

12.2      **REPORT TITLE:      CONFIDENTIAL REPORT –  
MONARTO QUARRIES DRAFT BUSINESS  
PLAN**

**DATE OF MEETING: 6 MARCH 2006**

**AUTHOR:              BRIAN CLANCEY**

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

**REPRESENTORS:    N/A**

**FILE NUMBER:       40/080/026**

**ATTACHMENTS:      1. MONARTO QUARRIES BOARD  
RESOLUTIONS  
2. INFORMATION DISTRIBUTED TO  
MONARTO QUARRIES STAFF**

**DEPARTMENT:       ASSETS & INFRASTRUCTURE**

**DEPARTMENT  
MANAGER:           BRIAN CLANCEY**

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### **PURPOSE**

To advise Council of the feedback from the Monarto Quarries Board on the draft new Business Plan for Monarto Quarries and the implications for Council arising from this process.

### **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 public interest
2.      That the Chief Executive Officer, General Manager Assets & Infrastructure, General Manager Strategy and Development, Acting General Manager Corporate and Community

Services, and the Minute Secretary be permitted to remain in the room.

3. That Council receive the feedback from the Monarto Quarries Board on the draft new Business Plan for Monarto Quarries; and
4. Note that following the receipt of legal advice and additional information from the consultants to be presented at the briefing session for Council Members to be held on 3 March 2006, further information (including recommendations) is proposed to be provided for Council consideration at this meeting.
5. That the Council orders pursuant to Section 91(7), (8) and (9) of the Local Government Act 1999 that the discussion, reports and attachments, and minutes relating to this item be kept confidential until 6 March 2007.
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**

At its meeting on 20 February 2006 Council resolved to hold a briefing session on the Monarto Quarries Business Plan prior to the Council meeting on 6 March 2006 and to invite all Board Members of Monarto Quarries to attend.

The objective of the briefing session is to enable all Council Members to be fully briefed on the issues and associated implications arising from the draft Monarto Quarries Business Plan.

As previously advised, the briefing session is to be held on Friday 3 March 2006 in the Council Chambers commencing at 9am. The consultants engaged to prepare the Business Plan will be attending to present an overview and answer any questions.

All Council Members have previously been provided with a copy of the draft Business Plan prepared by the consultants.

## **DISCUSSION**

The Monarto Quarries Board considered the draft Business Plan at its meeting on 23 February 2006. This included a presentation from the consultants.

In short, the Monarto Quarries Board was comfortable with the direction proposed in the draft Business Plan and resolved to:

- provide feedback to the consultants on the draft Business Plan;
- authorise the Quarry Manager to undertake certain actions; and
- provide advice to Council.

The resolution of the Board is attached in full (attachment 1).

The leadership being displayed by the Monarto Quarries Board should be recognised. The Board has dealt with difficult circumstances in a prompt and professional manner. Commissioning and now supporting the direction proposed in the draft Business Plan are both significant examples of this leadership.

The draft Business Plan contains some significant issues. An overview is provided in the Executive Summary contained in the document. Set out below are key issues for Council consideration.

### **Key Issues**

#### **Core Business**

Does Council see the operation of Monarto Quarries as being core business? What level of financial return/other benefits would Council be seeking from Monarto Quarries and what level of risk exposure would be acceptable?

In addition to the 'returns v risk' assessment there is also the issue of opportunity cost. The human, financial and physical resources that Council contributes to Monarto Quarries could be deployed in various other initiatives.

If Monarto Quarries is retained by Council it could be operated on a fully commercial basis or simply seek to provide the road material needs of Mount Barker (and possibly adjoining Councils).

#### **Objective for Monarto Quarries**

The key goals proposed by the consultants for the business are:

- Achieve a compliant, sustainable business;
- Realise the full potential that can be derived from the Hartley Landfill;
- Ensure a safe working environment for employees and contractors;
- Establish a governance and organisational structure which is relevant to the business.

Reference to the Hartley Landfill prompts a number of issues for Council to consider including:

- Monarto Quarries simply continuing to be a service provider to the Hartley Landfill (i.e. weighbridge use and operational services);
- Recognition of the synergy between Monarto Quarries and the Hartley Landfill in terms of site and infrastructure sharing;
- Both Monarto Quarries and the Adelaide Hills Region Waste Management Authority have significant liability for land rehabilitation; and
- A different type of arrangement between these two activities is an opportunity warranting further examination, including for example the possibility of the Monarto Quarries business being joined or more closely linked with the Adelaide Hills Region Waste Management Authority.

### Staged Approach

A staged approach to reform is being proposed by the consultants.

Immediate actions are being recommended to occur between now and the end of June 2006. The completion of the recommended immediate actions would then allow Council the opportunity to either determine the required performance outcomes sought from the business or seek to divest of the business.

### Wind Up the Subsidiary

Monarto Quarries is a subsidiary of the District Council of Mount Barker, established pursuant to the Local Government Act 1999.

The Board has supported the recommendation of the consultants to wind up the subsidiary and have Monarto Quarries become a business unit of the Council. There would no longer be a Board. This is subject to the consultants providing advice at the Council briefing session on what competitive neutrality issues arise from the proposal and how these would best be addressed.

### Winding Up of the Subsidiary – Transitional Matters

Under the Local Government Act 1999 the process to wind up a Council subsidiary is as follows.

1. Council meeting resolution.
2. Request to the Minister for Local Government.
3. Minister publishes a notice in the Government Gazette.
4. All assets and liabilities at the time of winding up vest in Council.

It is likely that this process would take several weeks to complete. The timing and outcome of the State election may also impact on this. If Council resolves to proceed to wind up the subsidiary, a suggested realistic target date is 30 April 2006.

Council is awaiting legal advice on whether Council may need to issue a direction to the Board to ensure clarity of roles, responsibilities and accountabilities during the transition period.

It is suggested that Council seek that the Board complete its role to oversee the preparation of the Business Plan and then recommend the adoption of it to Council. Responsibility for the implementation of the Business Plan would rest with Council.

### Occupational Health and Safety (OHS)

Provision of a safe working environment is essential as reflected in the proposed key goals. To facilitate this, the contracting out of various functions (such as crushing) is being proposed along with other OHS related initiatives.

### Staffing

Monarto Quarries staff have been provided with information on the implications of the draft Business Plan. This has included the attached page (attachment 2) that was distributed to all Monarto Quarries Staff on Friday 24 February 2006 (the morning after the most recent meeting of the Monarto Quarries Board).

The Board has supported a recommendation from the consultants that Council seek to reach agreement with four staff of Monarto Quarries to provide a Voluntary Separation Package in accordance with the "District Council of Mount Barker Monarto Quarries Enterprise Agreement No. 5 – 2005" with a view to seeking to progress such negotiations at the earliest possible opportunity.

Three staff have been offered and accepted voluntary separation packages from Council. This represents the first round of offers and includes provision for outplacement. These staff will cease employment on Friday 3 March 2006.

### Financial Implications

The net total being paid out for the three voluntary separation packages (including leave entitlements) is \$61,208.

The projected operating result for 2005/06 has been revised to a deficit of \$490,000.

The consultants are predicting a significant reduction in equity from approximately \$1.8 to \$1.2 million by June 2008.

The primary contributors to the negative financial implications are:

- Cost of the voluntary separation packages;

- Over statement of the value of considerable plant and equipment; and
- Inadequate provision for the rehabilitation of land that has been quarried.

The financial implications will carry through to the Council's financial statements.

### Resource Implications

Implementation of the proposed Action Plan will have significant resource implications. In addition to the Quarry Manager, a number of other Council officers are proposed to have a range of tasks to undertake.

Many of these are 'one-off' type requirements, some however are not.

Whilst acknowledging the benefits of this approach, it needs to be recognised that there is an associated opportunity cost. For all resources deployed by Council to Monarto Quarries it means that other Council work is either delayed, not done or needs to be resourced by an alternative means.

### Council Decision Making and Feedback on the Draft Business Plan

With the benefit of the additional information from the consultants (competitive neutrality) and legal advice (transitional matters) it is proposed to provide further information at the Council meeting on 6 March 2006. This is proposed to include recommendations as to what:

- decisions Council may wish to take now;
- feedback it wishes to provide to the consultants and the Monarto Quarries Board;
- if any, further information/advice it seeks be provided; and
- the next steps in the process would be.

## **POLICY IMPLICATIONS**

### **1. Financial/budget**

As indicated in the draft Business Plan there are significant financial implications for Monarto Quarries and Council.

Some of these are not able to be fully quantified at this time. For example, the revenue to be generated from the disposal of surplus plant and the loss to be realised in this respect given the over stated value of plant in the current financial statements.

### **2. Legal**

Council has previously obtained legal advice on a number of issues relating to Monarto Quarries and the relationship to Council.

Council is awaiting further legal advice as to the responsibilities of the Monarto Quarries Board in the interim period prior to the subsidiary being wound up (assuming this recommendation is supported) and whether Council should issue a direction to the Board to ensure clarity of roles, responsibilities and accountabilities during the transition period.

This need was identified at the Monarto Quarries Board meeting on 23 February 2006. The advice had not been received at the time of preparing this agenda item but it is expected that it will be available prior to the Council meeting on 6 March 2006.

### **3. Staffing/Work Plans**

As indicated in the body of the report, the implementation of the Action Plan has some significant resource implications for Monarto Quarries and Council staff.

Whilst this should be able to be accommodated, it will mean a re-prioritisation of activity for some Council staff in the short term with the associated opportunity cost.

### **4. Environmental**

Included as part of the draft Business Plan, including rehabilitation of land that has been mined.

### **5. Social**

As indicated above, the implications for the staff of Monarto Quarries has been given high priority.

### **6. Strategic Plans**

Mount Barker District's Community Strategic Plan 2004 – 2007  
*6 Governance*  
*Objective 1 – Place all Council enterprises on a sound business footing.*

## **COMMUNITY CONSULTATION**

### **1. Customer Needs Analysis**

The Action Plan in the draft Business Plan proposes that a proactive approach be taken to more actively marketing Monarto Quarries to customers.

## **2. Promotion/Communications**

The Action Plan in the draft Business Plan proposes that specific advice be provided to the Adelaide Hills Region Waste Management Authority given the relationship to this organisation via the Hartley Landfill.



**Confidential****A. Draft Business Plan Feedback**

That the Monarto Quarries Board:

1. Receive the draft Business Plan prepared by the consultants.
2. Authorise Brian Clancey to provide feedback to the consultants to capture the views of the Board and enable the consultants to have regard to this in preparing a final version of the Business Plan. The feedback is that generally the Board is comfortable with the directions being proposed but further consideration and/or information is required in relation to the following:
  - a) More detail is sought in a number of areas (as indicated below) in order to ensure that the Business Plan is sufficiently comprehensive for the purposes of implementation, monitoring and review of performance, not more of a directional type document.
  - b) A key issue is what competitive neutrality issues arise from the proposal to have Monarto Quarries become a business unit of the Council and how would these best be addressed?
  - c) How is it proposed that Council would gain access to specialist business skills to enable Council to effectively undertake the management of the business and what resource implications would this be likely to have (i.e. if specialist expertise was to be paid for)?
  - d) Need to provide more detailed information/strategies in relation to the marketing of the business. This is considered to be a core element of the Business Plan.
  - e) As required by the brief (pages 2 and 4) and the Local Government Act 1999, what performance targets for the business do the consultants consider should be set?
  - f) What capacity would the business have to withstand a softening of demand that saw a reduction in the market price?
  - g) What is the profit margin if selling at the suggested average price of \$7 per tonne and how is this figure derived?
  - h) What commercial profit margin should the business be seeking to achieve on its services/activities?

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- i) If Monarto Quarries was successful in winning the tender to provide operational services for the Hartley Landfill what certainty is there as to income generation from this given the Charter of the Adelaide Hills Region Waste Management Authority does not require any constituent Council to send any waste to the Hartley Landfill i.e. assume Monarto Quarries wins the tender but there is no guarantee from the Authority of the quantity of waste entering the landfill? On page 4 there is a reference to "a commercial return from a successful tender for the Hartley Landfill operation ...." Explanation of the difficulty of seeking to quantify the extent of this potential commercial return is desired, as discussed at the Board meeting.
- j) In relation to the Hartley Landfill (page 35), there is no site agreement in place between the District Council of Mount Barker and the Adelaide Hills Region Waste Management Authority (only an agreement for the provision of operational services for the landfill). Given this, further clarification is required as to the implications for Monarto Quarries if the relevant EMLs (those relating to the Hartley Landfill footprint) are not renewed.
- k) As discussed at the Board meeting, an acknowledgement should be included of the recent change in approach from the State Government to the provision of funding for rehabilitation works and the implications of this for Monarto Quarries.
- l) Operating Statement (page 28) needs some explanatory notes in relation to:
  - Why the revenue from commercial activities is projected to decrease in 06/07;
  - Reimbursements assumes that the tender for the provision of operational services to the Hartley Landfill is not successful; and
  - Why the lease payment to Council is not continued.
- m) Subject to the successful renewal of relevant EMLs, could the required rehabilitation works be undertaken over a longer period of time and if so, what would the implications (including advantages and disadvantages) of this be in a practical and financial reporting sense?
- n) There are a number of editorial/typographical errors in the draft. These can be highlighted on request.

### **B. Quarry Manager Actions**

That the Monarto Quarries Board authorises the Quarry Manager, Ian Powell to:

1. commence the process (in consultation with Council) for securing a new EML over the site identified by the consultants;
2. brief all Monarto Quarries staff as soon as possible on the outcomes of the Board meeting, including to offer to the staff that if they so desire, arrangements will be made for the Board Chairman and a senior Council officer to meet with the staff; and
3. investigate the preferred process for the disposal of surplus Monarto Quarries plant.

### **C. Advice to Council**

That the Monarto Quarries Board advises the District Council of Mount Barker that following consideration of the draft Business Plan, the Monarto Quarries Board recommends that Council:

1. note that the Board has authorised the Quarry Manager to:
  - commence the process (in consultation with Council) for securing a new EML over the site identified by the consultants;
  - brief all Monarto Quarries staff as soon as possible on the outcomes of the Board meeting, including to offer to the staff that if they so desire, arrangements will be made for the Board Chairman and a senior Council officer to meet with the staff; and
  - investigate the preferred process for the disposal of surplus Monarto Quarries plant.
2. in consultation with the Quarry Manager, seek to reach agreement with four staff of Monarto Quarries to provide a Voluntary Separation Package in accordance with the "District Council of Mount Barker Monarto Quarries Enterprise Agreement No. 5 – 2005" with a view to seeking to progress such negotiations at the earliest possible opportunity.
3. commence the process to wind up the Monarto Quarries subsidiary, subject to clarification from the consultants on the issue of competitive neutrality under National Competition Policy.
4. consider the resource implications for the Quarry Manager and various Council officers of the implementation of the draft 2005/06 Action Plan prepared by the consultants.

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5. consider the significant financial implications identified by the consultants.
6. note the feedback provided by the Monarto Quarries Board to the consultants on the draft Business Plan.
7. consider if there is any feedback that Council wishes to provide to the consultants to have regard to in preparing a final version of the Business Plan, and if so, requests that a copy of the feedback be provided to the Monarto Quarries Board.
8. note that the Monarto Quarries Board intends (subject to point 3 above) to have at least one further meeting (at a time to be advised prior to the proposed winding up of the subsidiary) to consider the final version of the Business Plan and provide further recommendations/advice to Council in this respect, including the proposed transition process.
9. obtain legal advice as to the responsibilities of the Monarto Quarries Board in the interim period prior to the subsidiary being wound up (subject to point 3 above) and whether Council may need to issue a direction to the Board to ensure clarity of roles, responsibilities and accountabilities during the transition period.

**Extracts from the resolution of the Monarto Quarries Board Meeting held on Thursday 23 February 2006 (shown below in italics).**

**B. Quarry Manager Actions**

*That the Monarto Quarries Board authorises the Quarry Manager, Ian Powell to:*

- 1. brief all Monarto Quarries staff as soon as possible on the outcomes of the Board meeting, including to offer to the staff that if they so desire, arrangements will be made for the Board Chairman and a senior Council officer to meet with the staff.*

**C. Advice to Council**

*That the Monarto Quarries Board advises the District Council of Mount Barker that following consideration of the draft Business Plan, the Monarto Quarries Board recommends that Council:*

- 1. in consultation with the Quarry Manager, seek to reach agreement with four staff of Monarto Quarries to provide a Voluntary Separation Package in accordance with the "District Council of Mount Barker Monarto Quarries Enterprise Agreement No. 5 – 2005" with a view to seeking to progress such negotiations at the earliest possible opportunity.*

As a result of the Board's decisions, arrangements have been made for a meeting to occur at 9.00am on Monday 27 February 2006 at the Council office to discuss Voluntary Separation Packages.

People involved in the meeting will be:

Andrew Stuart  
Brian Clancey  
Narelle Jeffery  
Myself.

I will provide further information to all staff following this meeting.

Please feel free to speak to me if you have any queries.

Ian Powell  
Quarry Manager

23 February 2006