MINDARIE REGIONAL COUNCIL

WINNING BACK WASTE

FINANCIAL PLAN 2018 - 2037

FOREWORD

The Mindarie Regional Council's (MRC) vision is 'WINNING BACK WASTE' which will be delivered through its mission which is to "Astutely manage waste in line with the waste hierarchy for the community".

One of the documents underpinning the achievements of the vision and mission is the 20 Year Financial Plan (Financial Plan) which provides a strategic roadmap for how the MRC's finances are to be managed to best support the achievement of the vision.

The Financial Plan has been presented for a 20 year planning horizon to support and inform the Strategic Community Plan, the Workforce Plan and the Asset Management Plan.

CONTENTS

1. INTRODUCTION

The MRC currently provides waste management services to its constituent member councils, a number of commercial operations and to the general public. At present, these operations are conducted from leased premises known as the Tamala Park Waste Management Facility and from an owned site in Neerabup.

The MRC is focussed on reducing the amount of waste being sent to landfill through finding alternative uses for those materials, taking into account the economic needs of its constituent members.

By the nature of its operations, the MRC has had to invest heavily in infrastructure and as a consequence, it is important that these assets are managed in such a way as to deliver the best value over their useful lives for the benefit of the MRC's member councils.

This Financial Plan is designed to cover all aspects of the financial management of the MRC, including annual budget setting, operational and infrastructure funding and delivering long term viability.

Given the extent and complexity of forward financial planning, the MRC's Financial Plan is underpinning by detailed financial modelling. Modelling by its nature requires significant judgements and estimates to be made about future conditions and trends, and as a result, modelled results will not always translate accurately into financial performance in a particular year.

The following key principles have been taken into account in developing the Financial Plan:

- in the absence of forma contracts and approved works for specific projects, modelling is based on the most conservative, probable outcomes;
- the MRC is intended to be an autonomous, self-funding entity;
- to the extent possible, member councils are to be protected from significant gate fee price shock;
- ongoing operations will typically be funded from internally generated cash flows, while significant infrastructure projects will typically be debt funded;
- the MRC's strategic direction is intended to shift away from being an owner of waste – related infrastructure, to be a procurer of waste services on behalf of its members councils;
- in order to limit the MRC's exposure to changes in debt markets, a debt ratio of not more than 65% will be maintained in the long term; and
- for the sake of maintaining a strong liquidity position, a liquidity ratio of at least 1.1 times will be maintained in the long term.

Given the significant role that financial management plays in any operation, the MRC is committed to ongoing prudential financial management of its resources, as outlined in this Financial Plan.

2. PLANNING FRAMEWORK

The Financial Plan is a second tier planning document that forms part of the MRC's integrated planning framework and supports the implementation of the MRC's Strategic Community Plan as shown below.

3. OVERVIEW OF CURRENT POSITION AND KEY METRICS

Balance sheet as at 30 June 2016

	$000's
Current assets	
Cash and cash equivalents	24,793
Receivables	3,537
Inventories	12
Other current assets	217
	28,559
Non-current assets	
Property, plant and equipment	14,296
Infrastructure	6,182
Excavation work	29,951
Resource recovery facility	6,043
Rehabilitation asset	6,919
	63,391
Total assets	91,950
Current liabilities	
Payables	5,650
Provisions	823
Borrowings – current	4,187
	10,660
Non-current liabilities	
Provisions	83
Borrowings – non-current	1,196
Rehabilitation provision	14,949
Other non-current liabilities	40
	16,268
Total liabilities	26,928
NET ASSETS	65,022
Equity	
Retained surplus	18,559
Reserves	13,236
Revaluation surplus	29,500
Council contributions	3,727
TOTAL EQUITY	65,022

3. OVERVIEW OF CURRENT POSITION AND KEY METRICS (cont.)

3.1 Key Elements of the Balance Sheet

In addition to the normal elements of a balance sheet dealing with working capital, tangible assets and debt financing, the MRC has a number of items which are atypical of Local Governments.

Excavation work – the costs incurred in excavating the current Tamala Park landfill site have been capitalised and are being amortised over the expected life of the land site (i.e. to 2028).

Resource recovery facility - this represents the cost incurred by the MRC in establishing the tangible assets at the, Resource Recovery Facility (RRF), but also comprises a significant capitalised intangible asset in respect of the contract and legal costs incurred. These are amortised over the life of the RRF agreement.

Rehabilitation asset and liability – at the time the excavation work is carried, a provision and a corresponding asset is raised in respect of the present value of the future rehabilitation and capping work for which the MRC has an obligation. The provision is extinguished when the rehabilitation work is carried out. The asset is amortised over the expected lift of the landfill site.

Reserves - the MRC's reserves are cash-backed to ensure that the MRC has the funds set aside to settle the related obligations when they fall due.

Cash - the MRC has significant cash balances of which the majority is held separately as restricted cash in respect of the MRC's cash backed reserves. At any given time, approximately $2 million is available to fund the ongoing cash requirements of the MRC's operations.

3.2 Key Metrics

In line with prudent financial management principles, the Financial Plan is premised on the basis of the MRC maintaining its debt ratio at or below 65% in the long term and maintaining its liquidity ratio at or above 1.1 in the long term (excluding restricted cash).

The MRC is of the view that these metrics are appropriate in light of the infrastructure-heavy nature of the MRC's operations.

3.3 Business Model

In recent years, the MRC has operated on a 'cost-pass-through' basis, whereby budgets are set so as to achieve a nominal surplus each year.

Members are charged a blended gate fee rate which includes both the pure cost per tonne for the landfill operations, as well as the cost per tonne for waste processed through the RRF.

Any surpluses achieved for the year are typically retained to fund future operations.

3.4 Ongoing Business Operations

The current operating budget of the MRC is approximately $48 million per annum. This supports a local government organisation which:

- Processes approximately 260,000 tonnes of waste per annum, of which 100,000 tonnes is processed through an alternative waste treatment plant
- Is actively engaged in promoting behaviours consistent with the waste hierarchy, which includes reducing the amount of waste taken to landfill
- Is focussed on the recovery, reuse and recycling of materials that would otherwise be lost to landfill
- Runs a recycling centre where members of the public are able to bring their hazardous household materials to be dealt with in a safe, environmentally friendly manner
- Conducts significant community training and education programs to help achieve the aims of the MRC and its member councils
- Employs approximately 37 full time equivalent employees
- Needs to comply with all the governance requirements of a local government organisation

A significant number of the strategies and actions outlined in the Community and Corporate Plans of the MRC would fall within the ambit of the MRC's normal or 'business-as-usual' operations. They are able to be achieved within the existing employee structures and funding available in the annual budget. As a result, these items are not highlighted individually in the 20 year Financial Plan.

4. FINANCIAL PLANNING ASSUMPTIONS

A 40 year financial model has been developed for the MRC, terminating nominally in 2055. The following material assumptions have been adopted in the model:

- The long term trend for the Australian National CPI is assumed to run at between 1% and 2% per annum.
- The long term trend for Perth CPI is assumed to run at between 2.5% per annum.
- In the absence of specifically known future events, current expenditures are indexed based on the Australian National CPI.
- Labour costs have been assumed to increase at 3.5% per annum.
- Short term 90 day fixed deposit rates are assumed to be 3% per annum.
- The absence of any firm information to the contrary, the landfill levy has been assumed to Increase to $70 per tonne of waste to landfill by 2019 and remain constant thereafter.
- It is assumed that the MRC's landfill will terminate in 2028, with any remaining waste being sent to third party landfills.
- 100,000 tonnes per annum of Energy-front-Waste (EfW) processing capacity is modelled to come on line in 2021, with a further 100,000 tonnes of capacity being added in each of 2031 and 2041. The lifespan of the EfW plants is assumed to be 20 years.
- It has been assumed that all operational capital expenditure is financed through cash flows generated from operations and that capital expenditure relating to infrastructure is typically financed through long term borrowings which match the expected useful lives of the infrastructure.
- Long term borrowings for future infrastructure acquisitions have been assumed to have been borrowed at an interest rate of 7% per annum.
- The modelling has been developed such that a debt ratio of sub 65% and a liquidity ration of at least 1.1 times are maintained in the long term.
- Tonnage forecasts have been developed based on expected population growth statistics published by the member councils using assumed, conservative long tern population growth rates.
- Tonnage forecasts have been adjusted to reflect tonnes diverted to new waste treatment facilities. The Tamala Park Landfill Site is assumed to close in 2028.
- The members' gate fee has been set in a manner which reflects the rising costs of waste processing infrastructure with an average across the next 20 years of approximately $250 per tonne.
- The non-members' gate fee has been set to increase in line with the members' gate fee.

5. WASTE TONNAGE PROFILE

5.1 Growth Assumptions – Member Council Tonnes

Forecast tonnages for member councils are based on existing tonnes being received at Tamala Park and the RRF. Annual escalations have been based on per capita waste yields for each of the councils, escalated in line with each council's forecast population growth data.

Operations under the MRC's current constitution member councils are compelled to deliver their green bin waste to the MRC. As a result, it has been forecast that they will continue to do so after the Tamala Park Waste Management facility closes its current landfill operations in 2028. It is anticipated that over the next 40 years a number of alternative waste treatment options will be procured to process the MRC's member councils' waste.

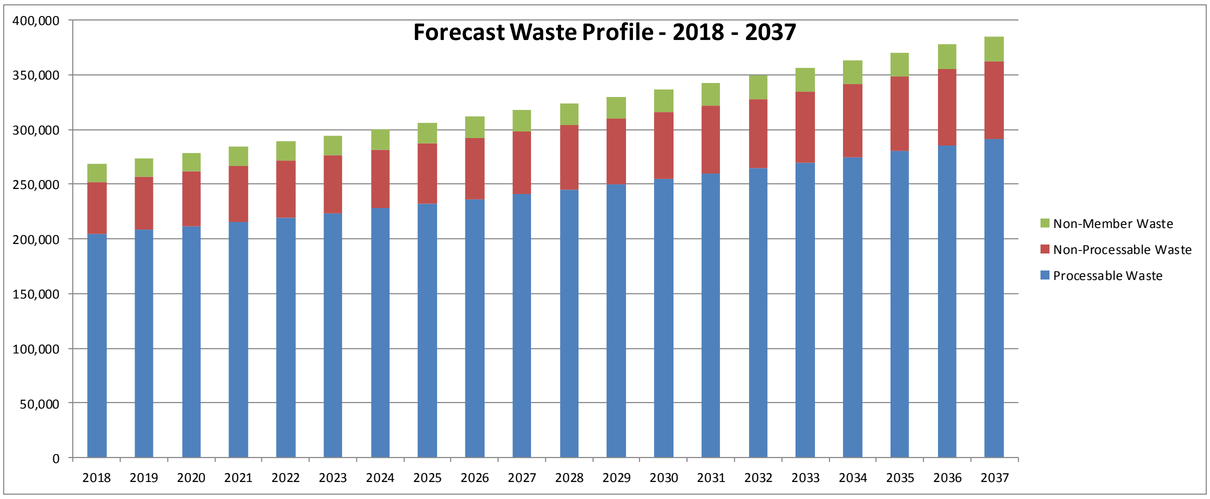
5.2 Growth Assumptions – Non-Member Tonnes

Forecast tonnages for non-members are based on existing tonnes being received at Tamala Park. Annual escalations have been based on estimated National CPI growth.

Once the Tamala Park Waste Management Facility closes its current landfill operations in 2028, it is forecast that non-members will continue to deliver their tonnes to the MRC's new facilities.

5.3 Forecast Waste Profile 2018 – 2037

The graph below shows the forecast tonnes of waste received directly from members and non-members, excluding any secondary processing residues.

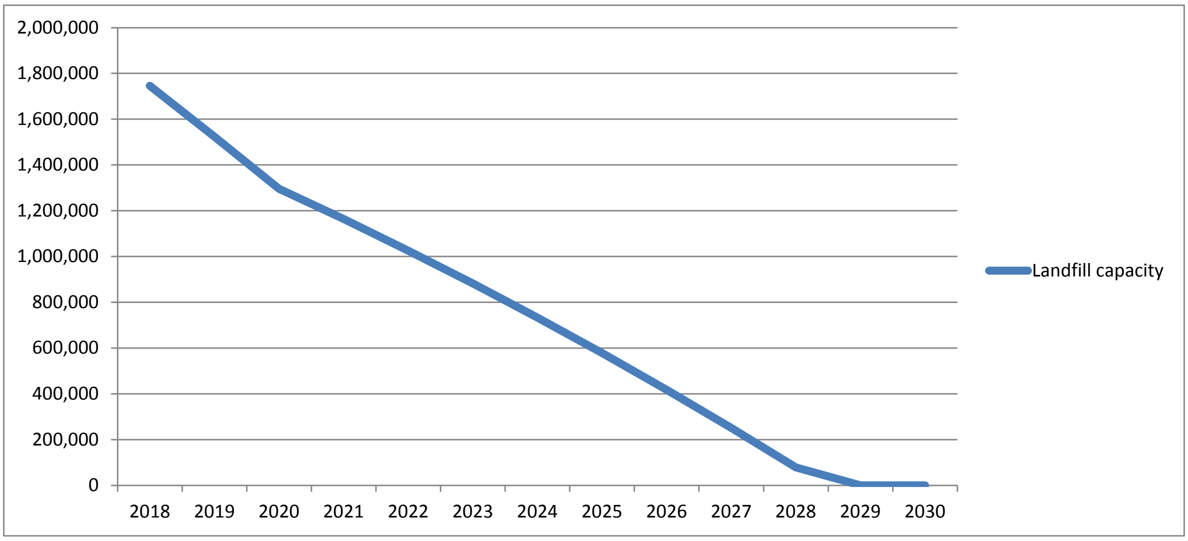


6. LANDFILL CAPACITY

At the end of 2016, the forecast capacity remaining in the Tamala Park landfill site is expected to be 2.2 million tonnes. It is anticipated that this capacity will be utilised in line with the waste profile outlined under section 5 above.

Based on present forecasting, it is anticipated that the end-of-life of the landfill will be reached in 2028. This has increased from previous estimates as a result of a forecast increase in alternative waste treatment activity, resulting in an increased diversion from landfill.

Forecast landfill capacity at Tamala Park 2018 – 2037



7. NEW INFRASTRUCTURE PROJECTS

7.1 Recycling Shop upgrade

The recycling and reuse shop at Tamala Park continues to provide an important service to the community, allowing some of the higher order outcomes of the waste hierarchy such as re-use to be implemented. Members of the community will typically bring their unwanted items to Tamala Park at no cost and the MRC will then on sell these items to people who have a use for them. This is highly aligned with the MRC's vision of Winning Back Waste.

At present, the undercover area available is insufficient to be able to accommodate all the items received by the MRC, which means that despite the best of intentions, a large amount of material ends up being rain damaged and thus rendered unsellable.

In 2018, the MRC is proposing to extend and upgrade the covered retail area at Tamala Park at an estimate cost of $400,000 which will improve the utility of this service to the community and result in improved waste diversion outcomes.

7.2 Transfer Station upgrade

The landfill at Tamala Park is forecast to close in 2028 at which stage it is likely that the landfill service will be contracted out to third part vendors.

The MRC's lease of the Tamala Park facility expires in 2033, but as part of an evaluation of what the site could be used for post 2033, the ongoing benefit of having a transfer station located at Tamala Park was clearly identified.

This ongoing capacity with allow current users of the site to continue to bring their waste to Tamala Park for onward bulk transport to a suitable landfill site, which is likely to be located outside of metropolitan Perth.

So with a view to maintaining a transfer station capacity at Tamala Park, the MRC is evaluating an upgrade of the existing transfer station in 2019 at an estimated cost of $5 million. This would see the transfer station being redesigned and enhanced to meet the needs of the MRC's member councils, the surrounding community and commercial customers over the next 20 years of operation.

7.3 Waste Precinct

In line with the MRC's philosophy of wanting a broad suite of options available for waste processing, $6 million has been set aside in 2018 for the development of a waste precinct.

The idea behind the precinct is to provide an area for the possible co-location of a bulk waste sorting shed to deal with the bulk verge collection waste stream generated by the member councils' residents and a Material Recovery Facility (MRF) to deal with the yellow recycling bin waste stream.

Although the expenditure is being budgeted for 2018, the timing of the commissioning of the waste precinct will largely be dependent on the demand arising from member councils as their various external processing contracts come to an end.

7.4 New Waste Infrastructure

The MRC is looking to continue pursue alternative waste processing options for its member councils' waste, however there has been a strategic shift away from the MRC's role being that of the owner and operator of that infrastructure to rather being a procurer of the waste processing services on behalf of its member councils.

As part of this drive, the MRC is currently engaged in evaluating the potential for an Energy-from-Waste plant in the Perth Metropolitan area, which assist significantly in helping the MRC and its member councils achieve the Waste Authority's 60% MSW diversion from landfill target.

Energy-from-Waste is seen as a useful addition to the current mix of waste processing options available to the MRC and its member councils. Over time, it is anticipated that new technologies will continue to further diversify the suite of waste processing options available to the MRC.

It is currently assumed that 100,000 tonnes of alternative waste processing capacity will become available to the MRC in each of 2021, 2031 and 2041. It is anticipated that the MRC will enter into a waste supply agreement for each of these, whereby the MRC pays a gate fee for processing, but has limited commercial risk associated with the investment and performance of the infrastructure.

8. OPERATING COST TRENDING

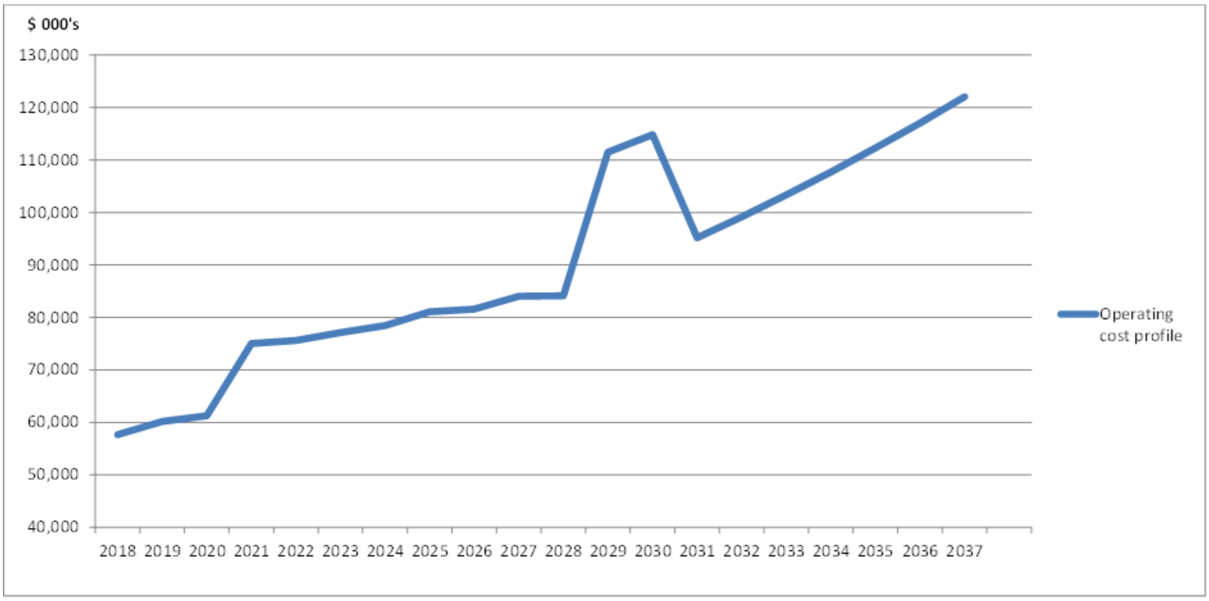
Operating costs for the MRC are based on current costs for the 2017 financial year. Where appropriate, costs are escalated based on a forecast National CPI profile. Other expense items which have directed drivers are calculated using those drivers.

The MRC's costs rise steadily from 2021 as new processing capacity is procured. This is consistent with the current experience that landfilling waste tends to be cheaper than processing waste through alternative waste treatments.

The step changes in operating costs over the next 20 years reflects the following changes in waste processing facilities:

- 2021 100,000 tonnes of Energy-from-Waste capacity comes on line
- 2028 Tamala Park landfill is closed and remaining waste to landfill is outsourced
- 2030 The RRF contract comes to an end
- 2031 100,000 tonnes of Energy-from-Waste capacity comes on line

Operating Cost trending 2018 – 2037



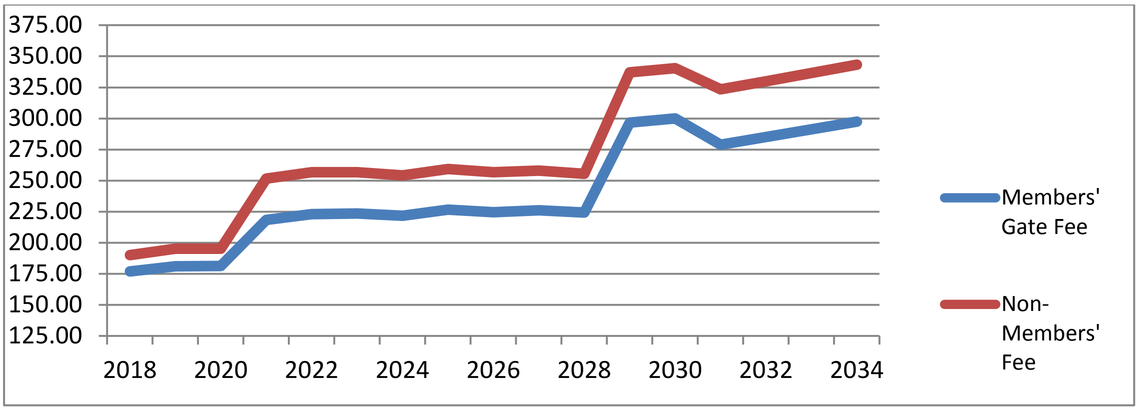
9. REVENUE SETTING

Revenue setting is a function of the gate fees for members and non-members. The gate fee in turn is set in such a way as to achieve a near breakeven position based on the forecast operating costs.

A key objective of the process is to limit the increases in the gate fee so as to insulate member councils, and therefore rate payers, from the effects of price shock. As a result, in some years, the MRC may in fact run a short term loss to accommodate this.

As a result, the overall trend in gate fees matches the movements in the underlying cost structure very closely.

Gate fee trending 2018 – 2037



10. CAPITAL EXPENDITURE PROFILE

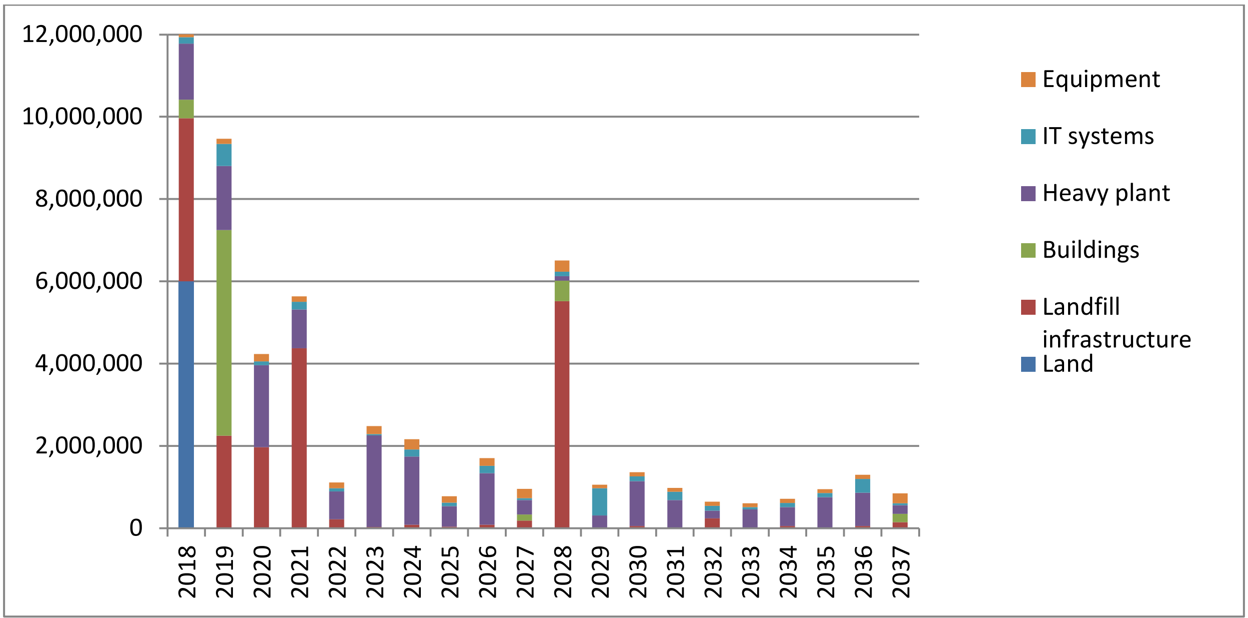
Expenditure in 2018 reflects $6 million allocated for the establishment of a waste precinct, and $4 million in respect of landfill infrastructure.

An upgrade of the Tamala Park transfer station is planned for 2019 at an estimated cost of $5 million and a landfill compactor is scheduled to be replaced in the same year at a cost of $1.5 million. The second landfill compactor will be replaced in 2020 at a similar cost.

It is anticipated that Stage 2 Phase 2 of the landfill will be capped in 2021 at a cost of $4 million.

Final capping of the landfill is budgeted for 2028 at an estimated cost of $4.3 million.

Capital expenditure profile 2018 – 2037



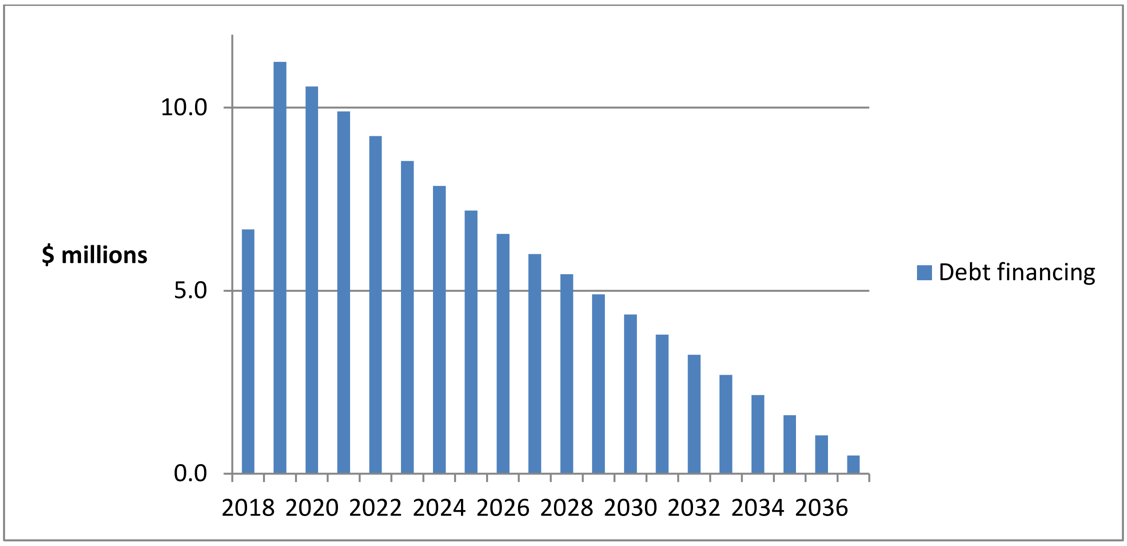
11. TREASURY PROFILE

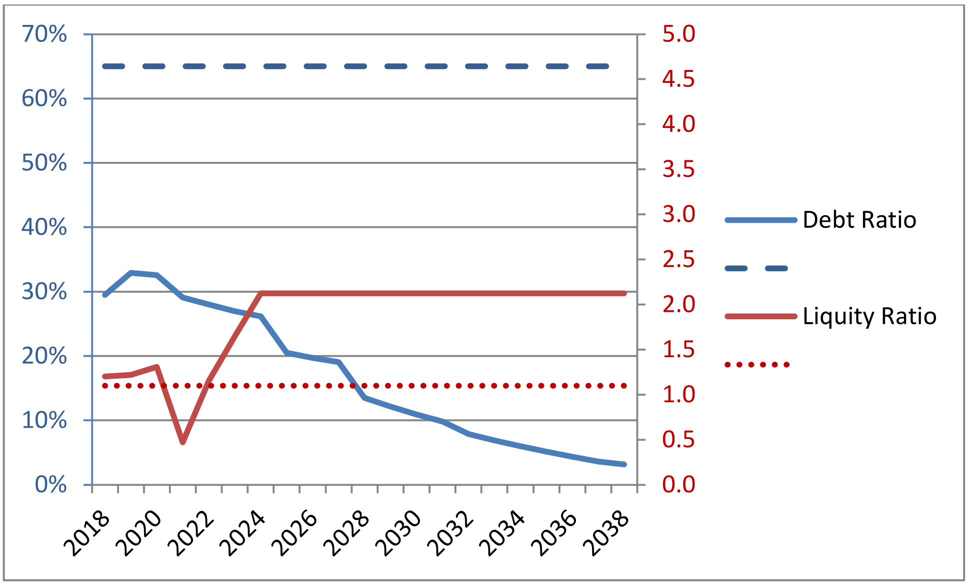
The MRC typically uses external debt to fund all major infrastructure projects, within an overall restriction of wanting to keep the debt ratio below 65%.

Debt in relation to the Tamala Park landfill site will be fully repaid by the forecast end-of-life of the site. In addition, the loans relating to the RRF will have been fully repaid by 2030.

$6 million of new borrowings is forecast to be brought on foot in 2018, which anticipates the establishment of a waste precinct.

Debt Profile 2018 – 2037





12. INVESTING ACTIVITIES

Cash balances held by the MRC are invested in line with the MRC's investment policy, which typically has funds held on fixed deposit at 90 day call. The funds are invested in multiple overlapping trances such that a portion of cash invested comes available each month to allow for the funding of the MRC's working capital requirements.

13. IMPLEMENTATION AND REVIEW

This Financial Plan will be implemented as part of the Strategic Community Plan which will take effect from 1 July 2017 and has been matched with the annual budget that also takes effect from that date.

The Financial Plan will be reviewed annually as part of the budget setting process.

The Financial Plan has a life of 20 years, but will be reviewed every 4 years in conjunction with the Strategic Community Plan.