



Noosa Council Waste Management Financially Significant Business Activity:

Public Benefit Assessment of the Application of Competition Reforms

INFORMATION PAPER

November, 2015

**Public Benefit Assessment Submissions
(closing date 21 December 2015)**

Attention: Michael Shave, Director Corporate Services
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INVITATION FOR SUBMISSIONS



Reform of Waste Management Financially Significant Business Activity

COMMUNITY CONSULTATION INVITATION **PUBLIC BENEFIT ASSESSMENT**

Noosa Council is responsible for providing waste management services to residents and businesses across the Shire. As a result of the recent de-amalgamation from the Sunshine Coast Regional Council, Noosa Council is required by State Government legislation to undertake a Public Benefit Assessment (PBA) of its waste management financially significant business activity to determine the most appropriate business structure to apply under National Competition Policy reforms.

Sunshine Coast Council undertook a PBA for the regional waste management business in 2010, with the full cost pricing reform decided for the business. Noosa Council has continued to apply full cost pricing to its waste management business since de-amalgamation in 2014.

The objective of this PBA will be to review the current business model being applied and decide which of the following structural reforms would best apply the competitive neutrality principle:

1. Continuation of full cost pricing; or
2. Implementation of a Council Commercialised Business Unit

Under the competitive neutrality principle, an entity that is conducting a business activity in competition with the private sector should not enjoy a net advantage over competitors only because the entity is in the public sector.

An information paper detailing the issues associated with each option is available and can be obtained from Council's website www.noosa.qld.gov.au or by ringing Council directly.

You may address your written comments by 21 December 2015 to:

Waste Management Public Benefit Assessment
Attention: Michael Shave, Director Corporate Services
Noosa Council
PO Box 141
Tewantin Qld 4565

BACKGROUND

Need for a Public Benefit Assessment of Council's Waste Management Financially Significant Business Activity

Noosa Council (Council) is responsible for providing waste management services to residents and businesses in the Noosa shire. Between March 2008 and December 2014 these services were provided by the Sunshine Coast Regional Council following Council amalgamations that resulted in the amalgamation of the Noosa, Maroochy and Caloundra Councils, and their corresponding waste management activities.

Following the amalgamation Sunshine Coast Regional Council was required to undertake a public benefit assessment of the new regional waste management business. The Public Benefit Assessment (PBA) undertaken in 2010 recommended the implementation of full cost pricing reforms to the business, which was subsequently adopted by the Sunshine Coast Regional Council.

Waste management service provision was further impacted following the de-amalgamation of Noosa from the Sunshine Coast Regional Council on 1 January 2014, whereby Noosa Council resumed responsibility for waste management in the new Noosa shire. The state government de-amalgamation legislation included provisions regarding Council businesses and the requirement to undertake new public benefit assessments should they be considered financially significant. Whilst Noosa Council questioned the cost benefit to the community of undertaking a further PBA given the recent PBA undertaken by the Sunshine Coast Regional Council in 2010, the state government advised it was still required.

As such Council is now required to undertake a PBA of its financially significant waste management business activity to determine the most appropriate business structure under National Competition Policy (NCP) reforms.

PBA's are generally undertaken on behalf of Councils by external consultants, however this PBA is being conducted internally by Council to avoid unnecessary additional costs to the Noosa community.

Background to National Competition Policy

NCP was adopted by the Council of Australian Governments (Commonwealth, States and Territories) in 1995 to improve the competitiveness of Australian industry. In Queensland, the State Government amended the Local Government Act to include provisions for facilitating the implementation of NCP to 'business activities' operated by Queensland local governments (such as water supply and sewerage, and waste management). NCP principles advocate the delivery of local government services based on commercial principles and methods designed to achieve better services and value for money for communities.

NCP is designed to make local government business activities more accountable for financing, pricing and other decisions, as well as to make the true costs and performance levels of these activities more transparent, in the hope of facilitating better decisions by chief executive officers, managers and Councils. Particular emphasis of the reforms is placed on 'significant business activities' as measured in terms of annual expenditure.

Essentially, the reforms are designed to ensure that, where appropriate, local government business activities set prices on the same basis as the private sector by making adjustments for the advantages and disadvantages of public ownership.

Potential Business Advantages	Potential Business Disadvantages
<ul style="list-style-type: none"> • Exemption from the payment of taxes • No requirement to pay dividends to their owners • Access to cheaper sources of loan funds • Exemption from complying with certain regulations 	<ul style="list-style-type: none"> • Higher public superannuation contributions • Cost of greater accountability given reporting and regulatory arrangements • Community service obligations imposed by government • Lower degree of managerial autonomy • Cost of compliance with Freedom of Information Act and Judicial Review requirements • Difficulty in accessing taxation benefits of investment allowances and deductions

Reform Options Considered in the Public Benefit Assessment

The objective of the PBA will be to assess whether the benefit to the Noosa community (in terms of service quality and cost) of applying the competitive neutrality principle in relation to a significant business activity outweighs the costs of applying the competitive neutrality principle. Under the competitive neutrality principle, an entity that is conducting a business activity in competition with the private sector should not enjoy a net advantage over competitors only because the entity is in the public sector.

Reform Option	Implications
Full Cost Pricing	<ul style="list-style-type: none"> • Business is essentially operated as just another branch within Council's organisational structure. • Prices are set in accordance with commercial cost recovery.
Council Commercialised Business Unit	<ul style="list-style-type: none"> • A commercialised business unit (not a separate legal entity) is created by Council to manage the business, with a dedicated business unit manager employed. • The business unit enjoys increased managerial autonomy for day-to-day operations and strategic decisions. • The business may have a greater ability to source inputs from outside of Council, subject to the framework adopted. • The business operates under its own business plan. • The business has more of a commercial orientation than under the full cost pricing reform option, and is subject to separate more detailed performance reporting (financial and non-financial). • Prices are set in accordance with commercial cost recovery.

It is important to note that both reform options involve setting prices on the same cost base as the private sector, incorporating:

- Direct and indirect costs (e.g. wages, materials, consumables, superannuation);
- Administration and management costs;
- Return of capital/depreciation;
- Return on capital/assets (resources, infrastructure, land, buildings, plant/equipment);
- Incorporation of tax equivalents such as Council rates, land tax, payroll tax, FBT and taxes on business profits; and
- Adjustments for other advantages and disadvantages of public sector ownership.

Non-commercial activities undertaken by the business at the direction of Council (e.g. free waste disposal for community groups) may also need to be funded through community service obligation payments, if the business is unable to levy a commercial charge for such services across the community.

Reforms Currently Adopted by Other Councils

The following tables provide a summary of the structural reforms currently adopted by other Queensland Councils for their waste management significant business activities for the 2015/16 financial year. For comparative purposes Noosa Council is classed as a category 4 Council.

Council	Council Size	Current Reform Level
Gold Coast	9	Council Commercialised Business Unit
Cairns	6	
Ipswich	7	
Logan	7	
Mackay	6	
Townsville	6	
Brisbane	NA	Full Cost Pricing
Sunshine Coast	8	
Moreton Bay	8	
Bundaberg	5	
Fraser Coast	5	
Redland	6	
Rockhampton	6	
Toowoomba	6	

Note: The Local Government Remuneration and Discipline Tribunal must establish categories of local governments to enable it to decide the remuneration that is to be paid to mayors and other councillors in each category of local government. Size of the local government area and population are some of the criteria used when determining category size.

ABOUT COUNCIL'S WASTE MANAGEMENT BUSINESS ACTIVITY

Business Background

Noosa Council's waste management business is responsible for the delivery of waste management activities for Noosa residents and business. The major services provided to service the Noosa population include:

- Waste collection and transport including commercial and domestic waste, recycling, and green garden waste.
- Operation of the Eumundi Road landfill for waste disposal and resource recovery activities.
- Operation of the Cooroy and Pomona waste transfer stations.
- Waste management and waste minimisation promotional activities.

The business provides weekly waste collection services to approximately 26,000 residential customers and 5,000 commercial customers. Waste collection and landfill services are provided through contracts with the private sector. These contracts are due to expire soon and are expected to go out to tender in 2016. Additional business activities undertaken under contract include:

- Concrete crushing and screening.
- Green waste and wood waste processing and transport.
- Landfill gas capture.
- Ferrous and non-ferrous metals recovery and sale.
- Hazardous liquid waste collection.
- Liquid waste collection.

Business Assets

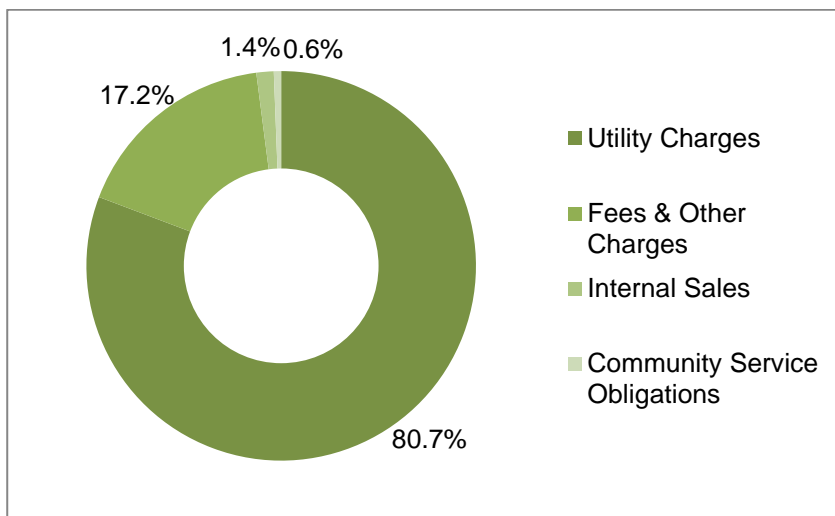
As at 30 June 2015 the value of assets utilised by the business to provide services to its customers were as follows (noting that waste collection services are provided under contract).

Asset Type	Replacement Value (\$'000)	Accumulated Depreciation (\$'000)	Written Down Value (\$'000)
Land	\$5,790	\$-	\$5,790
Buildings	\$986	\$201	\$785
Other Infrastructure	\$15,202	\$3,774	\$11,428
Plant & Equipment	\$263	\$25	\$238
Total	\$22,242	\$4,001	\$18,241

Competition and Pricing

Waste collection charges are based on user pays principles and are levied on all properties receiving a general waste and recycling service. The collection service includes a weekly general waste service and a fortnightly recycling service. The 2015/16 annual charge for the service is \$275.00 for one 240L refuse and one 240L recycling bin. The business also offers an optional fortnightly green waste collection service for customers. The current charge for this service is \$65.00 per 240L bin. Liquid waste collection services are also provided for approximately 78 customers in the shire with waste holding tanks. Charges for this service are also users pays based according to the frequency of required services.

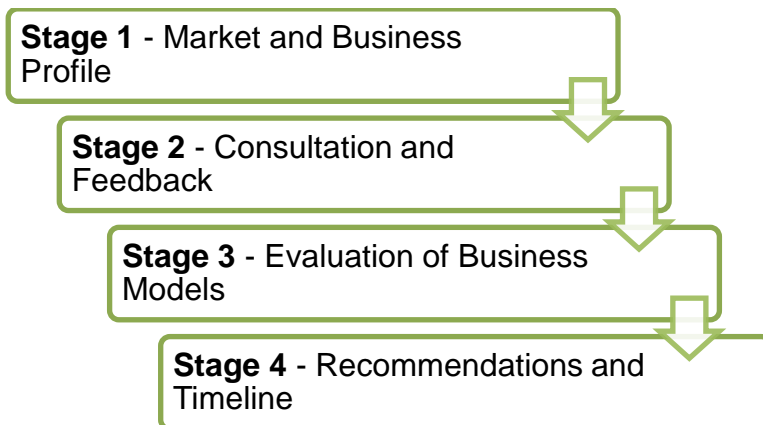
The waste management business collects the majority of its revenue from utility charges (i.e. waste collection charges). This revenue stream represents approximately 81% of total business income.



Collection services in the shire are generally non-competitive in nature, with the business providing a monopoly service for all standard general waste and recycling bin collections in accordance with the provisions contained in the *Local Government Act 1993*. The business also levies commercial charges for the disposal of waste at the landfill and transfer stations. Charges are levied for domestic and green waste, as well as compacted and loose commercial waste (with charges based on a per vehicle or load basis).

Public Benefit Assessment Process

The following process will be undertaken for the PBA, which will be undertaken in a transparent and accountable manner. The outcomes from the business and market profiling, stakeholder consultation and impact assessment processes will be used to drive the reform options evaluation to derive a recommended structure for the business, and preliminary implementation timeline for adoption of the recommended reform option.



It is intended that this PBA will determine the most appropriate structure for the waste management business activity moving forward.

Consultation

Community consultation is a requirement of a PBA process. Council extends an invitation to all stakeholders and the broader community to contribute to the assessment. The consultation program includes inviting written submissions from interested parties. Any submissions will be considered in the evaluation process.

The following table highlights the issues and questions likely to be considered when evaluating the two business structures under consideration. Input is sought from stakeholders on the issues and questions raised, however, the issues provided are not meant as an exhaustive list. Stakeholders should raise any other matters of concern in their responses.

Under both business structures, prices will be set to ensure appropriate cost recovery in accordance with user pays principles, i.e. the more you use, the more you pay. Service levels will also be set to meet community needs following consideration of customer affordability implications.	
Issues	Potential Questions
<p>Price Level</p> <p>Price levels should be the same irrespective of the business structure adopted, as Council is required to examine the full cost of their services when setting fees and charges.</p>	<ul style="list-style-type: none"> • Do you agree with the idea of full cost recovery and commercial pricing for waste services? • If surpluses are generated through commercial pricing, what should they be used for?
<p>Charging Structure</p> <p>Charging structures should be similar across the two business structures, although the slightly greater autonomy under commercialisation could see more commercial charging structures in place that more closely reflect user pays.</p>	<ul style="list-style-type: none"> • Do you agree with user pays charging structures for waste services? • What do you see as the main advantages of a user pays charging system? • Do you see any disadvantages of a user pays charging system? • Do you foresee any problems/issues from potential changes to charging structures under any of the reform options?
<p>Service Levels</p> <p>Despite commercial principles being applied to pricing decisions, the business will still ensure that service levels are at least maintained and preferably improved as a result of the reform options.</p>	<ul style="list-style-type: none"> • Are you happy with the current level of service provided by the business? • What improvements could be made regarding the level of service provided? • Which of the reform options do you believe will produce the best service level outcome for customers? • What other impacts do you think structural changes to the business might have on service levels?
<p>Community Service Provision</p> <p>Under all business structures, each business will be more aware of the costs of its non-commercial community service obligations, and appropriate decisions can be made regarding the appropriate level of subsidy for these services from the general rate.</p>	<ul style="list-style-type: none"> • Do you believe any subsidies, concessions or rebates need to be provided to community groups if commercial principles are to be adopted?
<p>General Comments</p>	<ul style="list-style-type: none"> • How do you feel about the application of commercial principles to each business? • Do you have any general comments about the PBA process?