



AIRPORT, WATER AND WASTE COMMITTEE MEETING

AGENDA

11 FEBRUARY 2020

Your attendance is required at a meeting of the Airport, Water and Waste Committee to be held in the Council Chambers, 232 Bolsover Street, Rockhampton on 11 February 2020 commencing at 11:30am for transaction of the enclosed business.

A handwritten signature in black ink, appearing to be "C. P.", written over a light blue circular stamp.

CHIEF EXECUTIVE OFFICER
5 February 2020

Please note:

In accordance with the *Local Government Regulation 2012*, please be advised that all discussion held during the meeting is recorded for the purpose of verifying the minutes. This will include any discussion involving a Councillor, staff member or a member of the public.

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1 OPENING

2 PRESENT

Members Present:

Councillor N K Fisher (Chairperson)
The Mayor, Councillor M F Strelow
Councillor R A Swadling
Councillor A P Williams
Councillor C E Smith
Councillor C R Rutherford
Councillor M D Wickerson

In Attendance:

Mr R Cheesman – Deputy Chief Executive Officer (Executive Officer)
Mr E Pardon – Chief Executive Officer

3 APOLOGIES AND LEAVE OF ABSENCE

4 CONFIRMATION OF MINUTES

Minutes of the Airport, Water and Waste Committee held 28 January 2020

5 DECLARATIONS OF INTEREST IN MATTERS ON THE AGENDA

6 BUSINESS OUTSTANDING

Nil

7 PUBLIC FORUMS/DEPUTATIONS

Nil

8 OFFICERS' REPORTS

8.1 REVIEW OF CHARGES FOR THE FITZROY BARRAGE WATER SUPPLY SCHEME

File No: 1466
Attachments: 1. FBWSS Charges Review Summary [↓](#)
Authorising Officer: Peter Kofod - General Manager Regional Services
Author: Jason Plumb - Manager Fitzroy River Water

SUMMARY

Fitzroy River Water (FRW) has recently completed a 5-yearly review of charges for the Fitzroy Barrage Water Supply Scheme (FBWSS) in accordance with conditions of the standard supply contract used to administer water use within this scheme. This report summarises the process used to complete this review of charges and proposes new charges for adoption by Council and implementation over the next five years.

OFFICER'S RECOMMENDATION

THAT the proposed new charges and associated price path for the Fitzroy Barrage Water Supply Scheme as detailed in this report be adopted by Council for implementation to the period from 2019-20 to 2023-24.

COMMENTARY

FRW has reviewed the pricing structure and associated charges for water allocation holders within the Fitzroy Barrage Water Supply Scheme (FBWSS). This review has been completed in accordance with conditions of the standard supply contract used to administer the use of water allocations within the FBWSS where FRW acts as the Resource Operations Licence (ROL) holder for Council.

The pricing structure for the FBWSS charges is based on principles of full cost recovery and is comprised mostly of a fixed charges component, most of which is the fixed charges associated with the Fitzroy River Barrage. Costs to be recovered are associated with the operating expenditure, depreciation of assets and a return on capital and are included in the calculation of the pricing structure. A detailed description is provided in the attachment to this report. A price path is then included using a Producer Price Index to indicate the likely increase in costs over the five year term.

The review of charges has resulted in a decrease of approximately 8% from the 2018-19 year to the 2019-20 year. This decrease is primarily due to a decrease in the Weighted Average Cost of Capital (WACC) which is a key input into the calculations. WACC itself is calculated with inputs that relate to similar industry standards and movements in the risk free rate affect the WACC outcome. The decrease in WACC from 2013-14 year modelling is due to a 41.8% decrease in the risk free rate (average 10 year bond rate) which then leads to the reduced charge overall.

Once adopted, the new charges will applied to water allocation holders within the FBWSS for the years 2019-20 to 2023-24 when the next review is scheduled for completion. The slight decrease in charges is likely to be welcomed by water allocation holders.

BACKGROUND

In early June 2019, FRW wrote to all water allocation holders to provide notification of intent to review terms and amend water charges at the 1 July 2019 review date set out in Clause 25.1 of the standard supply contract used in the FBWSS.

Further correspondence was sent to all allocation holders within the FBWSS inviting them to a meeting on 22 August 2019 at FRW to enable them to provide feedback on the current

pricing structure or any other relevant matters. About 40 people attended the meeting where information was provided by FRW as to the current and proposed approach for reviewing the charges, with opportunities provided for attendees to comment on this approach.

Following the input and feedback received at the August 2019 meeting, the proposed new charges were developed using the process outlined briefly in the attached summary. Once the review was completed, a letter was sent to all water allocation holders in mid-November advising them of the draft proposed charges and price path for the next five year period, and to invite any comments or feedback on this proposal prior to seeking Council adoption. To date, no comments or feedback have been received.

PREVIOUS DECISIONS

On 10 June 2014 Council adopted the current price path for charges associated with the FBWSS and in doing so, set the direction for what is now the standardized approach to the pricing review.

BUDGET IMPLICATIONS

The slight reduction in the charges is not expected to have a significant impact on the Council budget as it represents only a very small part of the revenue stream for FRW.

LEGISLATIVE CONTEXT

The FBWSS and Council's status as the ROL holder for the administration of this scheme is described in the *Water Act* and subordinate legislation for the regulation of the Fitzroy Basin and FBWSS.

CORPORATE/OPERATIONAL PLAN

Items 1.1.1.3 and 1.1.1.6 of the Community theme in the 2019-2020 Operational Plan describe the "*safe and reliable operation of raw water storages*" and "*safe and reliable supply of non-potable water*" respectively as operational actions.

CONCLUSION

The five yearly review of the proposed charges and price path for the FBWSS has been completed, with the result being a slight reduction in the charges to be implemented over the next five year period. The slight reduction in charges is likely to be welcomed by water allocation holders within the FBWSS.

REVIEW OF CHARGES FOR THE FITZROY BARRAGE WATER SUPPLY SCHEME

FBWSS Charges Review Summary

Meeting Date: 11 February 2020

Attachment No: 1

Fitzroy Barrage Water Supply Scheme Charges Review Summary

Proposed Price Path

The following table outlines the proposed five-year price path for medium and high priority water allocation holders.

Fitzroy River Barrage

MEDIUM PRIORITY WATER	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
REAL TERMS						
Allocation Fixed Charge Rate (per ML)	\$ 34.43	\$ 31.65	\$ 31.65	\$ 31.65	\$ 31.65	\$ 31.65
Minimum Charge (per annum)	\$ 271.20	\$ 249.30	\$ 249.30	\$ 249.30	\$ 249.30	\$ 249.30
% Increase in Allocation Rate		-8.1%	0.0%	0.0%	0.0%	0.0%
% Increase in Minimum Charge		-8.1%	0.0%	0.0%	0.0%	0.0%

HIGH PRIORITY WATER	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
REAL TERMS						
Allocation Fixed Charge Rate (per ML)	\$ 51.65	\$ 47.48	\$ 47.48	\$ 47.48	\$ 47.48	\$ 47.48
Minimum Charge (per annum)	\$ 406.80	\$ 373.95	\$ 373.95	\$ 373.95	\$ 373.95	\$ 373.95
% Increase in Allocation Rate		-8.1%	0.0%	0.0%	0.0%	0.0%
% Increase in Minimum Charge		-8.1%	0.0%	0.0%	0.0%	0.0%

It is proposed that a real price path again be adopted as part of this review and be subject to indexation via construction industry index - Produce Price Index. This approach ties annual price movements to those experienced over the life of the contract, removing the risk of understating actual capital cost growth. The costs associated with the barrage are essentially 100% fixed, signalling a tariff structure of a fixed allocation charge.

Calculation of Full Cost Recovery

Full cost recovery pricing consists of the recovery of operating expenditure, depreciation and a return on capital (return on investment and cost of debt). The current price path has been adopted on these principles and the proposed new path is to remain consistent with this approach. Refer below for comparison of current vs proposed full cost summary.

FULL COST SUMMARY

Fitzroy River Barrage

	5yr Price path period	5yr Price path period	Movement
FULL COST ASSESSMENT	2019/20 to 2023/24	2014/15 to 2018/19	
Operating Expenditure	\$ 2,694,050	\$ 2,310,230	\$ 383,820
Depreciation	\$ 4,690,049	\$ 3,055,158	\$ 1,634,891
Return on Capital	\$ 6,426,664	\$ 9,015,723	\$ (2,589,059)
Identified Full Cost	\$ 13,810,763	\$ 14,381,111	\$ (570,348)
FULL COST PRICE PER ML	2019/20 to 2023/24	2014/15 to 2018/19	
Full Cost Estimate	\$ 13,810,763	\$ 14,381,111	
Equivalent High Priority Allocations	58,223	58,223	
* using conversion factor of 1.5 MP = 1.0 HP			
Full Cost per ML HP Allocation	\$ 47.48	\$ 49.40	
Full Cost per ML MP Allocation	\$ 31.65	\$ 32.93	
Real pre-tax WACC	5.00%	5.62%	

The movement in full cost recovery can be attributed to the following:

- Operating expenditure increase due to increased Corporate Overhead costs.
- Depreciation increase due to change in useful lives during 2014 valuation (price path developed prior to finalisation of this valuation).
- Return on Capital decrease influenced by drop in WACC principally as a result in the reduction in interest rates as well as a reduction in the Written Down Value of Barrage.

Rate of Return

A real pre-tax Weighted Average Cost of Capital (WACC) of 5.00% has been applied to the regulatory asset base. The WACC was based on the average 10-year bond rate over the last 5 years of 2.6%.

Regulatory Asset Base

This is the current written down value of the Barrage, less an assumed historical contribution from government of 28.36%. The asset base is 'rolled forward' each year by adding capital works and removing depreciation.

The majority of capital works renewals are comprised of gate painting and gate winch & seal replacement.

No new capital works for the raising of the barrage has been included as it is not anticipated that this will service current customers and is aligned more to water security.

Asset Valuation of Barrage

Refer below for valuation movements:

Year	Replacement Cost (\$)	Fair Value (\$)	Annual Depreciation (\$)
2009	63,333,285	43,388,798	550,014
2014	71,227,867	37,554,148	943,857
2019	76,739,624	37,580,728	938,010

Allocation of Costs

The allocation of costs to irrigators is based on allocations held and not actual demand. That is Council holds 50,383 high priority and irrigators hold 11,760 medium priority. Actual usage (ML) by irrigators is depicted below:

2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
5,323	4,219	4,788	5,255	2,525	3,453

8.2 RECYCLABLES PROCESSING SERVICES UPDATE

File No: 169
Attachments: 1. Pricing Schedule, Scenario Based [↓](#)
Authorising Officer: Peter Kofod - General Manager Regional Services
Author: Michael O'Keeffe - Manager Rockhampton Regional Waste and Recycling

SUMMARY

The purpose of this report is to provide Council with an update on cost scenarios for recyclables processing services.

OFFICER'S RECOMMENDATION

THAT Council acknowledge the update provided on cost scenarios for recyclable processing services and note the uncertainties that can impact the waste and recycling industry which may affect Council's allocated budget.

BACKGROUND

At the Confidential Airport, Water and Waste Committee Meeting held on 26 February 2019, Council resolved to enter into a 1 year Agreement from 1 January 2021 (with a 1 year extension option) for recyclables processing services with Kriaris Recyclables Processing (Kriaris). This Agreement will be entered into pursuant to the provisions of Section 235 of the *Local Government Regulation 2012*.

Whilst there were no perceived budget implications at the time the report was presented, it is now considered prudent to provide Council with an update, purely on the basis of transparency and a budget health check as the waste and recycling industry and commodity value in the market place is continually changing.

In particular, these changes related to;

1. **Container Refund Scheme (CRS)** – a 20% (approximate) reduction in material collected from the kerbside recycling bin has been recorded. The per unit cost of processing increases with a reduction in volume and this cost is largely offset by processing less tonnes.
2. **Income to Council from the CRS** – This is the value of container refund scheme containers collected in the kerbside recycling bin which is determined by quarterly audits. Under agreement this is shared equally by the member Councils and Kriaris.
3. **Commodity Basket** – this relates to the value of recyclable material and is variable based on demand for these recyclable materials in the market place.

COMMENTARY

Modelling of a number of scenarios has been undertaken to forecast projected costs under 5 scenarios which are defined below. Note that these 5 scenarios are largely for illustration purposes only;

- Scenario 1 - Business as Usual;
 - Scenario 2 – New Council on board therefore increase in tonnages;
 - Scenario 3 – Reduced Commodity Price;
 - Scenario 4 – Rockhampton Regional Council and Livingstone Shire Council only so no transportation costs for Gladstone and Central Highlands; and
 - Scenario 5 – Rockhampton Regional Council and Livingstone Shire Council only and reduced commodity price.
-

In particular, these scenarios help Council consider the various impacts and sensitivity to the cost for recyclable processing services.

Attachment; Pricing Schedule – Scenario Based, provides an additional overview of the processing rate per input tonne under each of the 5 Scenarios.

SCENARIO 1 – BUSINESS AS USUAL

This scenario relates to the Council's of Livingstone, Central Highlands, Gladstone and Rockhampton delivering kerbside recyclables for processing at the MRF in Rockhampton.

Processing Rates – For Council the CRS has resulted in a reduction of kerbside recyclables from approximately 6,000tpa to 5,000tpa. With a quarterly adjustment to the processing rate linked to the volume of recyclables processed this has increased the processing rate in this current financial year from approximately \$201/t to \$239/t (July'19 to Sept'19). Note that at the same time we have had to pay for approximately 1,000 less tonnes to be processed. The net result is that there has been no impact to the budget as the additional cost due to the increased processing rate has been offset by the reduction in tonnes being processed. It must be noted that this rate has not taken into consideration income from CRS and is explained below.

Income to Council from CRS – based on audits of kerbside recyclables the value of eligible containers under the CRS is estimated at \$59/t (based on Councils 50% share).

This value is used to off-set the processing rate, bringing the effective processing rate down to approximately \$180/t.

Commodity Basket – this relates to the value of recyclable material sold on the open market. In 2010, the commodity basket was valued at \$128/t and by 2018 it had reduced to \$25/t, with the current value calculated at \$36/t. Any fluctuation (increase or decrease) in the value of the commodity basket will have a direct impact on the processing rate.

Under Deed of Variation with Orora, Council locked in a rate of \$129/t for paper and \$200/t for cardboard. This is much higher than the current market value which sits between \$20-\$80/t. RRWR Officers acknowledge that the commodity basket remains high due to these higher values.

Rate of Return for Orora – from 1 January 2020 to 31 December 2020 in line with the Deed of Variation, Orora will move from a break even point to a return on investment of \$200,000 which will equate to a price increase of approximately \$20/t on the processing rate.

Taking into account the current processing rate of \$239/t, as presented above, this provides for a processing rate of \$259/t for the 2020 calendar year, less the CRS value of \$59/t, therefore \$200/t.

In summary, the reduction in volume and increase in the processing rate contributes to a marginal variation. Processing rate and rate of return for Orora are largely offset by revenue from the CRS.

SCENARIO 2 – NEW COUNCIL ON BOARD

With a new Council on board with an assumed annual volume of 500tpa, this would result in an annual saving of approximately \$1/t on processing costs. An example; Isaac Regional Council processing its tonnes of recyclable material in Rockhampton.

SCENARIO 3 – REDUCED COMMODITY PRICE

An increase or decrease in the commodity price of recyclable material will have a direct impact. World demand for the product dictates the commodity price. Once the current Agreement ends with Orora, the commodity price for cardboard and paper will revert back to the open market price, which will likely result in a drop to the overall commodity basket.

Due to the likely drop to the commodity price for cardboard and paper and the resulting drop of the overall commodity basket the cost of processing is estimated to increase from Scenario 1 \$239/t to \$274/t, less the CRS value of \$59/t, therefore \$215/t.

SCENARIO 4 – ROCKHAMPTON REGIONAL COUNCIL AND LIVINGSTONE SHIRE COUNCIL ONLY, NO TRANSPORTATION COSTS FOR GLADSTONE AND CENTRAL HIGHLANDS

Under this model input of material would be from Rockhampton Regional Council and Livingstone Shire Council only with no transportation costs that are borne from Gladstone and Central Highlands.

Due to the reduction in volume and fixed operational costs this would result in an increase of \$28/t. Therefore the cost of processing is estimated to increase from Scenario 1 \$239/t to \$267/t, less the CRS value of \$59/t, therefore \$209/t.

This scenario indicates that greater volumes provide for a lower gate rate due to economies of scale despite the inclusion of transportation costs for other parties.

SCENARIO 5 – ROCKHAMPTON REGIONAL COUNCIL AND LIVINGSTONE SHIRE COUNCIL ONLY AND REDUCED COMMODITY VALUE

As explained in scenario's 3 and 4, an increase or decrease in tonnage and commodity price has direct impact on the processing rate.

Taking an assumed worst case scenario, as scenario 5, the cost of processing is estimated to increase from Scenario 1 \$239/t to \$303/t, less the CRS value of \$59/t, therefore \$244/t.

BUDGET IMPLICATIONS

Whilst the overall inputs, processing rates and return have changed there is little perceived impact on the 2019/2020 budget.

RRWR Officers need to keep abreast of the ever changing environment with a view to monitor budget spend verses allocation.

LEGAL IMPLICATIONS

There are no legal implications associated with the provision of this service. Councillors are reminded that services are being procured pursuant to the provisions of Section 235 of the *Local Government Regulation 2012*.

CONSULTATION EXTERNAL/INTERNAL

Both external and internal consultation has been undertaken with officers from RRWR Team and Kriaris Recyclables Processing. Significant time has been invested in calculating direct fixed costs and variable costs to ensure a transparent rate is calculated.

CORPORATE/OPERATIONAL PLAN

Section 3 Environment of the Corporate Plan 2017-2022 includes the Waste Reduction and Recycling Plan as a related strategy for protection and enhancement of the environment. Reducing waste to landfill by recycling and the management of resources align with plan objectives.

CONCLUSION

In concluding, consideration of the 5 Scenarios and associated cost estimates reveal that Scenario 1 – *Business As Usual*, delivers the best financial benefit to Council with a cost for processing currently estimated at \$200/t.

Although with the expected drop in the value of commodity basket due to a decrease in the price for paper and cardboard we expect or forecast that the most likely cost of processing under the new Agreement commencing in 2021 will be Scenario 3 - Reduced Commodity Price at a rate of \$215/t.

RECYCLABLES PROCESSING SERVICES UPDATE

Pricing Schedule, Scenario Based

Meeting Date: 11 February 2020

Attachment No: 1

Pricing Schedule

Calculating the gate fee to be charged under each scenario

	Scenario 1: Business as Usual	Scenario 2: New councils onboard	Scenario 3: Reduced commodity price	Scenario 4: RRC and LSC only so no transporation costs	Scenario 5: RRC and LSC only and reduced commodity price
Annual input tonnes	11,500	12,000	11,500	6,800	6,800
Processing variable costs per input tonne	\$ 151.72	\$ 156.88	\$ 151.72	\$ 73.18	\$ 73.18
Fixed costs per input tonne	\$ 151.52	\$ 145.21	\$ 151.52	\$ 256.25	\$ 256.25
Total operating costs per input tonne	\$ 303.24	\$ 302.08	\$ 303.24	\$ 329.42	\$ 329.42
Commodity revenue per input tonne	\$ 36.62	\$ 36.62	\$ 1.28	\$ 36.62	\$ 1.28
CRS revenue per input tonne	\$ 58.53	\$ 58.53	\$ 58.53	\$ 58.53	\$ 58.53
Total revenue (not incl. gate fees)	\$ 95.15	\$ 95.15	\$ 59.82	\$ 95.15	\$ 59.82
Required revenue per input tonne	\$ 333.56	\$ 332.29	\$ 333.56	\$ 362.37	\$ 362.37
Gate Fee per input tonne	\$ 238.41	\$ 237.14	\$ 273.75	\$ 267.22	\$ 302.55
Less CRS Value	\$ 58.53	\$ 58.53	\$ 58.53	\$ 58.53	\$ 58.53
Assumed Effective Gate Fee	\$ 179.88	\$ 178.61	\$ 215.21	\$ 208.69	\$ 244.02

9 NOTICES OF MOTION

Nil

10 URGENT BUSINESS/QUESTIONS

Urgent Business is a provision in the Agenda for members to raise questions or matters of a genuinely urgent or emergent nature, that are not a change to Council Policy and can not be delayed until the next scheduled Council or Committee Meeting.

11 CLOSURE OF MEETING