

5. CONFIDENTIAL REPORTS

5.1 **REPORT TITLE:** **CONFIDENTIAL ITEM:**
 MONARTO QUARRIES - SITUATION
 OVERVIEW & FUTURE OPERATIONS
DATE OF MEETING: **6 JULY 2009**
AUTHOR: **BRIAN CLANCEY**
AUTHOR'S TITLE: **GENERAL MANAGER,**
 INFRASTRUCTURE & PROJECTS
FILE NUMBER: **40/080/026**
DEPARTMENT: **INFRASTRUCTURE & PROJECTS**
DEPARTMENT
MANAGER: **BRIAN CLANCEY**

Councillor Stokes declared an interest as the Chairperson of the Adelaide Hills Regional Waste Management Authority.

Moved Councillor Irvine

1. That pursuant to Section 90(2) and 90(3) of the Local Government Act 1999 the District Council of Mount Barker orders that the public be excluded from attendance at the meeting to consider in confidence matters regarding:
 - (b) information the disclosure of which –
 - I. Could reasonably be expected to confer a commercial advantage on a person with whom the council is conducting, or proposing to conduct business, or to prejudice the commercial position of council; and
 - II. Would, on balance, be contrary to the public interest. And
 - (d) Commercial information of a confidential nature (not being a trade secret) the disclosure of which –
 - I. Could reasonably be expected to prejudice the commercial position of the person who supplied the information, or to confer a commercial advantage on a third party; and
 - II. Would, on balance, be contrary to the public interest.
2. That the Chief Executive Officer, General Manager Infrastructure & Projects, General Manager Strategy, Development & Communities, General Manager Corporate, former Manager Monarto Quarries, Manager Strategic Planning and the Minute Secretary be permitted to remain in the room.

Seconded Councillor Wilksch and CARRIED

Moved Councillor Gamble

3. That Council notes the report and accompanying presentation by officers.

4. That Council notes that a further report will be presented for consideration at a future Council meeting once the options for the future operations of Monarto Quarries are further developed.
5. That Council orders pursuant to Section 91(7), (8) and (9) of the Local Government Act 1999 that the discussion, reports, attachments and minutes relating to this item be kept confidential until 6 July 2010.
6. That subject to Section 90 of the Local Government Act 1999 as amended, the public be readmitted to the meeting at the conclusion of the item.

Seconded Councillor Irvine and CARRIED

17. CONFIDENTIAL REPORTS

17.1 **REPORT TITLE:** **CONFIDENTIAL ITEM:**
 MONARTO QUARRIES - SITUATION
 OVERVIEW & FUTURE OPERATIONS

DATE OF MEETING: 6 JULY 2009

AUTHOR: **BRIAN CLANCEY**

AUTHOR'S TITLE: **GENERAL MANAGER, INFRASTRUCTURE**
 & PROJECTS

REPRESENTORS: **N/A**

FILE NUMBER: **40/080/026**

ATTACHMENTS: **1) CONFIDENTIAL REPORT - SITUATION**
 OVERVIEW AND IDENTIFICATION OF
 FUTURE OPTIONS

DEPARTMENT: **INFRASTRUCTURE & PROJECTS**

DEPARTMENT
MANAGER: **BRIAN CLANCEY**

Please note:

A brief presentation will occur in confidence. The presenters will be the outgoing manager of Monarto Quarries Mr Ian Powell and the author of this item Mr Brian Clancey.

PURPOSE

To present the attached report on *Monarto Quarries – Situation Overview and Identification of Future Operations*.

RECOMMENDATION

1. That pursuant to Section 90(2) and 90(3) of the Local Government Act 1999 the District Council of Mount Barker orders that the public be excluded from attendance at the meeting to consider in confidence matters regarding:

(b) information the disclosure of which –

I. Could reasonably be expected to confer a commercial advantage on a person with whom the council is conducting, or proposing to conduct business, or to prejudice the commercial position of council; and

- II. Would, on balance, be contrary to the public interest. And
- (d) Commercial information of a confidential nature (not being a trade secret) the disclosure of which –
- I. Could reasonably be expected to prejudice the commercial position of the person who supplied the information, or to confer a commercial advantage on a third party; and
- II. Would, on balance, be contrary to the public interest.
2. That the Chief Executive Officer, General Manager Infrastructure & Projects, General Manager Strategy, Development & Communities, General Manager Corporate, former Manager Monarto Quarries and the Minute Secretary be permitted to remain in the room.
 3. That Council notes the report and accompanying presentation by officers.
 4. That Council notes that a further report will be presented for consideration at a future Council meeting once the options for the future operations of Monarto Quarries are further developed.
 5. That Council orders pursuant to Section 91(7), (8) and (9) of the Local Government Act 1999 that the discussion, reports, attachments and minutes relating to this item be kept confidential until 6 July 2010.
 6. That subject to Section 90 of the Local Government Act 1999 as amended, the public be readmitted to the meeting at the conclusion of the item.
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BACKGROUND

As indicated in recent agenda items to Council on Monarto Quarries, work is being undertaken on options for the future operation of Monarto Quarries.

Council purchased the business Monarto Quarries in 1991 and has operated the business since that time.

The purchase was of the business, not the land upon which operations were located.

The purchase included the transfer of licences to extract minerals and assignment of a 1973 agreement with the land owner. The agreement continues to apply and principally provides:

1. Authority to enter the land;
2. Authority to undertake mining on the land; and
3. Commercial terms for payment to the land owner.

In December 2001 Monarto Quarries was established as a Subsidiary (separate legal entity) under the Local Government Act. Monarto Quarries was then governed by a Board.

In September 2005 a serious accident occurred on site and a staff member was injured.

This prompted a series of actions by the Monarto Quarries Board and Council including the preparation of the *Monarto Quarries Business Plan 2005/06 2009/10*.

In 2006 Council adopted the *Monarto Quarries Business Plan 2005/06 - 2009/10*. (A copy can be made available to Council members on request).

The then Board of Monarto Quarries was involved in the development of the Business Plan and supported its implementation.

Implementation of the Business Plan involved major changes to the governance and operations of the business.

Key changes were:

1. Monarto Quarries cease to be a Subsidiary of Council and instead be structured as a business unit of Council; and
2. most aspects of the business be contracted out (blasting, crushing and transporting) with a commensurate reduction in staffing levels.

At the request of Council, the Monarto Quarries subsidiary was wound up by the Minister for State/Local Government Relations effective from 30 April 2006. Since then Monarto Quarries has operated as a business unit of Council and this remains the case.

Separate financial statements for Monarto Quarries are maintained and presented to Council on a quarterly basis. The financial statements include as an asset a parcel of land (100 hectares) that is adjacent to Monarto Quarries that was purchased by Council in 1995 for \$57,000.

It is proposed that a site tour for Council Members would be valuable to gain a first hand and clear picture of how much has changed and the current 'lay of the land'. It would also enable Members to view site rehabilitation works undertaken by Monarto Quarries and the significant improvements made to the Hartley Landfill over the previous couple of years. Arrangements for a preferred time will be made in consultation with all Council Members.

Adelaide Hills Region Waste Management Authority

There is a close operational relationship/link between Monarto Quarries and the Adelaide Hills Region Waste Management Authority (AHRWMA).

The AHRWMA is a regional subsidiary established pursuant to the Local Government Act 1999.

Council is a member of the AHRWMA as is the Adelaide Hills Council, the Rural City of Murray Bridge and the Alexandrina Council.

The AHRWMA is governed by a Board. Council's nominated Board Members are Cr Lyn Stokes and Mr Andrew Stuart.

The Board of the AHRWMA established a Management and Operations Committee. Council's nominated member of the Committee is Mr Brian Clancey.

The AHRWMA operates the Hartley Landfill which is located within the area occupied by Monarto Quarries.

The AHRWMA and Monarto Quarries share the use of infrastructure such as the weighbridge and sealed private access road.

The AHRWMA has its own resources for the purposes of operating the landfill, these services were once but are no longer provided by Monarto Quarries.

The remaining co-operative staffing arrangement relates to the position of Administration Officer which is funded 50:50 by Monarto Quarries and the AHRWMA.

DISCUSSION

Refer attached report titled *Monarto Quarries Situation Overview and Identification of Future Options*.

Subject to the discussion of this report it is intended that a further report will be presented for consideration at a future Council meeting once the options for the future operations of Monarto Quarries are further developed.

This work can be informed by discussion at the Council meeting.

It is recommended that the discussion and documents be confidential given the commercial interests of both Council and the AHRWMA.

POLICY IMPLICATIONS**1. Financial/budget**

Refer separate quarterly financial statements for Monarto Quarries as presented to and formally received by Council.

2. Legal

Monarto Quarries must continue to observe all regulatory obligations including occupational health and safety, licencing conditions and National Competition Policy/Competitive Neutrality.

3. Staffing/Work Plans

All of the Monarto Quarries staff are employees of Council and a separate Enterprise Bargaining Agreement applies.

Mr Ian Powell has chosen to cease in the part time role of Manager, Monarto Quarries effective from 30 June 2009.

Staff have been regularly briefed by management regarding future operations of Monarto Quarries, most recently on 26 June 2009.

4. Environmental

Monarto Quarries continues to rehabilitate land in accordance with its legal obligations.

5. Social

Not applicable.

6. Strategic Plans

Monarto Quarries Business Plan 2005/06 - 2009/10.

Strategic Plan

6 Governance

Objectives

1. Place all Council enterprises on a sound business footing.
4. Identify and give priority to the core business of Council.

COMMUNITY CONSULTATION**1. Customer Needs Analysis**

Regular communication with key customers of Monarto Quarries is most important. In the interim this will involve the change of arrangements in the role of Manager.

2. Promotion/Communications

Not applicable.

ITEM 17.1 ATTACHMENT 1

District Council of Mount Barker

Monarto Quarries

Situation Overview and Identification of Future Options

Prepared by:

**Brian Clancey
General Manager, Infrastructure & Projects**

With Assistance from

**Ian Powell
Manager, Monarto Quarries**

And

**Marcus Smith
Accountant**

June 2009

INTRODUCTION

This document provides a basic overview of the current situation relating to Monarto Quarries and identifies, but does not evaluate, possible options for the future.

OBJECTIVE

To provide an information base and appreciation of the issues for consideration prior to further information subsequently being prepared and decision making by Council occurring.

SITUATION ANALYSIS

Monarto Quarries continues to operate as a business unit of Council.

The operation has been undertaken in accordance with the *Monarto Quarries Business Plan 2005/6 – 2009/10*.

Since mid 2005 Mr Ian Powell has undertaken the role of Manager, Monarto Quarries on a part time basis. Mr Powell will cease in this role on 30 June 2009.

Crushing of stone has been contracted out since late 2005. Until now this has been undertaken by Smithy's Crushing Service. The recent tender call is currently being evaluated and a report is expected to be presented to Council very soon. Smithy's Crushing Service has not put in a tender.

The key factor differentiating Monarto Quarries in the highly competitive market place from other quarries is the quality of the limestone product. The raw material and crushing process is important to delivering the high quality product sought by customers.

ISSUES

Core business & Opportunity cost

Operating a quarry is not core business for Council.

A key question is whether the community is deriving sufficient benefit from the resources needed to maintain the operation of Monarto Quarries having regard to the opportunity cost (resources both human and financial that could be applied to other areas of council activity) and the significant risks.

Risk

The Workcover Audit undertaken in 2008 identified major risks associated with the operation of the quarry. The auditor was puzzled as to why Council would want to continue to carry such high risk that inevitably accompanies operations of this nature.

The Organisation Review recently completed by Dr Wayne Coonan contains the following:

"It is also recommended that a business review should be undertaken to examine the relevance of the Waste/Quarries operations to Council and long term advantages of various options for their future. They are high risk and appear to be non core activities of Council."

Product life

Council has recently secured State Government approval for further licenses to extract stone.

The best quality and most readily accessible stone has in all probability just about been exhausted.

Remaining sources are expected to be of lesser quality and higher cost to extract.

The raw material is finite and the best guess currently is that supply would be exhausted in around five years based on various assumptions.

Liability for rehabilitation

Council retains legal liability for all site rehabilitation.

Further stone extraction means commensurate site rehabilitation liability and a funding impost.

Relationship to AHRWMA and Hartley Landfill

This is set out in the covering agenda item.

It is fair to say that the relationship has experienced ups and downs but is currently on a good footing.

The AHRWMA is experiencing a period of business development and growth and is currently exploring further opportunities which could have implications for Monarto Quarries.

It is important to be aware that unlike Monarto Quarries, the AHRWMA does not have unlimited site tenure timing wise as there is a sunset on the AHRWMA licence agreement with the land owner.

Staffing

In addition to the part position of Manager there are three other staff, all of whom are full time employees of Council.

Two of these are long standing employees and their cultural attitudes frequently reflect the history and remoteness of the operation.

The third employee commenced more recently and is considered to be an asset, particularly in terms of continuity and customer liaison post the departure of Mr Powell.

Community benefit

The Monarto Quarries Business Plan adopted by Council included that an acceptable rate of return commensurate with the risk is deemed to be at least 15%.

Actual return as indicated in the most recent quarterly financial report to Council, the return on investment (being expressed as a percentage of Earnings before Interest, Tax, Depreciation and Amortisation/Total Assets) has averaged only 4.7% since the major reforms that were undertaken in 2005/06.

This is notwithstanding that very strong sales have been achieved on a consistent basis.

Sales have slowed considerably in the previous few months. It remains to be seen what the cumulative impact will be of:

1. Mr Powell ceasing as Manager;
2. the change of crushing contractor;
3. the need to move to new rock supplies expected to be of lesser quality and higher cost; and
4. external environment factors such as a very volatile and highly competitive market and the level of economic activity.

STRATEGY: FUTURE OPERATIONS

Given the changes that are occurring it is timely for Council to review options for the future operation of Monarto Quarries and review the options in the Business Plan.

It is also timely given Council has received informal approaches from four different parties (three private sector and one public) expressing an interest in the operation of Monarto Quarries.

OPTIONS

Possible options identified including within the Business Plan (but not yet evaluated and in no particular order) are:

1. Council continues to operate Monarto Quarries and the issue of day to day management is addressed.
2. Council seeks to contract out responsibility for the management of the operations of Monarto Quarries i.e. extend the current model of contracting out some elements of the business e.g. blasting and crushing – this would still necessitate Council undertaking the role of overseeing the management of the contract;
3. Council seeks to sell Monarto Quarries – timing and market conditions would be a consideration;
4. Council seeks to enter an arrangement with AHRWMA;
5. Council closes the operation down;
6. A combination of some of the options above, over a period of time.

The implications for existing staff will be a consideration for all of the above options.

There would be considerable lead times associated with the implementation of these possible options.

NEXT STEPS

Proposed next steps are:

1. Presentation and confidential discussion at the Council meeting on 6 July 2009.
2. Preparation of further information for discussion at a future Council meeting to include:

- assessment of strengths, weaknesses, opportunities and threats; and
 - business case evaluation of advantages and disadvantages of various options regarding the future operation of Monarto Quarries.
3. Continue to regularly brief the staff of Monarto Quarries regarding the status of the future operation of Monarto Quarries (the next briefing is scheduled to occur on 7 July 2009).

Confidential

