



**EASTERN WASTE MANAGEMENT AUTHORITY  
AUDIT & RISK MANAGEMENT COMMITTEE MEETING**

**WEDNESDAY 21 APRIL 2021**

Notice is hereby given that a meeting of the Audit and Risk Management Committee of the Eastern Waste Management Authority will be held at **Tirkanthi Kuu Board Room, Payinthe, 128 Prospect Road, Prospect**, on Wednesday 21 April 2021 commencing at 8:30am.

A handwritten signature in blue ink, consisting of stylized, overlapping loops and a long horizontal stroke extending to the right.

**ROB GREGORY  
GENERAL MANAGER**

## **Acknowledgement of Country**

We would like to acknowledge this land that we meet on today is the traditional lands for the Kurna people and that we respect their spiritual relationship with their country.

We also acknowledge the Kurna people as the custodians of the Adelaide region and that their cultural and heritage beliefs are still as important to the living Kurna people today.



## **EASTERN WASTE MANAGEMENT AUTHORITY**

### **AGENDA**

#### **AUDIT AND RISK MANAGEMENT COMMITTEE**

**Meeting to be held on Wednesday 21 April 2021**

**commencing at 8:30am, at Tirkanthi Kuu Board Room, Payinthe, 128 Prospect Road, Prospect**

**1. PRESENT**

**2. ACKNOWLEDGEMENT OF COUNTRY**

**3. APOLOGIES**

**4. CONFLICTS OF INTEREST**

**5. CONFIRMATION OF THE MINUTES:**

*5.1 MEETING HELD 17 FEBRUARY 2021*

**6. MATTERS ARISING FROM THE MINUTES**

**7. QUESTIONS WITHOUT NOTICE**

**8. REPORTS**

*8.1 FINANCIAL REPORT: MARCH QUARTER + BUDGET REVIEW THREE FY2021 .....pg. 5*

*8.2 BUDGET FRAMEWORK POLICY REVIEW .....pg.12*

*8.3 REBATE & DISTRIBUTION POLICY .....pg.21*

*8.4 TREASURY MANAGEMENT POLICY REVIEW.....pg.28*

*8.5 COMPETITIVE NEUTRALITY POLICY REVIEW (LATE PAPER) .....pg.34*

**9. CONFIDENTIAL REPORTS**

NIL

**10. OTHER BUSINESS**

**11. NEXT MEETING OF THE AUDIT COMMITTEE**

The next Audit and Risk Management Committee Meeting is to be held on:  
Wednesday 16 June, 2021, commencing 8:30am, at Tirkanthi Kuu Board Room,  
Payinthe, 128 Prospect Road, Prospect

**12. CLOSURE OF MEETING**



## **MINUTES OF THE MEETING OF THE AUDIT & RISK MANAGEMENT COMMITTEE**

### **OF THE EASTERN WASTE MANAGEMENT AUTHORITY**

held on Wednesday 17 February 2021 at Tirkanthi Kuu Board Room, Payinthe,  
128 Prospect Road, Prospect.

Meeting opened at 8:32am.

#### **1. ACKNOWLEDGEMENT OF COUNTRY**

#### **2. PRESENT**

Mr F Bell	Independent Chairperson
Ms E Hinchey	Independent Member
Ms S Di Blasio	Independent Member
Mr S Bradley	City of Prospect
Cr L Green	Adelaide Hills Council (via Zoom)

#### **IN ATTENDANCE**

Mr R Gregory	General Manager
Mr S Raymond	Manager, Corporate Services
Mr Jovicevic	Dean Newbery & Partners

#### **3. APOLOGIES**

Ms K Vandermoer	Finance & Executive Administration Officer
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#### **4. CONFLICTS OF INTEREST**

Nil

#### **5. CONFIRMATION OF THE MINUTES – 18 NOVEMBER 2020**

Moved Ms Di Blasio that the Minutes of the previous meeting held on Wednesday 18 November 2020 be received and noted.

Seconded Cr Green

**Carried**

#### **6. MATTERS ARISING FROM THE MINUTES**

Nil

#### **7. QUESTIONS WITHOUT NOTICE**

NIL

#### **8. REPORTS**

##### **8.1 FINANCIAL STATEMENTS – BUDGET REVIEW TWO**

##### **RECOMMENDATION**

Moved Ms Di Blasio that the Committee:

1. Notes and accepts the operating surplus of \$204,100 associated with the 2020/21 Budget Review Two and recommends for presentation to the Board for endorsement.
2. Recommends to the Board the 2019/20 Operating Surplus amount of \$193,000 be returned to the Member Councils in line with their 2019/20 Common Fleet percentages.

Seconded Ms Hinchey

**Carried**

## **8.2 DRAFT 2021/22 ANNUAL PLAN & BUDGET**

### **RECOMMENDATION**

Moved Mr Bradley that the Committee supports:

1. That the East Waste Board review the applicability and currency of the East Waste Budget Framework Policy.
2. The draft 2020/21 Draft Budget Key Assumptions are noted and supported for presentation to the Board.
3. That the Operating Surplus requirement of the Budget Framework Policy is applied to the draft 2021/22 Budget as determined by the Board following the Board's consideration set out in resolution 8.2.1.

Seconded Ms Di Blasio

**Carried**

**Cr Green left the meeting at 9.15am.**

## **9. CONFIDENTIAL REPORTS**

### **9.1 EXTERNAL AUDITOR CONTRACT EXTENSION**

#### **RECOMMENDATION 1**

Moved Mr Bradley that pursuant to Section 90(2) and (3) of the Local Government Act, 1999 the East Waste Audit & Risk Management Committee orders that the public, with the exception of the East Waste staff present, be excluded from the meeting on the basis that the East Waste Audit & Risk Management Committee will receive, discuss and consider:

(k) tenders for the supply of goods, the provision of services or the carrying out of works;

and the East Waste Audit & Risk Management Committee is satisfied that, the principle that the meeting should be conducted in a place open to the public, has been outweighed by the need to keep the receipt/discussion/consideration of the information confidential.

Seconded Ms Di Blasio

**Carried**

### **RECOMMENDATION 3**

Moved Mr Bradley that under Section 91(7) and (9) of the Local Government Act 1999 the East Waste Audit & Risk Management Committee orders that the attachment and discussion be kept confidential for a period not exceeding 12 months, after which time the order will be reviewed by the East Waste Board.

Seconded Ms Hinchey

**Carried**

### **10. OTHER BUSINESS**

NIL

### **11. NEXT MEETING OF THE AUDIT AND RISK MANAGEMENT COMMITTEE**

The next Audit and Risk Management Committee Meeting is scheduled to be held on:

Wednesday 21 April 2021, commencing 8:30am, at Tirkanthi Kuu Board Room Payinthe, 128 Prospect Road, Prospect SA 5082.

### **12. CLOSURE OF MEETING**

There being no other business the meeting closed at 9.17am.

**PRESIDING MEMBER**

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**DATE**

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## 8.1: FINANCIAL REPORT – BUDGET REVIEW THREE

REPORT AUTHOR:	General Manager
ATTACHMENTS:	A: Budgeted Statement of Comprehensive Income
	B: Budgeted Balance Sheet
	C: Budgeted Statement of Cash Flow
	D: Budgeted Statement of Changes in Equity
	E: Budgeted Uniform Presentation of Finances Statement

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### Purpose of the Report

To provide the Committee with an opportunity to review the third review undertaken of the budgeted statutory Financial Statements (Budget Review Three) for the financial year ending 30 June 2021 as prescribed by the Regulations.

### Background

At the meeting held 25 June 2020, the East Waste Board resolved (in part):

### **2020/21 ANNUAL BUSINESS PLAN & BUDGET**

*Moved Mr Bradley that the Board endorses the 2020/21 Annual Business Plan and revised Budget as presented in Attachment A, noting that an increase to the Education budget is to be considered through the quarterly budget review process.*

*Seconded Cr Carbone*

***Carried***

### Report

Following several adjustments (detailed below), Budget Review Three is forecasting a revised FY2021 Net Surplus of \$324,000 which is \$313,000 increase on the FY2021 Adopted Budget (budget movement compared to the adopted FY2021 Budget Review 1). Key financial risks and most material budget items continue to be closely monitored and tracked by the Administration.

With the end of the financial year in sight, Administration have made a number of calculated assumptions and variations to individual budget lines in order to deliver a more accurate end of year result. The key movements are detailed in Table 1 below as at 31 March 2021 against full year budget along with commentary regarding the proposed budget variations.

**Table 1: Key Budget Item Year to Date and End of Year Forecast (BR3)**

Item	YTD Actuals (as at 31/12/2020)	Proposed Budget Variation	Notes
Bin Supply & Maintenance	\$0.524M	\$0.162M	Increase in orders of bins, compostable bags and caddies as a result of the competitive East Waste Head Contract accessible by Member Councils. Increased income balanced by matching increase in costs.
Processing Fees- Green Organics & Hard Waste	\$1.775M	\$0.500M	Increased yields against budget have seen higher than expected processing fees for both streams. Increase in processing fees offset, by increased income from Member Councils.
Fuel, Gas & Oil	\$0872M	-\$0.135M	Fuel prices have risen and are expected to continue to increase as demand for air travel rises. Despite this, savings result from the depressed world oil markets in the first 6 months of the financial year.
Recycling Processing Fee	\$1.844M	1\$0.500M	A continued favourable rise and fall rate (comparative to budget), driven largely on the back of a recovering fibre market results in a reduced cost. Reduction in costs balanced by reduced income. Importantly overall favourable result for Member Councils.
Maintenance Fleet	\$1.148M	\$0.104M	A number of significant and unexpected maintenance activities required across the fleet has resulted in increased expenditure against budget.
Wages & Salaries (incl. Casual Staff)	\$4.066M	\$0-	Reallocation of funds between wages and salaries and casual staff to better reflect staff configuration for remainder of the year. This has resulted principally from a number of unrelated resignations.

## Forecast Cash Reserves

East Waste's operating cash balance is favourable, with a March closing cash balance of \$2.83M. This balance is consistent with previous years and provides a sound positive basis through until the end of the financial year. As per previous years, this figure is expected to draw down significantly in July 2020, prior to first quarter payments being received from Member Councils.

## RECOMMENDATION

### **The Committee:**

1. Notes and accepts the net surplus of \$324,000 associated with the 2020/21 Budget Review Three and recommends for presentation to the Board for endorsement.



# ITEM 8.1 - ATTACHMENT A

## EAST WASTE

### PROJECTED STATEMENT OF COMPREHENSIVE INCOME (BUDGET)

for the Financial Year Ending 30 June 2021

FY2020		FY2021	FY2021	FY2021	FY2021
Audited Actuals		Adopted Budget	BR1	BR2	BR3
\$'000		\$'000	\$'000	\$'000	\$'000
	<b>INCOME</b>				
16,756	User Charges	17,635	17,635	17,655	17,655
21	Investment income	9	9	3	3
-	Grants, subsidies and contributions	30	30	-	-
677	Other	794	794	788	975
<b>17,454</b>	<b>TOTAL INCOME</b>	<b>18,467</b>	<b>18,468</b>	<b>18,446</b>	<b>18,632</b>
	<b>EXPENSES</b>				
5,851	Employee Costs	5,890	5,980	6,130	6,130
9,120	Materials, contracts & other expenses	9,935	9,845	9,865	10,019
2,069	Depreciation, amortisation & impairment	2,347	2,347	2,009	2,009
281	Finance costs	335	335	275	275
<b>17,321</b>	<b>TOTAL EXPENSES</b>	<b>18,506</b>	<b>18,507</b>	<b>18,279</b>	<b>18,433</b>
<b>133</b>	<b>OPERATING SURPLUS / (DEFICIT)</b>	<b>(39)</b>	<b>(39)</b>	<b>167</b>	<b>199</b>
60	Asset disposals & fair value adjustments	50	76	125	125
<b>193</b>	<b>NET SURPLUS / (DEFICIT)</b>	<b>11</b>	<b>37</b>	<b>292</b>	<b>324</b>
-	Other Comprehensive Income	-	-	-	-
<b>193</b>	<b>TOTAL COMPREHENSIVE INCOME</b>	<b>11</b>	<b>37</b>	<b>292</b>	<b>324</b>

# ITEM 8.1 - ATTACHMENT B

## EAST WASTE

### PROJECTED BALANCE SHEET (BUDGET)

for the Financial Year Ending 30 June 2021

FY2020		FY2021	FY2021	FY2021	FY2021
Audited Actuals		Adopted Budget	BR1	BR2	BR3
\$'000		\$'000	\$'000	\$'000	\$'000
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
2,322	Cash & Cash Equivalents	2,156	2,314	2,232	2,264
1,019	Trade & Other Receivables	717	1,019	1,019	1,019
-	Other Financial Assets	-	-	-	-
<b>3,341</b>	<b>TOTAL CURRENT ASSETS</b>	<b>2,873</b>	<b>3,333</b>	<b>3,251</b>	<b>3,283</b>
<b>NON-CURRENT ASSETS</b>					
7,652	Infrastructure, Property, Plant & Equipment	8,093	8,096	8,317	8,317
<b>7,652</b>	<b>TOTAL NON-CURRENT ASSETS</b>	<b>8,093</b>	<b>8,096</b>	<b>8,317</b>	<b>8,317</b>
<b>10,993</b>	<b>TOTAL ASSETS</b>	<b>10,966</b>	<b>11,429</b>	<b>11,568</b>	<b>11,600</b>
<b>LIABILITIES</b>					
<b>CURRENT LIABILITIES</b>					
1,205	Trade & Other Payables	771	1,224	1,224	1,224
1,929	Borrowings	2,176	2,287	2,287	2,287
597	Provisions	633	642	642	642
<b>3,731</b>	<b>TOTAL CURRENT LIABILITIES</b>	<b>3,580</b>	<b>4,153</b>	<b>4,153</b>	<b>4,153</b>
<b>NON-CURRENT LIABILITIES</b>					
6,221	Borrowings	6,192	6,153	6,037	6,037
77	Provisions	156	122	122	122
<b>6,298</b>	<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>6,348</b>	<b>6,275</b>	<b>6,159</b>	<b>6,159</b>
<b>10,029</b>	<b>TOTAL LIABILITIES</b>	<b>9,928</b>	<b>10,428</b>	<b>10,312</b>	<b>10,312</b>
<b>964</b>	<b>NET ASSETS</b>	<b>1,038</b>	<b>1,001</b>	<b>1,256</b>	<b>1,288</b>
<b>EQUITY</b>					
964	Accumulated Surplus	1,038	1,001	1,256	1,288
<b>964</b>	<b>TOTAL EQUITY</b>	<b>1,038</b>	<b>1,001</b>	<b>1,256</b>	<b>1,288</b>

# ITEM 8.1 - ATTACHMENT C

EAST WASTE					
PROJECTED STATEMENT OF CASH FLOWS (BUDGET)					
for the Financial Year Ending 30 June 2021					
FY2020		FY2021	FY2021	FY2021	FY2021
Audited Actuals		Adopted Budget	BR1	BR2	BR3
\$'000		\$'000	\$'000	\$'000	\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
<b>RECEIPTS</b>					
17,136	Operating Receipts	18,408	18,458	18,444	18,630
16	Investment Receipts	9	9	3	3
<b>PAYMENTS</b>					
(5,795)	Employee costs	(5,890)	(5,890)	(6,040)	(6,040)
(8,677)	Materials, contracts & other expenses	(9,845)	(9,845)	(9,865)	(10,019)
(291)	Interest Payments	(300)	(335)	(275)	(275)
<b>2,389</b>	<b>NET CASH PROVIDED BY (OR USED IN) OPERATING ACTIVITIES</b>	<b>2,382</b>	<b>2,397</b>	<b>2,267</b>	<b>2,299</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
<b>RECEIPTS</b>					
81	Sale of Replaced Assets	50	95	145	145
<b>PAYMENTS</b>					
(2,297)	Expenditure on Renewal/Replaced Assets	(2,730)	(2,790)	(2,675)	(2,675)
-	Expenditure of New/Upgraded Assets	-	-	-	-
<b>(2,216)</b>	<b>NET CASH PROVIDED BY (OR USED IN) INVESTING ACTIVITIES</b>	<b>(2,680)</b>	<b>(2,695)</b>	<b>(2,530)</b>	<b>(2,530)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
<b>RECEIPTS</b>					
65	Capital Contributed by Member Councils	-	-	-	-
2,171	Proceeds from Borrowings	2,400	2,400	2,284	2,284
<b>PAYMENTS</b>					
(220)	Repayment of Lease Liabilities	(265)	(265)	(265)	(265)
(1,834)	Repayment of Borrowings	(1,845)	(1,845)	(1,845)	(1,845)
<b>182</b>	<b>NET CASH PROVIDED BY (OR USED IN) FINANCING ACTIVITIES</b>	<b>290</b>	<b>290</b>	<b>174</b>	<b>174</b>
<b>355</b>	<b>NET INCREASE (DECREASE) IN CASH HELD</b>	<b>(8)</b>	<b>(8)</b>	<b>(89)</b>	<b>(58)</b>
<b>1,967</b>	<b>CASH &amp; CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>2,163</b>	<b>2,322</b>	<b>2,322</b>	<b>2,322</b>
<b>2,322</b>	<b>CASH &amp; CASH EQUIVALENTS AT END OF PERIOD</b>	<b>2,155</b>	<b>2,314</b>	<b>2,233</b>	<b>2,264</b>

# ITEM 8.1 - ATTACHMENT D

## EAST WASTE

### PROJECTED STATEMENT OF CHANGES IN EQUITY (BUDGET)

for the Financial Year Ending 30 June 2021

FY2020		FY2021	FY2021	FY2021	FY2021
Audited Actuals		Adopted Budget	BR1	BR2	BR3
\$		\$'000	\$'000	\$'000	\$'000
706	BALANCE AT END OF PREVIOUS REPORTING PERIOD	1,026	964	964	964
193	Net Surplus / (Deficit) for Year	11	37	292	324
65	Contributed Equity	-	-	-	-
-	Distribution to Councils	-	-	-	-
<b>964</b>	<b>BALANCE AT END OF REPORTING PERIOD</b>	<b>1,037</b>	<b>1,001</b>	<b>1,256</b>	<b>1,288</b>

# ITEM 8.1 - ATTACHMENT E

## EAST WASTE

### PROJECTED UNIFORM PRESENTATION OF FINANCES STATEMENT (BUDGET)

for the Financial Year Ending 30 June 2021

FY2020		FY2021	FY2021	FY2021	FY2021
Audited Actuals		Adopted Budget	BR1	BR2	BR3
\$'000		\$'000	\$'000	\$'000	\$'000
17,454	Income	18,467	18,467	18,446	18,632
(17,321)	Expenses	(18,506)	(18,506)	(18,279)	(18,433)
<b>133</b>	<b>Operating Surplus / (Deficit)</b>	<b>(39)</b>	<b>(39)</b>	<b>167</b>	<b>199</b>
<b>Net Outlays on Existing Assets</b>					
(2,297)	Capital Expenditure on Renewal and Replacement of Existing Assets	(2,730)	(2,790)	(2,675)	(2,675)
2,069	Depreciation, Amortisation and Impairment	2,347	2,347	2,009	2,009
81	Proceeds from Sale of Replaced Assets	50	95	145	145
<b>(147)</b>		<b>(333)</b>	<b>(348)</b>	<b>(521)</b>	<b>(521)</b>
<b>Net Outlays on New and Upgraded Assets</b>					
-	Capital Expenditure on New and Upgraded Assets	-	-	-	-
-	Amounts Specifically for New and Upgraded Assets	-	-	-	-
-	Proceeds from Sale of Surplus Assets	-	-	-	-
-		-	-	-	-
<b>(14)</b>	<b>Net Lending / (Borrowing) for Financial Year</b>	<b>(372)</b>	<b>(387)</b>	<b>(354)</b>	<b>(322)</b>

## 8.2: REVIEW OF BUDGET FRAMEWORK POLICY

**REPORT AUTHOR:** General Manager  
**ATTACHMENTS:** A: Draft Budget Framework Policy

### Purpose of the Report

To provide the Committee with an opportunity to review the revised East Waste Budget Framework Policy, prior to presentation to the Board.

### Background

The Budget Framework Policy was developed in 2018, to provide a consistent and transparent process and for the retention of corporate knowledge and consistency across financial years in the accounting treatment and disclosure applied to services and events undertaken by the Authority.

In the setting of the FY 2021/22 Budget, through the Audit & Risk Committee, it was identified that the Policy had not been revised in line with the revision schedule. The Board, at the meeting held 24 February 2021, subsequently resolved (in part):

## 8.2 DRAFT 2021/22 ANNUAL PLAN & BUDGET

*4. Instructs Administration to undertake a review of the Budget Framework Policy and present to the Board prior to the end of the current financial year.*

*Seconded Mayor Holmes-Ross*

***Carried***

### Report

The Budget Framework Policy has, and remains, an effective document to guide the establishment and delivery of the East Waste Annual Budget and reporting process. The Policy further enhances the governance structure surrounding the management and reporting of the Authority's budget activities, which are detailed in the *East Waste Charter, Local Government Act 1999 S.123 and the Local Government (Financial Management) Regulations 2011*.

With the Policy having operated for three (3) years, there are a number of proposed amendments to be made to the document in order to provide greater clarity and guidance to the Board, Administration and Member Councils. These amendments are highlighted via tracked changes in the attached document.

Of note:

- A number of changes have been made to definitions to provide greater clarity;
- The Financial Performance Target (Financial Target 1) has been refined for greater clarity; and
- An additional Principle (No.2) has been added to provide scope for increasing Common Fleet Costing Charges, in the event this is required.

Further detail and explanation will be provided at the meeting in relation to these changes.

### RECOMMENDATION

**The Committee notes and accepts the revised Budget Framework Policy as presented in Attachment A and recommends for presentation to the East Waste Board.**

## ITEM 8.2 - ATTACHMENT A

<b>BUDGET FRAMEWORK POLICY</b>		<b>EastWaste</b>
<b>Type</b>	Governance	
<b>Category</b>	Finance	
<b>First Issued/Adopted</b>	Board:13 December 2018	
<b>Minutes Reference</b>		
<b>Review Period</b>	<del>12</del> <u>24</u> months	
<b>Last Reviewed</b>	N/A	
<b>Next reviewed</b>	<del>December</del> <u>November</u> <del>2019</del> <u>2022</u>	
<b>Applicable Legislation</b>	<ul style="list-style-type: none"> <li>Local Government Act 1999</li> <li>Local Government (Financial Management) Regulations 2011</li> </ul>	
<b>Related Documents</b>	<ul style="list-style-type: none"> <li>East Waste Charter</li> <li>East Waste <del>Business Plan 2015-2024</del> <u>Strategic Plan 2030</u></li> <li>East Waste Long Term Financial Plan</li> </ul>	
<b>Consultation Undertaken</b>	Audit & Risk Management Committee	
<b>Responsible Officer</b>	Manager, Corporate Services	

SIGNED: .....

General Manager

Date: \_\_\_\_/\_\_\_\_/\_\_\_\_

.....

Chairperson

Date: \_\_\_\_/\_\_\_\_/\_\_\_\_

## Purpose

East Waste as a Regional Subsidiary seeks to be accountable in all aspects of the budget development process and meet Member Council expectations of transparency, clarity, consistency, responsible financial management and reporting.

Importantly the Framework will assist with the retention of corporate knowledge and consistency across financial years in the accounting treatment and disclosure applied to services and events undertaken by the Authority.

As detailed below it is important to note that the Framework does not, and will not, abdicate from any applicable legislative or regulatory requirements (including ~~for applicable~~ Australian Accounting Standards where applicable). The Policy is intended to further enhance the governance structure surrounding the management and reporting of the Authority's budget activities, which are detailed in *the East Waste Charter, Local Government Act 1999 S.123* and the *Local Government (Financial Management) Regulations 2011*.

## Background

The *East Waste Charter* and specifically *Sections 51-55*, set out the annual requirements for the Development of an Annual Plan and Budget. In summary:

- The Authority must, each financial year have an Annual Plan which supports and informs the budget;
- The Draft Annual Plan must be provided to Constituent Councils and consented to by an absolute majority of Constituent Councils before 31 May each year;
- The Authority must advise Constituent Councils of the proposed fees for the following Financial Year by April 1 of the preceding financial year.

The budget must also comply with the standards and principles prescribed by the *Local Government Act 1999* and applicable Regulations. The budget shall include budgeted financial statements, which must be presented, in a manner consistent with the Model Financial Statements.



## Definitions

<b>Common Fleet Costing Charge</b>	<p>The charge to each Member Council which represents all direct and administrative costs associated with the delivery of waste collection, fleet maintenance, waste management administration, education &amp; promotions activities, regulatory compliance and funding debt servicing obligations related to common fleet plant &amp; equipment related activities. The actual charge is apportioned based on the Common Fleet Percentage of the Member Council.</p> <p><u>The Common Fleet Costing Charge also incorporates an additional charge to Member Councils to incorporate any Return on Revenue targets imposed by this Policy.</u></p>
<b>Common Fleet Costs</b>	<p><u>Common Fleet Costs represent all direct and administrative costs associated with the delivery of waste collection, fleet maintenance, waste management administration, education &amp; promotions activities, regulatory compliance and funding debt servicing obligations related to common fleet plant &amp; equipment related activities.</u></p>
<b>Common Fleet Percentage</b>	<p>Calculated from GPS data collected from each East Waste Fleet Truck. The Common Fleet Percentage (CFP) is the portion of time taken to undertake the 5 core services (household kerbside collections (waste, recycling &amp; organics), street &amp; reserve litter bins and hard rubbish) for each Member Council. This is represented as a percentage of the total time and is used as a basis for the Common Fleet Costing Charge.</p> <p>CFP data is reviewed and updated each month. Revised CFP allocations are applied to Common Fleet Cost charges annually or when significant variations occur (eg. new service added or new Council enters).</p>
<b>Constituent Council Share</b>	<p>As detailed in S.57 of the <i>East Waste Charter</i>, all Member Councils hold an equal equitable ownership interest share in East Waste.</p>
<b>Corporate Administration Fee</b>	<p><u>Set fee charged equally across all Member Councils.</u> Refer to latter section titled <i>Corporate Administration Fee</i> for explanation.</p>
<b>Local Government Price Index</b>	<p>The Local Government Price Index (LGPI) measures price movements faced by Local Government in South Australia in respect of their purchases of goods and services. As the mix of goods and services purchased by Local Councils/Regional Subsidiaries is quite different from that typically consumed by households, overall price movements faced by Local Councils may differ markedly from those faced by households.</p>
<b>Member Councils</b>	<p>Also known as Constituent Councils, are those Councils which are referred to in <i>Section 1</i> of the <i>East Waste Charter</i>.</p>

Model Financial Statements	Refers to the Model Financial Statements described in Regulation 4(3) of the <i>Local Government (Financial Management) Regulations 2011</i> .
Net Surplus	<u>Refers to the Net Surplus as calculated on the Statement of Comprehensive Income per the Model Financial Statements.</u>
Non-Member Councils	<u>Councils, Organisations or waste related services, provided outside of existing Constituent Councils (as referred to in <i>Section 1</i> of the <i>East Waste Charter</i>). A differential rate is to be applied to activities provided to non-Member Councils.</u>
Proposed Fees	The indicative Common Fleet Costing Charge, Corporate Administration Fee, waste and processing fees (where applicable) and any other charges which the Authority intends to charge Member Councils in the subsequent Financial Year.
Return on Revenue	<del>Calculated as-</del> <u>A Return on Revenue is calculated on the basis of a % charge above that required to recover all estimated Common Fleet Costs.</u> <del>being the total Net surplus generated on common fleet costing fees charged to Constituent Councils for common fleet waste collections activities provided.</del>

## Preparation Schedule

The following timetable is to be annually applied in the development of the Annual Budget:

Month	Activity
November:	Review Budget Framework Policy if required
December/January:	Develop Draft Annual Plan
January:	Develop Draft Annual Budget
February:	Board consideration and endorsement of Draft Annual Plan & Budget
March:	Draft Annual Plan & Budget sent to Member Councils for consideration
April/May:	Member Council endorsement of Draft Annual Plan
June:	East Waste Board adoption of Annual Plan & Budget
June/July:	Member Councils formally notified of Fees and provided endorsed copy of Annual Plan.

## Budget Reviews

Legislation requires a budget update at least twice per year and a mid-year budget review. East Waste will present to the Audit & Risk Management Committee and Ordinary Board Meeting (and subsequently Member Councils), quarterly budget reviews at the meetings immediately following the following period ended:

- 30 September;
- 31 December; and
- 31 March

Preparation and presentation of budget information will be consistent with the Board's requested demands to ensure users are provided with the necessary information to discharge their duties and Member Council reporting requirements. Budget work papers will also ensure to comply with any reporting legislative requirements relating to the presentation and timing of budget revisions conducted, whilst at the same time acknowledging and protecting the financial integrity of East Waste operating in a commercially competitive environment

## Financial Targets

1. Financial Performance Target ~~Operating Result: 1 – 2% %~~ Return on Revenue (based on Common Fleet Costing Charge).
2. Working capital requirements: retention of cash reserves equal to funding one quarter of estimated operational expenses requirements (including loan repayments).
3. Authority to maintain a \$1m bank overdraft facility for emergency purposes only.
4. The Authority shall remain in a positive Net Asset/Equity position at all times.
5. The Authority is to ensure it complies with the principles contained within the adopted Treasury Management Policy when considering the development and revision of the budget.

## Principles

The following Principles underpin the Budget Development and budget review process.

1. Projected operating income is set to ensure sufficient funds are raised to meet all financial obligations (operating and capital) for the relevant financial year, taking into account the activities listed in the draft Annual Plan.
2. Should East Waste's annual adopted Common Fleet Costing Charges not be sufficient to recover projected costs for the financial year, at each budget review, the Board will determine whether Common Fleet Costing Charges are required to be increased to meet working capital requirements for the financial year. Any changes to Common Fleet Costing Charges are to be done in accordance with the principles set within the East Waste Charter and the Local Government Act 1999.

- ~~4.3.~~ All expenditure decisions will align with the East Waste 10-year Strategic Plan.
- ~~2.4.~~ Zero-based budget approach is to be adopted for the development of the annual budget in order to ensure each activity allocation remains relevant for the coming year.
- ~~5.~~ A full cost recovery model to be employed for all services and activities. Budgets will be based on meeting agreed service levels or program activity commitments.

- ~~3.6.~~ The Budget is to be established and reported upon according to the following four (4) key Business Units:

Common Fleet ~~Activities~~ ~~Costing~~: Represents all direct and Administrative costs associated with the Delivery of waste collection, fleet maintenance, waste management administration, education & promotions activities, regulatory compliance activities and funding debt servicing obligations related to common fleet plant & equipment (across 5 streams). Charged in accordance with common fleet allocation.

Bin Maintenance Activities: A cost recovery service charged to each individual Council for services directly associated with bin renewal, replacement and maintenance.

Waste Disposal Activities: A cost recovery activity against each individual Council for disposal costs incurred. Occurs only where the Member Council is not invoiced directly.

Corporate Administration: A set Administrative Fee charged equally amongst Member Councils (further detail below), along with ancillary income (interest, grants, asset sales etc).

Should East Waste expand its services offering to Constituent Councils and/or Non Member Council customer in future years, additional business units may need to be established and recognised in the next update of this Policy when required.

7. External borrowings ~~Loans~~ will be used to fund the acquisition/construction of long-term assets ~~creation used to provide services~~ and not to fund or support recurrent service delivery costs.
8. Fleet and Motor Vehicle acquisition costs ~~Capital Expenditure~~ is to be funded ~~solely~~ via external loan borrowings. An annual review of this principle is to be confirmed by the Board through the budget adoption process.
9. Capitalisation threshold for all assets to be set for items that cost greater than \$3,000;
10. Term of loan borrowings to be taken over a period equal to the expected useful life of the asset. ~~or~~ For any items with an indefinite useful life, ~~the a-period of the loan is to as-be~~ determined by the Board.

11. Assets depreciation is to be set over the expected life of the assets in accordance with Australian Accounting Standards (AASB) 116 Property, Plant and Equipment. Residual values will be applied to assets where there is an estimated 'salvage or trade-in' value for the asset at the end of its expected useful life.
12. The Corporate Administration Fee, along with the Common Fleet Costing charge for the five key services (kerbside collection, hard rubbish and street and reserve litter bins), to Member Councils is to be processed quarterly in advance based on the adopted Fees and Charges. All other charges to Member Councils are for reimbursement of costs incurred by the Authority which are invoiced at the end of the month incurred, following reconciliation. All invoices issued to Member Councils have payment terms of ~~30~~ 14 days payable from the date of the invoice issued.
13. The Common Fleet Costing Charge is determined based on the ~~usage~~ servicing time of the previous financial year. Where there is a new service or incomplete data (i.e. the service was not undertaken for a full 12 months), an evidence-based approach will be used to calculate the Common Fleet percentage.
14. Where applicable the provision of non-core services to non-member Councils are to include a margin which reflects the risk, asset renewal and fair and reasonable administrative charges incurred.

## Corporate Administration Fee

East Waste operates on a full cost recovery model for all services and activities. This is either direct recovery (e.g. disposal and processing fees) or via the common fleet percentage (e.g. collection fees and maintenance costs). The exception is the Corporate Administration Fee which is split equally (Constituent Council Share) across Member Councils.

For the 2019/20 budget process, the established base Administration Fee of \$225,000 is to be applied. For future years, the Administration Fee is to be annually increased by the Local Government Price Index (LGPI), or the annual average percentage movement in the Common Fleet Costing Charge, whichever is greater. The Corporate Administrative Fee is to be reviewed through each Annual Budget process.

**END.**

## 8.3: REBATE AND DISTRIBUTION POLICY

**REPORT AUTHOR:** General Manager  
**ATTACHMENTS:** A: Draft Rebate & Distribution Policy

### Purpose of the Report

To provide the Committee with an opportunity to review and comment on the proposed East Waste Rebate & Distribution Policy, prior to presentation to the Board.

### Background

For most years in recent history, through the continued identification and implementation of efficiencies, East Waste has been in the fortunate position to provide a financial return to Member Councils. While this will not always be possible, in returning funds it has become clear that there is a need to provide a clearer and more consistent decision making and delivery process for doing so.

### Report

The East Waste Charter is clear in stating that all surplus funds must be returned to Member Councils. Section 61 of the Charter states:

#### **61. DISTRIBUTIONS TO CONSTITUENT COUNCILS**

*The Authority must pay or credit surplus funds to the Constituent Councils in proportion to their Shares to the extent the Board determines the Authority can afford to pay having regard to future expenditure the Business Plan anticipates be incurred.*

Member Council Shares as per Section 57.1 of the East Waste Charter are equal (equating to 14.2857%).

**57.1** *At the date of operation of this Charter the Constituent Councils' shares in the Authority are equal.*

As Member Councils have an equal share in the assets, liabilities and revenue of the Authority, it is appropriate that any significant distributions are done so equally.

A net surplus has been common in recent years and therefore necessitated the need to return this to Member Councils. It has been the view of Administration and the Board that the original funds that contributed to the net surplus were provided by the Councils based on their Common Fleet Costing Charge which has significantly variation. For example, the Town of Walkerville has a Common Fleet Costing percentage of 3.4% and Adelaide Hills Council has a Common Fleet Costing percentage of 21.3%. In simple terms this means that at the start of the financial year the net surplus was derived from, out of every \$100 spent, Adelaide Hills Council contributed \$21.30 and Town Walkerville of \$3.40.

As such from an equity perspective it has been deemed that any funds to be returned should also be provided on this basis and it is this framework that has been used.

From an accounting perspective a Distribution (paid equally) is reflected as a cash payment and does not impact on the financial performance of East Waste in the period it is paid. A rebate either can be provided as either a reduction in future Common Fleet Costing Charges or by a physical payment of funds. A rebate is reflected as operating expense to East Waste in the financial year it is either paid and/or applied against Common Fleet Costing Charges and will be an unbudgeted expense.

The draft Rebate and Distribution Policy as presented in Attachment A (refer Attachment A), provides the necessary clarity, transparency, flexibility and consistency in process and scenarios for the return of net surpluses to Member Councils.

#### **RECOMMENDATION**

**The Committee notes and accepts the Rebate & Distribution Policy as presented in Attachment A and recommends for presentation to the East Waste Board.**



# MEMBER COUNCIL REBATE & DISTRIBUTION POLICY



<b>Type</b>	Governance
<b>Category</b>	Finance
<b>First Issued/Adopted</b>	Board:
<b>Minutes Reference</b>	
<b>Review Period</b>	24 months
<b>Last Reviewed</b>	N/A
<b>Next reviewed</b>	April 2023
<b>Applicable Legislation</b>	<ul style="list-style-type: none"> <li>• <i>Local Government Act 1999</i></li> <li>• <i>Local Government (Financial Management) Regulations 2011</i></li> </ul>
<b>Related Documents</b>	<ul style="list-style-type: none"> <li>• East Waste Charter</li> <li>• East Waste Strategic Plan 2030</li> <li>• East Waste Long Term Financial Plan</li> </ul>
<b>Consultation Undertaken</b>	Audit & Risk Management Committee
<b>Responsible Officer</b>	Manager, Corporate Services

SIGNED: .....  
General Manager

.....  
Chairperson

Date: \_\_\_\_/\_\_\_\_/\_\_\_\_

Date: \_\_\_\_/\_\_\_\_/\_\_\_\_

## Purpose

This Policy establishes a framework when applying rebates to Constituent Councils waste management charges and/or paying of distributions. It serves to provide guidance to Constituent Councils, the Board and Administration of East Waste to determine on what grounds a Member Council is entitled to receive a rebate and/or distribution.

This Policy outlines the matters to be considered by East Waste when determining whether a rebate and/or distribution is to be applied.

## Background

Each year East Waste sets a budget for the following financial year in accord with the Charter and Budget Framework Policy. Despite the rigorous process and diligent management, external factors, cost overruns and/or the implementation of efficiencies will result in end of year variations.

Section 61 of the Charter states:

### **61. DISTRIBUTIONS TO CONSTITUENT COUNCILS**

*The Authority must pay or credit surplus funds to the Constituent Councils in proportion to their Shares to the extent the Board determines the Authority can afford to pay having regard to future expenditure the Business Plan anticipates be incurred.*

## Definitions

<b>Common Fleet Costing Charge</b>	<p>The charge to each Member Council which represents all direct and administrative costs associated with the delivery of waste collection, fleet maintenance, waste management administration, education &amp; promotions activities, regulatory compliance and funding debt servicing obligations related to common fleet plant &amp; equipment related activities. The actual charge is apportioned based on the Common Fleet Percentage of the Member Council.</p> <p>The Common Fleet Costing Charge also incorporates an additional charge to Member Councils to incorporate any Return on Revenue targets imposed by this Policy.</p>
<b>Common Fleet Costs</b>	<p>Common Fleet Costs represent all direct and administrative costs associated with the delivery of waste collection, fleet maintenance, waste management administration, education &amp; promotions activities, regulatory compliance and funding debt servicing obligations related to common fleet plant &amp; equipment related activities.</p>
<b>Common Fleet Percentage</b>	<p>Calculated from GPS data collected from each East Waste Fleet Truck. The Common Fleet Percentage (CFP) is the portion of time taken to undertake the 5 core services (household kerbside collections (waste, recycling &amp; organics), street &amp; reserve litter bins and hard rubbish) for each Member Council. This is represented as a percentage of the total time and is used as a basis for the Common Fleet Costing Charge.</p> <p>CFP data is reviewed and updated each month. Revised CFP allocations are applied to Common Fleet Cost charges annually or when significant variations occur (eg. new service added or new Council enters).</p>
<b>Constituent Council Share</b>	<p>As detailed in S.57 of the <i>East Waste Charter</i>, all Member Councils hold an equal equitable ownership interest share in East Waste.</p>
<b>Distribution</b>	<p>Refers to cash payments made by East Waste to Constituent Councils which represent a return on equity. Distributions are paid to Constituent Councils based the principles set out in Section 61 of the <i>East Waste Charter</i>.</p>
<b>Member Councils</b>	<p>Also known as Constituent Councils, are those Councils which are referred to in <i>Section 1</i> of the <i>East Waste Charter</i>.</p>
<b>Model Financial Statements</b>	<p>Refers to the Model Financial Statements described in Regulation 4(3) of the <i>Local Government (Financial Management) Regulations 2011</i>.</p>
<b>Net Surplus</b>	<p>Refers to the Net Surplus as calculated on the Statement of Comprehensive Income per the Model Financial Statements.</p>

<b>Non-Member Councils</b>	Councils, Organisations or waste related services, provided outside of existing Constituent Councils (as referred to in <i>Section 1</i> of the <i>East Waste Charter</i> ). A differential rate is to be applied to activities provided to non-Member Councils.
<b>Proposed Fees</b>	The indicative Common Fleet Costing Charge, Corporate Administration Fee, waste and processing fees (where applicable) and any other charges which the Authority intends to charge Member Councils in the subsequent Financial Year.
<b>Rebate</b>	Represents a reduction in waste collection fees charged to Constituent Councils. Rebates can be represented by either a reduction in future Common Fleet Costing Charge or by a physical payment of funds. A rebate is reflected as operating expense to East Waste in the financial year it is either paid and/or applied against Common Fleet Costing Charges.
<b>Return on Revenue</b>	A Return on Revenue is calculated on the basis of a % charge above that required to recover all estimated Common Fleet Costs.

## Principles

The Board will assess at each budget review whether:

- Adopted Common Fleet Charges are appropriately set to recover all costs in accordance with the principles set in the Budget Framework Policy.
- Whether there are surplus cash funds held by East Waste for which consideration should be given to returning those funds to Member Councils.

Distributions paid must conform with the requirements of the Charter.

A rebate may be returned to the Member Councils in line with the most appropriate set of Member Council Common Fleet percentages.

In assessing whether East Waste has a deemed surplus cash reserve which can be returned to Member Councils, the following at minimum should be considered:

### 1. Assessment of Projected Current & Future Working Capital Requirements

The Board will review the projected short-term and long-term working capital requirements of East Waste giving regard to the adopted budget and LTFP to ensure that at all times, East Waste has appropriate levels of cash reserves to meet all current and future financial (actual and anticipated) obligations (this includes for loan repayments and for future capital expenditure not funded via loan borrowings).

## **2. Compliance with East Waste Policies**

Prior to any return of cash funds, assessment as to East Waste's compliance with other applicable Policies is to be considered. In particular, compliance with Treasury Management and Budget Framework Policies is to be factored in the decision-making process.

## **3. Adopted Budget & Long Term Financial Plan (LTFP)**

In assessing whether East Waste has the financial capacity to return any surplus cash funds reserves held, consideration of the financial impact of such a payment on the adopted budget and/or the LTFP is to be assessed depending on the nature of the payment.

At minimum, the following will be considered as part of the Board's decision-making process:

- For the payment of a rebate, an assessment of the financial impact on the adopted budget will be required.
- For the payment of a rebate, an assessment of the financial impact on the adopted budget and the LTFP will be required.

**END.**

## 8.4: REVIEW OF THE TREASURY MANAGEMENT POLICY

REPORT AUTHOR: General Manager  
ATTACHMENTS: A: Draft Treasury Management Policy

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### **Purpose of the Report**

To provide the Committee with an opportunity to review the revised *East Waste Treasury Management Policy*, prior to presentation to the Board.

### **Background**

The Treasury Management Policy was developed in 2018, to provide clear direction on the how required borrowings will be raised, if relevant, when, and how reserves are created and maintained and how cash and investments will be managed to fund East Waste operations. The policy is overdue for review and given the review of the related policies at this meeting, namely the *Budget Framework Policy* and the proposal of a *Member Council Rebate & Distributions Policy* it is appropriate it is considered in the holistic review.

### **Report**

The revised Treasury Management Policy is presented in Attachment A (refer Attachment A), inclusive of tracked changes to easily draw the Committee's attention to changes. The suggested changes assist in providing greater clarity and/or consistency with other like policies. None of the proposed amendments fundamentally change the intent or direction of the Policy.

### **RECOMMENDATION**

The Committee notes and accepts the revised Treasury Management Policy as presented in Attachment A and recommends for presentation to the East Waste Board.

## ITEM 8.4 - ATTACHMENT A

<b>TREASURY MANAGEMENT POLICY</b>	<b>EastWaste</b>
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<b>Type</b>	Governance
<b>Category</b>	Finance
<b>First Issued/Adopted</b>	Board:
<b>Minutes Reference</b>	
<b>Review Period</b>	24 months
<b>Last Reviewed</b>	February 2018
<b>Next reviewed</b>	April 2023
<b>Applicable Legislation</b>	<ul style="list-style-type: none"> <li>• <i>Local Government Act 1999</i></li> <li>• <i>Local Government (Financial Management) Regulations 2011</i></li> </ul>
<b>Related Documents</b>	<ul style="list-style-type: none"> <li>• East Waste Charter</li> <li>• East Waste Strategic Plan 2030</li> <li>• East Waste Long Term Financial Plan</li> </ul>
<b>Consultation Undertaken</b>	Audit & Risk Management Committee
<b>Responsible Officer</b>	Manager, Corporate Services

SIGNED: .....

General Manager

Date: \_\_\_\_/\_\_\_\_/\_\_\_\_

.....

Chairperson

Date: \_\_\_\_/\_\_\_\_/\_\_\_\_

## Purpose

The Treasury Management Policy sets the principles and criteria with regard to East Waste's treasury function and assists with decision-making (cash) management in regarding the financial operations as included in the context of the Annual Plan and Budget annual budget, Long Term Financial Plan (LTFP) and associated projected and actual cash receipts and outlays. It outlines how required borrowings will be raised, if relevant, when and how reserves are created and maintained and how cash and investments will be managed to fund East Waste operations.

East Waste is committed to operating at all times in a financially sustainable manner.

This Treasury Management Policy establishes a decision framework to ensure that:

- Funds are available as required to support approved outlays; and
- Interest rates and other risks are acknowledged and responsibly managed; and
- ~~The net interest costs associated with borrowing and investing will be selected to deliver the best value for East Waste over the longer term.~~

This policy applies to all financial assets/liabilities and reserves, including finance leases except for the following specific exclusions:

- Creditors and Provisions; and
- Bank Guarantees.

## Background

The Eastern Waste Management Authority (herein referred to as East Waste) recognises its obligation to continuously improving management systems, as an integral process in its Officers meeting due diligence requirements.

As such, the organisation is committed to implementing this process and assisting its Officers to meet due diligence requirements through the organisations long term/annual plan and budget.

This policy provides a framework relating to the treasury requirements of the organisation.



## Definitions

Refer to the East Waste Charter, Budget Framework Policy and Australian Accounting Standards for definitions where required.

## Principles

### 1. Investments

The following statement is made with consideration to, and in accordance with, the requirements of Clause 61 of the East Waste Charter – Distributions to Constituent Councils. Clause 61 states:

*'The Authority must pay or credit surplus funds to the Constituent Councils in proportion to their shares to the extent the Board determines the Authority can afford to pay having regard to future expenditure the Business Plan anticipates be incurred.'*

Any funds that are not immediately required for operational needs and cannot be applied to either reduce existing borrowings or avoid the raising of new borrowings will be invested in accordance with this Policy.

Investments will be made in a prudent manner having regard for the prevailing economic climate, projected interest rate movements and future cash requirements.

Cash investments are to be limited to:

- Deposits with the Local Government Finance Authority.

Unless it is financially advantageous to do so, the maturity date for fixed term investments should not exceed a point in time where the funds could otherwise be applied cost effectively to either defer the need to raise new borrowings, [access existing overdraft facilities](#) or reduce the level of East Waste's existing borrowings.

All investments are to be made exercising care, diligence and skill in the consideration of:

- The purpose of the investment;
- The likely income return and timing of income return;
- The period in which the investment is likely to be required;
- The cost of making and maintaining the investment;
- An assessment on future interest rate movements;
- The liquidity and marketability of the proposed investment; and
- An assessment of future cash flow requirements.

### 2. Surplus Funds

~~Clause 61 of the East Waste Charter – Distributions to Constituent Councils sets out the requirements East Waste must adhere to with respect to the treatment of surplus funds. Clause 61 states:~~

~~'The Authority must pay or credit surplus funds to the Constituent Councils in proportion to their shares to the extent the Board determines the Authority can afford to pay having regard to future expenditure the Business Plan anticipates be incurred.'~~

~~If and when a sufficient surplus is realised and subject to a decision of the East Waste Board in accordance with Clause 61, surplus is to return to Constituent Councils.~~

### ~~3.2.~~ 4.3 — Borrowings

Borrowings are not a form of revenue and do not replace the need for East Waste to generate sufficient operating revenue to service daily ~~its~~ operating requirements. ~~Undertaking borrowings gives rise to both an asset (the cash it provides) and a liability (the obligation to repay the money borrowed).~~

Borrowings are a useful and valid mechanism to:

- Acquire and/or construct ~~Establish~~ new long term assets that will be used to provide ~~services~~ ~~Constituent Councils and their residents~~; and
- Manage short-term timing differences between operating cash inflows and outflows.

~~East Waste may borrow in accordance with Clause 10.11 of the East Waste Charter which states East Waste may:~~

~~'borrow or raise money within borrowing limits.'~~

East Waste manages its funds holistically within the constraints of the Annual Plan and Budget and Long Term Financial Plan. LTFP.

All borrowings are to be made exercising care, diligence and skill in the consideration of:

- Current risk profile;
- Current economic factors;
- The period over which the funds are likely to be required;
- Expected short and long term view of interest rate trends;
- East Waste's overall debt maturity profile and mix;
- Cost of funding;
- Cost differentials between fixed and variable facilities;
- Long term capacity of repayment of loans;
- The rationale for the borrowings; and
- The cost of making and maintaining the borrowing.

### ~~4.3.~~ 4.4 — Authority to Borrow

In accordance with Clause 11.3 of the East Waste Charter, the Board may not delegate the power to borrow money or obtain any other form of financial accommodation unless authorised in an Annual Plan.

Budgeted borrowings that are not taken out within the financial year for which they are approved are not carried over into the following year and the delegated authority to borrow those funds lapse. A new budgeted borrowings limit is then established as part of the following year's budget.

#### ~~5.4.~~ ~~4.5~~ — Quotations

East Waste will utilise the Local Government Finance Authority as its primary supplier when undertaking new borrowings or investing surplus cash. The Local Government Finance Authority provides significant support to the industry and applies bonus return payments to Councils and Subsidiaries from its profits.

From time to time, at intervals of no more than every two years, at least two competitive quotes will be sourced, compared and documented against the Local Government Finance Authority to ensure they continue to deliver the value to the community (after taking into account all relevant factors, including bonus amounts paid and bonus discounts received).

#### ~~6.5.~~ ~~4.6~~ — Maintain Sufficient Funds to Meet Liabilities

In order to ensure liabilities are met as and when they fall due and to maintain business continuity, East Waste ~~Executive Administration~~ shall maintain a suitable balance of funds held in any operating account on an 'at call' basis to meet current period projected financial obligations. These limits shall be considered when preparing the Annual Plan and Budget, Budget Reviews and ~~Long Term Financial Plan~~ LTFP.

East Waste's Executive Management team will monitor the level of cash and working capital requirements ~~equivalents~~ on a weekly basis.

#### ~~7.6.~~ ~~4.7~~ — Reporting

On or before 30 November each year, the East Waste Board shall receive, via the Audit and Risk Management Committee, a specific report regarding treasury management performance relative to the criteria specified in this policy.

This report will highlight:

- The amount of each East Waste borrowing and investment, its interest rate, maturity date and any changes in holdings since the previous report; and
- If applicable, the proportion of fixed interest rate and variable interest rate borrowings at the end of the reporting period.

**END.**

## 8.5: NATIONAL COMPETITION POLICY STATEMENT

REPORT AUTHOR: General Manager

ATTACHMENTS: A: Draft Nation Competition Policy Statement

### Purpose of the Report

To provide the Committee with an opportunity to review and comment on the proposed East Waste National Competition Policy Statement, prior to presentation to the Board.

### Background

The East Waste Charter (refer part 10) requires East Waste to have a current National Competition Policy Statement at all times, if it is undertaking non-core Activities.

#### **PART 10—COMPETITIVE NEUTRALITY**

##### **36. COMPETITIVE NEUTRALITY**

*36.1 For the purposes of Schedule 2, Clause 32 of the Act, the Authority is not involved in a significant business activity in undertaking its Core Activity.*

*36.2 In respect of any Non-core Activity that is a significant business activity, the Authority must at all times have current a National Competition Policy Statement in relation to competitive neutrality which it will adhere to in undertaking that Non- core Activity.*

East Waste currently does not have a National Competition Policy Statement, nor does it carry out any non-core activities. Notwithstanding, opportunities may arise in the future where East Waste tenders for work deemed to be a non-core activity. As such it is appropriate to have the right framework adopted.

### Report

The National Competition Policy Statement (NCPS) effectively prescribes when the requirements of the Clause 7 Statement (*Revised Clause 7 Statement on the Application of Competition Principles to Local Government under the Competition Principles Agreement*) are to be applied and how.

The concept of competitive neutrality is that an organisation's market competitiveness should not be unfairly strengthened or weakened on account of its public sector ownership. Competitive neutrality concerns exist where all the following conditions apply:

- a difference exists between a public sector business and a private sector business providing a particular good or service; and
- the difference (for example exemption from certain taxes) is due solely to the government ownership of the public sector organisation; and
- the difference constitutes an advantage or disadvantage for the public sector organisation in providing the good or service in the market.

For East Waste this only applies to works which are under the Charter re listed as non-core activities. Essentially this means any work that we conduct, outside of existing Member Councils (ie. Contract work). Currently East Waste does not undertake any non-core activities and as such the statement has no effect. However, there may be beneficial opportunities for existing Member Councils in the future, where non-core activities triggering the principles of Competitive Neutrality and as such it is appropriate to have a policy

implemented and maintained. The draft National Competition Policy Statement is attached for review and comment (refer Attachment A).

A number of principles are required to trigger competitive neutrality, and these are detailed within the Policy. Most significantly, is whether the activity is listed as a Significant Business Activity (refer Attachment A, pg.4). East Waste has the discretion to determine whether a business activity is a 'significant business activity', taking into account a number of factors. As an example, a business activity can be categorised as a significant business activity if it has an annual revenue in excess of \$2 million or employing assets in excess of \$20 million. Should a business activity satisfy this financial threshold (or any of the other factors), it would be a significant business activity to which the principles of competitive neutrality apply.

At this point, East Waste then has the discretion to determine, based off a number of cost-benefit factors, whether a method of compliance is required to be implemented to ensure there is competitive neutrality.

While East Waste's Charter does require a NCPS to be implemented and maintained, as noted above, the process of implementing methods of compliance of competitive neutrality are largely at East Waste's discretion. The NCPS sets out the factors and requirements that East Waste will need to take into consideration each time it undertakes a new Non-Core Activity, but there is no absolute obligation to implement methods of compliance as the final cost-benefit analysis can ultimately find that a method is not required.

## **RECOMMENDATION**

**The Committee notes and accepts the Draft Nation Competition Policy Statement as presented in Attachment A and recommends for presentation to the East Waste Board.**

# NATIONAL COMPETITION POLICY STATEMENT

**EastWaste**

<b>Type</b>	Governance
<b>Category</b>	Finance
<b>First Issued/Adopted</b>	Board:13 December 2018
<b>Minutes Reference</b>	
<b>Review Period</b>	36 months
<b>Last Reviewed</b>	N/A
<b>Next reviewed</b>	April 2024
<b>Applicable Legislation &amp; Documents</b>	<ul style="list-style-type: none"> <li>• <i>Local Government Act 1999</i></li> <li>• <i>Government Business Enterprises (Competition) Act 1996 (SA)</i></li> <li>• <i>Revised Clause 7 Statement on the Application of Competition Principles to Local Government under the Competition Principles Agreement</i></li> <li>• Competition Principles Agreement – 11 April 1995 (As amended to 13 April 2007)</li> </ul>
<b>Related Documents</b>	<ul style="list-style-type: none"> <li>• East Waste Charter</li> <li>• East Waste Strategic Plan 2030</li> <li>• East Waste Long Term Financial Plan</li> </ul>
<b>Consultation Undertaken</b>	Audit & Risk Management Committee
<b>Responsible Officer</b>	Manager, Corporate Services

SIGNED: .....

General Manager

Date: \_\_\_\_/\_\_\_\_/\_\_\_\_

.....

Chairperson

Date: \_\_\_\_/\_\_\_\_/\_\_\_\_

## Purpose

This *National Competition Policy Statement* (NCPS) is implemented for the purposes of Section 36.2 of the *Eastern Waste Management Authority's Charter* (gazetted 26 September 2017).

The object of this NCPS is to outline when the requirements of the Clause 7 Statement apply to East Waste and how East Waste will apply the principles of competitive neutrality.

## Interpretation

**Act** means the *Government Business Enterprises (Competition) Act 1996* (SA).

**Clause 7 Statement** means the *Revised Clause 7 Statement on the Application of Competition Principles to Local Government under the Competition Principles Agreement*.

**Constituent Council** means at any time a constituent council in relation to East Waste and on the date of publication of the *Eastern Waste Management Authority's Charter* in the South Australian Government Gazette means Adelaide Hills Council, City of Burnside, City of Campbelltown, City of Norwood Payneham and St Peters, City of Mitcham, City of Prospect, Corporation of the Town of Walkerville.

**Core Activity** means collection, recycling and/or disposal of waste produced within the area of one or more of the Constituent Councils.

**CPA** means the Competition Principles Agreement – 11 April 1995 (As amended to 13 April 2007).

**East Waste** means the Eastern Waste Management Authority.

**Non-Core Activity** means an activity that is not a Core Activity.

**NCP** means National Competition Policy.

**NCPS** means this National Competition Policy Statement.

## NCP Obligation

Clause 7 of the CPA requires States and Territories to apply the obligations in the CPA to Local Government. The South Australian Government has passed the Act and issued the Clause 7 Statement setting out the application of competition principle to Local Government.

Clause 32, Schedule 2 to the *Local Government Act 1999* provides:

### **32 - Principles of competitive neutrality**

*If a regional subsidiary is declared by its charter to be involved in a significant business activity, the charter must also specify the extent to which the principles of competitive neutrality<sup>1</sup> are to be applied to the activities of the subsidiary and, to the extent that may be relevant, the reasons for any non-application of these principles.*

Note - 1 See Part 4 of the *Government Business Enterprises (Competition) Act 1996*



## Competitive Neutrality

The concept of competitive neutrality is that an organisation's market competitiveness should not be unfairly strengthened or weakened on account of its public sector ownership.

Competitive neutrality concerns exist where all the following conditions apply:

- a difference exists between a public sector business and a private sector business providing a particular good or service; and
- the difference (for example exemption from certain taxes) is due solely to the government ownership of the public sector organisation; and
- the difference constitutes an advantage or disadvantage for the public sector organisation in providing the good or service in the market.

Notwithstanding the above, there will remain competitive advantages and disadvantages that exist between public and private sector organisations, such as workforce skills and managerial competence which fall outside the ambit of competitive neutrality.

Examples of potential competitive advantages a public sector organisation may receive include (but are not limited to):

- an operational structure that does not separate commercial and non-commercial activities;
- being able to operate without the pressure of business risk e.g. no fear of liquidation;
- exemptions from various government taxes, such as goods and services tax, payroll tax, fringe benefit tax, land tax and council rates;
- access to cheaper finance; or
- exemption from certain legislation that only applies to private sector organisations.

Examples of potential competitive disadvantages a public sector organisation may receive include (but are not limited to):

- restrictions on financial structure and financial management which have no equivalent in the private sector;
- less flexibility or discretion in managing operations arising from the policies and/or practices of central or public-sector wide supervisory agencies; or
- provision of non-commercial goods and/or services which it would not otherwise provide, at the direction of the government without compensation.<sup>1</sup>

<sup>1</sup> Department of Treasury and Finance South Australia, A Guide to the Implementation of Competitive Neutrality Policy, 2010.



Competitive neutrality requires these publicly owned businesses to be subject to the same rules and regulations as private businesses, including the application of similar costs for taxes and borrowings.<sup>2</sup>

The principles of competitive neutrality are defined in the Act as:

*'Principles designed to neutralise any net competitive advantage that a [State] government or local government agency engaged in significant business activities would otherwise have, by virtue of its control by the [State] government or local government, over private businesses operating in the same market.'*

## Business Activity

Competitive neutrality principles should be applied, where appropriate, to a significant business activity carried out by a council. Whether a business activity is significant business activity will depend on its size and influence in the relevant market.<sup>3</sup>

Pursuant to Section 5.1 of the Clause 7 Statement, a business activity is defined as follows:

*A business activity includes any activity undertaken:*

- (a) *which falls within the Australian Bureau of Statistics classification of 'Public Trading Enterprise' and 'Public Financial Enterprise'; or*
- (b) *where:*
  - (i) *the activity is primarily involved in producing goods and services for sale in the market; and*
  - (ii) *the activity has a commercial or profit-making focus; and*
  - (iii) *there is user charging for goods and/or services; and*
  - (iv) *the activity is not primarily funded from rate or grant revenue; or*
- (c) *where the local government agency submits a tender as part of a tendering process in competition with the private sector.*

For the purposes of Section 5.1(a) of the Clause 7 Statement, the following definitions apply to the terms contained therein (as defined in Appendix 1 of the Clause 7 Statement):

- *Public trading enterprises - Commonwealth, State/Territory and local government undertakings which aim at covering most of their expenses by revenue from sales of goods and services, including major commodity marketing authorities.*
- *Public financial enterprises - Commonwealth, State/Territory and local government bodies primarily engaged in financial transactions in the market involving both incurring liabilities and acquiring financial assets.*

<sup>2</sup> Government of South Australia, Revised Clause 7 Statement on the Application of Competition Principles to Local Government under the Competition Principles Agreement, 2002.

<sup>3</sup> Government of South Australia, Revised Clause 7 Statement on the Application of Competition Principles to Local Government under the Competition Principles Agreement, 2002.

Section 5.1 of the Clause 7 Statement provides two exceptions from the definition of business activity:

*... an activity will not be a business activity if:*

- (d) it provides goods or services to the local government agency and for reasons of policy or law there is no competition with alternative suppliers; or*
- (e) it is clear that the intention of the local government agency is that the activity's predominant role is regulatory or policy-making, or where the achievement of community benefits is the main priority of the activity.*

East Waste will review each Non-Core Activity it undertakes to determine whether it satisfies one (or more) of the three requirements of a business activity pursuant to Section 5.1(a) – (c) of the Clause 7 Statement. Following this review:

- in the event that one (or more) of the three requirements of a business activity applies to a Non-Core Activity, East Waste will then determine whether that Non-Core Activity fall within one (or more) of the two exceptions pursuant to Section 5.1(d) – (e) of the Clause 7 Statement;
- if the Non-Core Activity falls within one (or more) of the two exceptions, the Non-Core Activity will not be deemed a 'business activity' and no further action will be taken;
- if the Non-Core Activity does not fall within one (or more) of the two exceptions, the Non-Core Activity will be deemed a 'business activity'. East Waste will then determine whether the Non-Core Activity is a 'significant business activity'.

### **Significant Business Activity**

East Waste will determine whether or not a business activity is a 'significant business activity' to which the principles of competitive neutrality apply. In making its determination, East Waste will take into account the following factors (pursuant to Section 5.1 of the Clause 7 Statement):

- the intent of National Competition Policy;
- whether the business activity possesses sufficient market power to create a competitive impact in the market that is more than nominal or trivial;
- whether the size of the business activity relative to the size of the market as a whole is more than nominal or trivial.

Significant business activities are categorised as follows:

Category 1: business activities with an annual revenue in excess of \$2 million or employing assets in excess of \$20 million.

Category 2: all other significant business activities.

East Waste will determine whether a Non-Core Activity, that is a business activity, is also a 'significant business activity' for the purposes of Section 5.1 of the Clause 7 Statement in accordance with the following:

- if a Non-Core Activity is not a significant business activity, the competitive neutrality principles will not apply to that Non-Core Activity and no further action will be taken; or
- alternatively, if East Waste determines that a Non-Core Activity is a significant business activity, then the competitive neutrality principles will apply and East Waste will consider the competitive neutrality measures.

## COMPETITIVE NEUTRALITY IMPLEMENTATION

### Methods of compliance

Competitive neutrality can be achieved through the implementation of one of the following methods:

- corporatisation;
- commercialisation, or;
- cost reflective pricing.

East Waste acknowledges that whether or not a method is implemented will depend on whether the benefits to the public outweigh the costs of the implementation. Further, the appropriate method to be applied to a significant business activity will depend on a number of cost-benefit factors including:

- the costs and benefits of implementation;
- the organisational context of the activities exposed to competition;
- broad economic and regional development considerations;
- the level of resources used in the supply of the good or service;
- impact on competitors and the local community; and
- any special requirement such as increased accountability or a greater emphasis on efficiency.<sup>4</sup>

East Waste may obtain expert economic and financial advice to ensure the extent of implemented method is sufficient to achieve competitive neutrality.

<sup>4</sup> Government of South Australia, *Revised Clause 7 Statement on the Application of Competition Principles to Local Government under the Competition Principles Agreement*, 2002.

## Corporatisation

Corporatisation will generally involve the adoption of a corporate model (which may be in relation to the significant business activity) (a separate legal entity). The new entity will be characterised by:

- clear and non-conflicting objectives;
- managerial responsibility, authority and autonomy;
- effective performance monitoring; and
- effective reward and sanctions related to performance.

## Commercialisation

Commercialisation means the application of commercial practices to the significant business activity without requiring establishing a separate legal entity. A range of practices for the purposes of commercialisation (as prescribed in Section 4.2 of the Clause 7 Statement), can be implemented including:

- the clear definition and delineation of commercial and non-commercial activities, generally through a business plan;
- separate accounting for and funding of non-commercial activities;
- clear commercial performance targets;
- the separation of regulatory functions from any commercial activity;
- the valuation of all assets used in the specific business activity on a deprival value basis;
- the determination of an appropriate return on investment based on the assets employed in the business activity;
- the application of a tax equivalent regime;
- the application of debt guarantee fees;
- clear reporting requirements;
- separate financial recording and reporting; or
- arrangements for the allocation of 'profits' from the business activity.

## Cost Reflective Pricing

Cost reflective pricing is the process of ensuring goods and services of a significant business activity fully reflect the costs incurred in their production or provision.

If cost reflective pricing is implemented, the price will be calculated to take into account (in accordance with Section 4.3 of the Clause 7 Statement):

- the actual costs of providing the good or service on a full-cost basis;
- the cost advantages of local government ownership (e.g. non-payment of taxes, lower

cost of finance, mix of commercial and non-commercial activities, exemption from the operation of legislation);

- the cost disadvantages of local government ownership (e.g. increased accountability and administration, higher award rates or costs associated with enterprise agreements, higher superannuation contributions); and
- return on investment and dividend payments to local government owners.

## Complaints

Affected persons may complain if East Waste determines not to apply (or allegedly misapplies) the principles of competitive neutrality. Complaints can be made either:

- pursuant to the Act, to the Minister responsible for the Act (namely, the Premier); or
- pursuant to Section 6 of the Clause 7 Statement, addressed to the Competitive Neutrality Complaints Secretariat in the Department of Premier and Cabinet, 200 Victoria Square, Adelaide, SA 5000.

The complaint will then be referred to East Waste for investigation, response and possible resolution in accordance with the *East Waste Complaints Handling Policy*.

## Annual report

East Waste will include any significant business activity in its Annual Reports in accordance with Section 7 of the Clause 7 Statement. The following information in respect of any significant business activity will be, where relevant, summarised and included in the Annual Reports:

- the commencement or cessation of significant business activities controlled by East Waste;
- the competitive neutrality method of compliance applied to each significant business activity controlled by East Waste; and
- complaints received alleging a breach of competitive neutrality principles by East Waste.

**END.**