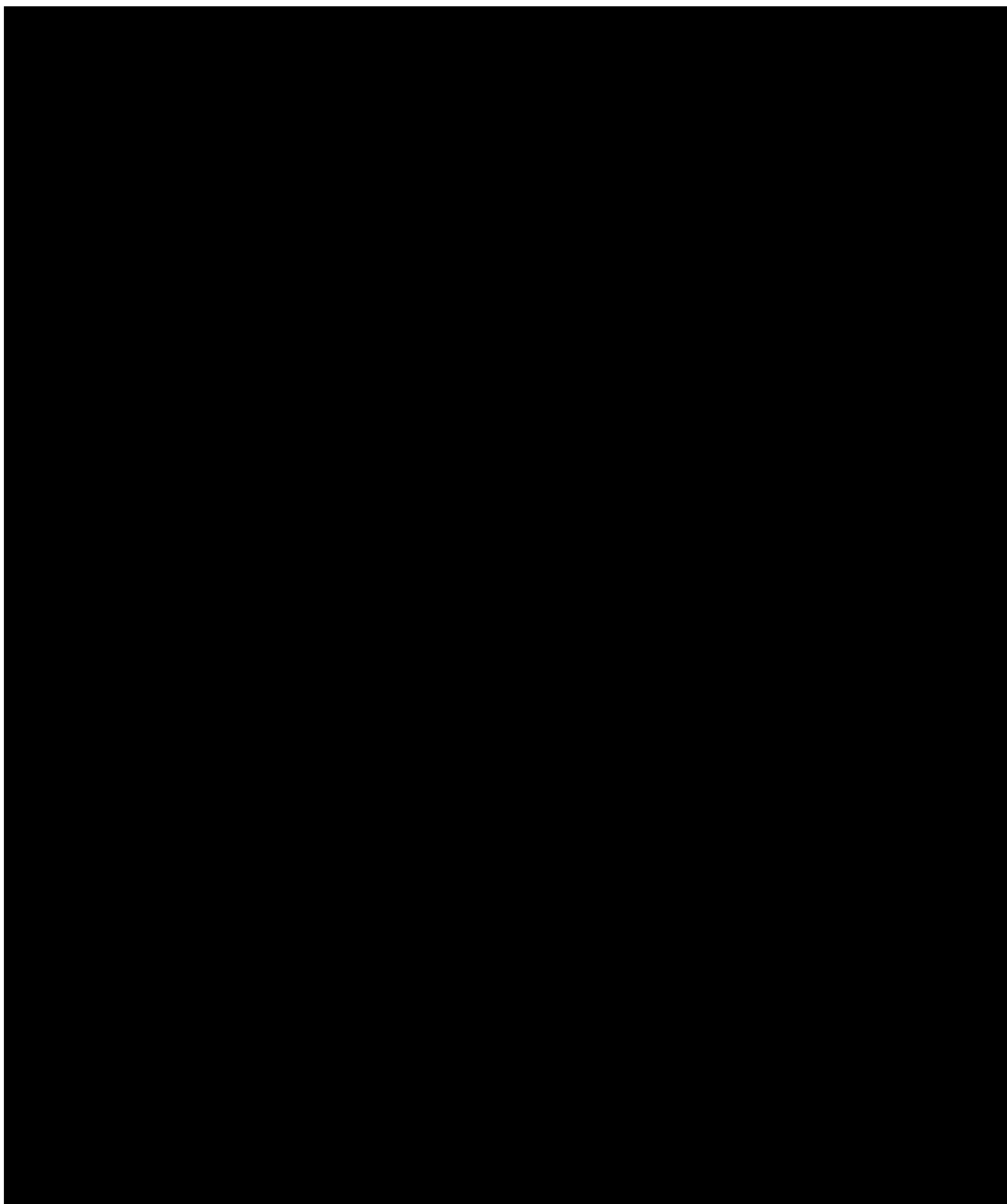
To manage the risk associated with operating a MRF the future commingled domestic recyclables collections from the constituent councils will need to be redirected to the new facility for a minimum of 10 years to justify the initial investment in capital.

The gate price is modelled at [REDACTED] per tonne and gives constituent councils some certainty of pricing. However, given the heavy reliance on commodity markets, there will need to be an agreement in place to provide a certain amount of variability of gate fees over the long term in order to adjust both positively and negatively to the variability of the current commodity markets.

Approximately 30% of expenditure of the MRF is for the disposal to landfill of material that is not able to be recycled. To maximise the reuse of the waste of the commingled recycling, mitigate the impact of future waste levy rises and minimise the amount disposed to landfill there will also need to be an agreement on contamination rates within the commingled domestic recyclables collections from each of the constituent councils.

Attachment

#	Attachment	Type
1	Attachment A - Key Risks	PDF File
2	Attachment B - Materials Recovery Facility - Prudential Review Report - December 2019	PDF File



Materials Recovery Facility (MRF) Prudential Report

Prepared for The Southern Region Waste Resource Authority
(SRWRA)

Revised - 2 December 2019





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EXECUTIVE SUMMARY

Introduction

The Southern Region Waste Resource Authority (SRWRA) is a Regional Subsidiary established in 1998 under Section 43 of the Local Government Act 1999 by the Cities of Onkaparinga, Marion and Holdfast Bay (Constituent Councils). SRWRA is responsible for providing and operating waste management services on behalf of the Constituent Councils including developing or facilitating activities or enterprises that result in a beneficial use of waste.

SRWRA is proposing to develop and operate a Materials Recovery Facility (MRF) to manage the municipal commingled domestic recyclable collections from its Constituent Councils and other customer councils or waste authorities.

A MRF sorts the recyclables from residents recycling bins by type and category for future reuse.

Purpose and Scope of this Report

UHY Haines Norton has been engaged to provide a Prudential Review Report for SRWRA on the MRF project. This report is undertaken to fulfil the due diligence requirements under Section 48 *Prudential Requirements for certain activities*, in the Local Government Act 1999.

Background

The Project

The Project is for SRWRA to develop and operate a MRF at its resource recovery and landfill site located at 112 Bakewell Drive, Seaford Heights, to manage the municipal commingled domestic recyclables from SRWRA's Constituent Councils and other customer councils or waste authorities.

Business Background

SRWRA was established with the following Objects and Purposes (SRWRA Charter 2015):

"1.5.1 The Authority is established to:

1.5.1.1 provide and operate services at a place or places for the management of waste by or on behalf of the Constituent Councils and/or any other approved Councils;

1.5.1.2 undertake anything relevant (including educational programmes and processes) to the management of waste;

1.5.1.3 provide a forum for discussion and/or research for the ongoing improvement of management of waste;

1.5.1.4 undertake management of waste on behalf of the Constituent Councils on a competitive basis;

1.5.1.5 fulfil, on behalf of the Constituent Councils, any ongoing obligation in relation to rehabilitation and monitoring of waste management facilities under its control;

1.5.1.6 develop or facilitate activities or enterprises that result in a beneficial use of waste;

1.5.1.7 be financially self-sufficient;

1.5.1.8 develop or facilitate activities or enterprises that result in a beneficial use of the landfill site or infrastructure; and

1.5.1.9 have regard in the performance of its functions to sustainable, environmentally efficient practices with regard to waste management.

1.5.2 The Authority must in the performance of its role and functions and in all of its plans, policies, and activities operate in a sustainable manner by giving due weight to economic, social and environmental considerations."

Historically, SRWRA has fulfilled these objects and purposes by operating a major landfill site and a basic materials recovery facility for local residents and businesses. More recently, SRWRA has expanded its operations to include the processing of municipal solid waste before disposal to landfill under an unincorporated joint venture with a private sector business.

In accordance with the objects and purposes of the Charter, SRWRA entered into a Joint Venture (JV) Agreement with IWS (Veolia Environmental Services and Acquista Investments) on 23 February 2012 for the purpose of operating the activities of the Southern Recycling Centre.

SRWRA's resource recovery and landfill site is one of the State's major landfill operations, receiving more than 100,000 tonnes of waste per annum. SRWRA's current catchment extends from Holdfast Bay through the Fleurieu Peninsula and Kangaroo Island, representing an estimated 388,644 people.

The Constituent Councils currently generate approximately 26,100 tonnes of commingled domestic recyclables per annum.

Consistent with the terms of the JV Agreement, IWS were given the opportunity to participate in the development of the proposed MRF. This has been the subject of detailed investigations by SRWRA and its JV partner, IWS, and is identified as a key initiative in SRWRA's Strategic Plan 2019-2026. The Business Case for the proposed MRF was approved by the SRWRA Board at its meeting on 4 February 2019 and the estimated financial impact of the project was included in its 2019/20 Annual Business Plan and Budget as presented to the Constituent Councils and adopted by the SRWRA Board on 28 June 2019.

The procurement of the MRF plant and equipment and the MRF building have been undertaken as separate design and construct tenders in accordance with SRWRA's Procurement Policy.

SRWRA's JV partner, IWS, have advised that it does not wish to participate in the MRF Project as an equity partner due to their concerns about taking commodity price risk and having alternate investment priorities in their core operations. However, IWS has stated they would consider an operation and maintenance arrangement with SRWRA as part of the existing JV. IWS has also advised that they remain committed to assisting SRWRA with technical advice and procurement of a suitable MRF as part of the existing JV Agreement.

Industry information

In 2017 China enacted the so-called 'China National Sword Policy' which effectively closed the market for kerbside recyclable materials by banning 24 import materials and applying a stringent contamination threshold on imported product.

The closure of the Chinese market and the subsequent tightening of controls by other countries importing kerbside recyclable materials has resulted in a collapse in the sale value of these low-quality kerbside recovered materials on global markets.

Australia is set to ban the export of its recycling to other countries from as early as July 2020. The ban will apply to all waste that isn't being turned into a valuable material overseas. Glass will be the

first product to stay onshore, beginning from July next year. Mixed plastics will be banned one year later and tyres by December 2021. The rest including paper and cardboard will no longer be sent overseas by the end of June 2022.

As a result, South Australian councils and national recycled commodity markets are caught up in a structural rather than cyclical shift in the international markets for low quality kerbside recyclables.

The increase in the cost for SRWRA's Constituent Councils alone to manage their domestic recyclables as a result of this structural change in global markets is estimated collectively at [REDACTED] per annum.

Solid Waste Levy

The State Government recently announced significant increases to the Solid Waste Levy (SWL) for disposal of waste to landfill. As one of the largest users of landfill, this is impacting on the Constituent Council's operating expenditure. This increased cost of disposal of residual material to landfill from kerbside recyclable collections increases the financial benefits of recycling.

Community confidence

The 'China Sword' issue has made the community more aware of where recyclable material has been going, issues with disposal and the impact on the environment. The community is also impacted by increasing costs.

Media articles indicate that communities are concerned about the waste industry's environmental management and ability to control costs.

Stability of the market

The 'China Sword' issue and the recent commercial failure of SKM Recycling (a large interstate-based recycling processor who serviced numerous councils in South Australia, including one of the Constituent Councils) have disrupted the stability of the waste sector and the market value of recyclables.

The Future - Market Risks, Opportunities and Activities

The current challenges with the kerbside recycling markets are a subset of a megatrend of growing environmental problems internationally, which can be framed and managed using a circular economy and materials flow mindset. Accordingly, an underlying objective of SRWRA's is to apply a circular economy lens to kerbside recycling markets.

Rationale

In response to the structural changes in the global recycling markets, the Constituent Councils identified a strategic need to ensure the long term security, certainty and control over their kerbside recyclables and in accordance with the objects and purposes of the SRWRA Charter requested the Authority to investigate whether it was feasible for SRWRA to provide a potential solution.

The key benefits for SRWRA in undertaking the MRF Project are as follows:

- Provide SRWRA's Constituent Councils with long term certainty and control over the management of their municipal commingled domestic recyclable waste in response to the structural shift in global recyclable markets resulting from the China National Sword Policy;
- Provide SRWRA's Constituent Councils with greater control over the cost of processing their municipal commingled domestic recyclable waste;

- Manage stakeholder and community expectations to efficiently, effectively and socially responsibly deal with their waste;
- Respond to the need for a MRF to service the southern metropolitan and peri-urban areas as identified in SA's Waste and Resource Recovery Infrastructure Plan (February 2018);
- Progress one of the three objectives of the SA Waste Strategy 2015-2020 to ensure a resource efficient economy where the best or full value is secured from products and materials produced, consumed and recovered across the State;
- Create local employment; and
- The operation of the MRF creates the opportunity to stimulate the local circular economy through the creation of new industry to re-use, re-purpose and recycle the recovered resources. New industry translates to new local jobs and greater economic prosperity for the community.

The key benefits for the Constituent Councils in SRWRA providing the MRF are that it assists to mitigate the following key risks:

- Inability for the Constituent Councils to manage their kerbside recycling due to the oligopoly market in South Australia (i.e. few providers in the market with limited and potentially finite capacity to process kerbside recyclables);
- The Constituent Councils will be more likely to be at the mercy of predatory pricing from the small number of providers of kerbside recycling seeking commercial returns; and
- The Constituent Councils not able to future proof themselves and their communities from the structural shift in global recycling markets.

Summary of Findings

The following provides a summary of the findings in this report;

Report Headings	Legislation: Local Government Act 1999	Comments: Noted = the project is compliant with the relevant section of the Act as outlined in the Report Recommended: Actions to be considered to strengthen compliance with the Act or reduce risk.	
Prudential Policies	S48(aa1)	Noted	The SRWRA's Prudential Report Policy has been developed and adopted by the Board on the 6 th May 2019
	S48(a1)	Noted	There are currently no regulations relating to S48 of the Local Government Act 1999
Requirement for a Prudential Report	S48(1) & S48(3) & S48(6d)	Noted	The project is not an exempt project and the amount is above the threshold and therefore a Prudential Report is required
Relationship to Strategic Management Plans	S48(2)(a)	Noted	The project has direct links with SRWRA's current Strategic Plans. The LTFP adopted in June 2019 includes provision for the MRF project on the basis of the Joint Venture partner as an equity owner and securing grant funding. A draft LTFP has been developed on the basis that SRWRA will fund the

			entire project and this will be presented to the Board in December 2019.
Development Plan	S48(2)(b)	Noted	The MRF has received Development Plan Consent from the City of Onkaparinga. EPA approval is pending. Where required, the Landfill Environment Management Plan will be updated to reflect the new activity.
Economic Impact	S48(2)(c)	Noted	The Economy.id Economic Impact Models address the expected contribution of the project to the economic development of the local area during construction and ongoing operations.
		Noted	SRWRA's Procurement Policy reflect practices that ensure fair competition in the marketplace.
Consultation	S48(2)(d)	Noted	The notification requirements of the Category 3 DA for the Development Application No. 145/1817/2013 for the two recycling sheds covered the consultation requirements of this section of the Act.
Revenue Projections and Risk	S48(2)(e)	Noted	The financial model appears to contain detailed analysis of expected commodity revenue using the most recent bin audits from the Constituent Councils and actual market prices. The Project Risk Register adequately identifies the revenue risks.
		Recommended	Given the risk that the majority of revenue is driven by commodity markets, modelled assumptions on revenue should be continuously monitored and LTFP forecasts regularly updated and reported to the Board. That risks with Extreme and High risk ratings be continuously monitored and reported to the Board
Recurrent and Whole-of-Life Costs	S48(2)(f)-project costs	Noted	Project costs are estimated at [REDACTED]
	S48(2)(f)-Funding	Noted	That the project is contingent on receiving Government funding of a minimum of [REDACTED] or attaining an additional council or waste authority involvement. The remainder of the funds will be provided through cash reserves or borrowing, at the Board's discretion.
	S48(2)(f)-Operating Costs	Noted	The forecasting of operational costs appears to cover the major costs areas with detailed analysis of underlying cost factors.
	S48(2)(f)-Sensitivity	Recommended	The financial model appears to contain detailed analysis of expected operational costs based on a competitive tender process. The Project Risk Register adequately identifies expenditure risks.
			The Board should regularly review ongoing and emerging risks once the project is operational along with regular assessment of long-term forecast assumptions to ensure that the project remains viable over the 15 years.
Financial Viability	S48(2)(g)	Noted	The financial KPIs within SRWRA's financial modelling indicate that SRWRA remains financially viable with the project in place. The modelling is based on assumptions.

		Recommended	If there are any change in risks or assumptions, the LTFP and financial KPIs should be adjusted accordingly and monitored by the Board.
Risks	S48(2)(h)	Noted	A detailed Risk Register for the Project has been provided which appears to adequately consider the risks of this project.
		Recommended	<p>Once the Project is approved the key risks will involve construction delivery and once commissioned, operations. Therefore, it is recommended:</p> <ul style="list-style-type: none"> • Key Performance Indicators (KPIs) to be developed for the MRF project for the construction and for ongoing operations as per SRWRA's Risk Management Policy • That once the KPIs are developed, the threats and opportunities associated with the KPIs are also identified, evaluated, monitored and communicated. • To manage the risks of the project, SRWRA should receive regular reports on the project status including updates on progression of activities against the risk register and new and emerging risk analysis as the project progresses. • All Extreme and High residual risks should be monitored by the Board regularly. • SRWRA to particularly monitor the seeking of funding of a minimum of [REDACTED] or securing of an additional Council or waste authority customer, engagement of a suitably qualified and experienced Project Manager and the development of an Operational and Maintenance agreement or engagement of a suitably qualified and experienced Commercial/Operations Manager.
Project Management	S48(2)(i)	Recommended	That the Project Manager selected is suitably qualified and experienced to manage a project of this complexity.
Sale or Disposition of Land	S48(2)(j)	Noted	Not relevant for this project
Qualifications of Author	S48(4)	Noted	The experience and qualifications of the lead author and associated firm are included in Appendix C.
Independence of Author	S48(4a), S48(6a), S48(6c)	Noted	The lead author and the firm UHY Haines Norton have declared they have no interest or conflict of interest in the project and are independent. A written declaration has been provided to the CEO.
SRWRA Consideration of the Report	S48(4b) S48(7)	Noted	SRWRA will consider this report in December 2019 and the Constituent Councils will also receive the report for information during December.
Public Inspection of the Report	S48(5) & (6)	Noted	SRWRA will be considering this report in confidence due to the commercial aspects of the project.

LEGISLATION

The Local Government Act 1999 (the Act), Section 48 *Prudential Requirements for certain activities*, sets out that Councils must have certain policies and procedures in place relating to prudential

management and obtain a report that addresses prudential issues where the expected capital cost of the project over the ensuing five years is likely to exceed [REDACTED] (indexed).

Appendix A sets out the full legislation requirements.

SRWRA's Prudential Report Policy sets out that the Authority will apply the requirements of Section 48 to its strategic decision-making process. This policy was adopted by SRWRA's Board on the 6th May 2019.

The MRF project is proposed at [REDACTED] and is above the threshold where SRWRA's Prudential Report Policy and Section 48 of the Act requires a Prudential Report.

This report addresses the prudential issues as set out in Section 48(2) of the Act.

Section 48(7) of the Act provides that this section extends to subsidiaries as if a subsidiary were a council.

SPECIFIC PROJECT DOCUMENTATION & RELATED POLICIES & PLANS

SRWRA has developed a number of documents in the planning of this project. This report should be read in conjunction with the associated documentation. The associated documents and relevant plans are listed below;

- Annual Report 2018 & 2019
- Business Case Materials Recovery Facility (MRF) – adopted 4th February 2019
- Business Plan and Budget – SRWRA 2019/20 – adopted 26th June 2019
- Financial Model - updated 25th November 2019
- Development Plan Consent – 21st November 2019
- Long Term Financial Statements (LTFP) – endorsed 26th June 2019
- Economic Impact Models - Economy.id
- Plant Asset Management Plan – SRWRA – adopted 6th May 2019
- Procurement Policy – updated 4th November 2019
- Project Risk Register V7 – MRF – updated 3rd December 2019
- Prudential Report Policy – adopted 6th May 2019
- Risk Management Policy – reviewed 6th August 2018
- Strategic Plan – SRWRA – 2015/16 to 2019/20
- Strategic Plan – SRWRA– 2019 – 2026 V7.2 (draft)
- SRWRA Charter 2015

ADDRESSING LEGISLATED PRUDENTIAL ISSUES

All discussion in this section relates to the legislated requirements of Section 48 of the Local Government Act 1999. SRWRA's Prudential Report Policy requires that the requirements of Section 48 of the Act are addressed, therefore all references in this section of the report that relate to Councils in the Act also apply to SRWRA.

Prudential Policies

S48(aa1) requires that a council must develop and maintain prudential management policies, practices and procedures for the assessment of projects. SRWRA has developed a Draft Prudential Report Policy which will be presented to the Board for approval on the 6th May 2019.

S48(a1) requires that a Council's prudential management policies, practices and procedures must be consistent with any regulations made in relation to this section of the Act. There are currently no legislated regulations in regard to this section of the Act.

S48 (aa1) Noted: That SRWRA's Prudential Report Policy has been developed and adopted by the Board on the 6th May 2019.

S48(a1) Noted: there are currently no regulations relating to S48 of the Local Government Act 1999.

Requirement for a Prudential Report

S48(1) requires that a Council must obtain and consider a report that addresses the prudential issues set out in subsection (2) of S48 before the Council engages in any project where the expenses are calculated to be higher (for the next 5 years) than 20% of a Council's operating expenditure (for the past 5 years) or where the expected capital cost of the project over the next 5 years will exceed [REDACTED] or where a Council considers appropriate.

S48(3) provides that a Prudential Report is not required for work in relation to road construction or maintenance or drainage works.

S48(6d) sets out the calculation of the indexing used to determine the current value of [REDACTED].

The MRF project is proposed at [REDACTED] and is above the threshold where SRWRA's Prudential Report Policy and Section 48 of the Act requires a Prudential Report.

S48(1), S48(3) and S48(6d) Noted: The project is not an exempt project and the amount is above the threshold and therefore a Prudential Report is required.

Relationship to Strategic Management Plans

S48(2)(a) requires the Prudential Report to address the relationship between the project and relevant strategic management plans.

Charter

SRWRA has a Charter as per the Local Government Act 1999 which sets out the legal parameters, objects and purposes, powers and functions of the Authority. The Charter is dated 2015.

The Charter is included in this report to comment on the relationship of the project not only against the Strategic Plans of the Authority but also against the document that sets out the guiding 'rules' for the Authority.

The following clauses of the Charter are pertinent to this project;

1.5.1.2: undertake anything relevant (including educational programmes and processes) to the management of waste

1.5.1.6: develop or facilitate activities or enterprises that result in a beneficial use of waste

1.5.1.7: be financially self sufficient

1.6.11: determining the types of waste which shall be received and the method of collection treatment, recycling and disposal of that waste

1.6.12: undertaking all manner of things relating and incidental to the collection, treatment, recycling and disposal of waste

The Charter supports the type of activity outlined in the project. Clause 1.5.1.7 “be financially self-sufficient” will be addressed in the section on Financial Viability in this report.

Strategic Plan

SRWRA has a draft Strategic Plan 2019 to 2026. This plan is being presented and consulted on with the Constituent Councils as part of the council briefings being conducted for the Annual Report and the MRF project. It will be presented to the SRWRA Board for adoption in the New Year.

The Draft Plan sets out that SRWRA’s goal is to “maintain an effective waste management service for its constituent Councils, by maximising the use of SRWRA assets through landfill and the development of compatible industries”.

Key Performance Indicators

KPI	Target
3. Service Mix to support constituent councils	Services are aligned to reflect the ongoing needs of the Constituent Councils, e.g. Material Recovery Facility (MRF)

Action 10 of Stage 1: Business Improvement is stated as:

Action	Timing	Measures
Construct and operate a Material Recovery Facility	April 2021	The MRF is operating and performing against agreed targets

Long Term Financial Plan (LTFP)

The latest LTFP was endorsed by the Board in June 2019. The endorsed plan includes the MRF Project, however, does not include the changes to the project financials due to the decision of the SRWRA Board to progress the Project without a Joint Venture equity partner.

A revised LTFP has been modelled to include the recent changes to the project. This plan is discussed in the Financial Viability section of this report.

Asset Management Plans (AMP)

The current AMP was adopted at the 6th May 2019 with the resolution that the AMP be redrafted by February 2020.

An up to date AMP allows forward financial projections to include replacement costs of current assets.

Annual Report

The Annual Report for 2018-2019 states that one of the aims and objectives for the year was to work with constituent councils to explore options and feasibility surrounding the operations of a Materials

Recycling Facility in the region. The report states that this objective is 'in progress'. The CEO's message states that planning for the MRF has commenced.

Annual Business Plan & Budget

SRWRA's Annual Business Plan for 2019/20 states that one of the key focus areas for the year is resource recovery by delivering solutions that divert waste from landfill. One of the objectives is to progress the Material Recovery Facility.

S48(2)(a) Noted:

The project has direct links with SRWRA's current Strategic Plans. The LTFP adopted in June 2019 includes provision for the MRF project on the basis of the Joint Venture partner as an equity owner and securing grant funding. A draft LTFP has been developed on the basis that SRWRA will fund the entire project and this will be presented to the Board in December 2019.

Development Plan

S48(2)(b) requires that the Prudential Report address the objectives of the Development Plan in the area where the project is to occur.

The MRF will be built at 112 Bakewell Drive, Seaford Heights. This land is located in the City of Onkaparinga's Urban Employment Zone.

Development Plan Consent for the MRF was issued on the 4th June 2019. A variation to the Development Plan Consent was granted on the 21st November 2019 to relocate the building to an alternate location within SRWRA's licenced area as a result of soil engineering advice received.

Environment Protection Authority (EPA)

An application was submitted to the EPA to seek approval for the MRF activity in the licenced area, on the 6th September 2019. The EPA requested the varied Development Plan Consent prior to providing EPA approval.

In accordance with SRWRA's Waste or Recycling Depot Licence from the EPA, SRWRA must not carry out any development work on the site without written approval from the EPA. Therefore, written approval from the EPA is being sought which will then require the Landfill Environment Management Plan to be updated to reflect the new activity.

S48(2)(b) Noted: The MRF has received Development Plan Consent from the City of Onkaparinga. EPA approval is pending. Where required, the Landfill Environment Management Plan will be updated to reflect the new activity.

Economic Impact

S48(2)(c) requires that the Prudential Report addresses the expected contribution of the project to the economic development of the local area, the impact that the project may have on businesses carried on in the proximity and, if appropriate, how the project should be established in a way that ensures fair competition in the market place.

An Economy Impact Report has been prepared by Economy.id who are an external company of demographic and spatial analysts and urban economists. The Economy.id report was provided by the City of Onkaparinga.

The Report sets out the impact on Output, Employment and Value-Added. The impacts are summarised in the tables below.

S48(2)(c) Noted: The Economy.id Economic Impact Models address the expected contribution of the project to the economic development of the local area during construction and ongoing operations.

Purchasing Strategy

SRWRA has a Procurement Policy which was last reviewed on the 4th November 2019. This policy sets out the following core objectives for SRWRA's procurement activities that are relevant to ensuring fair competition in the marketplace;

- Enhancing value for money through fair, competitive, non-discriminatory procurement
- Making decisions with probity, accountability and transparency
- Providing a reasonable opportunity for competitive local businesses

The project plan includes a tender process for the construction of the MRF Project.

S48(2)(c) Noted: SRWRA's Procurement Policy reflect practices that ensure fair competition in the marketplace.

Consultation

S48(2)(d) requires that the Prudential Report addresses the level of consultation within the local community, including contact with persons who may be affected by the project and the representations that have been made by them, and the means by which the community can influence or contribute to the project or its outcomes.

The existing Development Application No. 145/1817/2013 went through the Category 3 notification requirements prior to receiving Development consent from the City of Onkaparinga. Accordingly, the City of Onkaparinga has advised that further consultation is not required for the variation.

S48(2)(d) Noted: The notification requirements of the Category 3 DA for the Development Application No. 145/1817/2013 for the two recycling sheds covered the consultation requirements of this section of the Act.

Revenue Projections and Risk.

S48(2)(e) requires that the Prudential Report address the revenue projections and potential financial risks of the Project.

Financial Modelling Preparation

Dean Newbery & Partners, Chartered Accountants, assisted SRWRA staff with financial modelling for the project.

Revenue Projections

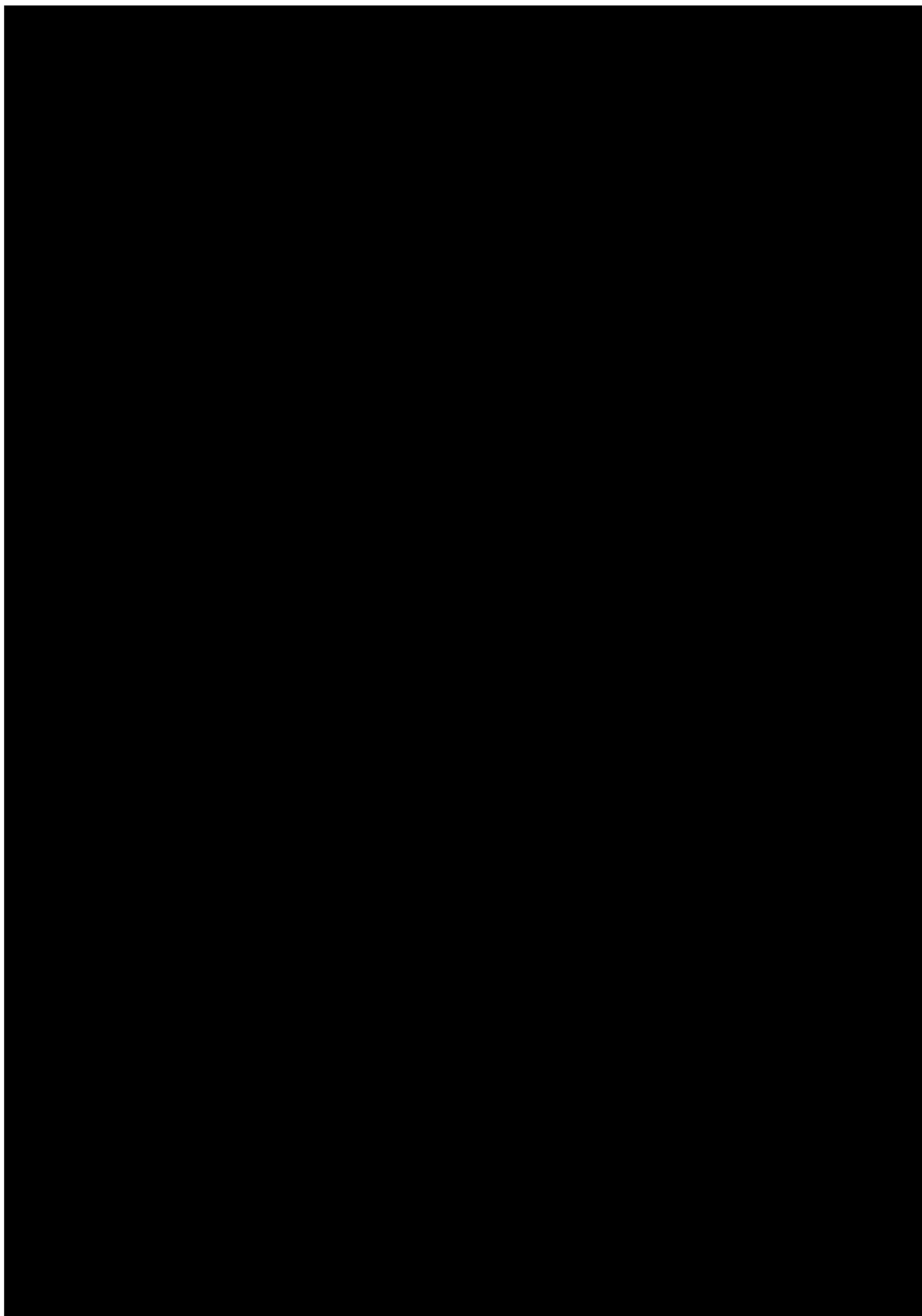
Revenue is expected from Commodity and Gate Fee revenue. Commodity Revenue provides approximately 58% of the revenue over the 15 years.

Assumptions used in the financial modelling are;

- Securing an additional council or waste authority customer
- Growth is calculated commencing at 1.73% and reaching 1.84% by year 15.
- CPI is 1.6%
- Volumes remain at 31,100 tonnes over the 15 years with a single operating shift, which is 5,000 tonnes more than the amount of recyclables produced by the constituent councils.
- Costs are indexed at 2.25%
- The life cycle for capital
 - Buildings at 20 years
 - Fixed equipment at 15 years
 - Mobile equipment at 5-7 years

The modelling shows the project being in profit throughout the 15-year period.

The volume of recyclables not able to be recycled and disposed to landfill (estimated at 8,314 tpa) also provides an additional income stream for SRWRA. This is estimated to add revenue of [REDACTED] to SRWRA over the life of the Project.



S48(2)(e):

The financial model appears to contain detailed analysis of expected commodity revenue using the most recent bin audits from the Constituent Councils and actual market prices.

The Project Risk Register adequately identifies the revenue risks.

Given the risk that the majority of revenue is driven by commodity markets it is recommended; That modelled assumptions on revenue should be continuously monitored, and LTFP forecasts regularly updated and reported to the Board.

That risks with Extreme and High-risk ratings be continuously monitored and reported to the Board

Recurrent and Whole-of-Life costs

S48(2)(f) requires that the Prudential Report address the recurrent and whole-of-life costs associated with the project, including any costs arising out of the proposed financial arrangements.

Project Costs

The total initial capital costs of the MRF is expected to be [REDACTED]. The capital cost is based on the tender process undertaken. The financial modelling includes ongoing depreciation of the assets.

S48(2)(f): Noted: that project costs are estimated at \$15.93m

Funding

Government funding will be sought for a minimum of [REDACTED]. The project is contingent on either receiving this level of funding or attaining additional investment from a third party.

The remainder of the funds required will be financed through cash reserves and borrowings. Financial modelling includes interest costs for borrowed funds.

S48(2)(f): Noted: That the project is contingent on receiving Government funding of a minimum of [REDACTED] or attaining an additional council or waste authority involvement. The remainder of the funds will be provided through cash reserves or borrowing, at the Board's discretion.

Operating Costs

The Model as of November 22nd for the MRF includes

- Ongoing refurbish and replacement costs
- Ongoing depreciation on the new capital, buildings and equipment
- Ongoing costs include
 - Labour via an analysis of the number and staff required and estimates of wage increases.
 - Maintenance

- Consumables, land tax, council rates, water, general office, insurance, IT Fuel
- Electricity via an analysis of electricity used
- Disposal Costs

The forecasting of operational costs appears to cover the major cost areas with detailed analysis of underlying cost factors.

S48(2)(f): Noted: The forecasting of operational costs appear to cover the major costs areas with detailed analysis of underlying cost factors.

Sensitivity of Costings

The modelling has taken a conservative approach to commodity revenue by considering the actuals in the market at this point and discounting by 20%.

Regular attention to ongoing and emerging risks once the project is operational and regular assessment of long-term forecast assumptions is required to ensure that the project remains viable over the 15 years.

S48(2)(f):

The financial model appears to contain detailed analysis of expected operational costs based on a competitive tender process.

The Project Risk Register adequately identifies expenditure risks.

Recommended that the Board should regularly review ongoing and emerging risks once the project is operational along with a regular assessment of long-term forecast assumptions to ensure that the project remains viable over the 15 years.;

Financial Viability

S48(2)(g) requires that the Prudential Report address the financial viability of the project and the short and longer-term estimated net effect of the project on the financial position of the Council.

The LTFP drafted at November 2019 sets out the following financial KPIs



The long-term forecasts for the project show that there are expected profits each year provided that all modelling assumptions are correct. Borrowing is required for the project but after a peak in 2020 borrowing reaches 2019 levels by 2023.

S48(2)(g): Noted; The financial KPIs within SRWRA's financial modelling indicate that SRWRA remains financially viable with the project in place. The modelling is based on assumptions.

Recommended: if there are any change in risks or assumptions, the LTFP and financial KPIs should be adjusted accordingly and monitored by the Board.

Risks

S48(2)(h) requires that the Prudential Report address the risks associated with the project, and the steps that can be taken to manage, reduce or eliminate those risks (including the provision of periodic reports to the Chief Executive Officer and to the Council).

SRWRA has a current Risk Management Policy that was reviewed in August 2018 and is next due for renewal June 2021.

The objectives of the Risk Management Policy include;

- That all SRWRA activities are clearly linked to and support one or more of the Strategic Objectives outlines in the SRWRA Strategic Plan 2015 – 2020
- Defined Key Performance Indicators (KPIs) are established for all significant SRWRA activities and incorporated into SRWRA plans
- The threats and opportunities associated with all KPIs are identified, evaluated, treated, monitored and communicated

The links between the MRF project and SRWRA's Strategic Objectives are shown in the section of this report 'Relationship to Strategic Management Plans'.

Key Performance Indicators are not yet established for the MRF but will need to be completed for the project and operations of the facility. The threats and opportunities associated with the project's KPIs will also need to be identified, evaluated, monitored and communicated once KPIs are developed.

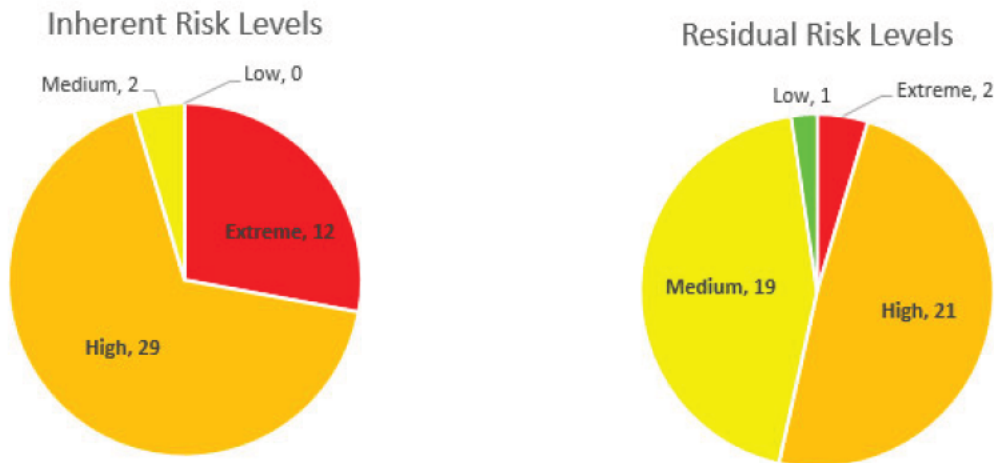
All risks identified in the Business Case have been included in SRWRA's Risk Register with mitigating strategies. Additional risks have been included in the register as further information and knowledge has developed.

Risk Rating

The Risk Register details risks, the risk rating without controls in place (inherent rating), the mitigating controls to reduce risk and the risk rating with mitigating controls in place (residual rating).

Key financial risks are detailed in the section on Revenue and Risk of this report.

The graphs following show the inherent and residual risk levels.



The two extreme residual risks are;

Risk	Mitigating Strategy
The delivery, timing, availability or quality and commodity revenue of the service provided falls below the required standard	Need to determine business model Need expertise of experienced commercial/operations manager
SRWRA is unable to achieve the level of commodity revenue required (this is also included in the financial risk section of this report).	Develop business model, Operations and Management agreement, engage skilled operations manager, develop circular economy

Extreme and high risks need to be monitored by the Board with regular updates on their status. In particular, the Board will need to monitor;

- The seeking of funding of a minimum of [REDACTED]
- The seeking of involvement with an additional Council or waste authority customer
- The engagement of a suitably qualified and experienced Project Manager
- The engagement of a suitably qualified and experienced Commercial/Operations Manager
- The development of an Operational and Maintenance contract.

To manage the risks of the project, SRWRA should receive regular reports on the project status, including updates on progression of activities against the risk register and new and emerging risk analysis as the project progresses.

The risk assessments described in the risk register appear to be reasonable.

S48(2)(h)

A detailed Risk Register for the Project has been provided which appears to adequately consider the risks of this project.

Once the Project is approved the key risks will involve construction delivery and once commissioned then operations. Therefore, it is recommended:

- Key Performance Indicators (KPIs) to be developed for the MRF project for the construction and for ongoing operations as per SRWRA's Risk Management Policy
- That once the KPIs are developed, the threats and opportunities associated with the KPIs are also identified, evaluated, monitored and communicated.
- To manage the risks of the project, SRWRA should receive regular reports on the project status, including updates on progression of activities against the risk register and new and emerging risk analysis as the project progresses.
- All Extreme and High residual risks should be monitored by the Board regularly.
- SRWRA to particularly monitor the seeking of funding of a minimum of [REDACTED] or securing of an additional Council/waste authority customer, engagement of a suitably qualified and experienced Project Manager and the development of an Operational and Maintenance agreement or engagement of a suitably qualified and experienced Commercial/Operations Manager.

Project Management

S48(2)(i) requires that the Prudential Report address the most appropriate mechanisms or arrangements for carrying out the project.

The project oversight will be provided by the Board. The MRF Project Committee consists of the CEO, Site Operations Manager and MRF Project Manager. SRWRA's Project Officer, Paul Thorne, will take the project through to approval and contractor engagement. A full-time Project Manager will then be engaged to manage the construction/installation of the MRF. A full-time MRF Plant Manager will be engaged to manage the ongoing operations.

The Project Manager will be an employee of SRWRA and report directly to the CEO. They will be required to report to the CEO on a weekly basis at the Project Steering Committee meeting on;

- Progress against the Project Plan
- The project against budget including completion forecasts
- Risk Management
- Quality and Incidents

The CEO of SRWRA will provide status reports on the project to the SRWRA Board at Board meetings and to the Audit Committee on a quarterly basis.

The key steps for the project are;

	2019						2020		2021	
Timeframe	November			December						
Critical Milestone/ Decision Point	4	15	28	2	10	13	Jan	Oct	Feb	Mar
Procurement										
Issue/Evaluate shed tender										
Evaluate Plant / Equipment tender										
Business Planning										
Finalise Financial Model										
Regulatory Approvals										
EPA Approval										
Planning Consent										
Building Rules Consent										
Development Approval										
Project Approval										

SRWRA Board Approval											
Constituent Council Approval											
Project Execution											
Contract execution											
Shed delivery											
Plant delivery											
Handover/ commissioning											

S48(2)(i) Recommended: That the Project Manager selected is suitably qualified and experienced to manage a project of this size.

Sale or Disposition of Land.

S48(2)(j) requires that the Prudential Report address that valuation of any land that will be sold or disposed of. This is not relevant for this project

S48(2)(j) Noted: Not relevant for this project

Qualifications of Author

S48(4) requires that the Prudential Report is prepared by a person whom the Council reasonably believes to be qualified to address the prudential issues of the project.

UHY Haines Norton has been engaged to complete the Prudential Report with the lead author, Corinne Garrett, being an employee of the firm.

Detailed information about UHY Haines Norton and the lead author can be found in Appendix C

S48(4) Noted: The experience and qualifications of the lead author and associated firm are included in Appendix C.

Independence of Author

S48(4a) requires that the Prudential Report must not be prepared by a person who has an interest in the relevant project.

S48(6a), S48(6b) and S48(6c) detail what an interest would be.

Neither the lead author, Corinne Garrett, nor the firm UHY Haines Norton has any interest or conflict of interest in this project.

S48(4a), S48(6a), S48(6b) and S48(6c) Noted: The lead author and the firm UHY Haines Norton have declared they have no interest or conflict of interest in the project and are independent. A written declaration has been provided to the CEO.

SRWRA Consideration of the Report

S48(4b) requires that the Council must give reasonable consideration to a Prudential Report and must not delegate the requirement to do so. Noting that the provisions of S48 extend to a subsidiary as if a subsidiary was a council (S48(7))

SRWRA will consider this report at a special board meeting on Monday 2nd December 2019.

SRWRA will provide this report to the Constituent Council's for their consideration.

S48(4b) Noted: SRWRA will consider this report in December 2019, and the Constituent Councils will also receive the report for information during December.

Public Inspection of the Report

S48(5) requires that Council is to make the Prudential Report available for public inspection at the principal office of the Council once the Council has decided on the relevant project.

S48(6) allows the Council to protect its commercial value or avoid disclosing the financial affairs of a person by considering part or all of a Prudential Report in confidence and keeping associated documents in confidence.

SRWRA will be considering this report in confidence due to the commercial aspects of the project. The report will be provided to the Constituent Councils on a confidential basis in accordance with S90(3)(b) and (d).

S48(5) & S48(6) Noted: SRWRA will be considering this report in confidence due to the commercial aspects of the project.

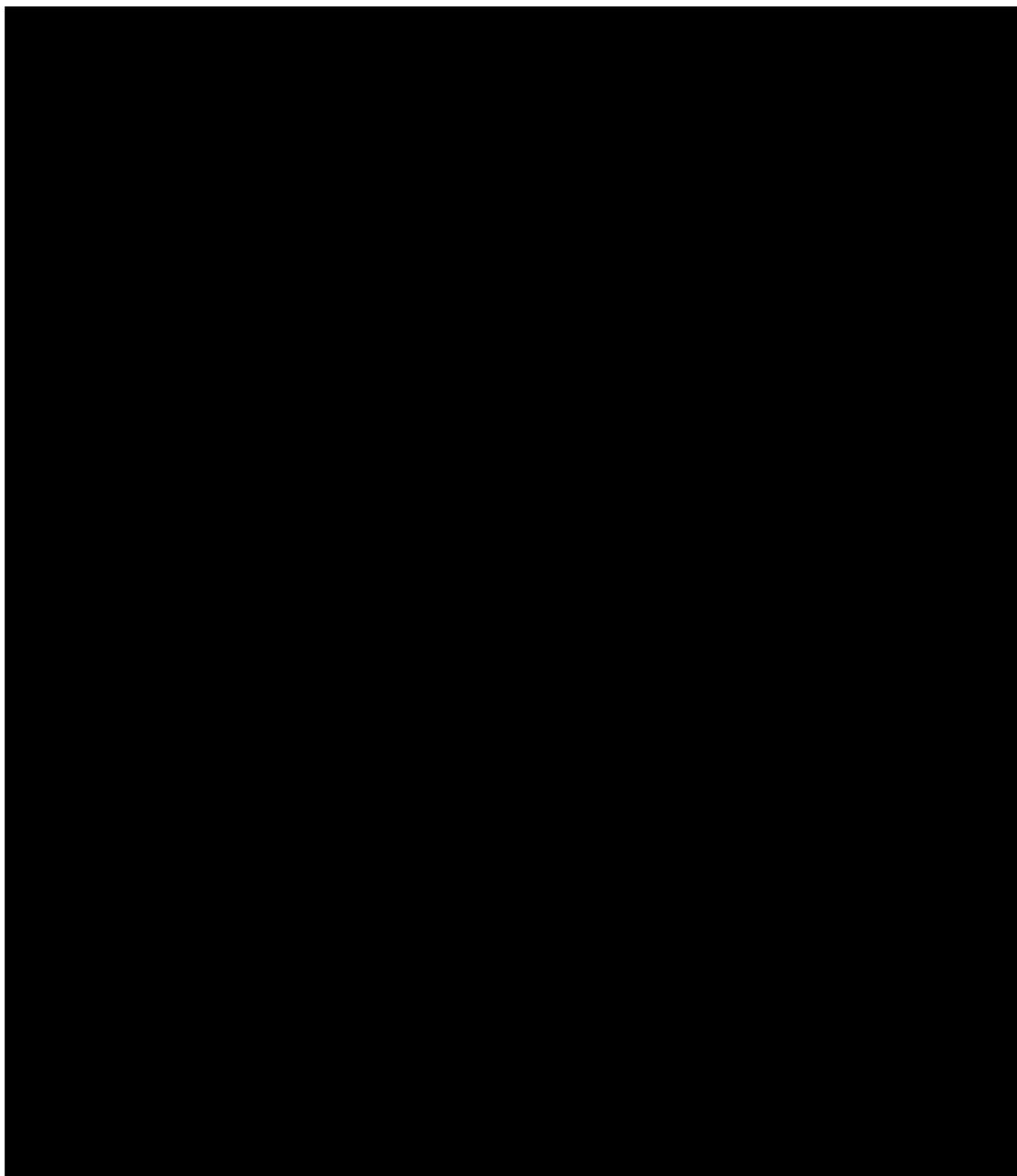
APPENDIX A – Legislation Detail

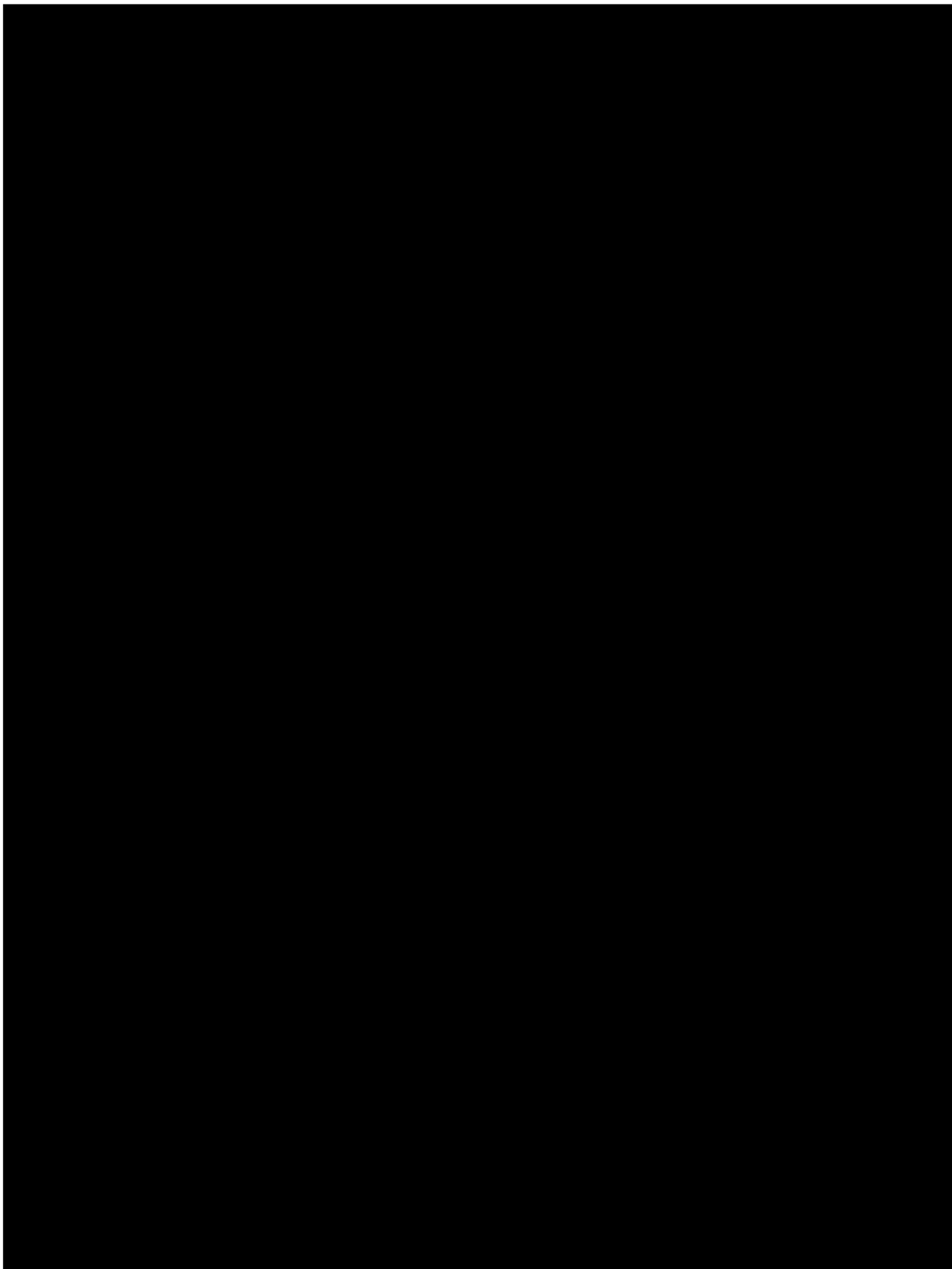
Section 48 – Prudential requirements for certain activities.

- (aa1) A council must develop and maintain prudential management policies, practices and procedures for the assessment of projects to ensure that the council –
- (a) Acts with due care, diligence and foresight; and
 - (b) Identifies and manages risks associated with a project; and
 - (c) Makes informed decisions; and
 - (d) Is accountable for the use of council and other public resources.
- (a1) The prudential management policies, practices and procedures developed by the council for the purposes of subsection (aa1) must be consistent with any regulations made for the purpose of this section.
- (1) Without limiting subsection (aa1), a council must obtain and consider a report that addresses the prudential issues set out in subsection (2) before the council –
- (b) engages in any project (whether commercial or otherwise and including through a subsidiary or participation in a joint venture, trust, partnership or other similar body) –
 - (i) where the expected operating expenses calculated on an accrual basis of the council over the ensuing five years is likely to exceed 20 percent of the council's average annual operating expenses over the previous five financial years (as shown in the council's financial statements); or
 - (ii) where the expected capital cost of the project over the ensuing five years is likely to exceed [REDACTED] or
 - (iii) where the council considers that it is necessary or appropriate.
- (2) the following are prudential issues for the purposes of subsection (1);
- (a) The relationship between the project and relevant strategic management plans;
 - (b) The objectives of the Development Plan in the area where the project is to occur
 - (c) The expected contribution of the project to the economic development of the local area, the impact that the project may have on businesses carried on in the proximity and, if appropriate, how the project should be established in a way that ensures fair competition in the marketplace
 - (d) The level of consultation within the local community, including contact with persons who may be affected by the project and the representations that have been made by them, and the means by which the community can influence or contribute to the project or its outcomes
 - (e) If the project is intended to produce revenue, revenue projections and potential financial risks
 - (f) The recurrent and whole-of-life costs associated with the project including any costs arising out of proposed financial arrangements
 - (g) The financial viability of the project, and the short and longer term estimated net effect of the project on the financial position of the council

- (h) Any risks associated with the project, and the steps that can be taken to manage, reduce or eliminate those risks (including by the provision of periodic reports to the chief executive officer and to the council)
 - (i) The most appropriate mechanisms or arrangements for carrying out the project.
 - (j) If the project involves the sale or disposition of land, the valuation of the land by a qualified valuer under the *Land Valuers Act 1994*
- (2a) The fact that a project is to be undertaken in stages does not limit the operation of subsection (1)(b) in relation to the projects as a whole.
- (3) A report is not required under subsection (1) in relation to-
- (a) road construction or maintenance; or
 - (b) drainage works.
- (4) A report under subsection (1) must be prepared by a person whom the council reasonably believes to be qualified to address the prudential issues set out in subsection (2)
- (4a) A report under subsection (1) must not be prepared by a person who has an interest in the relevant project (but may be prepared by a person who is an employee of the council).
- (4b) A council must give reasonable consideration to a report under subsection (1) (and must not delegate the requirement to do so under this subsection)
- (5) A report under subsection (1) must be available for public inspection at the principal office of the council once the council has made a decision on the relevant project (and may be available at an earlier time unless the council orders that the report be kept confidential until that time).
- (6) However, a council may take steps to prevent the disclosure of specific information in order to protect its commercial value or to avoid disclosing the financial affairs of a person (other than the council).
- (6a) For the purposes of subsection (4a) a person has an interest in a project if the person, or a person with whom the person is closely associated, would receive or have a reasonable expectation of receiving a direct or indirect pecuniary benefit or a non-pecuniary benefit or suffer or have a reasonable expectation of suffering a direct or indirect detriment or a non-pecuniary detriment if the project were to proceed.
- (6b) A person is closely associated with another person (the relevant person)
- (a) If that person is a body corporate of which the relevant person is a director or a member of the governing body; or
 - (b) If that person is a proprietary company in which the relevant person is a shareholder; or
 - (c) If that person is a beneficiary under a trust or an object of a discretionary trust of which the relevant person is a trustee; or
 - (d) If that person is a partner of the relevant person; or
 - (e) If that person is the employer or an employee of the relevant person; or

- (f) if that person is a person for whom the relevant person has received or might reasonably be expected to receive a fee, commission or other reward for providing professional or other services; or
 - (g) If that person is a relative of the relevant person.
- (6c) However a person or a person closely associated with another person will not be regarded as having an interest in a matter:
- (a) By virtue only of the fact that the person
 - (i) Is a ratepayer, elector or resident in the area of the council; or
 - (ii) is a member of a non-profit association, other than where the person is a member of the governing body of the association or organisations or
 - (b) In a prescribed circumstance.
- (6d) In this section, [REDACTED] means that that amount is to be adjusted for the purposes of this section on 1 January of each year, starting on 1 January 2011, by multiplying the amount by a proportion obtained by dividing the CPI for the September quarter of the immediately preceding year by the CPI for the September quarter 2009.
- (6e) In this section –
- Employee** of a council includes a person working for the council on a temporary basis;
- Non-profit association** means a body (whether corporate or unincorporated) –
- (a) That does not have as its principal object or 1 of its principal objects the carrying on of a trade or the making of a profit; and
 - (b) That is so constituted that its profits (if any) must be applied towards the purposes for which it is established and may not be distributed to its members.
- (7) The provisions of this section extend to subsidiaries as if a subsidiary were a council subject to any modifications, exclusions or additions prescribed by the regulations.





Service Delivery	Insignificant impact on ability to achieve strategic outcomes.	Some delays in delivery of strategic initiatives, but only minor aspects impacted. Overall strategic intent still achievable	Some key components of the Strategic plan cannot be achieved within expected timeframes.	Key Strategic Objectives unable to be achieved, review of Strategic Plan is required.	Goal of Strategic Plan not achievable, total and immediate re-work of Plan is required.
			Additional funding/resources or some strategies reprioritisation is required.		

LIKELIHOOD	CONSEQUENCE				
	Very Low (1)	Low (2)	Moderate (3)	High (4)	Very High (5)
Almost Certain (5)	Medium	High	High	Extreme	Extreme
Likely (4)	Low	Medium	High	High	Extreme
Possible (3)	Low	Medium	Medium	High	High
Unlikely (2)	Low	Low	Medium	Medium	High
Rare (1)	Low	Low	Low	Medium	Medium

Authority for the acceptance of risk above the residual risk level				
Consequence Type	Low	Medium	High	Extreme
Safety		CEO	Board	Board
Environment		CEO	Board	Board
Reputation		CEO	Board	Board
Legal / Regulatory / Compliance		CEO	Board	Board
Financial		CEO	Board	Board
Service Delivery		CEO	CEO	Board

APPENDIX C: UHY Haines Norton

UHY Haines Norton Adelaide is a respected firm of Chartered Accountants and Consultants, the antecedents of which have provided extensive professional services to clients in a variety of industries, including Local Government for nearly 70 years.

The firm is part of the Australasian UHY Haines Norton network. Across each of our independent offices, partners and staff provide a variety of mainstream and specialist services to clients across many market segments in both the public and private sectors. The network is structured to share experience and resources for the benefit of our clients.

The Adelaide firm has one managing partner and twenty staff who combine experience gained in Australia and overseas both within the firm and from employment with major international accounting firms. Our philosophy is to provide informed professional advice and practical services. We also aim to provide direct contact between the most senior members of our firm and the management groups of our clients.

The firm has extensive specialist skills in servicing Local Government entities in a wide range of areas including financial management, financial reporting, governance, internal and external audit, and risk management, due diligence and prudential reports.

Our lead author for this report is Corinne Garrett, Local Government Consulting Manager. Corinne's qualifications and experience are detailed below;

Qualifications

- Graduate Certificate in Internal Auditing, Institute of Internal Auditors
- Bachelor of Business (Financial Planning), RMIT
- Diploma AICD Company Directors Course, Australian Institute of Company Directors
- Executive Management Program, SA Local Government Managers Association
- Professional Management Program, University of Adelaide, Graduate School of Business
- Auditing Occupational Health and Safety Management Systems, SAI Global
- Management Systems Auditing, SAI Global

Experience

Corinne has been with our firm since 2012 following an extensive and successful career in Local Government spanning over 20 years. She has a deep knowledge of financial management processes and procedures and risk management.

Corinne oversees the Local Government Consulting division of UHY Haines Norton Adelaide and has a wealth of experience in this sector which provides her with a clear understanding of the legislative and compliance processes and requirements faced in the sector.

Corinne's experience spans governance, finance, administration and strategic planning. She has also worked closely with elected members in Local Government and audit committees developing and implementing long term financial plans, policies and compliance measures. Corinne has experience in developing annual business plans, annual reports and community consultation material.

Corinne also has a deep understanding of the important role that internal and external audit has in organisations and the role of audit committees. She has had extensive involvement in working with audit committees and ensuring critical areas of review are undertaken to assist the committee in discharging their obligations.

Corinne has undertaken a very broad range of projects in the Local Government including:

- Audits of liabilities and compliance
- Rating Procedures
- Rating Reviews
- Financial Management – Overview, mentoring, training, reporting, budgeting
- Analysis of Costs and/or Services
- Section 48 Prudential Reviews
- Internal Financial Controls Reviews & Internal Audits
- Development of Risk Management Frameworks and Business Continuity Plans
- Business Analyst Projects
- Assessment of financial risks, creation of workflows, procedure and financial reporting, Annual Business Plans and Budget Development
- Review of Information Technology Capacity
- Review of Long-Term Financial Plans
- Training Programs on Financial Management – LGA and Municipal Training
- Elected Member training in finance and budgeting for fifteen councils

Corinne is an independent member of Audit Committees for the Town of Walkerville, City of Prospect and ERA Water, currently acting as Chair for Prospect and ERA Water. Corinne is also a member of the Board of the SA Chapter of the Institute of Internal Auditors and a past member of the Board of the Revenue Professionals.