

TOWN OF COTTESLOE



Works and Corporate Services
Committee

ATTACHMENT 10.1.2

Meeting Date: 22 May 2012

Western Metropolitan Regional Council



Proposal

Membership of WMRC for



City of Nedlands

*Creating a united voice for
the Western Suburbs*

Date: 08 March 2012

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Executive Summary

This proposal is for the City of Nedlands to become a member of the Western Metropolitan Regional Council (WMRC). The proposal sets out the opportunities afforded by membership, as well as the contribution expected. We strongly believe that forming a regional council that represents the entire Western Suburbs region creates powerful benefits for all members.

Key elements of our proposal are:

- The City of Nedlands to enter into a Waste Delivery Agreement for access to DiCOM on identical terms to the current member Councils.
- The City of Nedlands to make a financial contribution to the WMRC's equity. The range and timing of the financial contribution is to be negotiated.
- The City of Nedlands to participate in and have a vote at the WMRC meetings, including the opportunity to participate in all WMRC Committees. Current WMRC Committees are:
 - Audit Committee,
 - Strategic Review Committee (comprising each of the member Council Chief Executive Officers) and
 - Operations Committee (comprising an officer from each of the member Councils).
- The City of Nedlands to guide and benefit from all initiatives undertaken by the WMRC on behalf of the region.

Achieving a regional vision

Our vision is "We make our world. Better". This vision attempts to capture a view of the Western Suburbs being proudly local and responsive to local needs. Our vision is strengthened when representing the desires of the whole Western Suburbs, including the City of Nedlands.

The vision also aspires for something more. We see our role as providing exceptional regional services, and we are working with current members to develop the scope of these regional opportunities.

With sufficient will from the Councils in the region, and membership of the City of Nedlands, the WMRC can build strong regional capabilities for the Western Suburbs, including in areas currently inconceivable for member Councils.

The WMRC is the strongest counter argument against amalgamations available to the Western Suburbs. The City of Nedlands as a member reinforces that argument.

Accessing DiCOM

Membership of WMRC enables the City of Nedlands to participate in the DiCOM project. By utilising DiCOM, Nedlands would increase its overall landfill diversion from 40.1% to 77.1% and be among the very best of Australian Councils in waste recovery.

DiCOM:

- Is the single most effective step to reduce Nedlands contribution to climate change.
- Is expected to have a gate fee between \$170-\$175/tonne, with subsequent increases indexed to the consumer price index. This is below the industry benchmark for waste processing.
- Has no significant financial risk to member Councils.

Financial Savings

WMRC's philosophy is to keep waste disposal fees as low as possible, with the budget set to break even after provisions to Reserves for future works. The WMRC looks to the long term sustainability of its members.

WMRC achieves savings for its members by a combination of its deep understanding of waste management and the discounts it can achieve through aggregating small quantities of waste at the transfer station.

The Contribution

As an organisation formed by its members through an initial contribution of capital, membership by any new member requires a capital contribution. The amount and timing of that contribution is for negotiation between existing and new members.

The contribution may be calculated as a proportion of the current WMRC equity, reported in the 2010/11 Annual Report as \$6,544,281. Independent financial advice on the value of the WMRC will be obtained as negotiations progress, and this will form the basis for final negotiations.

It is important to note that WMRC assets are held by members on the basis of their equity. WMRC liabilities are covered by members on the basis of their population.

The WMRC carries no debts, and so the City of Nedlands assumes no WMRC debt as a result of joining.

Legal Requirements

There will be legal requirements attached to joining the WMRC. These requirements will ultimately be negotiated with the member Councils.

In addition to the legal requirements of current members set out in the WMRC Establishment Agreement, the requirements of new members will include:

- The amount and timing of contribution to be made to the WMRC.
- A restriction on withdrawal from the WMRC for a period of five years after gaining membership except when the WMRC is wound up.
- A requirement to sign a Waste Delivery Agreement in the same terms as the member Councils (in short, to supply all putrescible waste collected to the WMRC for a period of five years).

A new member to the WMRC requires an amendment to the Establishment Agreement. The WMRC is currently progressing an amendment, and so the City of Nedlands' membership would ideally be incorporated in the same amendment.

Metropolitan Local Government Review

Negotiations in relation to membership are proposed to run concurrently with the Metropolitan Local Government Review ("the Review"). Negotiations will reflect interim reports from the Review, with the object being to achieve a final negotiation that delivers the key findings of the Review to be released by 30 June 2012. Since the State Government has given no commitment in relation to the timing of its response to the Review, and any significant implementation is likely to be deferred until after the March 2013 State Government election, the proposal for the City of Nedlands to join the WMRC will necessarily be decided in an uncertain environment.

In the meantime, the WMRC will move ahead with discussions on the City of Nedlands entering in a Waste Delivery Agreement for five years.

We look forward to facilitating negotiations between the City of Nedlands and the current member Councils to achieve a unified regional council serving the Western Suburbs.

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1. The Vision

The Western Metropolitan Regional Council ("WMRC") has the vision: "We make our world. Better." This vision attempts to capture a view of the Western Suburbs being proudly local and responsive to local needs. We are tightly woven into **OUR** world.

The vision also aspires for something more. The vision strives for the exceptional, for making our world better. In the first instance we see that being achieved through world class waste management. Once our capabilities are demonstrated in waste, we see our role expanding into providing exceptional regional services.

Importantly, our vision is for a WMRC representing the desires of the whole of the Western Suburbs, including the City of Nedlands. We see the WMRC as a provider of regional services, enabling local Councils to shape those services to suit the needs of their constituents. In short, the WMRC is the strongest counter argument against amalgamations available to the Western Suburbs. The City of Nedlands as a member reinforces that argument.

Of course, all of this is invisible to the resident. The resident does not care, nor need to care, that the exceptional waste services delivered are underpinned by a regional Council. The resident just wants exceptional services, responsiveness and the opportunity to be heard. This is all provided by regional council service delivery.

1.1. The Proposal

This proposal is for the City of Nedlands to become a member of the WMRC. The proposal sets out the opportunities afforded by membership, as well as the contribution expected. We strongly believe that forming a regional council that represents the entire Western Suburbs region creates powerful benefits for all members.

Key elements of our proposal are summarised below:

- The City of Nedlands to enter into a Waste Delivery Agreement for access to DiCOM on identical terms to the current member Councils.
- The City of Nedlands to make a financial contribution to the WMRC's equity. **The range and timing of the financial contribution is to be negotiated.**
- The City of Nedlands to participate in and have a vote at the WMRC meetings, including the opportunity to participate in all WMRC Committees. Current WMRC Committees are Audit Committee, Strategic Review Committee (comprising each of the member Council Chief Executive Officers) and Operations Committee (comprising an officer from each of the member Councils).
- The City of Nedlands to guide and benefit from all initiatives undertaken by the WMRC on behalf of the region.

We look forward to facilitating negotiations between the City of Nedlands and the current member Councils to achieve a unified regional council serving the Western Suburbs.

2. The Current Situation

2.1. History

The City of Nedlands was a member of a predecessor organisation to the WMRC, the Western Refuse Disposal Zone ("the Zone") which ran the Brockway Tip. The City of Nedlands resolved at its meeting on 6 April 1989 to withdraw from the Zone upon closure of the Brockway Tip at the end of 1990. This was apparently connected with a large financial loss on investments incurred by the then manager of the Zone, the City of Subiaco.

The City of Nedlands did not join the WMRC when it was formed in 1989. On withdrawing from the Zone, the City of Nedlands also withdrew its proportion of the Zone's equity. The member Councils contributed equity to the formation of the WMRC. The City of Nedlands has not joined the WMRC since, and disposes of its waste at a range of sites. Currently the City of Nedlands uses the Brockway Waste Transfer Station.

The withdrawal appears to have created a rift between the City of Nedlands and the WMRC. As with many organisational cultures, the reasons for creating the culture have long since passed, as have all staff associated with its creation. Nevertheless, the culture continues.

The first documented attempts to heal the rift were taken in 2002, when the WMRC commenced negotiations with the City of Nedlands in relation to the supply of waste to the WMRC. This led to a letter from the City of Nedlands dated 12 May 2004 in which the City of Nedlands sought "an indication from WMRC that the City of Nedlands is welcome to re-establish membership". Between that letter and the WMRC's consideration of the letter in November 2004, the City of Nedlands Chief Executive Officer resigned and so Council resolved:

The Administration arrange to meet with the Executive of the City of Nedlands to further discuss its future relationship with the Western Metropolitan Regional Council in accordance with the Chief Executive Officer's report dated 24 November 2004.

Unfortunately, these discussions do not appear to have progressed significantly. Intermittent letters were sent proposing supply of waste to WMRC, but little follow-up action taken.

An independent administration for the WMRC commenced in May 2010, and a letter was sent to the City of Nedlands on 24 June 2010 outlining the desire to open discussions on the City of Nedlands becoming a member of the WMRC. The WMRC subsequently resolved on 5 August 2010 that:

The City of Nedlands be invited to enter into discussions with the Chief Executive Officer in relation to options for membership of the WMRC.

1989

City of Nedlands withdraws from Western Refuse Zone.

1990

Remaining Western Refuse Zone members establish the Western Metropolitan Regional Council.

2001

Nedlands joins WMRC's Earth Carers programme.

2002

WMRC receives a letter from Nedlands seeking indication if Nedlands is welcome to re-establish membership.

Discussions do not appear to have progressed following resignation of Nedlands CEO.

2010

WMRC invites Nedlands to enter to discuss membership of WMRC.

Nedlands delays discussions until after Regional Transition Group concludes.

2011

Following Local Government Elections the new Nedlands Mayor requests WMRC and Nedlands Administrations liaise with view to prepare membership proposal.

2012

Officers meet to discuss process for Nedlands Council to consider WMRC membership proposal.

The commencement of the Regional Transitional Grouping (RTG) discussions with the City of Subiaco at about this time meant that consideration of WMRC membership was put on hold until after the RTG process was concluded. The RTG process concluded on 7 July 2011, but WMRC membership was not advanced until after the local government elections in October 2011. With the election of new Councils in October 2011, the Mayor of the City of Nedlands requested that the administrations of the WMRC and the City of Nedlands liaise with a view to preparing a proposal for consideration by the City of Nedlands. Officers met on 24 January 2012.

2.2. The City of Nedlands and WMRC Working Together

The WMRC and the City of Nedlands have worked together for many years, notwithstanding the difficulties in relation to membership.

The City of Nedlands has long been a member of the WMRC's Earth Carers programme, a community outreach and education programme provided by the WMRC and funded by member Councils through a surcharge on waste disposal fees. The Earth Carers programme conducts Earth Carers and Living Smart courses, attends community events to promote improved waste management, and facilitates the household battery recycling programme for the City of Nedlands. Particular Earth Carers services conducted in the City of Nedlands are:

- 12 of the region's 27 battery recycling bins are in the City of Nedlands.
- All four Reduce Reuse Recycle primary school incursions done from July-December 2011 were schools in the City of Nedlands.
- In 2011, the Earth Carers had stalls at the Perth Sunfair and Sir Charles Gairdner Hospital.
- In 2011, the Earth Carers also spoke to a number of groups including Tresilian Centre, Nedlands Rotary and Mt Claremont Library

The WMRC, the member Councils and the City of Nedlands worked together to develop a Strategic Waste Management Plan ("SWMP") for the Western Suburbs. Cooperation on the SWMP is continuing for future State Government funding rounds of the Regional Investment Plan, which provides funds for the implementation of SWMP actions.

The WMRC provided space at the Brockway Waste Transfer Station for a dedicated City of Nedlands e-waste recycling bin. The WMRC managed all collection and processing of e-waste, only charging the City of Nedlands at cost. The bin has been temporarily relocated to the City of Nedlands' Mount Claremont depot due to the construction of DiCOM, however the WMRC continues to arrange collection and processing at cost.

3. The Opportunities

3.1. Creating a shared regional vision

3.1.1. WMRC and waste management...

The WMRC is currently a regional council with a very tight focus; waste management. The WMRC delivers services on the ground, and has done so successfully for the past twenty years. The formal existence of the WMRC as a local government in its own right also means that it can drive system improvement with a dedication unable to be matched by informal groupings. It has the full time staff and structured decision making to make this happen.

The WMRC avoids problems that arise from informal groupings shrinking to “discussions forums on matters of mutual interest”¹. It does this because WMRC Councillors have a fiduciary duty to the WMRC, and thus the region at large, rather than advancing the cause of their own member Councils. This duty is akin to a ward Councillor acting in the interests of the Council at large rather than seeking to represent his/her ward to the detriment of the Council as a whole.

The decision making structure of the WMRC has enabled it to advance with a waste processing solution (DiCOM) that would not have happened had it been led by an informal grouping of councils. It would also not have been led by a contractor. The WMRC brings the unity of purpose necessary for the private sector to enter into the Public-Private Partnership that has been established for the DiCOM project.

Delivering waste management through a regional council rather than solely through a contractor also means that each member council can influence the service provided. Members of the WMRC have a direct influence on all aspects of WMRC service provision, an influence far greater than might be possible under a contracting arrangement. It is for this reason that the WMRC emphasises a deep interaction with its member Councils, both structurally and operationally. How this works in practice is described in section 5.

3.1.2. ...and beyond?

Waste management is just one part of what the WMRC could achieve. **Our vision is “We make our world. Better”, and reflects the fact that it is local government, including regional councils, that creates the world in which people interact.** We believe we should all work together to make our world better.

With sufficient will from the councils in the region, the WMRC could emulate the success of the Eastern Metropolitan Regional Council as a “multi-function group”. The WMRC could help the Western Suburbs deal with a range of regional issues, including regional environmental sustainability. The member Councils have already initiated a process to enable such projects, agreeing to a review of the WMRC Establishment Agreement to enable the WMRC to deliver expanded services.

As noted in the City of Nedlands’ submission to the Metropolitan Local Government Review Panel: “The future lies in encouraging such multi-functional regional groupings [as the Eastern Metropolitan Regional Council]”².

¹ City of Nedlands’ submission to the Metropolitan Local Government Review Panel, p 18

² Ibid, p 9

3.1.3. Serving locally, acting regionally

In short, we believe that small Councils are valued, and that the savings purported to accrue from amalgamations can be achieved through regional Councils without losing the “local” part of local government.

In the current climate of forced amalgamations, we believe the best way for the Western Suburbs councils to demonstrate that they are serious about their local communities is to, where feasible, band together to provide regional services regionally. This is the most obvious, and perhaps only, way to achieve the mooted savings from amalgamation without amalgamating. The alternative, in the current climate, is amalgamation.

3.2. Participation in innovative waste processing

3.2.1. Becoming one of the very best

Membership of the WMRC enables Nedlands to participate in the DiCOM project, a Western Australian designed and built waste processing system, at the WMRC’s Brockway Waste Transfer Station.

The DiCOM system receives general household rubbish bin waste, recovers aluminium, steel, glass and plastic, and produces compost and electricity. Based on data gathered from bin audits conducted in late 2009, the DiCOM operators anticipate that more than 75% of the waste received will be recovered, and only 25% will go to landfill. The data from the 2009 audit is consistent with a 2007 audit of the green waste bin conducted for the City of Nedlands by Bowman and Associates.

By utilising the DiCOM facility, Nedlands will be among the very best of Australian Councils in waste recovery. The City of Nedlands would increase its overall landfill diversion from 40.1% as projected for 2012 in the SWMP to 77.1%. A high waste recovery insulates Nedlands against future landfill price rises from landfill levy, carbon tax or the impending landfill scarcity. It is also fundamental to environmental sustainability, a value that most residents believe should be pursued by their Council.

By utilising DiCOM, Nedlands would increase its landfill diversion from 40.1% to 77.1% and be among the best Australian Councils in waste recovery.

High waste recovery is also the single most effective step that a Council can make to reduce its contribution to climate change. Each tonne of waste in landfill generates about 1.1 tonnes of carbon dioxide equivalents (“CO₂-e”). DiCOM would lead to 4,478 fewer tonnes of waste to landfill annually from the City of Nedlands³, or over 4,900 fewer tonnes of CO₂-e generated per year at the landfill. To give some sense of context, the average Australian car emits about 5 tonnes CO₂-e per year. Replacing all mercury vapour street lighting in the City of Nedlands with compact fluorescent lamps would save 300 tonnes CO₂-e per year. A 10 kW photovoltaic solar system saves between 10-20 tonnes of CO₂-e per year.

3.2.2. Great value

The WMRC gate fee to access the DiCOM Facility is currently being finalised with the WMRC’s Corporate Business Plan, but is expected to range from \$170/tonne to \$175/tonne (ex GST). The Earth Carers surcharge is in addition to the gate fee. Subsequent increases are expected to be indexed to the Consumer Price Index (“CPI”). This gate fee is substantially below the industry

³ Strategic Waste Management Plan

benchmark for plants around Australia, reported in the *Inside Waste Industry Report 2011-12* as \$240/tonne.

The benefits of DiCOM come at no significant financial risk to the City of Nedlands. The WMRC contract with DiCOM imposes no bank guarantee on members (as at the Mindarie Regional Council), nor has the WMRC borrowed to build the plant (as at Southern Metropolitan Regional Council). The only financial risk arises from the WMRC not supplying its required 33,000 tonnes per year, as the contract is a "put or pay" arrangement. The WMRC currently receives sufficient waste to meet that obligation; current member Councils alone supply 16,000 tonnes per year. With over 1.5 million tonnes of waste suitable for DiCOM going to landfill each year in WA, the WMRC will never have a problem sourcing sufficient waste.

In particular, the WMRC will be able to source this waste whilst at the same time working hard with member Councils to reduce their waste going to DiCOM. If the City of Nedlands was a member of the WMRC, about 22,000 tonnes of member waste would go to DiCOM. A very substantial education effort might reduce the quantity by 10%, or 2,200 tonnes per year. The WMRC will easily replace this waste from commercial sources.

Whilst the risk of not sourcing sufficient waste does exist, and that risk is shared amongst member Councils, it is unlikely to ever occur.

3.3. Financial savings

3.3.1. Setting fees to cover costs

The WMRC philosophy in relation to fees is to keep them as low as possible, with the budget set to break even after provisions to Reserves for future works. The WMRC does not currently pay a dividend to members, but is looking to reconsider this for future budgets as a mechanism for avoiding deficits and more readily managing budget surpluses. If dividends were to be paid, they would be paid on the basis of ownership of the WMRC.

It should be noted that, unlike a contractor, there is no provision for profits or dividends to investors. There is no focus on inflating revenues for the sale of a business in the short to medium term. Instead, the WMRC looks to the long term, and in particular, the long term sustainability of its members.

3.3.2. Saving by buying together

The WMRC achieves savings for its members by a combination of its deep understanding of waste management and the discounts it can achieve through aggregating small quantities of waste at the waste transfer station. Some of the savings can be summarised as follows (all exclusive of GST):

- **Haulage costs.** Haulage in waste collection trucks from the region to the closest landfill (Henderson) costs about \$40/tonne. The WMRC hauls for about \$20/tonne to more distant landfills.
- **Longer haulage.** The WMRC haulage system enables it to cost-effectively haul to more distant sites where prices are lower. The gate fee at Henderson is \$104.54/tonne, compared with a gate fee of around \$97/tonne at Red Hill and Rockingham landfills.
- **Bulk volume discounts.** The quantities of waste handled by the WMRC enable it to attract bulk volume discounts. The WMRC currently attracts a discount of \$10/tonne over the standard gate fee by attracting volume discounts at the Rockingham landfill.

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| Annual Savings By Using WMRC Transfer Station | | |
|---|------------------|------------------|
| Item | Members | Nedlands |
| Tonnes per year | 15,500 | 6,600 |
| Annual saving 1: Haulage costs | \$310,000 | \$132,000 |
| Annual saving 2: Longer haulage | \$116,000 | \$50,000 |
| Annual saving 3: Bulk volume discounts | \$155,000 | \$66,000 |
| Total | \$581,000 | \$248,000 |

The overhead costs associated with the operation of the WMRC are less than the savings achieved, and significantly less when the income from commercial waste is taken into account.

3.3.3. Savings for the City of Nedlands

Nedlands currently avails itself of the above savings with only a marginally higher cost than the WMRC members. For a gate fee only \$5/tonne higher than member Councils, Nedlands has access to \$27.50/tonne in savings over taking the waste direct to landfill itself.

It should also be noted that the differential between the members fee and the Nedlands fee has closed substantially over the past few years in recognition that the WMRC member Councils and Nedlands should look to work regionally. In essence, the WMRC fees anticipate Nedlands becoming a member of the WMRC in the short term. This is tabulated below:

| Members vs. City of Nedlands Tipping Fees | | | |
|---|----------------------------|-----------------------------|------------|
| Year | Members \$/tonne ex GST | Nedlands \$/tonne ex GST | Difference |
| 2008/2009 | 109.09 | 122.73 | 13.64 |
| 2009/2010 to 31 Dec 2009 | 121.90 | 135.90 | 14.00 |
| 2009/2010 from 1 Jan 2010 | 141.91 | 155.91 | 14.00 |
| 2010/2011 * | 144.68 | 149.68 | 5.00 |
| 2011/2012 * | 156.16 | 161.16 | 5.00 |

* Charges for 2010/2011 and 2011/2012 include the Earth Carers surcharge of \$9.68 and \$11.16 respectively.

4. The Contribution

4.1. Financial

As an organisation formed by its members through an initial contribution of capital, membership by any new member requires a capital contribution. The amount and timing of that contribution is for negotiation between existing and new members. Some points for consideration are given below.

4.1.1. Amount of contribution

The contribution will be calculated in accordance with a methodology to be agreed between the City of Nedlands and the current members.

An approach that might be considered is a proportion of the current WMRC equity, reported in the 2010/2011 Annual Report as \$6,544,281 (based on "historical cost" valuation). The ownership proportion for each member is broadly the same as the member's population as a proportion of the whole. The WMRC Annual Report sets out the ownership as:

| Member Council Equity in WMRC – 2010/2011 | |
|---|----------|
| Council | % Equity |
| Subiaco (City) | 38.33 |
| Claremont (Town) | 21.34 |
| Mosman Park (Town) | 18.41 |
| Cottesloe (Town) | 17.94 |
| Peppermint Grove (Shire) | 3.98 |

Independent financial advice on the value of the WMRC will be obtained as negotiations progress, and this will form the basis for final negotiations. Specifically, it will enable the calculation of the percentage equity purchased for a particular financial contribution.

4.1.2. Timing of contribution

A capital contribution could be made as a one-off payment, or it could be made over a number of years. With the receipt of each payment, the percentage share of equity would be increased. If payment is to be made over a number of years, the members would need to agree to the payment schedule in advance. The payment schedule may be a defined dollar amount, with the share of resulting WMRC equity to be calculated annually, or a defined share of WMRC equity with the dollar amount calculated annually. A defined dollar amount is recommended.

4.1.3. Ownership and liabilities

The WMRC Establishment Agreement states that net assets are apportioned to member Councils on the basis of equity share. Net liabilities are apportioned on the basis of population.

The difference in apportionment means that exposure to net liabilities is unchanged with the amount of financial contribution. The amount of financial contribution only determines the access to net assets.

A deficit incurred in any annual budget may be recovered from the members as a liability. The liability is recovered on the basis of population.

4.1.4. Assumption of debts

The WMRC carries no debt, and so the City of Nedlands assumes no WMRC debt as a result of joining.

In the event that the WMRC did borrow, part of the WMRC debt (in the proportion of Equity held) is considered by WA Treasury Corporation to be debt of the City of Nedlands. This reduces the amount that the City of Nedlands could borrow.

For the WMRC to borrow, it would need to gain approval from each member Council. This is an onerous requirement and unlikely to occur. More likely is for the WMRC to seek an injection of capital from one or more member Councils, with that injection reflected by an increase in the proportion of WMRC Equity held.

4.2. Legal

There will be legal requirements attached to joining the WMRC. These requirements will ultimately be negotiated with the member Councils, but fall into two categories:

4.2.1. Requirements on current members

The requirements on current members are set out in the Establishment Agreement. They can be paraphrased as:

- Where revenue is less than expenditure, the WMRC may seek to recoup the deficit from member Councils in the proportion that member Council's population bears to the total populations of all members. Deficits have not been recouped from members in the past.
- In the event that members agree to wind up the WMRC, the assets and liabilities are divided amongst the members. Net assets are divided in accordance with each member's proportion of equity held, net liabilities in accordance with each member's proportion of the region's population.
- A member may withdraw with the consent of at least half the remaining members. That is, under the current arrangements, for one member to withdraw then at least two others must agree.
- Withdrawal can only occur at the start of a financial year, and then only after a minimum of six months' notice.
- The payment to/recovery from a withdrawing member is done in the same way as if the WMRC were wound up, except that the value of the Crown land, transfer station and fixed improvements is excluded from the value of assets.
- A commitment to the use of arbitration to resolve disputes.

4.2.2. Requirements on new members

A new member will have the following additional requirements:

- The amount and timing of contribution to be made to the WMRC.
- A restriction on withdrawal from the WMRC for a period of five years after gaining membership except when the WMRC is wound up.
- A requirement to sign a Waste Delivery Agreement in the same terms as other member Councils (in short, to supply to the WMRC all putrescible waste collected for a period of five years).

5. How the WMRC Works

5.1. WMRC Structure

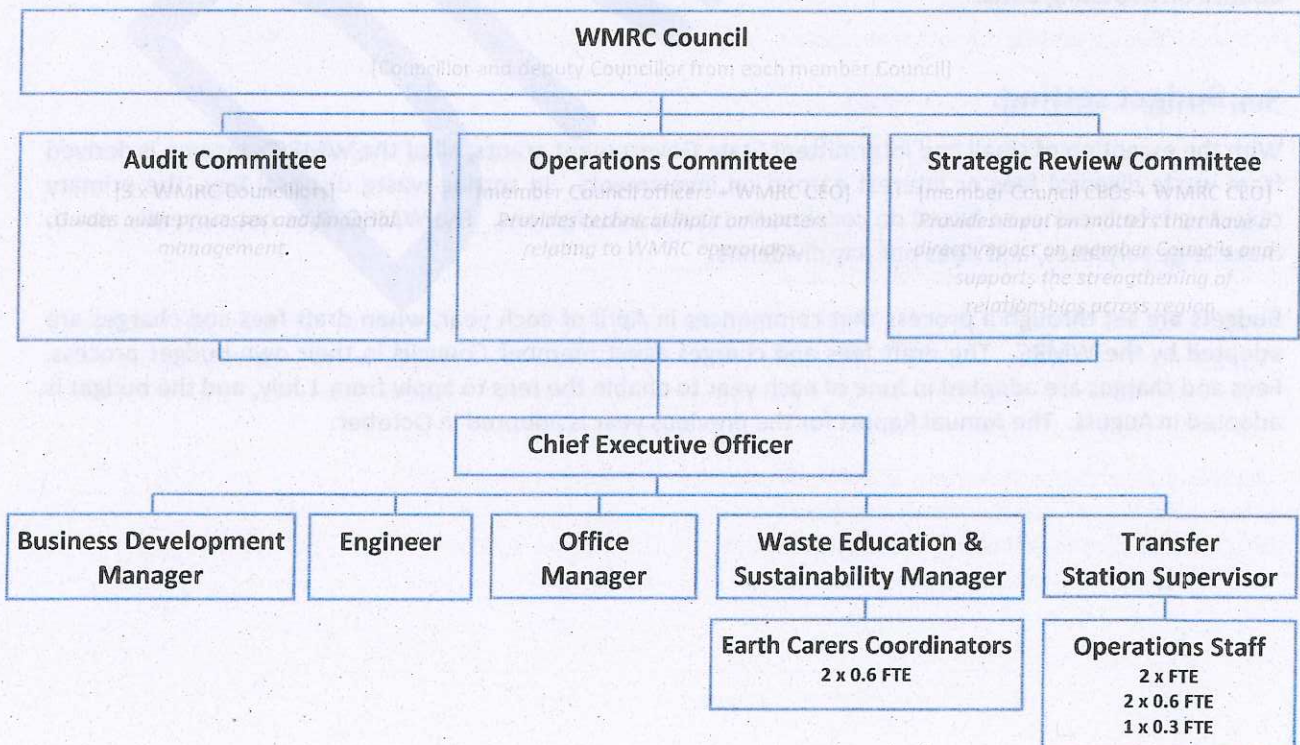
The WMRC is constituted under the *Local Government Act 1995* as a Regional Council. The WMRC is required to meet all of the same requirements of a Council with some minor exceptions (such as not being required to have an Annual Meeting of Electors).

The WMRC is governed by a Council formed of one Councillor from each member Council. There are thus five Councillors on the WMRC and five deputies, each appointed by the relevant member Council after the Local Government elections. The WMRC Chairman and Deputy Chairman are elected by the WMRC Council and serve until the following Local Government elections.

Council is supported by three committees:

- **Audit Committee** formed of Councillors alone. Terms of reference are as set out in the Local Government Act 1995.
- **Strategic Review Committee** formed of member Council Chief Executive Officers. Terms of reference are:
 - Support the strengthening of relationships across the region, including guiding the interaction between the WMRC and other regional organisations in which some or all member Councils participate.
- **Operations Committee** formed of member Council technical officers. Terms of reference are:
 - Guide the WMRC administration on matters relating to its operations.
 - Make recommendations to Council in relation to operational matters.
 - Provide technical input from member Councils into the WMRC administration.
 - Provide a conduit for information from the WMRC to member Councils.

The WMRC is staffed by a small organisation of 10.7 Full Time Equivalents (FTEs) with a correspondingly flat structure. The WMRC structure, including the committees supporting Council, is presented below:



5.2. Establishment Agreement

The WMRC is formed by an Establishment Agreement entered into by each of the member Councils. In summary, the Establishment Agreement sets out:

- How the Council is formed.
- The Purpose for which the Regional Council is established. The current Regional Purpose is centred on waste management alone.
- How borrowings or financial contributions are made.
- How the WMRC is wound up.
- How a member withdraws.
- Dispute resolution.

The Establishment Agreement is only amended by agreement from all member Councils and the Minister for Local Government. The last amendment of the Establishment Agreement was in 2003. The member Councils have recently decided to investigate a further amendment to the Establishment Agreement to broaden the Regional Purpose. Investigations into the amendment have not yet commenced.

As a new member to the WMRC requires an amendment to the Establishment Agreement, the City of Nedlands' membership would ideally be incorporated in the same amendment.

5.3. Council meetings

Ordinary Council Meetings of the WMRC are held every two months on the first Thursday of the month. The meetings are open to the public, and the agenda is made available on the WMRC website on the Friday before the meeting.

The Council agenda is formed of reports prepared by the WMRC Administration which include recommendations. Reports are considered by one of the three committees and recommendations formed for Council's consideration. Discussions at committee are minuted and included in the Council report.

Council meetings are hosted by the member Councils, being held in the Council Chambers of each member Council on a rotating basis.

5.4. Budget setting

With the exception of small and intermittent State Government grants, all of the WMRC's income is derived from waste disposal fees or interest earned on investments. In setting waste disposal fees, the primary objective is to break even based on conservative (safe) assumptions. The WMRC does not currently aim to make large surpluses, and does not pay dividends.

Budgets are set through a process that commences in April of each year, when draft fees and charges are adopted by the WMRC. The draft fees and charges assist member Councils in their own budget process. Fees and charges are adopted in June of each year to enable the fees to apply from 1 July, and the budget is adopted in August. The Annual Report for the previous year is adopted in October.

5.5. Strategic Direction

The WMRC Strategic Plan 2011-2016 was adopted in 2011, and is being revised to reflect the new integrated planning requirements. The current Strategic Plan has six Strategic Objectives:

| WMRC's Strategic Objectives |
|--|
| 1. Achieve a comprehensive, cost effective waste management service across the region. |
| 2. Increase the number of Councils, businesses and people using our services. |
| 3. Reduce waste to landfill. |
| 4. Increase the knowledge and engage the local community to improve waste management. |
| 5. Become a recognised catalyst implementing innovative practices in waste management. |
| 6. Develop a capable team and a great place to work to achieve our objectives. |

Each Strategic Objective has a hierarchy of Key Strategies, Key Actions and Measures/Targets. All Key Actions are allocated to a staff member and include dates for implementation.

5.6. Member Council engagement

The Establishment Agreement provides limited guidance on how the WMRC engages with the member Councils, and is not the appropriate vehicle for this guidance. A document entitled "Connecting the WMRC" was endorsed by the WMRC Council in October 2010 after review by the member Council CEOs, and describes the engagement. It is a five page document, setting out:

- Decision making;
- Pricing;
- Communicating; and
- Principles.

This document forms the core of how the WMRC engages.

6. But...! (FAQ)

In preparing and reviewing this document, some common questions arose. We attempt to resolve those questions here.

6.1. Questions in relation to membership

6.1.1. Does the WMRC prefer that the City of Nedlands join?

Absolutely! The City of Nedlands joining the WMRC is superior to other options such as only committing to supply waste to DiCOM. This is because the WMRC and its member Councils see powerful opportunities for regional cooperation throughout the Western Suburbs that could be realised through the WMRC structure.

6.1.2. Can we maintain a positive working relationship without the need to join?

Clearly, there will be no decision to have a bad working relationship in the event that the City of Nedlands does not join.

A decision not to join will indicate that the City of Nedlands has different priorities from the WMRC and its members, and so the working relationship will be challenged. In particular, it will be difficult to involve the City of Nedlands in the WMRC's regional projects if the City of Nedlands is not a member, and thus not part of the decision making process. This will most likely mean that the WMRC will only be able to work with the City of Nedlands at a basic level. The WMRC will make sure these relationships work.

6.1.3. What happens in the event of amalgamations?

If the amalgamation is just the City of Nedlands amalgamating with a member Council, then the WMRC will negotiate with the new entity in relation to an adjustment to its share of WMRC Equity. This will probably require a contribution from the new entity. No changes would be required to the Establishment Agreement other than to reflect the new entity's name (if it changes).

If the amalgamations lead to a reduction in the number of Councils or substantial boundary changes, then the Establishment Agreement will probably need review. In the extreme, if the current five member Councils reduce to one or two, then the WMRC may be wound up in accordance with the provisions of the Establishment Agreement.

The decisions to be made about membership in the context of amalgamations are independent of a decision by the City of Nedlands to join. If membership is seen as a good decision, it remains a good decision irrespective of amalgamations.

6.1.4. Would the City of Nedlands have a conflict of interest as regulator and member?

This is based on the City of Nedlands being a regulator for the WMRC's activities, as the Brockway Waste Transfer Station is located within the City of Nedlands.

Any potential conflict of interest is not strong, and in the big picture, must be resolvable if a regional council as operator of waste facilities is to be possible. The conflict of interest is weaker than for a council that also operates a waste facility (Cities of Stirling, Canning, Cockburn and Rockingham).

In the case of the Brockway Waste Transfer Station, the site is on Crown land and thus formally under the planning jurisdiction of the WA Planning Commission. This means that the WAPC is the planning regulator.

We do not believe that there is any conflict of interest of concern for the City of Nedlands.

6.2. Questions in relation to DiCOM

6.2.1. What does DiCOM do?

DiCOM processes general household rubbish, generally collected in the dark-green or red lidded bin. Rubbish first goes into the Materials Recovery Facility where it is gently tumbled to break plastic bags and sort materials by size. Sorted rubbish is then put through a range of processes to remove steel, aluminium, plastic, glass and grit.

Having been processed to remove recyclables, the 'clean' organic material is loaded into bioreactor vessels that work initially aerobically (i.e. composting), then anaerobically (producing methane) and finally revert to an aerobic phase to produce a finished compost. This process takes 21 days, and the three bioreactor vessels mean that DiCOM can be run as a "continuous batch" process.

The compost is taken to RichGro where it is used to produce garden and agricultural soil amendment products. Methane produced in the bioreactor vessels is used to generate green electricity which powers the plant and is exported to the grid.

DiCOM is expected to divert 75% of all waste received from landfill. The remaining 25% going to landfill will be largely inert, and thus should be able to gain an exemption from the carbon tax. Such an exemption depends largely on the landfill operator.

6.2.2. Isn't DiCOM unproven?

In terms of its technology, the DiCOM facility is a new combination of existing, proven components. It is the next generation waste processing plant from the Atlas plant currently processing waste for the City of Stirling. Many of the people who designed the Atlas plant also designed the DiCOM plant. All of the various "front-end" sorting components are well proven with many applications around the world. The only new part to DiCOM is the DiCOM reaction vessel where waste is converted into compost and biogas within 21 days.

The DiCOM reaction vessel has been proven at laboratory, benchtop and pilot scale. Stage 1 of the DiCOM Project was to build a whole DiCOM vessel and run it. This was done to prove that the principles that worked at laboratory and benchtop scales also worked in production scale. The pilot worked, and gave good design data to guide improvements for Stage 2 (currently under construction). The pilot enabled the financiers' engineers to sign off on the project, and for the financiers to approve a further tranche of funding.

6.2.3. Shouldn't we focus on separation at source rather than waste processing?

We agree. The DiCOM facility is an expensive way to treat waste that can be treated through other means. For instance, uncontaminated greenwaste is able to be collected and composted at a significantly lower cost than DiCOM. The same applies for recyclables.

The WMRC sees the opposition between source separation and processing as a false opposition. Both are important in an integrated waste processing system to achieve the best possible environmental and financial outcome.

Source separation achieves both the easy recovery, and enables high quality compost from the DiCOM plant. In short, DiCOM completes the journey commenced with source separation. According to the SWMP, DiCOM will lift Nedlands' landfill diversion from 40.1% with its current greenwaste bin to 77.1%.

6.2.4. Does signing up to DiCOM force us to stay with it, even if DiCOM fails?

If DiCOM fails to work, then under the WMRC's Waste Supply Agreement, the plant is removed from site at DiCOM's cost. If this happens, the WMRC resumes taking waste to landfill. All infrastructure for hauling waste to landfill is preserved through the operation of DiCOM, as the site still needs to deal with residuals from DiCOM and waste not suitable for DiCOM.

More likely is for DiCOM to be less successful than anticipated. Since DiCOM pays for the disposal of all DiCOM residuals, there will be strong drivers to improve performance. This also puts a floor under the poor performance of DiCOM. Substantially worse performance than expected will make the project unviable and it will fail, with removal of the plant from site covered by DiCOM.

6.2.5. What about if something better than DiCOM comes up?

The promise of something better "over the horizon" has been there for decades. These plants invariably do not materialise. When they do, it is only after 5-10 years of approvals, contract negotiation and financing. Rather than wonder what might appear, the WMRC chose to proceed with the only plant that could be constructed on site, and thus save on the significant uncertainty of transport costs.

In any event, all member Councils will have a much stronger negotiating position if negotiations are done as a region rather than individually.

6.2.6. What about processing at the landfill?

Conceivable but unlikely. Of the major landfills around Australia, processing on site prior to landfill disposal is uncommon. The best example is the Kimbriki Resource Recovery Centre in Sydney's north. This site only takes non-putrescible waste (such as bulk verge collections). It is also run by a company that has the Northern Beaches Councils as its shareholders.

The reason for processing being uncommon at landfill is that, once the waste is at the landfill, most of the costs have been incurred. At that point, the cheapest option is to landfill rather than process. This decision only changes when the cost to landfill increases due to increases in landfill levy. Kimbriki is partly driven by the NSW landfill levy of \$82.20/tonne. Landfill levy in WA is \$28.00/tonne.

6.2.7. Will the DiCOM fee change if the City of Nedlands is a member of the WMRC?

This has not yet been decided, and will be considered when the 2012/2013 fees and charges are set. The current thinking is that all Councils that sign a Waste Delivery Agreement committing waste to the DiCOM project attract the same rate.

6.2.8. What about the reports in the newspapers of a conflict of interest due to a shareholding?

The newspapers overstate the facts in this matter.

The WMRC Chairman owns 80,000 shares in AnaeCo Limited with a value at 30 June 2011 of \$6,000. Some transfer station staff also hold small parcels of shares. This is already an indirect interest, as AnaeCo no longer has any equity in the WMRC DiCOM facility. The facility is 100% owned by Palisade Investment Partners.

The Chairman's shares were purchased at the Initial Public Offering in August 2007, after the decision to proceed with DiCOM was made in April 2007. The shares were purchased as a personal vote of confidence in the technology. The value of the shareholding is less than the thresholds in the *Local Government Act 1995* of \$10,000 or 1% of the total value of issued shares at which AnaeCo Ltd would be considered a "closely associated person" of the Chairman [s.5.62(1)(d)(ii)].

Nevertheless, the Chairman's financial interest is declared whenever any report is considered that might affect the shareholding and the Chairman leaves the room for the debate and decision. Council is free to vote for the Chairman to return for the debate, and often does. The Chairman leaves the room for the decision.

Given all discussions are within the terms of a Waste Supply Agreement signed several years ago between the WMRC and the DiCOM owners, there are few decisions that materially affect the shareholding. In particular, discussions in relation to the supply of waste to the WMRC for DiCOM have no effect on the shareholding, as the WMRC is contracted to supply or pay for 33,000 tonnes of waste per year.

