



Monthly Report

Shoalhaven City Council

February 2016

Market

We refer to our more detailed *Economic Commentary* for the month.

International Markets

Markets opened lower again in “panic mode” but closed on an uneasy recovery. The US S&P 500 fell just -0.13%; the NASDAQ Composite lost -1.03%. The MSCI World ex-AUS was lower by -1.53% but the MSCI Emerging Markets Index finished +0.06% (both in local currency). Indian GDP accelerated to 7.5% at the expense of commodity producers like South Africa in deepening crisis.

US 10-year bonds closed at 1.74% as yields fell another 20bp on the Federal Reserve discussing lower interest rates, but were off the low point. Japan sold 10-year bonds at a negative interest rate for the first time after declaring negative deposit rates.

The Bank of England’s former Governor Mervyn King warned that another financial crisis would be “certain” and would arrive “sooner rather than later” due to the failure of regulators (such as himself) to reform banks.

Recession fears have increased, on indicators such as high yield and bank spreads as well as in forecasts of a second weak US GDP reading in a row. Lower commodities may be a pointer to a more severe Chinese slowdown.

The UK may vote on EU exit by mid-year. It forecast a budget surplus by 2019/20, requiring big tax hikes and/or spending cuts.

President Barack Obama proposed a \$US4.1tr spending plan for 2017 – his last. This is up over 10% from \$3.7tr actually spent in 2015 and includes a \$10.25 / bbl tax on oil.

US consumer spending was up +3.4% while Q4 economic growth was revised up to a still-weak +1% from an earlier +0.7% p.a.

The US economy added 151,000 jobs in January, down from December’s 292,000. Still, the unemployment rate fell to 4.9%.

At a G20 meeting, leaders called for lower interest rates as well as more spending (funded by taxes) to prop up growth – despite the collapse of several countries that followed that prescription last time.

Domestic

Bank credit spreads spiked as hedge funds highlighted poor mortgage lending practices.

The Federal government debating a range of tax increases.

Australian 10-year bond yields closed at 2.40%, down -24bp, buoyed by a record low +1.2% increase in earnings. Employment fell -7900, with unemployment returning to 6%. Retail sales were flat.

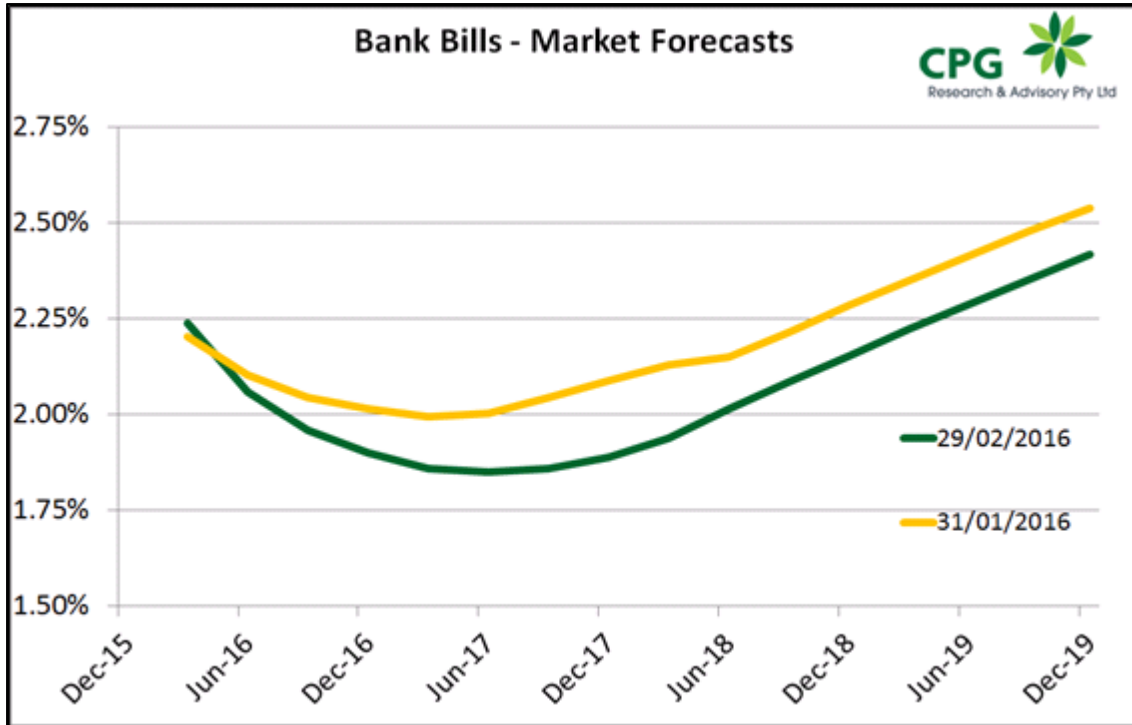
Building approvals are down -2.5% on a year with the trade deficit 30% wider to -\$3.5bn.

Other Markets

The \$A closed at US71.4 cents, up slightly from US71.0 cents.

WTI Crude Oil closed slightly higher at \$33.81/bbl (+\$0.19) after setting new lows, reacting to a tentative Saudi-Russian agreement to freeze production. Gold rallied to \$1,240.32, up +11.10%. Iron Ore closed at \$49.00 (+18.07%).

Tracking the bond market, bill futures are now more adamant about another rate cut. The short end of the curve never really did take the few weeks of strong data seriously, and it is prudent to assume the RBA would indeed cut if a second-round slowdown was confirmed.



Credit Market

Investment grade credit indices were wider across the board in February.

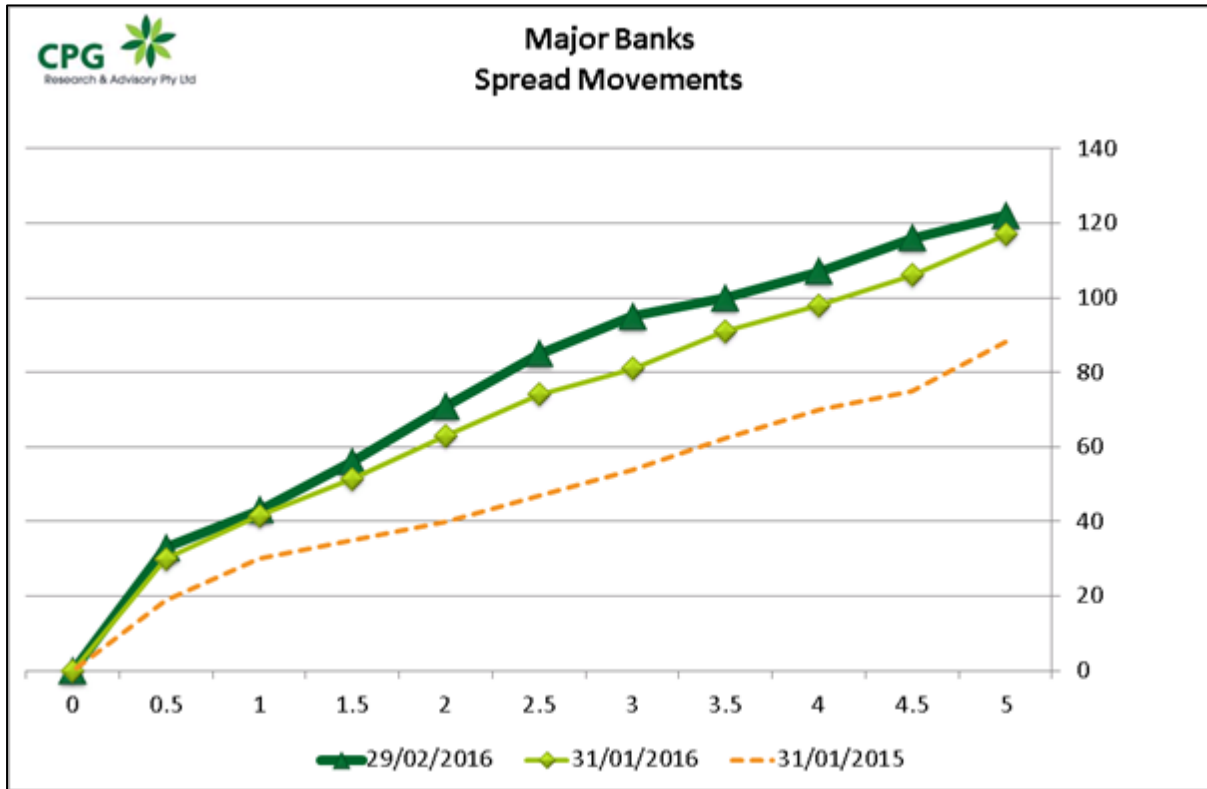
The offshore investment grade credit indices widened around 6-7bp during the month, while iTraxx Australia sold off 16bp wider. The banks were a major contributor.

Credit Indices	29 Feb 16	31 Jan 16	28 Feb 15
iTraxx Australia 5 Yr CDS	157bp	141bp	84bp
iTraxx European 5 Yr CDS	99bp	92bp	50bp
CDX North American 5 Yr CDS	108bp	102bp	61bp

Source: MarkIt

Bank senior FRNs widened again as the 2016 market panic continued, but the market was generally orderly with support for new issues. Both A and AA banks widened similar amounts.

Late in the month, hedge funds targeted Australian banks with highly publicised stories of aggressive lending practices. Credit derivatives sold off dramatically on the headlines. At time of writing, CDS spreads in the high 130's suggested the physical market was not great value, but not wildly mispriced.

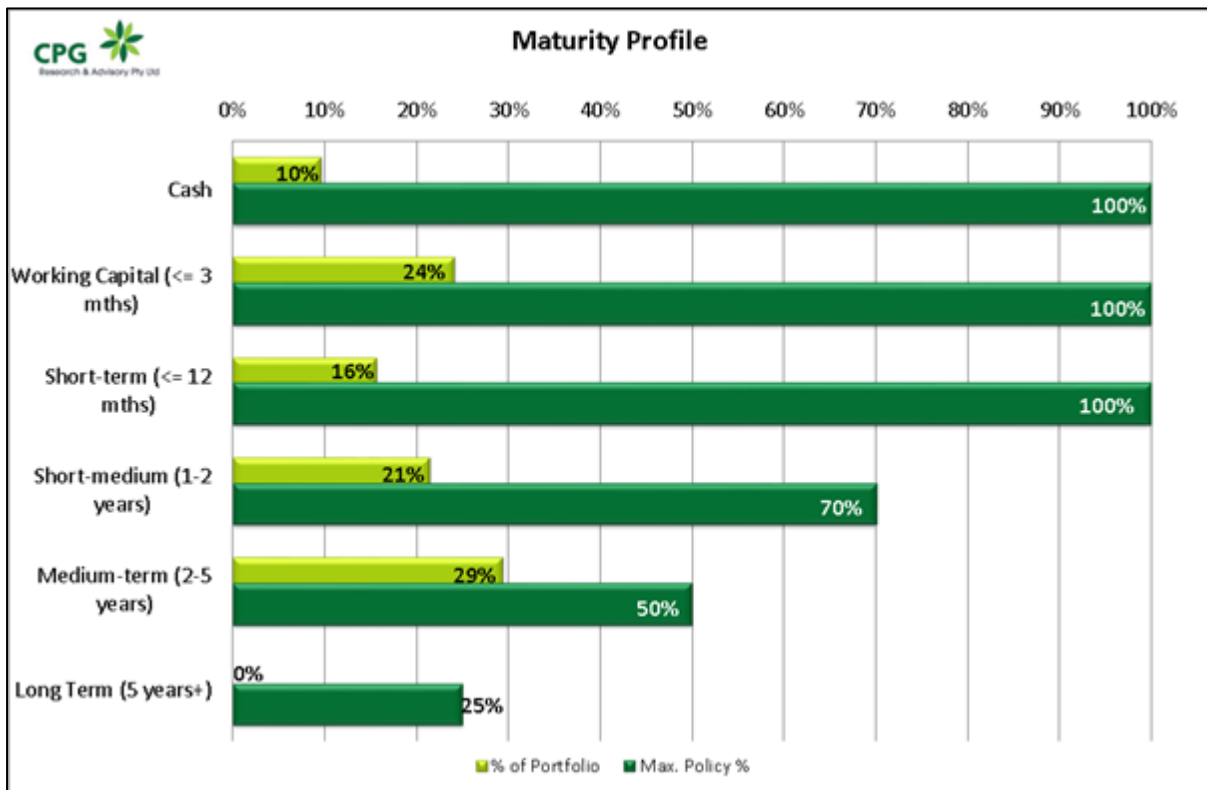


Council's Portfolio

The portfolio has 10% of investments available at-call and a further 24% of assets maturing within 3 months. Additional short-dated funds have been gradually redeployed into a portfolio now well diversified by term – ahead of what has been a considerable decline in deposit rates.

Approximately 29% of the portfolio is now in medium-term assets, with some capacity now freed up after previously being close to the maximum limits.

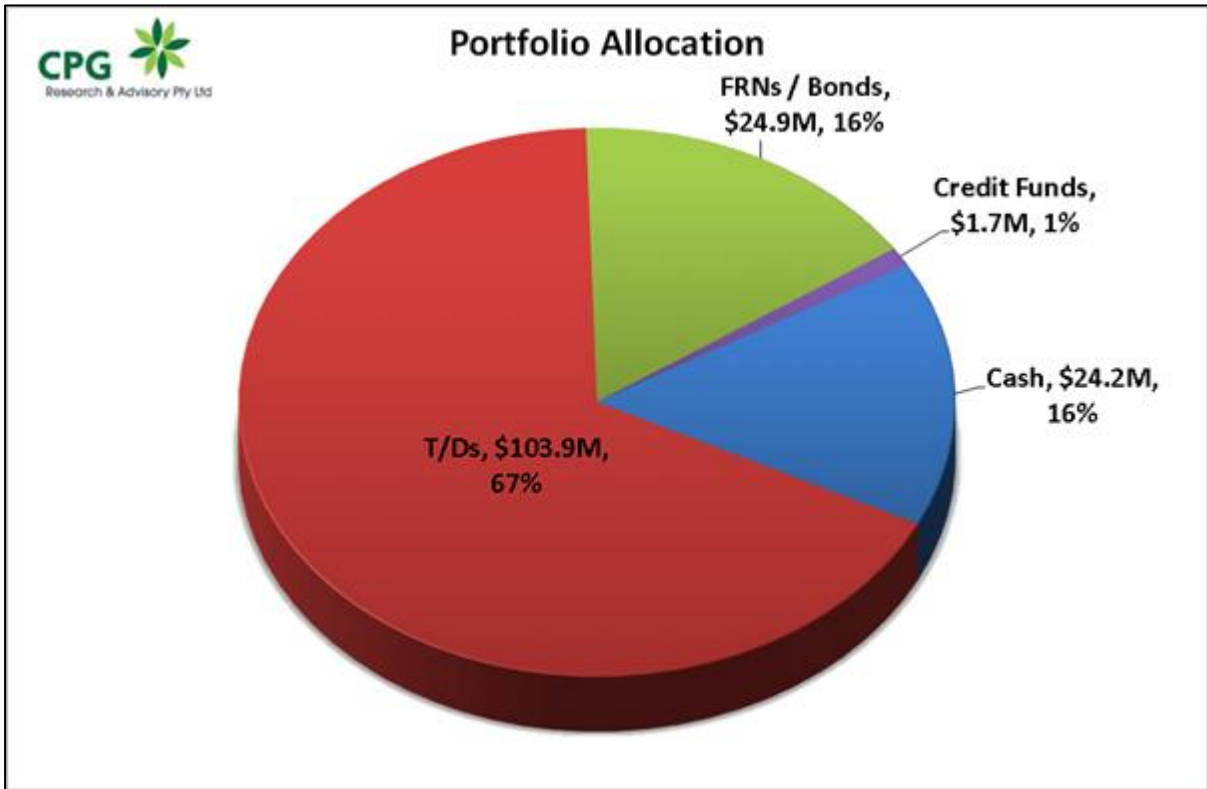
We currently recommend that this be deployed to new FRN issues as they are launched, although do note the greater volatility being experienced in this sector.



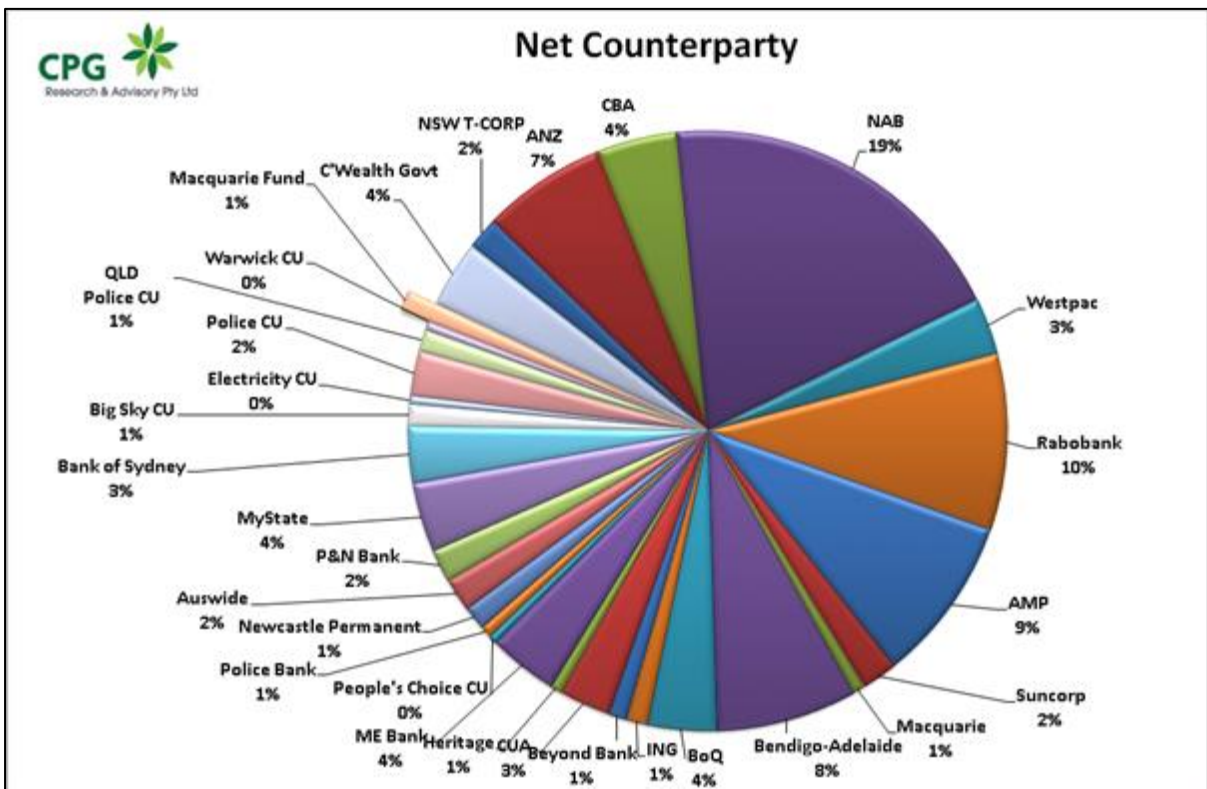
Council’s portfolio is dominated by term deposits across a broad range of counterparties; credit assets are around 17% of the portfolio.

Over the past few years, our advice has focused on fixed rate deposits as the core investment theme, supplemented by other fixed rate investments. This was justified by the significant downtrend in deposit yields, with 2014’s new longer-dated investments now well above market returns. Council’s deposit duration was significantly extended.

Going forward however, with deposit margins contracting sharply and with credit recently moving in the opposite direction, credit assets such as FRNs are likely to play a more dominant role.



The investment portfolio is well diversified in complying assets across the entire credit spectrum, with the major banks and Rabobank dominant:



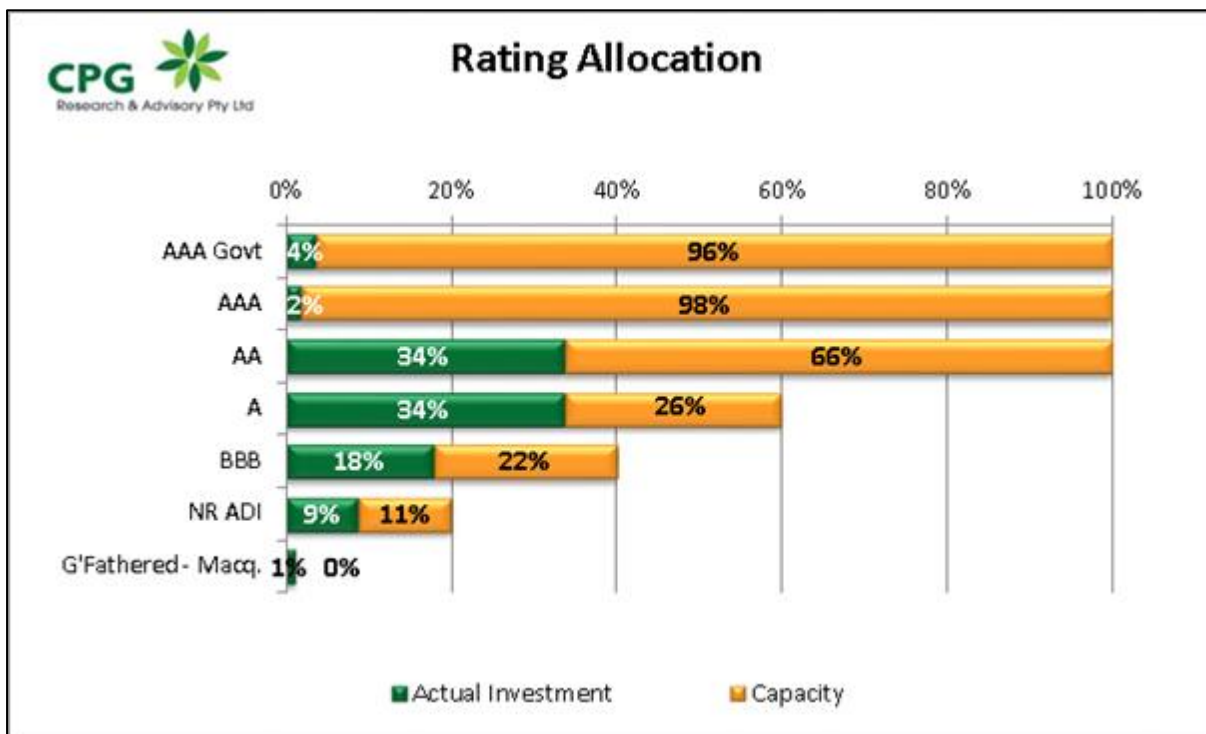
Credit Quality

The portfolio is diversified from a rating perspective. Credit quality is diversified and is predominately invested amongst the investment grade ADIs (BBB- or higher), with a smaller allocation to unrated ADIs.

Only the Macquarie credit fund is now classified as a “Grandfathered” legacy asset.

There is still high capacity to invest across the investment grade counterparties.

Rating Category	Actual	Per C/Party	Aggregate	Rating Category	Actual Investment	Capacity
AAA Govt	4%	100%	100%	AAA Govt	4%	96%
AAA	2%	40%	100%	AAA	2%	98%
AA	34%	30%	100%	AA	34%	66%
A	34%	15%	60%	A	34%	26%
BBB	18%	10%	40%	BBB	18%	22%
NR ADI	9%	5%	20%	NR ADI	9%	11%
G'Fathered - Macq.	1%	1%	1%	G'Fathered - Macq.	1%	0%



All of these are well within Policy limits.

From time to time, broker specials continue to be offered with some BBB rated and unrated Credit Unions paying an additional premium above leading direct rates – **pricing is generally quite favourable, but for short terms**. This is covered in the daily emails and our advice at the time of investment.

Compliance

We have tested the portfolio provided against Council's current investment policy and report the following:

Individual counterparty exposures comply with the Policy.

Counterparties	Exposure \$M	FCS	Net	Rating	Policy Limit	Actual	Capacity
NSW T-CORP	\$2.95M	\$0.25M	\$2.70M	AAA	40%	2%	\$59.19M
ANZ	\$10.60M	\$0.25M	\$10.35M	AA-	30%	7%	\$36.07M
CBA	\$7.00M	\$0.25M	\$6.75M	AA-	30%	4%	\$39.67M
NAB	\$30.32M	\$0.25M	\$30.07M	AA-	30%	19%	\$16.35M
Westpac	\$5.00M	\$0.25M	\$4.75M	AA-	30%	3%	\$41.67M
Rabobank	\$15.00M	\$0.25M	\$14.75M	A+	15%	10%	\$8.46M
AMP	\$14.11M	\$0.25M	\$13.86M	A+	15%	9%	\$9.35M
Suncorp	\$3.00M	\$0.00M	\$3.00M	A+	15%	2%	\$20.21M
Macquarie	\$1.00M	\$0.00M	\$1.00M	A	15%	1%	\$22.21M
Bendigo-Adelaide	\$12.00M	\$0.25M	\$11.75M	A-	15%	8%	\$11.46M
BoQ	\$6.00M	\$0.25M	\$5.75M	A-	15%	4%	\$17.46M
ING	\$2.00M	\$0.25M	\$1.75M	A-	15%	1%	\$21.46M
Beyond Bank	\$1.80M	\$0.25M	\$1.55M	BBB+	10%	1%	\$13.92M
CUA	\$4.25M	\$0.00M	\$4.25M	BBB+	10%	3%	\$11.22M
Heritage	\$1.00M	\$0.00M	\$1.00M	BBB+	10%	1%	\$14.47M
ME Bank	\$6.00M	\$0.25M	\$5.75M	BBB+	10%	4%	\$9.72M
People's Choice CU	\$1.00M	\$0.25M	\$0.75M	BBB+	10%	0%	\$14.72M
Police Bank	\$1.00M	\$0.00M	\$1.00M	BBB+	5%	1%	\$6.74M
Newcastle Permanent	\$2.00M	\$0.00M	\$2.00M	BBB+	10%	1%	\$13.47M
Auswide	\$3.00M	\$0.25M	\$2.75M	BBB	10%	2%	\$12.72M
P&N Bank	\$3.00M	\$0.25M	\$2.75M	BBB	10%	2%	\$12.72M
MyState	\$6.00M	\$0.25M	\$5.75M	BBB	10%	4%	\$9.72M
Bank of Sydney	\$5.00M	\$0.25M	\$4.75M	NR	5%	3%	\$2.99M
Big Sky CU	\$2.00M	\$0.25M	\$1.75M	NR	5%	1%	\$5.99M
Electricity CU	\$1.00M	\$0.25M	\$0.75M	NR	5%	0%	\$6.99M
Police CU	\$4.00M	\$0.25M	\$3.75M	NR	5%	2%	\$3.99M
QLD Police CU	\$2.00M	\$0.25M	\$1.75M	NR	5%	1%	\$5.99M
WAW CU	\$1.00M	\$0.25M	\$0.75M	NR	5%	0%	\$6.99M
Warwick CU	\$0.00M	\$0.00M	\$0.00M	NR	5%	0%	\$7.74M
Macquarie Fund	\$1.70M	\$0.00M	\$1.70M	NR	1%	1%	\$0.00M
	\$154.72M		\$149.22M			96%	
C>Wealth Govt		\$5.5M	\$5.50M	AAA	100%	4%	
Total	\$154.72M		\$154.72M			100%	
Check	\$0.00M		\$0.00M				

Subsidiaries such as Rural Bank are grouped in the exposures of the parent (Bendigo-Adelaide Bank, rated A-).

From May 2015, new Rabobank Australia deposits are not guaranteed by the global group, but existing deposits have their guarantee grandfathered. They are generally not accepting new investments or rollovers from institutional investors.

Returns - Accrual

Actual						
	1 month	3 months	6 months	FYTD	1 year	2 years
Official Cash Rate	0.16%	0.49%	0.99%	1.33%	2.05%	2.26%
Avg. 3m BBSW	0.18%	0.57%	1.11%	1.48%	2.22%	2.44%
AusBond Bank Bill Index	0.19%	0.57%	1.11%	1.47%	2.25%	2.49%
Council Cash	0.21%	0.65%	1.29%	1.73%	2.66%	2.90%
Council T/Ds	0.29%	0.92%	1.84%	2.49%	3.82%	3.90%
Council FRNs / Bonds	0.26%	0.83%	1.64%	2.24%	3.50%	-
Council Credit Funds	-0.30%	-0.36%	-0.71%	-0.97%	-0.46%	1.54%
Council CDOs	0.00%	0.00%	0.00%	0.00%	0.00%	0.37%
Council Total Portfolio	0.27%	0.86%	1.72%	2.32%	3.57%	3.71%
Annualised						
	1 month	3 months	6 months	FYTD	1 year	2 years
Official Cash Rate	2.00%	2.00%	2.00%	2.00%	2.04%	2.26%
Avg. 3m BBSW	2.28%	2.31%	2.24%	2.22%	2.21%	2.44%
AusBond Bank Bill Index	2.41%	2.31%	2.23%	2.21%	2.24%	2.49%
Council Cash	2.74%	2.61%	2.61%	2.60%	2.65%	2.90%
Council T/Ds	3.74%	3.75%	3.73%	3.75%	3.81%	3.90%
Council FRNs / Bonds	3.38%	3.38%	3.31%	3.36%	3.49%	-
Council Credit Funds	-3.74%	-1.45%	-1.41%	-1.45%	-0.46%	1.54%
Council CDOs	0.00%	0.00%	0.00%	0.00%	0.00%	0.37%
Council Total Portfolio	3.45%	3.49%	3.47%	3.48%	3.56%	3.71%

The investment portfolio had another solid month, **returning +3.45% p.a. annualised**, outperforming the AusBond Bank Bill Index¹ which returned +2.41% p.a. Credit detracted from performance this month with the Macquarie Fund returning -0.30% (net actual).

We regard this as in line with expectations, as equities fell over 1½% in the month and credit assets were marked significantly wider this month.

Council's returns, while lower in absolute terms than historically the case, remains very strong compared to short deposits rolling in the high 2%'s. Even the highest paying 5-year deposit is being offered below 3½% again.

The portfolio's performance continues to be anchored by the longer-dated deposits invested above 4%. FRNs, purchased at attractive margins, have also contributed positively to overall performance.

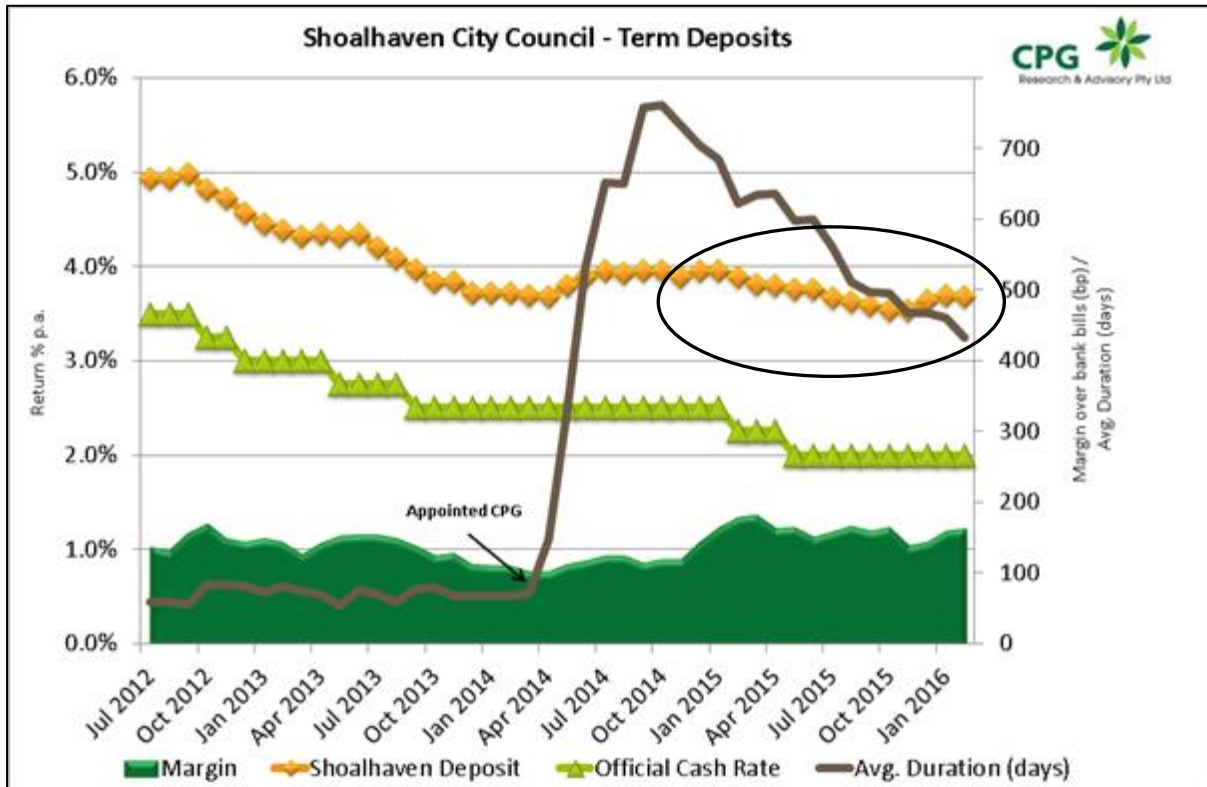
Despite a generally negative year for credit, the Macquarie Fund has performed well over longer-time periods. Our *Economic Commentary* explores whether the "deflation trade" (buying bonds, and selling shares and credit) may be coming to an end, and we note an improvement in sentiment in March.

Cash drag has been mitigated through the switch into higher yielding accounts (requiring notice in return for the additional yield – they are not a substitute for at-call money).

¹ Previously UBS Bank Bill Index - the sale of the UBS index to Bloomberg, and subsequent change of names, is now effective.

Term Deposits

At month-end, deposits accounted for approximately 67% of the total investment portfolio. The weighted average duration of the deposit portfolio stood at approximately **1.2 years** - having been significantly lengthened since the appointment of CPG as its investment advisor and now paying strong rewards. At the point of fastest falls in the interest rate outlook, Council’s deposits had been lengthened to around 2 years.



This has produced a measurable uplift in yield (circled) at a time when deposit rates have plunged, and cushioned the RBA’s rate cutting cycle.

It will provide strong protection to Council’s budgeted income for the remainder of FY16, which we will be looking to support over the next 12 months. An average yield of 3.68% p.a. (down 1bp from the previous month) **remains well above any deposit available today**. In fact, returns today remain close to when CPG was appointed – despite two rate cuts in 2015, with the potential of more in 2016.

It is inevitable that returns will again ease from here, and this will accelerate as deposit margins continue to contract. Money markets continue to factor in another rate cut in 2016, although it is largely data-dependent on worsening economic data.

The two deposits invested during the month were placed for shorter terms (4-5 months) at 3.04%-3.05% with NAB.

We now favour liquid FRNs over fixed deposits for terms greater than 2 years given they are likely to offer a higher source of return.

The case for long deposits is now less compelling, and we expect to see further migration into a more balanced and liquid portfolio with FRNs offering excellent returns on a 2-year horizon.

Relevant portfolio data follows:

Term Deposit Statistics

Percentage of total portfolio	67%
Weighted Average Yield	3.68%
Weighted Average Duration	1.2 years

Credit Quality of Deposits

AAA^	3%
AA	33%
A	31%
BBB	19%
Unrated ADI	14%
Total	100%

^ Calculation excludes the Financial Claims Scheme (FCS)

Across the longer-end of the curve, deposit margins reversed the recent trend and actually widened in February on the back of falling swap rates. Amongst the highest paying ADIs, margins range between +100-130bp across short-medium terms. Shorter-terms remain under significant pressure, now generally under +75bp for terms up to 6 months.

Some above market rates (“specials”) continue to be offered by the “BBB” and unrated ADIs, often through the broker intermediaries. Previously, A or AA banks tended to overpay relative to peers, providing a “free lunch” for yield and credit quality.

In previous years, we prioritised deposits over other longer-dated assets such as FRNs. However, at current margins, long T/Ds do not appear interesting in the mid 3%’s. If a steep curve brings some value through higher margins, deposits may be interesting again. Barring any one-off specials, we do not see any great value in deposits beyond 2 year terms in the current market place.

Market conditions are now much more favourable to FRN yield than at any time since 2012 – perhaps, since the immediate post-GFC period. This represents a significant reversal of what had been a long-standing theme for Council dating back to as early as 2010.

We refer to the detailed analysis in our February *Fixed Interest Analytics*.

Fixed Bonds & FRNs

The wholesale senior major bank FRNs were again sold off in February due to the ongoing market volatility. Given the relative margins on deposits, we believe newly issued bank FRNs are likely to be the highest yielding (and complying) source of returns going forward, but that volatility has expanded.

Early 2018 FRNs are now generally saleable at the higher credit qualities; lower rated institutions tend to see spreads converge only as they shorten very close to maturity – we flag the final year as the likely exit point for those. Still, switching may well be recommended opportunistically. It is more difficult to sell lower-rated FRNs until their final year.

Apart from providing diversification and additional liquidity in a portfolio, this strategy has been highly lucrative until recent weeks - more so than (even unrated) ADI deposits over the past few years at times of most favourable pricing.

The gap between securities and deposits has now reversed from previous years - to a level which may see a prominent role for senior bank securities going forward, rather than an opportunistic / “satellite” allocation in a local government portfolio.

In a sense, this shift is a welcome development for investors, as they do not have to sacrifice liquidity for margins. However, it does mean a transition from recent practice that has served investors well.

Primary issues continue to be favoured over secondary market offers in the wholesale market although this may change if spreads widen and create viable purchase opportunities even after crossing spreads. **Opportunities in the secondary market were presented in February as credit spreads widened sharply. Secondary market offers are now a viable option given some issuances over the past year are now being offered at a significant discount.**

For new issues, the regional ADIs (rated A or BBB) naturally offer a higher spread compared to the major banks due to their lower credit rating. Our FRN analytics suggest that the respective curves are relatively fair, with higher spread but greater difficulty extracting capital gains from regional bank FRNs.

In early January, CBA (AA-) issued a new 5 year (benchmark) senior FRN at +115bp, which is now being offered at a slight discount with the selloff in credit markets. **We believe new 5-year senior major bank FRNs issued at around +125-130bp are likely to be the highest returning (complying) assets for local government investors over a 2-3 year holding period and are actively recommending clients to participate in these new issues.**

In late February, Rabobank (A+) issued a new 5-year senior FRN at +150bp, over 10bp yield premium to wholesale equivalents of similar credit rating. Credit Suisse (A) followed with a 5 year benchmark issue at +195bp, more than 40bp premium yield compared to secondary market equivalents. This

highlights that FRNs, across the various credit spectrum, are clearly now ahead of deposit margins even without factoring in gains at exit - and that investors are being rewarded for supporting the primary issuance market.

We also again consider Heritage Bank bonds to pay a sufficient premium to warrant investment.

Private placement FRNs or secondary market 'taps' can sometimes be offered, usually at a premium yield to the wholesale secondary market although we note they are generally less liquid due to their smaller issue sizes and daily turnover.

We recommend that Council retain its FRN portfolio at this stage. In a fairly stable credit environment, we look for an exit opportunity towards the midpoint of a security's life to maximise the potential gain, and will inform Council accordingly. February was far from a stable environment, but markets have recovered somewhat from mid-month.

Other Credit

The Macquarie Global Income Opportunities Fund returned -0.30% (net actual) in February, underperforming the AusBond Bank Bill Index return of +0.19%.

The underlying valuations of the Fund's holdings of domestic and offshore credit fell in the month, as physical assets were marked significantly wider.

The Fund continues to hold a diverse range of securities across the global credit market. The manager has maintained modest credit hedges, seeking to minimise the effect of volatility on the Fund. Any spread contraction going forward allows credit and asset-backed holdings to enjoy significant capital gains.

Macquarie performed strongly over the longer-term and the Fund feels it is well positioned going forward. We regard Macquarie's credit team as having strong research capabilities and a proven defensive style outperforming peers in down markets. At times, the fund has sacrificed some upside to protect against extreme events. However, they have generally compensated with lower volatility.

Given the solid running yield of the Fund at above 3½% p.a., and the additional liquidity it provides, we recommend Council retain this Fund. (Its performance relative to index and to peers is covered in our monthly *Performance Survey*).

While we cannot categorically state that the cycle has ended, there is a much more favourable tone in credit and equity markets. This was led by strong recoveries in iron ore, base metals and energy – this is covered in more detail in the *Economic Commentary*. It is at least possible that the catalyst for the end of the credit cycle came with the recovery in these economically-sensitive sectors.

We regard Australia as on a separate cycle, and therefore prefer the diversification of funds that can invest across a range of economies. However, the European banks are still a non-trivial source of risk – the volatility of February was at least in part due to rumours that Deutsche Bank would skip an optional bond payment.

Fixed Interest Market Background

Global and domestic longer-term bond yields plunged in February on a flight to safety.

Job growth in the US slowed in January but the unemployment rate dropped to an eight-year low of 4.9%. A previously resilient labour market is causing wage growth to stir and keep core inflation towards the Fed's 2% target just as the economy may be slowing.

Iron ore, which plummeted last year as world supply overwhelmed demand, has clawed its way back above \$US50 a metric ton – its highest level since late October.

The Australian dollar recently traded near six-week highs approaching US73 cents (and still rising into March) after a better than expected Q4 GDP figure was released. This followed slightly higher inflation than expected from Q4. As in the US, the central bank will find it hard to balance the pressures of an easing economy and overly high currency against the fear that underlying inflation may not be as low as it had thought.

This spike in iron ore and other prices (such as energy and industrial metals) buoyed commodity currencies and restored broader sentiment across global markets.

Domestically, the unemployment rate jumped back to 6.0% in January (up from 5.8% in December), as the job market shrank by about 8000 and the number of people looking for work grew. The strength of Q3 has not entirely followed through, even if the Q4 GDP figure was satisfactory.

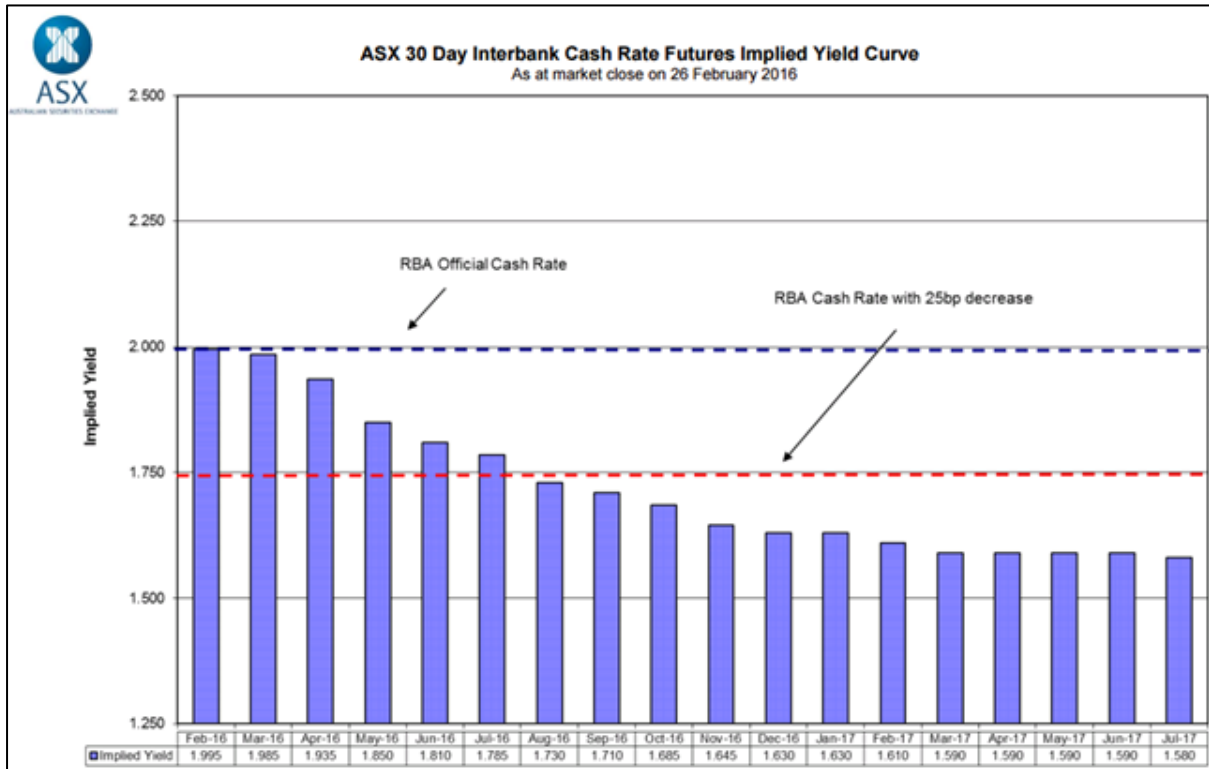
The Reserve Bank of Australia (RBA) kept interest rates unchanged at 2.00% in its meeting in March. The board indicated it will closely monitor labour market conditions and the ongoing “*turbulence*” in financial markets to assess if this would result in further weakness towards “*global and domestic demand*.”

Any immediate rate should be off the agenda: “*...the Board judged that there were reasonable prospects for continued growth in the economy, with inflation close to target. The Board therefore decided that the current setting of monetary policy remained appropriate.*”

However, they also noted that low inflation provides “*scope*” to cut again if needed –easing bias language for their outlook over the whole of 2016.

The market is positioned for the RBA definitely having to cut interest rates again this year, in part from the panic and global rout since the start of the year. Most economists are not so sure, and sticking to their “on-hold” forecasts for the foreseeable future unless domestic conditions deteriorate unexpectedly.

Money markets have again fully priced in another rate cut by the end of Q3 2016, and potentially a second in 2017:



Source: SFE / ASX

We regard this as entirely plausible given recent \$A strength placing addition pressure to ease policy further.

Portfolio Listing

Shoalhaven City Council as at 29/02/2016							
Authorised Deposit-Taking Institution (ADI)	ST Rating	Security Type	Principal/	Current MF Value	Term	Interest Rate	Maturity Date
ANZ	A1+	FRN		\$2,000,000.00	1826	3.13%	11-Nov-19
ANZ	A1+	FRN		\$1,600,000.00	1827	3.11%	17-Apr-20
ANZ	A1+	TD		\$2,000,000.00	732	3.90%	27-Jun-16
ANZ	A1+	TD		\$1,000,000.00	1099	4.01%	3-Jul-17
ANZ	A1+	TD		\$4,000,000.00	1462	4.15%	27-Jun-18
Auswide Bank	A2	TD		\$2,000,000.00	204	2.84%	30-Mar-16
Auswide Bank	A2	TD		\$1,000,000.00	1096	3.15%	8-Apr-18
Bank of Qld	A2	FRN		\$1,000,000.00	1826	3.36%	6-Nov-19
Bank of Qld	A2	TD		\$2,000,000.00	1462	4.10%	3-Sep-18
Bank of Qld	A2	TD		\$2,000,000.00	1827	4.75%	1-May-19
Bank of Qld	A2	TD		\$1,000,000.00	1096	4.20%	9-May-17
Bank of Sydney	NR	TD		\$1,000,000.00	211	3.00%	13-Apr-16
Bank of Sydney	NR	TD		\$1,000,000.00	281	3.15%	28-Sep-16
Bank of Sydney	NR	TD		\$1,000,000.00	316	3.00%	26-May-16
Bank of Sydney	NR	TD		\$2,000,000.00	288	3.00%	28-Apr-16
Bendigo Bank	A2	FRN		\$1,000,000.00	1827	3.39%	18-Aug-20
Bendigo Bank	A2	FRN		\$1,000,000.00	1826	3.28%	17-Sep-19
Bendigo Bank	A2	TD		\$2,000,000.00	1099	4.15%	17-May-17
Bendigo Bank	A2	TD		\$1,000,000.00	1097	4.05%	5-Jun-17
Bendigo Bank (Nowra)	A2	TD		\$3,000,000.00	442	3.05%	29-Sep-16
Bendigo Bank (Nowra)	A2	TD		\$4,000,000.00	526	3.05%	22-Dec-16
Beyond Bank Australia	A2	TD		\$900,000.00	731	3.45%	3-Mar-17
Beyond Bank Australia	A2	TD		\$900,000.00	366	3.40%	3-Mar-16
Big Sky Building Society	NR	TD		\$2,000,000.00	733	3.30%	7-Mar-17
Commonwealth Bank Australia	A1+	FRN		\$1,000,000.00	1827	3.19%	17-Jul-20
Commonwealth Bank Australia	A1+	TD		\$500,000.00	1097	4.05%	27-Jun-17
Commonwealth Bank Australia	A1+	TD		\$500,000.00	1099	4.05%	29-Jun-17
Commonwealth Bank Australia	A1+	TD		\$500,000.00	1105	4.05%	5-Jul-17
Commonwealth Bank Australia	A1+	TD		\$500,000.00	1106	4.05%	6-Jul-17
Commonwealth Bank Australia	A1+	TD		\$1,000,000.00	1097	4.05%	10-Jul-17
Commonwealth Bank Australia	A1+	TD		\$1,000,000.00	1104	4.05%	17-Jul-17
Commonwealth Bank Australia	A1+	TD		\$1,000,000.00	1097	4.05%	17-Jul-17
Commonwealth Bank Australia	A1+	TD		\$1,000,000.00	1104	4.05%	24-Jul-17
Credit Union Australia	A2	FRN		\$2,250,000.00	1096	3.65%	20-Mar-17
Credit Union Australia	A2	FRN		\$2,000,000.00	1187	3.56%	22-Dec-17
Electricity Credit Union	NR	TD		\$1,000,000.00	204	2.84%	30-Mar-16
Heritage Bank	A3	FRN		\$1,000,000.00	1096	3.43%	7-May-18
ING Bank (Australia) Ltd	A2	TD		\$2,000,000.00	183	2.90%	11-May-16
Macquarie Bank	A1	FRN		\$1,000,000.00	1096	3.33%	26-Oct-18
Members Equity Bank	A2	FRN		\$1,000,000.00	1461	3.59%	17-Apr-18
Members Equity Bank	A2	TD		\$2,000,000.00	1827	4.66%	29-May-19
Members Equity Bank	A2	TD		\$1,000,000.00	1096	4.25%	9-May-17
Members Equity Bank	A2	TD		\$2,000,000.00	1099	4.00%	27-Jul-17
My State Financial	A2	TD		\$3,000,000.00	197	3.05%	15-Jun-16
My State Financial	A2	TD		\$3,000,000.00	181	3.01%	25-May-16
National Australia Bank	A1+	BG		\$75,000.00	366	3.01%	23-Dec-16
National Australia Bank	A1+	CRD		\$3,000,000.00	733	3.38%	11-Apr-16
National Australia Bank	A1+	FRN		\$1,000,000.00	1096	3.27%	25-Feb-19
National Australia Bank	A1+	FRN		\$2,000,000.00	1827	3.10%	3-Jun-20
National Australia Bank	A1+	MATD		\$105,921.34	366	3.01%	30-Jun-16
National Australia Bank	A1+	TD		\$4,000,000.00	126	3.05%	22-Jun-16
National Australia Bank	A1+	TD		\$2,000,000.00	1822	4.11%	29-Aug-19
National Australia Bank	A1+	TD		\$4,000,000.00	154	3.04%	27-Jul-16
National Australia Bank	A1+	TD		\$3,000,000.00	733	3.98%	9-May-16
National Australia Bank	A1+	TD		\$1,000,000.00	1097	4.05%	5-Jun-17
Newcastle Permanent Building Society	A2	FRN		\$2,000,000.00	1827	3.67%	7-Apr-20
NSW Treasury Corp	A1+	TD		\$2,950,000.00	183	2.95%	1-Apr-16
People's Choice Credit Union	A2	TD		\$1,000,000.00	351	2.87%	30-Jun-16
Police and Nurses Bank	A2	TD		\$1,000,000.00	732	3.95%	13-Jun-16
Police and Nurses Bank	A2	TD		\$2,000,000.00	1096	4.00%	18-Sep-17
Police Bank	NR	FRN		\$1,000,000.00	1096	3.38%	21-Aug-17
Police Credit Union Ltd (SA)	NR	TD		\$1,000,000.00	731	4.15%	20-May-16
Police Credit Union Ltd (SA)	NR	TD		\$1,000,000.00	1098	4.25%	22-May-17
Police Credit Union Ltd (SA)	NR	TD		\$2,000,000.00	1827	4.75%	30-May-19
Qld Police Credit Union	NR	TD		\$1,000,000.00	1095	4.10%	17-Aug-17
Qld Police Credit Union	NR	TD		\$1,000,000.00	729	4.00%	21-Jul-16
Rabobank	A1+	TD		\$2,000,000.00	1100	4.00%	30-Jun-17
Rabobank	A1+	TD		\$1,000,000.00	1098	4.05%	22-May-17
Rabobank	A1+	TD		\$2,000,000.00	1463	4.35%	6-Jun-18
Rabobank	A1+	TD		\$2,000,000.00	1097	4.00%	26-Jun-17
Rabobank	A1+	TD		\$2,000,000.00	1461	4.10%	21-Aug-18
Rabobank	A1+	TD		\$2,000,000.00	1826	4.10%	2-Sep-19
Rabobank	A1+	TD		\$2,000,000.00	1462	3.30%	2-Sep-19
Rabobank	A1+	TD		\$2,000,000.00	1826	4.52%	19-Jun-19
St George Bank	A1+	TD		\$2,000,000.00	732	3.95%	3-May-16
St George Bank	A1+	TD		\$2,000,000.00	732	3.95%	2-May-16
Suncorp Metway Ltd Bank	A1	FRN		\$2,000,000.00	1827	3.53%	20-Oct-20
Suncorp Metway Ltd Bank	A1	FRN		\$1,000,000.00	1826	3.22%	20-Aug-19
WAW Credit Union	NR	TD		\$1,000,000.00	733	4.15%	9-May-16
Westpac Bank	A1+	FRN		\$1,000,000.00	1827	3.18%	28-Jul-20
				\$128,780,921.34			

Shoalhaven City Council as at 29/02/2016					
Grandfathered	STRating	SecurityType	Current Valuation		Maturity Date
Macquarie Global Income Opportunities	NR	MF	\$1,695,390.41		T+3
			\$1,695,390.41		
Product	STRating	SecurityType	Current Valuation		Maturity Date
AMP At Call	A1	Cash	\$4,707,737.94		At-Call
AMP Notice Account	A1	Cash	\$9,405,050.87		31 Days
NAB Transaction Account	A1+	Cash	\$10,134,471.80		At-Call
			\$24,247,260.61		
Total Investment Portfolio			\$154,723,572.36		

Disclaimer

The information provided in this document is intended for clients of CPG Research & Advisory only and does not constitute a recommendation or an offer to invest. Market sections of this document are descriptive and do not take into account the investment objectives, financial situation or particular needs of any particular investor. Before making an investment decision or acting on any of the information or recommendations contained in this report, the investor should consider whether such recommendation is appropriate given the investor's particular investment needs, objectives and financial circumstances. We recommend you consult your CPG adviser for updated advice that addresses your specific needs and situation before making investment decisions.

All information and recommendations expressed herein constitute judgements as of the date of this report and may change without notice. Staff and associates may hold positions in the investments discussed, and these could change without notice.

EXECUTIVE SUMMARY

Shoalhaven Council commissioned a "Service Review of Council's Waste Services" this report was concluded in December 2015.

Shoalhaven City Council current service position and Legislative requirements;

Shoalhaven City Council provides Waste Services throughout the local government area. The core function of Waste Services is:

- Kerbside collection of domestic waste and recyclables;
- Provision and management of recycling and waste depots;
- Educating the community on recycling and waste matters and promoting services; and
- Administration and customer service.

Council has 10 recycling and waste facilities operating across the region, providing convenient access for drop off waste and recycling. Of these, Huskisson incorporates a non-putrescible waste landfill and West Nowra incorporates the Shoalhaven's only putrescible waste landfill. The other sites operate as transfer stations only. Waste delivered to the transfer stations that cannot be easily recycled / reused is transported to West Nowra for disposal in the landfill. 'Buy back' centres operate at all facilities.

Council's internal resources manage the following;

- Landfilling operations (West Nowra, Huskisson)
- Closed landfills (at North Nowra, Culburra, Ulladulla, Sussex Inlet)
- Weighbridge operations (West Nowra, Ulladulla and Huskisson)
- Council contracts out operation of the waste transfer stations, 'buy back' centres and recycling areas at all 10 sites
- Kerbside collections for waste and recycling outsourced
- On-call hard waste and green waste residential collection outsourced
- Residential voucher system

The NSW Government uses the following strategies, programs and policies to carry out its waste and recycling responsibilities;

WARR Strategy Waste Avoidance & Resource Recovery - long-term targets and priorities

Waste Less, Recycle More A 5-year, \$465.7 million initiative to transform waste and recycling in NSW

Education strategy Changing Behaviour Together, a strategy to change community behaviour through targeted education

Energy from waste policy NSW's framework and conditions for recovering energy from waste

Waste education programs to increase awareness and improve waste and recycling practices

Product stewardship supporting schemes for greater industry responsibility for product environmental impacts

Waste legislation The following Acts and Regulations govern waste management and recycling in NSW. They contain the requirements for minimising harm to human health and the environment when handling, storing, transporting, processing, recovering resources from and disposing of waste.

Protection of the Environment Operations Act 1997 The Protection of the Environment Operations Act 1997 (POEO Act) is the principal environmental protection legislation for NSW. It defines 'waste' for regulatory purposes and establishes management and licensing requirements for waste. It defines offences relating to waste and sets penalties. The POEO Act also establishes the ability to set various waste management requirements via the POEO (Waste) Regulation.

Protection of the Environment Operations (Illegal Waste Disposal) Act 2013 The Protection of the Environment Operations Amendment (Illegal Waste Disposal) Act 2013 amends the POEO Act to more effectively deal with illegal waste disposal and fraud in the waste sector.

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Protection of the Environment Operations (Waste) Regulation 2014 The Protection of the Environment Operations (Waste) Regulation 2014 (the '2014 Waste Regulation') provides for contributions to be paid by occupiers of scheduled waste facilities for each tonne of waste received at the facility or generated in a particular area; exempts certain occupiers or types of waste from these contributions; and allows deductions to be claimed in relation to certain types of waste. It also sets out provisions covering:

- the proximity principle
- record-keeping requirements, measurement of waste and monitoring for waste facilities
- tracking of certain waste
- reporting
- transportation of waste
- transportation and management of asbestos waste
- recycling of consumer packaging
- classification of waste containing immobilised contaminants
- miscellaneous topics.

Waste Avoidance and Resource Recovery Act 2001 The Waste Avoidance and Resource Recovery Act 2001 (WARR Act) promotes waste avoidance and resource recovery. Among other miscellaneous provisions, the WARR Act sets out provisions for waste strategies and programs, and industry actions for waste reduction.

Waste Avoidance and Resource Recovery Strategy Reducing waste generation and keeping materials circulating within the economy are priorities for NSW. To meet this challenge, the NSW Environment Protection Authority (EPA) prepares a new Waste Avoidance and Resource Recovery (WARR) Strategy every five years.

The NSW Waste and Resource Recovery Strategy 2014-21 was released in December 2014. It sets clear directions for a range of priority areas over the next seven years and aligns with the NSW Government's waste reforms in NSW 2021: A plan to make NSW number one. The key areas identified in the strategy will support investment in much-needed infrastructure, encourage innovation and improve recycling behaviour. They will also help develop new markets for recycled materials and reduce litter and illegal dumping.

Over the last few years State Government legislation, controls and reporting have been increasing within the waste and recycling industry. These new requirements are impacting all industry participants. In addition the New South Wales has the highest waste levy in Australia.

Shoalhaven City Council has a draft *Waste Strategy*, which is in the process of being finalised

Shoalhaven City Council positions against 2014-2021 WARR Strategy Targets are currently in line with the legislation and Council is expected to meet these targets with the given time frame of 2021.

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Financial Performance and Historical Pricing Analysis

Landfill and Transfer Station Financial Result for 2014/2015

	Income	Expenses Excl levy	EPA levy	Total Expenses	Income - expenses	Incoming Tonnes	Landfill tonnes	Recycling tonnes	Transfer tonnes
Kangaroo Valley Transfer Station	60,730	197,356		197,356	-136,626	750		492	258
Berry Transfer Station	350,092	583,322		583,322	-233,230	2831		1721	1109
West Nowra Landfill	16,167,009	3,818,857	7,484,491	11,303,348	4,863,661	66899	62156	4743	0
Callala Transfer Station	299,124	457,400		457,400	-158,276	2405		1671	735
Huskisson Transfer Station and Inert Landfill	983,180	1,382,970	402,555	1,785,525	-802,345	6204	2919	3055	230
Sussex Inlet Transfer Station	218,950	494,424	67,873	562,298	-343,348	1845		992	853
Bendalong Transfer Station	42,756	364,895		364,895	-322,139	274		190	85
Lake Conjola Transfer Station	43,221	167,055		167,055	-123,834	559		369	190
Ulladulla Transfer Station	1,359,281	2,037,385		2,037,385	-678,104	7785		3987	3799
Kioloa Transfer Station	67,455	193,385		193,385	-125,930	791		548	243
North Nowra closed landfill	0	124,571		124,571	-124,571				
	19,591,798	9,821,620	7,954,919	17,776,539	1,815,259	90,344	65,075	17,767	7,502
Capital expenses					1,166,054				
Result					649,205				

Comments in regard to the above financial table;

- Financial performance of these activities is “ring-fenced” within Council’s Waste Reserve (not funded through the General Fund)
- Total transactions financial 151, 242 of landfills and transfer stations. Resident voucher transactions 52,531 or 34.7% of total transactions, and equates to \$1.9 million or 9.7% of total revenue.
- West Nowra Facility on face value without a detailed review is making above average returns compared with other similar facilities within the waste industry.
- Huskisson transfer station and landfill is not performing or providing adequate returns, further analysis needs to be conducted in regard to revenue and the cost, and the minimum expectation for this site should be a breakeven position in the short term.
- A further review should be conducted on after care cost provisions for both closed and operating landfills.
- Transfer station results are poor and the West Nowra Facility is subsidising these activities.

Additional comments regarding financial information;

- The domestic rate charges were reviewed and this is a cost neutral position for both Council and the rate payers
- Charges in regard to collection by SUEZ are in line with industry average in this type of rural environment where distances are greater compared with a city location.

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Pricing summary waste and recycling Detailed below is historical movement of charges by Shoalhaven City Council for waste and recycling.

Service		2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	% increase 2010 to 2016
Domestic Waste Management Charge									
80 litre (\$/year)	\$/y)	\$173.00	\$185.00	\$195.00	\$205.00	\$218.00	\$226.00	\$234.00	35%
120 litre (\$/year)	\$/y)	\$215.00	\$230.00	\$250.00	\$263.00	\$281.00	\$294.00	\$306.00	42%
240 litre	\$/y)	\$360.00	\$385.00	\$430.00	\$455.00	\$489.00	\$510.00	\$534.00	48%
Depot Gate fees									
EPA levy (ex GST)	\$/t	\$52.40	\$65.30	\$78.60	\$93.00	\$107.80	\$120.90	\$133.10	154%
Weighbridge Fees including levy and gst									
Mixed Waste (Domestic/commercial/builders/asbestos)	\$/t	\$142.00	\$165.00	\$197.00	\$220.00	\$265.00	\$290.00	\$315.00	122%
Green waste	\$/t	\$65.00	\$72.00	\$77.00	\$80.00	\$83.00	\$86.00	\$90.00	38%
Clean fill	\$/t	\$57.00	\$72.00	\$87.00	\$102.00	\$120.00	\$122.00	\$135.00	137%
net landfill prices (need to either add gst to levy or excl gst from all – using first I have corrected as shown)		\$84.36	\$93.17	\$110.54	\$117.7	\$146.42	\$157.01	\$168.59	103%
percentage to landfill inclusive of levy price		59%	56%	56%	54%	55%	54%	54%	
Transfer depot Fees including levy and gst									
Domestic Car	each	\$9.00	\$10.00	\$11.00	\$12.00	\$14.00	\$15.00	\$16.00	78%
Domestic trailer	each	\$30.00	\$35.00	\$40.00	\$45.00	\$52.00	\$57.00	\$62.00	107%
Commercial trailer	each	\$50.00	\$58.00	\$69.00	\$77.00	\$93.00	\$102.00	\$111.00	122%
Building trailer	each	\$97.00	\$113.00	\$134.00	\$150.00	\$181.00	\$198.00	\$215.00	122%
Green car	each	\$3.00	\$4.00	\$4.50	\$4.80	\$5.00	\$5.20	\$5.40	80%
Green trailer	each	\$15.00	\$18.00	\$20.00	\$21.00	\$22.00	\$23.00	\$24.00	60%

Observations and Comments

- Domestic waste management charge is still relatively cheap compared to other regional Councils and other waste companies.
- EPA levy has increased by 154% since 2009.
- Net landfill prices could have been increased further over time to reflect the increase in operational costs and levy imposition.
- Transfer station fees do not appear to have increased aggressively enough, do not appear to have kept pace with landfill and levy increases (this is reflective of Council tendency to reduce price increase impacts on householders – small waste generators).
- Analysis indicates that the majority of charges in transfer station are for domestic cars and trailers.
- Shoalhaven City Council offer variations to the above rates excluding (charge by tonne), ¼ full, ½ full, ¾ full. This practice is confusing and open to interpretation by both the customer and the transfer station operator. Consideration should be given to eliminating any partial loads.
- Confusion exists between Domestic and Commercial trailer, transfer station operators would always charge a lower price or the customer would just state its residential waste. This needs to be reviewed.
- Transfer station pricing does not appear to reflect the cost of transfer station operations and the cost of cartage to either Huskisson landfill or West Nowra landfill.

Excluding West Nowra and Huskisson facilities, revenue for Transfer Stations in 2015 year equates to \$2.4 million and a loss \$2.1 million. A simple analysis would be to double the current price, (this includes the value of residential vouchers used) to achieve a breakeven position.

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Service comparison of a number of Councils in New South Wales

Councils selected where the Metropolitan Waste Levy applies

	Shoalhaven City Council	Wyong Shire Council	Port Stephens Council	Gosford City Council	Shellharbour City Council	Wingecarribee Shire Council	Wollongong City Council	Kiama City Council	Sutherland Shire Council
Population	98,000	159,000	70,000	171,000	64,000	49,000	207,000	22,000	225,000
LGA square kilometres (ref ABS LGA_2015_NSW.csv)	4,666	740	858	941	147	2688	684	258	334
Domestic Garbage	120ltr	140ltr	240ltr	120ltr	140ltr fortnightly	140ltr	120ltr	140ltr	120ltr
Domestic Recycling	240ltr	240ltr	240ltr	240ltr	240ltr	240ltr	240ltr	240ltr	240ltr
Domestic Green Waste	no	240ltr	In garbage	240ltr	240ltr	240ltr	240ltr	240ltr	240ltr
Domestic Organics	no	no	In garbage	no	no	no	no	trailing	No
Domestic kerb side Hard Waste	Yes \$57 per cum or Voucher on call	Yes 3 free pa	Yes 2 free pa	Yes 3 free pa	Yes \$76 per 200 kg collection	Yes \$77 Per cum restricted	Yes 2 free pa on call	yes	Yes 2 free pa
Domestic kerb side Green Waste	Yes \$23 per cum on call	Yes 3 free pa	As above	Yes 3 free pa	As above	As above	As above	no	As above
Domestic waste and recycling charge based on standard offering	\$306	\$499	\$330	\$361	\$303	\$513	\$386	\$493	\$456
Landfill - number	2	1	0	1	1	0	1	0	0
Landfill price per tonne (include GST)	\$315	\$327	N/A	\$287	\$320	Refer transfer station	\$348	n/a	n/a SUEZ \$330
Asbestos price per tonnes	\$315	\$420	Not accepted	\$371	\$380	\$652	n/a	n/a	n/a SUEZ \$520
Landfill cost per car	Weight only	Weight only	Weight only	Weight only Min charge \$21.80	\$24	n/a	Weight only Min charge \$35	n/a	Weight only
AWT in LGA	no	no	yes	no	no	no	no	no	no
Transfer Stations - number	9	0	1	1	0	1	0	1	0
Transfer station cost - car	\$16	n/a	Weight only	Weight only	n/a	Weight only	n/a	n/a	n/a
Transfer station cost - trailer	\$62	n/a	Weight only	Weight only	n/a	Weight only	n/a	n/a	n/a
Transfer station cost per tonne	n/a for 7 \$315 for 2	n/a	\$255	\$273 (inert waste)	n/a	\$298.70	n/a	n/a	n/a
Community Recycling stations 240ltr banks	4	0	0	0	0	0	0	0	0
Free tipping voucher	yes	no	no	no	no	no	no	no	partial
Recycling drop off free*	yes	yes	yes	yes	yes	yes	yes	yes	n/a
Needs further comparison									

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Observations and Comments

- Shoalhaven City Council and Port Stephens are the only Councils in the selected list that do not provide a kerbside bin green waste collection service.
- Some Local Councils view waste and recycling outside the normal increases of rates.
- Shoalhaven domestic waste charges are the second lowest of the Councils selected, only slightly higher than Shellharbour
- Landfill waste prices comparable to those with other landfills. Gosford are the lowest at \$287 tonne.
- Landfill asbestos pricing, Shoalhaven is the lowest and the only location where a premium in charges does not apply for this waste type (this was implemented in 2006 in order to avoid the temptation for customers to "hide" asbestos under other normal loads).
- Shoalhaven have the most transfer stations of any other Council.
- No other Council has bin based community recycling stations.
- In regard to vouchers with the exception of Sutherland Council no other Council offers this system. (Sutherland Council offers 2 vouchers per annum for disposal of green waste to residents who are in a bush fire prone area).
- Shoalhaven is the biggest Council by area.

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Initial observations of current and future activities for waste services within the Shoalhaven Local Government Area

DETAILS	COMMENTS / INITIAL OBSERVATIONS	FUTURE WASTE SERVICES AND RESPONSE
<p>Domestic waste</p>	<p>Garbage and recycling</p> <p>Bin sizes</p> <p>Garbage, 80ltr, 120ltr, 240ltr weekly service</p> <p>Recycling, 240ltr fortnightly service</p> <p>Green waste not offered</p> <p>Organics (green waste and food) not offered</p> <p>Waste Disposal Vouchers</p> <p>2 annual domestic vouchers used for either waste or garden waste. Can be used at landfills and transfer stations or alternatively to redeem a pick-up service.</p> <p>Garden Organics pick up \$24 payable to contractor (maximum limits apply)</p> <p>Bulky waste pick up \$62 payable to contractor (maximum limits apply)</p>	<p>Consideration could be given to the following;</p> <ul style="list-style-type: none"> • Green waste collection 240ltr fortnightly, rateable • Organics (green waste and food) 240ltr weekly, rateable • Hard waste Collection twice a year and restrictive in conditions, rateable • Recycling, offer an additional bin size to 360ltr at a rateable fee • Subject to the points above consider ceasing current voucher system
<p>West Nowra Facility</p>	<p>Operating hours 8am – 5pm 7 days a week</p> <p>Accepts putrescible and inert waste</p> <p>Accepts asbestos under certain conditions</p> <p>Accepts C&D waste</p> <p>C&D segregation and processing</p> <p>Gas production from landfill gas</p> <p>Accepts scrap metal and batteries</p> <p>Accepts green waste</p> <p>Green waste processing, including blending with biosolids</p> <p>Certain processed green waste is free for collection by SCC residents, balance currently used within Council and as remediation material on various sites.</p> <p>Transfer station for residential customers, no access to the tip face</p> <p>Recycling centre for, paper and cardboard, plastics, polystyrene, waste oil, electronic waste, mattresses and tyres</p> <p>Household chemical drop off centre, in conjunction with the EPA</p> <p>Buyback centre</p> <p>Future landfill expansion</p> <p>Future AWT site</p> <p>Future upgraded C&D processing</p>	<p>Consideration could be given for this site;</p> <ul style="list-style-type: none"> • Protect putrescible waste volumes on this site even with expansion • Wet and dry waste separation, back loading dry/inert waste to Huskisson • Allocation of land for further recycling activities by third parties, baling operation, MRF, composting and landscape sales, liquid treatment etc. • Consider reducing operating hours of this facility to reduce cost • AWT site is being proposed consider also anaerobic digestion as part of this process • Tender buy back centre separately, more controls and opportunities given to charitable organisations • Change the concept for a landfill to a resource recovery park (like SUEZ at Lucas Heights). Branding is important, SCC have recently lodged documentation for West Nowra landfill expansion for preliminary approval with the Department of Planning and Infrastructure “Resource Recovery Park”, SCC should using this as the facility name. • Expansion plans are the right decision for this facility.

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	<p>Future material recovery facility, dirty MRF</p>	
<p>Landfill Huskisson</p>	<p>Operating hours 8am – 5pm 7 days a week</p> <p>Accepts inert waste</p> <p>Accepts C&D waste</p> <p>C&D segregation and processing</p> <p>Accepts scrap metal and batteries</p> <p>Accepts green waste</p> <p>Green waste processing</p> <p>Certain processed green waste is free for collection by SCC residents, balance currently used within Council and as remediation material on various sites.</p> <p>Transfer station for residential customers, no access to the tip face</p> <p>Recycling centre for, paper and cardboard, plastics, polystyrene, waste oil, electronic waste, mattresses and tyres</p> <p>Household chemical drop off centre, in conjunction with the EPA</p> <p>Buyback centre</p> <p>Future landfill expansion</p>	<p>Consideration could be given for this site;</p> <ul style="list-style-type: none"> • More inert volumes, without incurring transport costs from other facilities • More C&D processing • Consider reducing operating hours of this facility to reduce cost • Tender buy back centre separately, more controls and opportunities given to charitable organisations • Rebrand to recycling centre or resource park <ul style="list-style-type: none"> • Expansion plans are the right decision for this facility.
<p>Transfer Stations</p>	<p>Operating hours</p> <ul style="list-style-type: none"> • Huskisson and Ulladulla 8am -5pm 7 days a week • Berry, Callala, Sussex Inlet 8am – 4pm Friday to Monday • Kangaroo Valley, Kioloa, Lake Conjola 9am – 1pm Friday to Monday • Bendalong 9am – 1pm Saturday and 1pm to 5pm Sunday • During the Christmas school holidays, operating hours and times at these transfer facilities are extended <p>Accepts waste</p> <p>C&D segregation and processing (Ulladulla only)</p> <p>Accepts scrap metal and batteries</p> <p>Accepts green waste</p> <p>Process green waste</p> <p>Processed green waste is free for collection by SCC residents, balance currently used within Council and as remediation material on various sites.</p> <p>Recycling centre for, paper and cardboard, plastics, polystyrene, waste oil, electronic waste, mattresses and tyres</p> <p>Buyback centre (Berry, Kangaroo Valley, Callala, Sussex Inlet, Ulladulla)</p>	<p>Consideration could be given to these sites, refer separate notes on transfer stations;</p> <ul style="list-style-type: none"> • Wet and dry separation of waste • More source separation • Transport of waste to either Nowra or Huskisson depending whether putrescible or inert waste. • New Protection of the Environment Operation regulation reducing thresholds for licensing waste, recycling and transfer facilities. • Further restriction of days and hours at transfer stations • Site closures (long term) • Increase prices • Rebrand and presentation as a recycling centre or resource recovery • Tender buy back centre separately, more controls and opportunities given to charitable organisations

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<p>Recycle banks</p>	<p>4 Locations within the LGA</p> <ul style="list-style-type: none"> • Nowra • Berry • Culburra • Currarong 	<ul style="list-style-type: none"> • Recommend closure
<p>Collection contract</p>	<p>Suez Environnement provides the collection services for waste and recycling. Business unit staff were very satisfied with;</p> <ul style="list-style-type: none"> • Collection contract • Reporting • Relationship • Low level of complaints • Good reporting <p>No further work was conducted with this contractor.</p>	<p>No improvements identified</p>

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Landfills and transfer stations analysis extract of key findings

West Nowra Recycling and Waste Facility (putrescible landfill)

Landfill site	<p>Landfill site was very well presented. New cells had recently been constructed. Fencing was in good condition. Very little litter was scattered around the site. Cover material readily available at this point in time. Operation appeared to be running smoothly and efficiently.</p>
Landfill dry and wet waste	<p>Consider source separation of dry and wet waste for the following reason;</p> <ul style="list-style-type: none"> • Protection of putrescible airspace and this will only increase in value in the future. • Segregation now will assist the process for SCC dirty MRF. • Better use of air space at Huskisson on the basis for backfill loads and no increase in overall transport costs. <p>This was also the view of the business unit team</p>
Compaction	<ul style="list-style-type: none"> • Implement a testing / measurement program to monitor compaction ratios of the waste to ensure 'air space' in the landfill is minimised to maximise available landfill capacity. <p><i>Note: Computer based Control Systems have now been added to equipment to provide real time feedback on compaction.</i></p>
Composting operation	<p>No real comments, the area was well presented, not odorous and regularly tested.</p>
Site Management	<p>The current arrangement with Contractor operating this transfer station is not working satisfactorily. Consideration should be given to SCC staff taking back;</p> <ul style="list-style-type: none"> • Recycling centre (this is core business). • Transfer station (this is core business). <p>The reasons for the above comments;</p> <ul style="list-style-type: none"> • This site is core business to SCC. • Poor performance of existing contractor. • Better utilisation of labour resources on site. • Improved culture regarding OH&S. • One OH&S operating system on site. • One management control on all major activities. • Improved resource recovery.
Site expansion	<p>Expansion of proposed facilities and the landfill extension;</p> <ul style="list-style-type: none"> • Is the right decision that has been made by the Waste Services Unit and Council. • Shows forward thinking by the Waste Services Team and Council. • Protects the Community with disposal options within the LGA. • Minimises future costs for long distance transport to other disposal facilities. • Most Local Councils in NSW are not in this position with their waste needs as exist within the Shoalhaven LGA. • Expansion concepts and future plans fit the State Government direction for waste and recycling.

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Huskisson Recycling and Waste Facility (inert landfill)

Landfill site	<ul style="list-style-type: none"> • Landfill site was well presented. • Fencing was in good condition. • Very little litter was scattered around the site. • Cover material available.
Compaction	<ul style="list-style-type: none"> • Implement a testing / measurement program to monitor compaction ratios of the waste to ensure 'air space' in the landfill is minimised to maximise available landfill capacity.
Transfer station	<ul style="list-style-type: none"> • Lack of recycling bins where residents don't segregate waste before entry. • Height is eliminated for customers tipping. • During one visit no supervision at tipping area.
Site Management	<p>The current arrangement with the contractor is not working satisfactorily consideration should be given to SCC staff taking back;</p> <ul style="list-style-type: none"> • Recycling centre (this is core business). • Transfer station (this is core business).
Transfer Stations <ul style="list-style-type: none"> • Ulladulla Transfer Station • Bendalong Transfer Station • Berry Transfer Station • Callala Transfer Station • Kangaroo Valley Transfer Station • Kioloa Transfer Station • Lake Conjola Transfer Station • Sussex Inlet Transfer Station 	<ul style="list-style-type: none"> • Sites where both the contractor and SCC staff operative is not conducive to best management practices. • Contractor not meeting recycling targets. • Too much recycling content in general waste bins. • Equipment generally in poor condition. • Signage on site and bins was generally poor. • Most sites were not conducive to embrace recycling activities. • Apparent under charging at some locations. • Buy back areas not well controlled.

Landfills and transfer stations analysis extract of key findings

Location	Opening times
Huskisson Transfer Station and Inert Landfill	8am-5pm 7 days a week
Ulladulla Transfer Station	8am-5pm 7 days a week
Bendalong Transfer Station	9am-1pm Saturday 1pm-5pm Sunday
Berry Transfer Station	8am-4pm Friday , Saturday, Sunday, Monday,
Callala Transfer Station	8am-4pm Friday , Saturday, Sunday, Monday,
Kangaroo Valley Transfer Station	9am-1pm Friday , Saturday, Sunday, Monday,
Kioloa Transfer Station	9am-1pm Friday , Saturday, Sunday, Monday,
Lake Conjola Transfer Station	9am-1pm Friday , Saturday, Sunday, Monday,
Sussex Inlet Transfer Station	8am-4pm Friday , Saturday, Sunday, Monday,

Please note all depots closed Christmas Day and Good Friday.

During the peak holiday season the transfer stations are open for extended hours and days. All depots except Bendalong are open 7 days per week from 26 December to 31 January, Bendalong is open 9am to 5pm Saturdays, Sundays and Wednesdays from 26 December to 31 January, Kioloa is open 9am to 3pm 7 days per week from 26 December to 31 January and 9am to 3pm Friday, Saturday, Sunday, Monday and Wednesday during other school holiday periods.

Detailed below is analysis of;

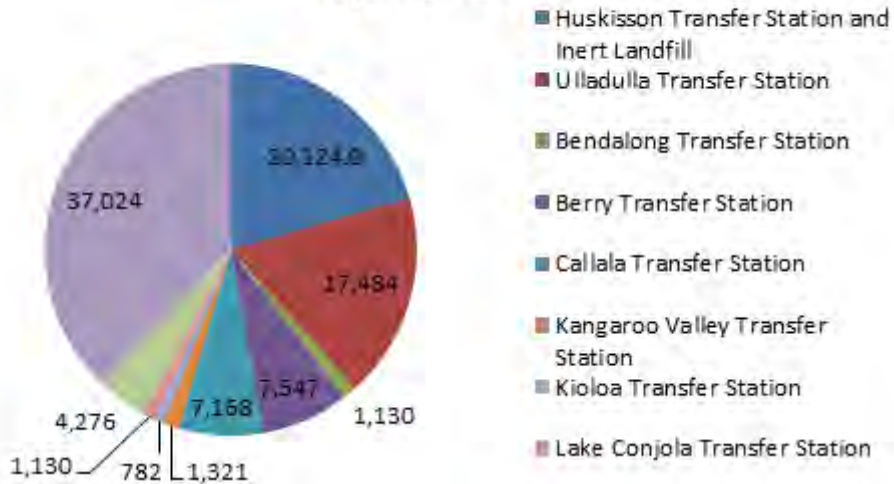
- Population and distance measures regarding Transfer Stations
- Driving distance from small transfer stations to the major facilities
- Shoalhaven Council Local Government Area with major waste and recycling centres highlighted

Population and distance measures regarding Transfer Stations

Approximate feeder population per waste and recycling facility	Population
Huskisson Transfer Station and Inert Landfill	20,124
Ulladulla Transfer Station	17,484
Bendalong Transfer Station	1,130
Berry Transfer Station	7,547
Callala Transfer Station	7,168
Kangaroo Valley Transfer Station	1,321
Kioloa Transfer Station	782
Lake Conjola Transfer Station	1,130
Sussex Inlet Transfer Station	4,276
West Nowra	37,024
Total population	97,986

Graphical representation of the above.

Population



- 76% of the population base feed into the 3 main disposal and recycling facilities, West Nowra, Ulladulla and Huskisson.
- 4.5% of the population base feed into 4 transfer stations (40% of the number of disposal and recycling facilities) at Kangaroo Valley, Bendalong, Lake Conjola and Kioloa.

Driving distance from small transfer stations to the major facilities

From	To	km
West Nowra	Kangaroo Valley	32
	Berry	29
	Callala	22
	Sussex Inlet	48
	Bendalong	59
Huskisson	Lake Conjola	60
	West Nowra	27
	Callala	31
	Sussex Inlet	31
	Bendalong	42
Ulladulla	Lake Conjola	44
	Ulladulla	51
	West Nowra	68
	Sussex Inlet	42
	Bendalong	31
Ulladulla	Lake Conjola	16
	Kioloa	32

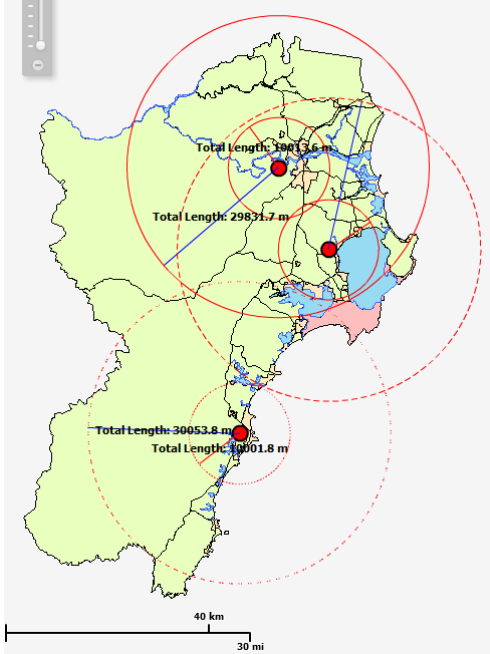
Comments in regard to distances and population;

- Berry Transfer Station is accessed by residents of Kiama, Gerroa, Gerringong and possibly Shellharbour.
- Towns within the LGA that do not have a transfer station would appear to be at a disadvantage.
- Towns with a transfer station should be considered privileged, especially being subsidised by the West Nowra Facility.
- Shoalhaven Council would appear to have the most manned transfer stations in any LGA within Australia.
- Distances from existing transfer stations to main disposal and recycling facilities do not appear excessive when compared to Sydney and other regional areas.

From	To	km
West Nowra	Kangaroo Valley	32
	Berry	29
	Callala	22
Huskisson	Sussex Inlet	31
Ulladulla	Bendalong	31
	Lake Conjola	16
	Kioloa	32

- As with the comment regarding hours, Shoalhaven Council need to consider the individual viability of each smaller transfer station with in the region.

Shoalhaven Council Local Government Area with major waste and recycling centres



highlighted

The attached schematic of the LGA highlights the major waste and recycling centres;

- West Nowra Landfill and Recycling Facility.
- Huskisson Inert Landfill and Recycling Facility.
- Ulladulla Transfer Station and Recycling Facility.

This schematic was supplied by SCC.

Red circles explained;

- The three smaller circles are within a 10 kilometre radius of each centre.
- The smaller circles represent a large proportion of the population base.
- The three larger circles represent a 30 kilometre radius from each centre.
- The schematic highlights that these specific waste and recycling centres are well positioned.
- The 30 kilometre radius appears to cover in excess of 85% of the total Council area with the remaining 15% being unpopulated (National Parks and State Forests).

Transfer Station discussion points and options

This section summarises a number of discussion points and various options that Shoalhaven City Council may consider during their assessment and review of the transfer stations within the LGA.

Discussion points;

- The financial losses should not be acceptable from a Council point of view.
- The West Nowra facility subsidising the transfer stations activities in the longer term is unsustainable and is a cash drain on Council finances.
- From a commercial point of view if the transfer stations were independently run, all would be closed from a safety risk, loss of cash risk and financial sustainability point of view.
- If Council did not have a facility to support these transfer stations they would either be closed or the waste component of rates would be increased accordingly.
- The current contract, the contractor and the sites are not best practice within the industry.
- Pricing appears to low and needs to be increased.
- Other Councils within NSW do not have the volume of transfer stations to support their constituents.
- There are no legislative requirements to maintain these transfer stations. However, the waste volumes at Berry, Callala and Sussex Inlet are at the cusp of triggering an EPA requirement to be licensed. The consequence of licensing would require weighbridges to be installed at each site, power to be installed at Berry, a waste levy liability incurred at each site and additional monthly reporting requirements.
- The Berry Transfer Depot receives waste from the Kiama Council areas of Gerringong and Gerroa.
- If a new contractor was appointed, the current position and OH&S issues would be improved, but without significant change it would not improve the overall financial result.
- Potential options to provide additional services in lieu of the transfer stations should be explored.
- Changing opening times and days for Transfer Stations.
- The current Transfer Station Contract ends 30 June 2016.
- SCC does have an option to extend the existing Transfer Station Contract.

Detailed below are 5 options that SCC could consider.

Option	Benefits	Cons	Recommended
<p>Option 1 Terminate current Transfer Station Contract with Subloo immediately.</p> <p>This would result in SCC being responsible for;</p> <ul style="list-style-type: none"> • Operations and labour • Transport • Capital for; trucks, bins, loader etc. • Buyback centres 	<ul style="list-style-type: none"> • Eliminate the performance issues with the current contractor. • SCC in control of all sites. • Improved OH&S, one system for allocations. • Improve charging. 	<ul style="list-style-type: none"> • Resourcing only some of existing contractor's staff would be employed – an employment option is available through a labour hire company. • Cost imposition. • Unbudgeted capital availability up to \$2 million – but can hire bins and servicing vehicles in the interim. (see Appendix 5) • Lead times on all equipment. Early termination may result in legal disputation. 	<p>Only viable if short term hire and staffing can be arranged. Not a recommended solution</p>
<p>Option 2 At the end of the existing Transfer Station Contract – 30 June 2016. Close all transfer stations and only operate 3 major centres;</p> <ul style="list-style-type: none"> • West Nowra • Ulladulla • Huskisson <p>Centres operated by SCC staff and subcontract transport.</p> <p>Buy back centres tender separately.</p>	<ul style="list-style-type: none"> • Centralising waste to 3 locations only. • Improved management of site. • One site manager at each location • Improved OH&S, one system for site. • Cost reduction of operating smaller regional transfer stations. • Reduce disputes in regard to charges as all waste and recycling will go over a weighbridge. • Eliminates under charging where sites do not have a weighbridge. • Improved transport efficiency. • Controls transport costs. • Improves source separation and recycling. • Volumes of waste will not reduce. 	<ul style="list-style-type: none"> • Loss of Council services. • Likely community backlash. • Likely political resistance from Councillors. • SCC may incur additional capital cost for bins, (if not subcontracted out with transport). • Would require a lot of Community consultation. • Could increase illegal dumping. • Council may need to consider offering an alternative (i.e. compensation such as an additional voucher). • May need alternate options during peak holiday periods. 	<p>In the short term not a viable or recommended solution. Should be considered in the longer term (1 to 2 years)</p>

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Option	Benefits	Cons	Recommended
<p>Option 3 Extend the existing contract with Subloo for six months to end 31 December 2016. This would be conditional on very strict new terms and conditions.</p> <p>1 January 2017</p> <ul style="list-style-type: none"> • Close Bendalong, Lake Conjola, Kangaroo Valley this equates to 7% of total transactions and less than 2% of overall volume. • Reduce hours of operations of remaining transfer stations by closing at 3.00pm and eliminate 1 to 2 days of operations, Monday and/or Friday. • Kioloa remains as is. 	<ul style="list-style-type: none"> • New tender based on new service provision. • Re-write tender terms and conditions. • Council may tender buy back centres separately. • Cost reduction of operating smaller regional transfer stations. • Improved transport efficiency. • Controls transport costs. • Improves source separation and recycling. • Volumes of waste will not reduce. • Time to review all pricing and waste charging. 	<ul style="list-style-type: none"> • May require a review of current contract. • Charges with the existing contractor. • Loss of Council services. • Community may not accept this decision. • Councillors may not accept this decision. • Would require a lot of Community consultation. • Could increase illegal dumping. • Council may need to consider compensation such as an additional voucher. • May need alternate options during peak holiday periods. 	<p style="text-align: center;">In view of the proposed lead time could be an acceptable solution</p>
<p>Option 4 Extend the existing contract with Subloo for 12 months to end 30 June 2017. This would be conditional on very strict new terms and conditions.</p> <p>30 June 2017</p> <ul style="list-style-type: none"> • Restrict operations to weekend only Lake Conjola, Kangaroo Valley and Kioloa • Bendalong remains as is • For all other transfer stations and landfills reduce operating hours from closure at 5.00pm to 3.00pm. 	<ul style="list-style-type: none"> • New tender based on new service provision. • Re-write tender terms and conditions. • Council may tender buy back centres separately. • Cost reduction of operating smaller regional transfer stations. • Volumes of waste will not reduce. • Time to review all pricing and waste charging. 	<ul style="list-style-type: none"> • May require a review of current charge with the existing contractor. • Minimal loss of Council services • Would require some Community consultation. • Could increase illegal dumping. • May need alternate options during peak holiday periods. 	<p style="text-align: center;">In view of the proposed lead time could be an acceptable solution</p>
<p>Option 5 Extend the existing contract with Subloo for 12 months to end 30 June 2017. This would be conditional on very strict new terms and conditions.</p> <p>SCC fully operate major centres;</p> <ul style="list-style-type: none"> • West Nowra • Ulladulla • Huskisson <p>Subcontract the smaller transfers stations on the following basis;</p> <ul style="list-style-type: none"> • Restrict operations to weekends only Lake Conjola, Kangaroo Valley and Kioloa • Bendalong remains as is <p>For all transfer stations and landfills reduce operating hours from closure at 5.00pm to 3.00pm</p> <p>Subcontract all transport.</p> <p>Buy back centres tender separately.</p>	<ul style="list-style-type: none"> • New tender based on new service provision. • Re-write tender terms and conditions. • More control for SCC on major sites. • Cost reduction of operating smaller regional transfer stations. • Volumes of waste will not reduce. • Time to review all pricing and waste charging. 	<ul style="list-style-type: none"> • Less attractive for a future tenderer. • May require a review of current charge with the existing contractor. • Minimal loss of Council services. • Would require some Community consultation. • Could increase illegal dumping. • May need to open during peak holiday periods. 	<p style="text-align: center;">In view of the proposed lead time could be an acceptable solution consider the most likely option</p>

Council staff needs to review these and other options during a complete strategic review of transfer station operations. This will include but not limited to, hours of operation, days of operation, closure of sites, overall costs, increase in prices, ensuring consistent pricing at all locations, ensuring consistency of loads entering transfer stations, review of voucher systems etc.

Other areas covered within the waste services review

Education

Council Communications

Council website specifically regarding waste and recycling

Customer Service

In regard to the above 4 areas no concerns or negative comments were raised full details can be found within the final report

Observations regarding staff responsible for waste and recycling service

General observations and feedback from staff;

- Strong and positive leadership from Business Unit Manager.
- The team appeared coordinated, capable, experienced and knowledgeable.
- This is a very small team to manage quite a large business, 53,000 tenements and commercial customers, two landfills, ten transfer stations, the Council internally and the Councilors.
- Staff indicated they were stretched to the limit during our brainstorming session.
- No increase in office staff numbers for this team for the last few years even though activities, reporting and volumes had increased.
- Small increase in operational staff.
- Transfer station operations were of a concern generally.
- Discussions internally about Subloo as a contractor were lengthy, high on every one's agenda. This Contractor caused undue problems for SCC.
- The team indicated the increased reporting requirements in nearly every aspect of their work, both internally as well as externally.
- EPA staff are becoming more visible within all South Coast Councils, including regular site visits. Management of the EPA is critical issue, the Department cannot be ignored and takes time to manage and respond to requests or non-conformances.
- Asbestos presented a major issue at the West Nowra Landfill; issues arising from the disposal, classification, acceptance and wrapping of this product was disproportionate to the rest of the landfill tonnes. Refer brainstorming notes for further commentary direct from staff for this component of the report.

Comments and preliminary recommendations

- The team seems under resourced during discussions and observations. Particular gaps in site based supervision and coordination needs further resourcing,
- Contract manager and contract officer should be out in the field far more, maybe consideration be given to an additional part time customer service resource, as contract officer spends quite an amount of time fielding customer service functions. These roles should not be office bound but more regularly in the field.
- Education, this area should be able to be self-funded and measured with the reduction in overall waste volumes. This maybe an area that needs further review, in the short term it's all about reduction of waste to landfill. SCC don't appear to have an issue with recycling contamination based on the current contract performance, but what about the recycling product still going to landfill and source separation at the transfer stations. This area needs a final approved education plan with targets and a probably an additional full time resource. Waste audit at landfills and transfer stations, bin audits are important and essential and should be part of this education function conducted internally. External audits should be conducted to confirm what is already known to SCC staff.
- Waste and recycling services need a strategic plan and the staff requirements will need to mirror that plan.
- The Council and Councilors should acknowledge that waste, waste disposal and recycling is the only service that individually affects every tenement within the Community as a result is area should be resourced accordingly.
- Depending on the future of the transfer station delivery model, internal staff needs may need to be increased.

Conclusion

The assistance internally from the Business Unit was very supportive and the team showed their experience and professionalism.

Concluding comments;

- The future plans for the West Nowra Facility, landfill expansion and approval for the AWT site is the absolute right decision and Council staff should be commended for their vision.
- The Waste Business Unit team is knowledgeable and well-coordinated to manage this service provision. Current resources are not adequate for the scale of the operation.
- The view of protecting putrescible air space at West Nowra, will have strategic benefits in the longer term.
- The expansion of the Huskisson Landfill and acceptance of more inert product are the correct strategic directions.
- Council need to consider their views regarding the existing Transfer Station contractor and strategically the value of the network of transfer stations.
- Council cannot continue to support financial losses at the transfer stations.
- Council needs to consider cost cutting options for transfer stations, closure, reduced days and hours of operation.
- Current pricing of the landfill and transfer station needs to be reviewed and increased.
- Council should reconsider domestic green waste or green waste and organics collection in the medium term.
- Closed landfills may need active attention to repatriate the sites and avoid a long term potential liability or EPA fines.