

Nelson City and Tasman District Regional Landfill - Joint Venture Proposal

1. Purpose of Report

- 1.1 To approve the option of establishing a joint venture to operate a regional landfill for the Nelson City Council and Tasman District Council.

2. Delegations

- 2.1 Council has the delegation to make this decision.

3. Recommendation

THAT the report Nelson City and Tasman District Regional Landfill - Joint Venture Proposal (R5512) and its attachments () be received;

AND THAT Council approve a Joint Venture model as the preferred option for the management of Tasman District and Nelson City Councils' landfills;

AND THAT a 50:50 Joint Venture is preferred, with a one-off payment of \$4.2 million paid by Tasman District Council to Nelson City Council to compensate for the difference in midpoint landfill values between York Valley and Eves Valley be approved;

AND THAT for Eves Valley, operational control of all land used for the existing landfill and for Stage 3 landfill purposes will be transferred to the Joint Venture and that for York Valley operational control of all of the land currently used (but not the land designated for Stage 2) will be transferred to the Joint Venture (noting that, for formal decision-making purposes, maps and legal descriptions will be provided);

AND THAT both councils retain buffer land and designations, and that should any alternative use be proposed, the views and preferences of

the joint venture will be taken into account in determining the future use of that land;

AND THAT *the structure, governance, funding and ownership aspects of the landfill Joint Venture will be the subject of a future report to both Councils, noting the intention that this Joint Venture be similar to Nelson Regional Sewerage Business Unit;*

AND THAT *the Nelson City Council will undertake consultation on the proposal through its Annual Plan 2016/17 process and that, concurrently, Tasman District Council will engage with its community through its engagement on its Annual Plan 2016/17 whilst acknowledging that Tasman District Council may need to amend its Long-term Plan in July 2016 to enable this transaction (as the Eves Valley landfill is a strategic asset);*

AND THAT, *subject to confirmation through the Annual Plan consultation processes, the Joint Venture formally commence 1 July 2017 with the one-off payment of \$4.2 million to be made from Tasman District Council to Nelson City Council on that date;*

AND THAT *from the date of 3 March 2016 (being the date both Councils consider the proposal) both Councils will continue to support the model in the way they manage their landfills in anticipation of it being the approved outcome;*

AND THAT *prior to commencement of the Joint Venture on 1 July 2017, that each Council continue with all necessary work to establish the Joint Venture in anticipation of approval of the proposal;*

AND THAT *all direct and external costs for establishment of the Joint Venture will continue to be shared 50:50 between both Councils;*

AND THAT *the Chief Executive be instructed requested to establish with Tasman District Council a Joint Venture project team for this purpose and do all necessary work for the purpose of establishing the Joint Venture for landfill operations from 1 July 2017;*

AND THAT all the statements in this recommendation be subject to the Tasman District Council passing equivalent resolutions on the joint landfill management.

4. Background

4.1 Both Nelson City Council and Tasman District Council are responsible for promoting effective and efficient waste management and minimisation within their respective territorial boundaries (collectively the Nelson-Tasman region) under Part 4 of the Waste Minimisation Act 2008 (the Act).

4.2 Nelson City Council owns and operates the York Valley landfill at 34 Market Road, Bishopdale, Nelson and the Tasman District Council owns and operates the Eves Valley landfill at 214 Eves Valley Road, Waimea West, Tasman.

4.3 Both Nelson City and Tasman District Councils have prepared and adopted a Joint Waste Management and Minimisation Plan (JWMMP) dated April 2012 pursuant to section 45 of the Act.

4.4 Policy 3.1.5 of the JWMMP states that the Councils will jointly make the most effective and efficient use of York Valley and Eves Valley landfill space. Method 3.1.5.1 to achieve this policy states:

The Councils will investigate a joint landfill solution as a matter of priority in the first year this plan is operative (and the options will include using one landfill as a regional facility serving both Districts or that the two landfills will be used for separate materials).

4.5 Policy 3.1.6 of the Joint Plan states that the Councils are to ensure jointly that there is landfill capacity in the two Districts for the safe disposal of waste. Method 3.1.6.1 to achieve this policy states:

The Councils will continue to provide a landfill disposal service for the disposal of approved waste that is sourced from within the Districts.

4.6 In 2014, following further investigation by the Councils, Nelson City and Tasman District proposed joint use of a single regional landfill facility to accept all residual solid waste generated in the Nelson-Tasman region. The proposal was for:

- the York Valley landfill to become the regional landfill facility from 1 July 2015 to accept all waste generated within the Nelson-Tasman region until the current operational area of the landfill is at capacity (anticipated at the time to be in approximately 2031);
- the Eves Valley landfill to have all necessary consents and approvals to accept up to two years waste from the Nelson-Tasman region in case of unforeseen temporary closure of the York Valley landfill;

5. Landfill Valuations

- 5.1 In November 2015, both Councils agreed to commission a valuation. A scope and process was developed for the purpose informing the level of assets/equity that each Council could contribute to a joint venture proposal to operate a regional landfill.
- 5.2 In December the Councils jointly engaged Deloitte to provide them with an independent commercial / business valuation of the landfill operations of each Council. Morrison Low and Associates were also jointly engaged to peer review the Deloitte valuation.
- 5.3 A separate valuation was completed of each landfill operation based on each Council continuing with the status quo (i.e. no regional landfill) for the next 45 years. This included operating the current landfills, re-consenting existing areas as necessary and consenting, developing and operating new areas over this period.
- 5.4 The following were the key features of the valuations;
- valuing the current day consented landfills operations as an ongoing business proposition;
 - a discounted cashflow approach (which involves forecasting the cash revenue and expenses that the landfill operations could generate over their life and deducting the capital costs that are necessary to generate that revenue);
 - inclusion of post closure costs of each landfill;
 - inclusion of the capital costs of extending, consenting and developing additional stages to enable landfilling to occur for the 45 year period;
 - using 2014/15 waste disposal volumes and the Councils' own growth projections for the life of the consented landfills;
 - current gate charges remaining unchanged over the 45 year period;
 - an appropriate range of commercial Weighted Average Costs of Capital (WACC) that would apply to landfills;
 - sensitivity analysis around changes in waste volumes, operating costs, gate charges and capital costs over the 45 year period.
- 5.5 A draft Valuation Report (Deloitte) and a draft Peer Review Report (Morrison Low) were released to both Councils in early February 2016. Council officers met with Deloitte and Morrison Low to discuss the report and on 10 February the valuation was presented by Deloitte to a joint workshop of the Councils. Copies of finalised reports are attached to this report.
- 5.6 The Valuation Report outlines the reasoning behind adopting a 'fair value' standard to each landfill asset. It then outlines the valuation approaches and assumptions.
- 5.7 The valuation report highlights that the accounting aspects of the landfilling operations are treated differently by each Council. Deloitte has reviewed and assessed the financial information and has 'ring fenced'

the respective costs and revenues of each Council's operations to ensure that both landfills have been valued on a similar basis.

- 5.8 The valuations have been determined based on the landfilling operations for each Council over the next 45 years. This is considered standard practice within the valuation sector.
- 5.9 The following tables summarise the valuations outlined in the Deloitte Report, using the range of appropriate Weighted Average Cost of Capital (WACC) for a landfill. The value split between existing and future landfill stages is shown in the pie charts following the tables;

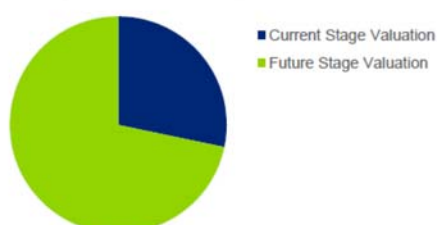
Eves Valley Landfill	Low (\$'000)	High (\$'000)
Current Stage Valuation	3,722	3,733
Future Stage 3 Valuation	8,881	10,015
Combined Landfill Valuation	12,603	13,749
Midpoint	13,176	

Table 5.9A Eves Valley Landfill Valuations

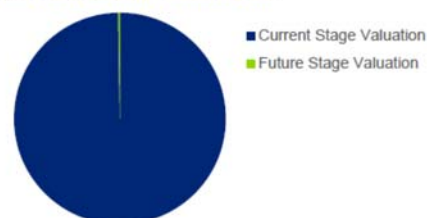
York Valley Landfill	Low (\$'000)	High (\$'000)
Current Stage Valuation	21,023	22,090
Future Stage 2 Valuation	17	91
Combined Landfill Valuation	21,040	22,181
Midpoint	21,611	

Table 5.9B York Valley Landfill Valuations

Eves Valley Landfill Valuation Split



York Valley Landfill Valuation Split



Pie Charts showing contributions of Current and Future Stages to the Landfill Valuations

- 5.10 As shown above, the value of the future stage at Eves Valley makes a significant contribution to the Eves Valley combined valuation. While the capital investment required at Eves Valley Landfill beyond Year 3 would be significant, it would be gradual and spread over the life of the Stage. The associated revenue generated compensates for that capital investment and consequently has increased the value of the Eves Valley landfill.
- 5.11 Correspondingly, the tables show that the value of the future stage at York Valley makes very little contribution to the York Valley combined valuation. This is because the capital investment for York Valley is not required until Year 32 and any revenue would not be realised until Year 33. The discounting factor over 32 years severely diminishes that value of that investment and revenue in today's dollars.
- 5.12 The Valuation Report and the Peer Review Report are robust. They give a good indication of the value of each Council's landfilling operations and are a fair assessment of the value that each would bring to a joint venture.
- 5.13 At a joint workshop of the Councils on 10 February, Councillors from both Councils indicated support for a joint venture and that the joint venture model should be structured along the lines of the Nelson Regional Sewerage Business Unit.
- 5.14 A joint venture on an equal value basis is important. An equal joint venture enables better decision making and sharing of risk and benefits. Because of the difference in values of the landfills, if the two Councils are to hold equal value in the joint venture then a "true up" payment will be required from Tasman District Council to Nelson City Council to recognise the greater value of the York Valley landfill. This true up payment would be half the difference of the landfill values.
- 5.15 Although the valuation for York Valley includes future Stage 2 being constructed in year 32, Council has indicated that at this stage it would prefer not to include it in the valuation (although it would need to be protected for future use). This would then limit the York Valley value to the current operational footprint. The value would then range between \$21.023 million and \$22.090 million, giving a midpoint of \$21.557 million. The value of Stage 2 at York Valley (\$0.17-\$0.91 million) is not significant in the overall valuation.
- 5.16 It is proposed therefore that the joint venture regional landfill model would include:
- the Eves Valley current stage (Stage 2) plus future Stage 3 (which combined have a midpoint value of \$13.176 million), and
 - the York Valley current stage (\$21.557 million).
- 5.17 The difference in the midpoint values is in the order of \$8.4 million. To create a 50:50 joint venture ownership model Tasman District Council

would need to contribute half of the difference (\$4.2 million) to Nelson City Council.

- 5.18 There will be a need to protect the future landfill development options and therefore both Councils need to retain buffer land and designations accordingly. Should either Council propose any alternative use of bordering land then the views and preferences of the joint venture will need to be taken into account in determining the future use of that land.
- 5.19 It is proposed that the Joint Venture will formally commence on 1 July 2017. It is recommended that a joint venture project team be established to work through the details of establishing the joint venture model.

6. Options

- 6.1 The options available to Council are;
- Status Quo - Retain the status quo and continue with owning and operating York Valley landfill and TDC continue to own and operate Eves Valley landfill;
 - Regional Landfill - Establish a regional landfill with a 50:50 joint venture model between NCC and TDC, as recommended in this report;
 - Consider other options – Continue discussions with Tasman District Council on other options to establish a regional landfill.
- 6.2 The status quo option does not align with the JWMMP, so if it was pursued the JWMMP would need to be amended to remove the objective of establishing a regional landfill.
- 6.3 The regional landfill option comprising a 50:50 joint venture ownership model aligns closely with the objectives of the JWMMP. Previous work has shown that a regional landfill is the most efficient and cost-effective and reduces commercial risk and overall capital requirements.
- 6.4 Considering other options is still available to both Councils, should the 50:50 joint venture option not be pursued, but a joint venture approach is considered the most equitable and workable model.

7. Strategy and Risks

- 7.1 Continuing to work on a regional approach for landfill management, on a joint venture basis is consistent with discussions held recently in a joint workshop of the Councils. Discussions with Tasman District Council indicated a high level of support for the proposal.
- 7.2 There remains a risk that following consultation Council decides not to proceed. The same risk exists for Tasman District Council.
- 7.3 These risks are partially mitigated by:

- the resolutions considered at that joint workshop
- the joint objectives of the JWMMP, and
- considerable work to date that has illustrated the long term benefits of a joint landfill arrangement.

7.4 Further risks arise if the proposal is delayed and decisions are not programmed to be made until after the local government elections in October 2016. The priorities and commitment of each council may change following the election.

7.5 Risks relating to the joint venture model itself will be presented in a subsequent report when matters of governance and finances will be considered in detail.

8. Alignment with relevant Council policy

8.1 The management and minimisation of solid waste aligns with the JWMMP which has been adopted by both NCC and TDC.

8.2 This decision is consistent with Council's intentions of establishing a regional landfill.

8.3 The costs of establishing and operating the Joint Venture model have not been established to date. However the indicative forecasted costs and revenues derived from the management and operation of a regional landfill have indicated savings to both Councils.

8.4 This proposal aligns with Nelson 2060, as it helps Council deliver its vision and goals in regard to waste management and minimisation and creating a desirable place to live. It meets its sustainability principles and it is a good investment.

9. Assessment of Significance against the Council's Significance and Engagement Policy

9.1 This decision is not significant in terms of Council's Significance and Engagement Policy.

9.2 The York Valley landfill is not a strategic asset.

10. Consultation

10.1 The Joint Venture model proposal, should it be approved, will be included in the Draft Annual Plan 2016/17.

11. Inclusion of Māori in the decision making process

11.1 Maori have not been consulted.

12. Conclusion

- 12.1 The Valuation Report and the Peer Review Report are robust and give a good indication of the value of each Council's landfilling operations over the next 45 years.
- 12.2 The Eves Valley Landfill has an indicative value between \$12.603 million and \$13.749 million giving a midpoint of \$13.176 million.
- 12.3 The York Valley Landfill has an indicative value between \$21.040 million and \$22.181 million giving a midpoint of \$21.611 million.
- 12.4 Although the valuation for York Valley includes future Stage 2 being constructed in year 32, the Nelson City Council has indicated that it would prefer not to include it in the valuation at this stage. This would limit the York Valley value to the current operational footprint. The value would then range between \$21.023 million and \$22.090 million giving a midpoint of \$21.557 million.
- 12.5 It is proposed that the joint venture regional landfill model include the Eves Valley Current Stage plus future Stage 3 with midpoint value of \$13.176 million plus the York Valley current stage with midpoint value of \$21.557 million.
- 12.6 The difference in the midpoint values is in the order of \$8.4 million. To create a 50:50 Joint venture model TDC would need to contribute half of the difference being \$4.2 million to NCC.
- 12.7 Both Councils have indicated that the joint venture model should be structured similar to the Nelson Regional Sewerage Business Unit.
- 12.8 It is proposed that a joint venture project team be established to work through the details of establishing the joint venture model.
- 12.9 It is proposed that the Joint Venture will formally commence on 1 July 2017.
- 12.10 There is a need to protect the future landfill development options and therefore both councils need to retain buffer land and designations accordingly. Should either Council propose any alternative use then the views and preferences of the joint venture will need to be taken into account in determining the future use of that land.

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Attachments

Attachment 1: Deloitte's Landfill Valuation Report

Attachment 2: Morrison Low Landfill Valuation Peer Review Report