

**ADELAIDE HILLS COUNCIL  
SPECIAL COUNCIL MEETING  
Wednesday 9 August 2017  
CONFIDENTIAL AGENDA BUSINESS ITEM**

**Item:** 5.1

**Originating Officer:** John McArthur, Manager Waste, Health and Regulatory Services

**Responsible Director:** Marc Salver, Director Strategy and Development

**Subject:** Heathfield Resource Recovery Centre Management

**For:** Decision

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**1. Heathfield Resource Recovery Centre Management – Exclusion of the Public**

Pursuant to section 90(2) of the *Local Government Act 1999* the Council orders that all members of the public, except:

- CEO, Andrew Aitken
- Director Engineering & Assets, Peter Bice
- Director Strategy & Development, Marc Salver
- Director Corporate Services, Terry Crackett
- Director Community & Customer Service, David Waters
- Executive Manager Governance & Performance, Lachlan Miller
- Manager Waste, Health & Regulatory Services, John McArthur
- Minute Secretary, Pam Williams

be excluded from attendance at the meeting for Agenda Item 5.1: Heathfield Resource Recovery Centre Management in confidence.

The Council is satisfied that it is necessary that the public, with the exception of Council staff in attendance as specified above, be excluded to enable Council to consider the report at the meeting on the following grounds:

Section 90(3)(b) of the Local Government Act, the information to be received, discussed or considered in relation to this Agenda Item is information relating to the awarding of a contract for the management and operation of the Heathfield Resource Recovery Centre, the disclosure of which –

- (b) Information the disclosure of which –

**(i) could reasonably be expected to confer a commercial advantage on a person with whom the council is conducting, or proposing to conduct, business, or to prejudice the commercial position of the council; and**

**(ii) would, on balance, be contrary to the public interest;**

**Accordingly, on this basis the principle that meetings of the Council should be conducted in a place open to the public has been outweighed by the need to keep the information and discussion confidential.**

## **2. Heathfield Resource Recovery Centre Management – Confidential Item**

### **SUMMARY**

In late 2011 Council entered into an agreement with the Adelaide Hills Region Waste Management Authority (AHRWMA) to operate the Heathfield Resource Recovery Centre (HRRC) on Council's behalf. The AHRWMA commenced operation of the site in March 2012. The current agreement expires in November 2017.

To ensure the highest value for money, standard of community service and environmental outcomes are obtained from the future operation of the site, Expressions of Interests were sought from the open market for the operation and management of the HRRC.

Expressions of Interest (EOI) were invited from the open market via the SA Tenders website. As a result of the EOI process one submission was received, from the AHRWMA. This report seeks Council endorsement to enter into an agreement with the AHRWMA to manage the HRRC for a five year period.

### **RECOMMENDATION**

#### **Council resolves:**

- 1. That the report be received and noted**
- 2. To delegate to the Chief Executive Officer to:**
  - a. Enter into negotiations with the Adelaide Hills Region Waste Management Authority to develop a Management Agreement for the operation of the Heathfield Resource Recovery Centre with a preference for a term of five years plus an option to Council to extend the agreement for a further five years**
  - b. Subject to a negotiated position being reached that is acceptable to the Chief Executive Officer as outlined in 2a above, and before 25 November 2017, execute the Management Agreement with the Adelaide Hills Region Waste Management Authority for the operation of the Heathfield Resource Recovery Centre.**

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### **1. GOVERNANCE**

#### **➤ Strategic Management Plan/Council Policy**

Goal 4	Explore
Strategy 4.6	We will actively pursue opportunities to share resources and partner with others for better community outcomes.

The AHRWMA is a regional subsidiary, established under Section 43 of the *Local Government Act 1999*, between the Adelaide Hills Council, the District Council of Mount Barker, the Rural City of Murray Bridge and the Alexandrina Council. The regional approach provides for better community outcomes from the HRRC through improved economies of scale and shared resourcing.

➤ **Legal Implications**

Section 7 of the *Local Government Act 1999* "Functions of a council" includes the following function that is relevant to services provided by the HRRC:

*"to provide services and facilities that benefit its area, its ratepayers and residents, and visitors to its area (including general public services or facilities (including electricity, gas and water services, and waste collection, control or disposal services or facilities), health, welfare or community services or facilities, and cultural or recreational services or facilities")*

Section 8 of the *Local Government Act 1999* "Principles to be observed by a council" includes the following principle that is relevant to the management of the HRRC:

*"seek to ensure that council resources are used fairly, effectively and efficiently"*

➤ **Risk Management Implications**

Negotiating and entering into a Management Agreement with the AHRWMA to run the HRRC will assist in mitigating the risk of:

*Failure to have in place a Management Agreement for the Heathfield Resource Recovery Centre leading to operational uncertainty, reduced customer service and higher costs.*

Inherent Risk	Residual Risk	Target Risk
Extreme (4B)	Low (2D)	Low (2D)

The adoption of the recommendation is a continuance of the existing risk control of having a Management Agreement in place with Councils selected HRRC site operator.

➤ **Financial and Resource Implications**

As a regional subsidiary, the AHRWMA cannot make a surplus or deficit from the management of the HRRC. Given the AHRWMA operates the HRRC directly for the Adelaide Hills Council any surplus or deficit resulting from the operation of the Centre does not extend to the other Constituent Councils of the Authority.

As such, any annual surplus or deficit made by the AHRWMA in operating the HRRC is either passed on to Council, or sought from Council. For example, subject to final end of year reconciliation undertaken by the AHRWMA, there will be a return to Council of \$21,000 (excluding GST) for the 2016/17 financial year. In 2015/16, as a result of an unforeseeable decrease in payment for recycled steel, income dropped at the HRRC by approximately \$65,000 with the shortfall being met by Council.

The HRRC budget, set by the AHRWMA, for the 2017/18 financial year projects a net cost to Council of \$45,000. The cost to operate the HRRC has reduced considerably since the AHRWMA took over the operation and management of the site in 2012 with the annual deficit in 2010/11 for operating the HRRC originally predicted to be in excess of \$200,000. Subject to Council resolving to negotiate a further 5 year agreement with the AHRWMA, as proposed by this report, staff will continue to work with the Authority to reduce operating costs of the HRRC.

A key outcome to be included in the proposed Management Agreement is for the AHRWMA to continue to work towards the HRRC reaching a financial break even position. In this regard, it is proposed that the Management Agreement include a requirement for Council and the AHRWMA to review all options for the HRRC to achieve a break even position within the term of the agreement. The review would include relevant aspects such as timelines, service levels and user impact. Any options that would have a material impact to the levels of service provided or fees charged would be presented to Council for consideration.

➤ **Customer Service and Community/Cultural Implications**

Adopting the recommendation as proposed will not have any impact to customer service or community or cultural implications as the intent is to continue with the current model of operation at the HRRC.

Notwithstanding the above, it is however proposed that the new agreement with the AHRWMA will include a commitment to maintaining or improving services provided and also to obtain a break even financial position. These outcomes may have customer service implications, which if material in nature, would be presented to Council for consideration.

➤ **Environmental Implications**

Reducing the volume of waste from the HRRC going to landfill has been a key focus of the AHRWMA since 2012 when the Authority commenced operation of the site. Adoption of the proposed recommendation will not have any detrimental environmental implications. It is proposed that the new management agreement will include an ongoing focus on improving environmental outcomes obtained at the HRRC.

➤ **Engagement/Consultation with Committee, Regional Subsidiary, Advisory Group and Community**

The AHRWMA has been kept informed of Council's intent regarding the HRRC and the EOI process.

Instigating a management agreement for the operation of the HRRC is an operational matter for Council. Accordingly, there is not a requirement to undertake engagement or consultation other than with the AHRWMA when negotiating the proposed management agreement.

## **2. BACKGROUND**

Section 43 of the *Local Government Act 1999* provides councils with the ability for two or more councils to establish a regional subsidiary for the following purposes:

- To provide a specified service, or services, or to carry out a specified activity or activities
- To perform a function of the councils under the *Local Government Act 1999*, or another Act.

As the AHRWMA is a regional subsidiary established under the *Local Government Act 1999* the Authority is required to prepare a charter. The AHRWMA Charter outlines eight objects and purposes for which the Authority is established. Relevant to this report the AHRWMA Charter contains the following objects/purposes:

- To facilitate and co-ordinate waste management including collection, treatment, disposal and recycling within the region of the Authority
- To provide and operate a place or places for the treatment, recycling and disposal of waste collected by or in the areas of the Constituent Councils

The above objects/purposes contained within the AHRWMA Charter align with Council's requirements in relation to the management of the HRRC. Utilising the AHRWMA to manage the HRRC also falls within the sphere of the regional subsidiary provisions contained within section 43 of the *Local Government Act 1999*.

The HRRC provides recycling and waste resource recovery services where customers can recycle or dispose of their waste and recycling materials. The HRRC is a multi-stream recycling facility that receives items such as:

- General waste
- Paper, cardboard and plastics
- Green organics
- Construction and demolition materials
- Metals and whitegoods
- Oils and tyres
- E-waste and gas cylinders
- Chemical containers
- Mattresses

Recycled products are also offered for sale including mulch and soil. The HRRC is open seven days a week.

In 2016, Council adopted the 2016-2021 Waste and Resource Management Strategy to guide Council's waste management activities until 2021. The Waste and Resource Management Strategy contains the following objective and strategy relevant to the management of the HRRC:

*Objective:*

To operate the Heathfield Resource Recovery Centre in an economically viable manner

*Strategy:*

Monitor and manage the operation agreement with the AHRWMA

Seeking open market EOI for the operation of the HRRC aligns with the Waste and Resource Management Strategy objective and strategy outlined above.

The request for EOI was advertised on 20 June 2017 on the SA Tenders Website. SA Tenders is a principal means of advertising tenders for all levels of government and is well recognised by industry operators for this purpose. The request for EOI remained open for a three week period.

As part of the EOI submission process it was a requirement for respondents to attend a mandatory site visit at the HRRC. The mandatory site visit was held on 4 July and three organisations attended. The EOI process closed on the 12 July 2017 with one submission received. The submission received was from the AHRWMA who currently run the site on behalf of Council.

### **3. ANALYSIS**

Given only one submission was received through the EOI process it is proposed to negotiate an agreement with the AHRWMA to operate the HRRC on behalf of Council. The AHRWMA have a proven track record in managing the site in an efficient and effective manner. If two or more submissions were received a competitive evaluation process would have been undertaken and a recommendation made to Council to enter into agreement with the preferred respondent.

Notwithstanding that only one submission was received, Council must be confident that the AHRWMA have and can continue to deliver a high level of performance in relation to services provided, financial and transactional results, and environmental outcomes. The following information summarises the performance of the AHRWMA in regard to these three key elements since the Authority commenced operation of the site in 2012.

#### *Services Provided*

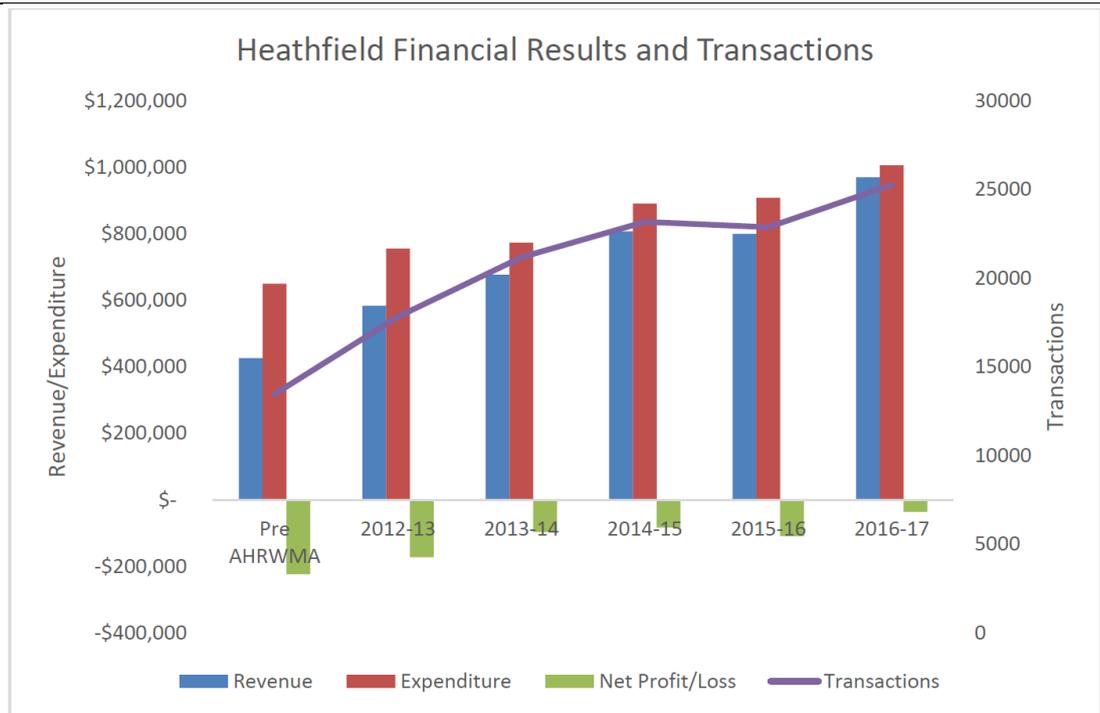
Since the AHRWMA commenced operations of the HRRC in 2012 the following services have been added or improved:

- Introduction of e waste recycling
- Mulching of green organics on site rather than composting off site
- Mulch sales
- Crushing of construction and development material on site with a mobile crusher
- Introduction of a mobile bailer for recyclables including drum muster
- Improved WHS measures for staff and customers
- Improved traffic management flow through redirection of roadways
- The introduction of CCTV cameras for security purposes
- Introduction of a state of the art receipting system
- Assistance with Council's green organic drop off days
- Recycling of X Rays
- Recycling and disposal of mattresses

Introduction of the above services has resulted in a variety of benefits to the operation of the HRRC. These benefits include improved environmental outcomes through increased recycling and reduced material to landfill, reduced costs, increased income and enhanced community services.

#### *Financial and Transactional Results*

The following graph demonstrates the financial and transactional performance of the AHRWMA in relation to the HRRC since 2012/13.



The above graph demonstrates that the HRRC has undergone an increase in use over the period 2012/13 to 2016/17 with transactions increasing by approximately 11,000. Given the increase in use of the HRRC, expenditure and revenue has also increased over the period 2012/13 to 2016/17. Notably however, the difference between expenditure and revenue has reduced from a deficit of \$223,000 before the AHRWMA assumed operation of the site, to a deficit of \$37,000 originally projected for 2016/17.

The above outcome has been a positive result for Council through a reduction in the annual deficit occurred in operating the HRRC. As outlined in the financial section of this report, a key focus of the proposed management agreement with the AHRWMA will be for the HRRC to obtain a financial breakeven position.

*Environmental Outcomes*

In addition to the additional services provided at the HRRC, and the financial and transactional results, the AHRWMA have also provided positive environmental outcomes. Currently, the AHRWMA is achieving a recycling recovery rate of 78% at the HRRC. The recycling recovery rate is the amount of material that is recycled as a percentage of all material received.

*Evaluation of the Authority's EOI*

The following are the key elements of the Authority's submission:

- The Authority has a proven track record in waste management and managing the Heathfield Resource Recovery Centre
- It has and will continue to comply with the EPA Licence conditions for the site
- It has put in place mechanisms to ensure the safety of customers on the site
- It has appropriate Workplace Safety policies in place for its staff
- It has access to a mobile bailing plant which will be brought to the site for the bailing of cardboards and plastics for recycling
- It proposes to continue offering free green waste drop off days as directed by Council

- It will continue provide a 7 day operation for ease of access by customers
- It will work with Finding Workable Solutions (FWS) once they are up and running in order to divert as much reusable items to them as possible for repair and on-sale to the public
- Any green weeds received will be sent off site for processing
- All green organics received will be mulched on site
- It will continue to provide an asbestos collection service

In consideration of the above key elements of the Authority's submission, it is recommended that Council negotiate and enter into an agreement with the Authority to manage the site for a term of 5 years with an option for a further five years.

#### *Contract Negotiations*

Noting the above satisfactory indicators of the performance of the AHRWMA in managing the HRRC it is proposed that Council enter into negotiations with the Authority for a further management agreement for operating the HRRC. It is proposed that the following matters be included as key discussion points in negotiations towards executing a new Management Agreement for the HRRC:

- Agreement term to be five years plus an option to renew (to Council) for a further five year term
- Current staffing levels for the HRRC are to be maintained with ongoing review and adjustment as required and as agreed to by Council
- The supply of all plant and equipment to operate and manage the site
- Subject to relevant approval and market demand continue to receive the current range of material streams
- Landfill material to be transported to Council's nominated landfill site
- Within the agreement period strive to meet a financial break even position as agreed by Council
- Ongoing commitment to maintain or improve services provided and to maintain or improve customer service levels
- Ongoing mulch sales or at the direction of Council provide mulch free of charge
- Develop and maintain a positive working relationship with Finding Workable Solutions in relation to the proposed Salvage and Save facility at the HRRC
- Maintain a positive relationship with surrounding and nearby property owners
- Provision of all customer service aspects relating to the site in alignment with Council's customer service values
- Setting of disposal fees to encourage material separation to maximise resource recovery
- Data capture and recording of all relevant information in relation to the HRRC which shall be forwarded to Council at an agreed frequency
- Regular (at least bi-annual) reports to Council from the AHRWMA to monitor performance of the HRRC
- Ongoing review and alteration (as required) of operating hours to ensure costs are minimised and community service level expectations are met
- Ongoing assistance with the provision of Council's free green organic drop off days
- Implementation of site improvement projects in consultation and agreement of Council
- Ongoing focus on improving environmental outcomes obtained at the HRRC

- Ongoing scanning for, review and implementation of value adding activities or new services at the HRRC in consultation with Council e.g. proposed Hazardous Waste Drop Off Facility
- Operation of the site in accordance with EPA licence requirements
- Operation of the site in accordance with all WHS requirements including customer safety
- The provision of budget certainty (i.e. continue to minimise variances between budget and actuals) including the setting of an annual budget to form the basis of user fees paid to the AHRWMA
- Regular budget updates are to be provided to Council.

The management agreement will also need to consider an occupancy agreement for the site covering aspects such as, but not limited to, site maintenance and inspections and access.

#### **4. OPTIONS**

Council has the following options:

- I. To enter into an agreement with the AHRWMA for the operation and management of the HRRC. This option is recommended based on the previous successful history of the AHRWMA operating the site, that only one EOI was received in response to operating the site and the benefits provided through a regional approach.
- II. To not enter into an agreement with the AHRWMA to operate the HRRC and revert management of the site back to Council. This option is not recommended as the management of facilities such as the HRRC are core functions of the AHRWMA. Combined with economies of scale provided through the regional approach, the AHRWMA have proven to operate the HRRC more efficiently and effectively than under Council's own control.
- III. To not enter into an agreement with the AHRWMA to operate the HRRC and to revisit open market interest in operating the site. This option is not recommended as the open market EOI process was recently undertaken which is considered a satisfactory indicator of market interest or otherwise in operating the HRRC. The EOI process undertaken was advertised through the SA Tenders website, a principal location for advertising procurement needs in South Australia for all levels of government. Accordingly, it is considered there would have been a high level of market awareness of the Council's EOI process undertaken.

#### **5. APPENDIX**

Nil

**3. Heathfield Resource Recovery Centre – Period of Confidentiality**

**Subject to the CEO, or his delegate, disclosing information or any document (in whole or in part) for the purpose of implementing Council's decision(s) in this matter in the performance of the duties and responsibilities of office, Council, having considered Agenda Item 5.1 in confidence under sections 90(2) and 90(3)(b) of the *Local Government Act 1999* resolves that an order be made under the provisions of sections 91(7) and (9) of the *Local Government Act 1999* that the report and the minutes of Council and the discussion and considerations of the subject matter be retained in confidence until the contract for the management and operation of the Heathfield Resource Recovery Centre is executed, but not longer than 9 August 2018.**

**Pursuant to section 91(9)(c) of the *Local Government Act 1999*, that Council delegates the power to revoke the confidentiality order either partially or in full to the Chief Executive Officer.**