

# REDWASTE

A commercial business unit of Redland City Council

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# Performance Plan 2016-17

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# 1 Introduction

RedWaste is a commercial business unit (CBU) of Redland City Council (RCC).

The *Local Government Act 2009* (the *Act*) and the *Local Government Regulation 2012* (the *Regulation*) govern the operation of business units run by local governments.

In deciding whether an activity should be a significant business activity for the 2016-17 financial year, local governments must consider the operating expenditure for the 2015-16 financial year less any depreciation included therein and any expenditure included therein to achieve competitive neutrality which is not actually incurred by the local government plus any loan redemption payments in that year.

Section 19 of the *Regulation* was recently amended to increase the thresholds. The thresholds for the 2016-17 financial year are therefore as follows:

- for water and sewerage combined activities - \$13.75m; and
- for any other business activity - \$9.2m.

Section 175 of the *Regulation* states:

- 1) The annual operational plan for a local government must:
  - (a) be consistent with its annual budget; and
  - (b) state how the local government will:
    - (i) progress the implementation of the 5-year corporate plan during the period of the annual operational plan; and
    - (ii) manage operational risks; and
  - (c) include an annual performance plan for each CBU of the local government.
- 2) An annual performance plan for a CBU is a document stating the following for the financial year, the:
  - (a) unit's objectives;
  - (b) nature and extent of the significant business activity the unit is to conduct;
  - (c) unit's financial and non-financial performance targets;
  - (d) nature and extent of the community service obligations the unit must perform;
  - (e) cost of, and funding for, the community service obligations;
  - (f) unit's notional capital structure, and treatment of surpluses;
  - (g) unit's proposed major investments;
  - (h) unit's outstanding and proposed, borrowings;
  - (i) unit's policy on the level and quality of service consumers can expect;
  - (j) delegations necessary to allow the unit to exercise autonomy in its commercial activities;
  - (k) type of information that the unit's reports to the local government must contain.
- 3) A local government may omit information from the copies of the annual performance plan made available to the public if-
  - (a) the information is of a commercially sensitive nature to the commercial business unit; and
  - (b) the information is given to each of the local government's councillors.

*Note – See also section 171 (Use of information by councillors) of the Act.*
- 4) The local government may change an annual performance plan for a commercial business unit at any time before the end of the financial year.

The *Regulation* also requires the CBU's performance to be monitored by the local government against performance targets mentioned in the annual performance plan (APP).

## 2 Key principles of a commercial business unit

This APP supports the key principles of commercialisation as detailed in section 28 of the *Regulation*, which are:

- (a) clarity of objectives;
- (b) management autonomy and authority;
- (c) accountability for performance; and
- (d) competitive neutrality.

## 3 Redland City Council vision

“Forward thinking, engaged and focused on enriching community lifestyles”.

## 4 RedWaste vision, objectives and functions

### 4.1 *Business’ focus*

#### 4.1.1 **Vision**

To be recognised as a professional waste management business that continually improves and adapts our service to customers in support of Council’s vision and objectives for the city.

#### 4.1.2 **Mission**

To meet or exceed agreed standards for the management of solid waste while managing the business for long-term success.

#### 4.1.3 **Key drivers**

The key business drivers are:

- customer service;
- business efficiency;
- environmental sustainability;
- pricing arrangements that reflect true costs, full cost recovery and regulatory requirements;
- competitiveness; and
- the provision of a safe working environment.

## 5 Roles of each party

### 5.1 *Role of Redland City Council*

- Owner of business
- Specifies levels of service
- Customer of RedWaste

### 5.2 *Role of RedWaste*

- Service provider for planning and operation of assets
- Customer of Redland City Council
- Owner of waste management assets

## 6 Undertakings by the parties

### 6.1 *Redland City Council*

RCC has delegated management autonomy to RedWaste’s management team for:

- entering into contracts in the name of the business unit as a commercial business of Council in line with Council delegations;
- completing approved programs in accordance with Council’s budget, operational and corporate plans as well as RedWaste’s performance plan;

- promoting and presenting RedWaste to the community as a professional commercial business by undertaking educational, promotional and customer activities;
- developing and implementing budgets and long-term pricing models and financial plans.

RCC will compensate RedWaste the cost of providing any community service obligations (CSOs) in line with section 24 of the *Regulation*. These will be reviewed on an annual basis as part of the performance plan and the budget development process.

Council will buy waste management services from RedWaste under the same terms and conditions as customers.

RCC will operate in accordance with various policies and the corporate plan.

## 6.2 **RedWaste**

RedWaste will:

- provide waste management operations;
- conduct its business and operations in compliance with the requirements of the *Environmental Protection Act 1994*, *Local Government Act 2009*, other relevant acts and regulations and Council policies and guidelines;
- operate within National Competition Policy (NCP) guidelines and deliver an annual net return to Council as detailed in this plan;
- adopt the principles of ecologically sustainable development;
- operate and maintain assets to ensure nominated service levels are maintained;
- commit to the overall Council vision of operating within a best value framework - value for money will be superior to lowest pricing;
- use Council's full range of corporate services by entering into service level agreements (SLAs) with Council;
- implement the approved asset management plans in its day-to-day operations;
- provide monthly reports on its financial and non-financial performance;
- show due diligence in immediately reporting any serious non-compliances or incidents to Council and DEHP as appropriate ;
- pursue and undertake asset maintenance and repair works on a full cost basis provided the works fall within the scope, skill and competencies of the contractors.

## 7 Redland City corporate plan objectives

To address key strategies within the RCC Corporate Plan for 2015-2020, RedWaste will:

- manage the kerbside collection of domestic and commercial solid wastes and recyclable materials and transport to a suitably approved handling facility;
- oversee the planning, construction, operation, management and maintenance of a network of assets for the segregation and disposal of solid waste and recyclable materials generated from domestic and commercial sources; and
- engage with the community and businesses within the city to improve the overall performance of RedWaste and improve sustainability awareness and implementation.

## 8 RedWaste's strategies for achieving objectives

### 8.1 **Waste Reduction and Recycling Plan**

Reducing, reusing and recycling waste is an opportunity to divert resources from landfill. Despite the success of RCC recycling programs, leading to a domestic resource recovery performance of 47% in 2015-16, just over half of the total waste received is still sent to landfill.

The Waste Reduction and Recycling Plan (the Plan) aims to tip the balance the other way so that less than half of the waste is landfilled. This means greater focus on resource efficiency. Advancing resource efficiency means moving from a linear model

(where resources are extracted, processed, used and then disposed) to a cyclical model (where resources are separated and recovered then recycled again and again).

A key focus of this Plan is to minimise cost pressures by taking a practical and realistic approach to continuous improvement in recycling. The more recycling the Redlands community undertakes, the less waste will go to landfill. Recycling actions that can be undertaken relatively easily, quickly and without substantial investment are preferred.

## **8.2 Queensland Waste Strategy**

On 22 December 2014, the State Government released Queensland's Waste Avoidance and Resource Productivity Strategy (2014-2024).

This is an industry-led strategy that has been developed collaboratively with a steering committee comprising representatives from business and industry, the waste and resource recovery sector, local government, and community and environment groups. The strategy proposes a high-level vision and direction for Queensland over the next 10 years. Key features and targets include:

- reducing waste generation by 5% per capita;
- increasing total recycling and resource recovery to 55% by 2024; and
- priority wastes and areas for action.

The strategy is entitled "Waste - Everyone's Responsibility" and focuses on the waste management hierarchy to avoid, reduce, reuse, recycle, recover energy, treat and dispose. Other tools influencing the strategy are to drive cultural change and avoid the generation of waste in the first instance. The guiding principles include protecting human and environmental health; sharing responsibility for resource management; recognising the cost of waste management; regional differences and opportunities; and full lifecycle management of resources.

## **8.3 Other strategies**

RedWaste will strive to provide high levels of performance in the following areas in achieving the objectives:

- quality products and service;
- customer services including timely response to complaints and requests; and
- environmental standards and workplace health and safety standards.

Other initiatives that will be undertaken to support the objectives are:

- improving the value of the business and meeting Council's capital structure and net return targets;
- managing costs to improve value to customers;
- investigating new waste and resource recovery solutions;
- implementing actions identified within Council's waste management strategy and other environmental programs;
- monitoring and reporting on key financial and non-financial performance indicators; and
- meeting the objectives of the Council of Australian Governments (COAG) and NCP reforms.

# **9 RedWaste Services**

RedWaste's undertaking for waste management will include the operation and maintenance of the following assets:

- waste transfer stations;
- kerbside and bulk waste, recycling and green organics bin network;
- South Street waste collection contractor vehicle depot; and
- RecycleWorld.

## 10 Reporting

### 10.1 *Reporting structure*

In line with the key principles of commercialisation in section 28(b) of the *Regulation*, RedWaste has autonomy in its day-to-day operations.

The reporting structure is such that the General Manager Infrastructure & Operations reports to the Chief Executive Officer (CEO) of RCC regarding RedWaste.

### 10.2 *Reporting*

RedWaste will provide the following reports:

#### Monthly:

- monthly key performance indicators (KPIs) as shown in the attached scorecard indicators – 2016/17; and
- a standard set of financial reports.

#### Yearly:

- yearly KPIs as shown in the attached scorecard indicators – 2016/17;
- statement of financial performance;
- statement of financial position; and
- annual budget as part of corporate process.

## 11 Meeting our customers' needs

### 11.1 *Customer service standards (CSSs)*

For 2016/17 CSS, RedWaste will make every effort to:

- respond to a missed service on the mainland within 1 working day of the report being registered with RedWaste where the missed service was the fault of the CBU;
- commence new waste services within 2 working days (mainland) and next scheduled collection day (island) of the request being lodged with RedWaste;
- provide exchanges or alterations to bin services within 2 working days (mainland) and on the next scheduled collection day (island) of the request being lodged; and
- respond to non-urgent general requests within 5 working days.

### 11.2 *Customer advice*

RedWaste will provide a range of information relating to service advice, accounts and charges on request.

RedWaste will make available information to customers through the use of fact sheets, internet pages, community education programs and other like programs.

### 11.3 *Seeking feedback from our customers and community*

RedWaste will collect community feedback information and participate in community consultations. Feedback from surveys and consultation will be used to gauge acceptance of service levels. This mechanism is seen by the CBU as a valuable input into improving service delivery.

Customer feedback may be collected through some or all of the following forms:

- recording unsolicited complaints and comments;
- management or staff attendance at community consultation sessions; and
- formal surveys by a third party consultant or formal surveys by in-house staff as part of Council process.

## 12 Planning for the future

### 12.1 *Financial planning*

- RedWaste will review its financial model on a yearly basis. The financial model will be for a period of no less than 10 years.
- The CBU's budget will be formulated on an annual basis and reviewed during the financial year in accordance with the timeframes set by Council, the anticipated capital structure and Council's net return expectations.

### 12.2 *Assets*

RedWaste will optimise assets and strive for best value of operations by:

- regularly assessing assets and development of planning reports;
- implementing and improving preventative maintenance programs;
- enhancing asset condition ratings and information;
- timely updating of asset databases;
- improving data for calculation of valuations;
- considering contemporary valuation methodologies in accordance with effective NCP pricing principles; and
- considering the risk of possible obsolescence when evaluating use of advancing technology.

### 12.3 *Employment and training plan*

RedWaste will make sure the intellectual property of the CBU is retained and operational processes are maintained in perpetuity by implementing the corporate human resource plan which will:

- recognise the need for succession planning;
- adopt the staff performance appraisal process;
- adopt Council's policy on remuneration packages for staff: and
- undertake staff training programs based on legislative requirements and a skills gap analysis.

### 12.4 *Financial risk*

RedWaste will adopt strategies to minimise financial risk by:

- continually reviewing and refining the costing and quotation of jobs;
- following a structured but flexible process for quotation and tendering in line with corporate processes;
- maximising the use of grants and/or subsidies for works;
- adopting Council's policies on funding, so that an appropriate level of depreciation ensures long-term cash flows are not jeopardised;
- holding an appropriate level of insurance cover; and
- monitoring the sundry debtors to ensure revenues are maximised.

## 13 Revenue

Revenues collected by Council are transferred to RedWaste for all services it provides.

### 13.1 *Collection of rates*

RedWaste's waste management service charges will be integrated on an RCC rate notice.

All outstanding rates will appear in RedWaste's balance sheets.



**13.2 Collection of fees, charges and miscellaneous incomes**

Revenues for fees and charges will be collected in the following manner:

- revenue for other works including waste disposal fees will be by invoice with a 30-day payment period;
- direct gate fee payment at the time of transaction or monthly account invoice for commercial and non-resident customers, and customers without proof of residency; and
- sale of recoverable materials including scrap metal and cardboard.

**13.3 Community service obligations (CSOs)**

CSO payments will be made by Council for services supplied for less than full cost price in accordance with Council pricing, Council policy or Council operations. A summary of the CSOs will be provided in Council's annual report in accordance with Section 35 of the *Regulation*.

CSOs may include (but are not limited to):

- concessions provided to home assist secure program;
- provision of on-demand bulky household item collection service;
- concessions, remissions or rebates for specific persons stated in a policy;
- any non-commercially driven concession or remission provided by resolution of Council;
- community services such as Clean Up Australia Day;
- special audits and assessments outside commercial requirements;
- waiver of disposal fees for charities, schools, clubs, and non-profit organisations that meet the conditions of Corporate Policy POL-0057;
- waiver of fees for disposal of asbestos, construction and demolition waste from the Bay Islands to Birkdale waste transfer station; and
- emergency disposal of debris from major catastrophes, e.g. storms/floods.

Current CSOs for Council 2016/17 are:

Job Name	Description of the nature of the CSO	Budget Year 1	Estimate Year 2	Estimate Year 3
		2016-17 \$'000s	2017-18 \$'000s	2018-19 \$'000s
Clean Up Australia Day	Acceptance of Clean Up Australia Day waste at transfer stations, provision of bulk waste bins and waste disposal for clean up sites.	1	1	1
Mainland transfer stations	Acceptance of residential waste and commercial greenwaste originating from island transfer stations (not accepted on island), including waste disposal and management costs.	7	7	7
Island transfer stations	Acceptance of residential waste and commercial greenwaste at island transfer stations, including waste disposal and management costs.	1,679	1,721	1,765
Kerbside Recycling/Waste Collection	Subsidisation of collection costs for properties requiring manual collection to support the elderly or people with disabilities.	67	69	70
Kerbside Bulky Item Collection	Allocated budget and CSO recover to provide an on-demand bulky household item collection service, and the management and operation of a Community Recycling Workshop for the receipt and recycling of good quality materials.	278	284	292
		2,031	2,082	2,136

**14 Financial structure**

RedWaste is a separate unit within RCC's financial ledgers.

A separate accounts payable and receivable ledger will operate within RCC's financial system to allow for easy identification of payments.

**14.1 Capital structure**

The consolidated capital structure of the CBU will comprise community equity to the value of assets less liabilities.

The 10-year average Debt to Debt + Equity level shall be in the range of 30-50%. Currently the planned level for 2016-17 shall be approximately 30% (this is the ratio of our internal debt \$7m and external debt \$0.4m).

**14.2 Physical assets**

In accordance with the initial CBU establishment plan, the capital structure of RedWaste will include all current and non-current assets and liabilities and equity shown in the financial statements.

**14.3 Monetary assets**

All current assets as recorded in RedWaste including debtors and prepayments are to be managed by the CBU.

**14.4 Investment**

RCC's Financial Services group will invest all excess cash held by RedWaste at the best possible interest rate.

**14.5 Cash balances**

The cash balances shall be held at a level that equates to 3-4 months annualised average operational costs.

**14.6 Loans**

The CBU will utilise debt to fund large infrastructure projects that are associated with the generation of revenue in line with corporate guidelines and Executive Leadership team (ELT) direction.

**14.7 Subsidy**

RedWaste will optimise the use of available grants and subsidies by managing the forward planning of future works programs.

**14.8 Recognition of assets**

Assets will be recognised using industry standards and the methodologies developed through Council's asset valuation policy, the *Regulation*, and the *Australian Accounting Standards*.

**14.9 Depreciation**

RedWaste will depreciate its assets in accordance with the *Australian Accounting Standards* having regard for contemporary depreciation methods.

**14.10 Pricing policies**

RedWaste will price its services in accordance with NCP methodologies while taking into account RCC policy. This may include introducing additional user pays type fees and charges.

The waste/recycling charge is determined by Council to ensure that it is able to cover costs associated with the provisions of the service. The costs include payment to contractors for both refuse collection and a kerbside recycling service. Disposal costs are also factored into the charge to cover contractor costs for disposal, site development works, transfer station operations, management and administration costs.

**14.11 Net return to Council**

RedWaste will provide to Council a surplus made up of dividend, income tax and internal debt finance structuring to the value of the following:

Tax on operating capability @ 30%.

Dividend: 50% on after tax operating surplus.

To achieve the surplus the following parameters will need to be considered:

Revenue: Revenues should be modelled to meet the requirements and commercial rates of return required by NCP reforms.

Expenses: Wages increases in line with enterprise bargaining agreement (EBA) and commercial activity needs. Goods and services increased in line with market pricing, growth and environmental or legislative influences.

Retained earnings: All surplus profit after tax and dividend will be transferred to retained earnings for use by the entity for capital or operational projects as required.

Net Return to Council: The net return to Council is made up of the following:

+ Tax

+ Dividend

+ Internal Expenses

+ Competitive Neutrality Expenses

+ Internal interest

- Internal Revenues

- CSO Recovery

## ATTACHMENTS

### ATTACHMENT 1 – OPERATIONAL BUDGET 2016-2017 – 3 YEARS

	Budget Year 1 2016-17 \$'000s	Estimate Year 2 2017-18 \$'000s	Estimate Year 3 2018-19 \$'000s
<b>Revenue</b>			
Utility charges	20,903	21,535	22,203
<i>Less: Pensioner remissions and rebates</i>	0	0	0
Fees and charges	409	431	456
Operating grants and subsidies	0	0	0
Operating contributions and donations	0	0	0
Interest external	50	51	53
Community service obligation	2,031	2,082	2,136
Other revenue	745	763	783
<b>Total revenue</b>	<b>24,137</b>	<b>24,863</b>	<b>25,630</b>
<b>Expenses</b>			
Employee benefits	1,507	1,545	1,584
Materials and services	16,213	16,619	17,050
Finance costs other	1	1	1
Other expenditure	0	0	0
Net internal costs	435	446	457
<b>Total expenses</b>	<b>18,155</b>	<b>18,611</b>	<b>19,091</b>
<b>Earnings before interest, tax and depreciation (EBITD)</b>	<b>5,982</b>	<b>6,252</b>	<b>6,539</b>
Interest expense	40	41	42
Internal interest	420	431	442
Depreciation and amortisation	572	586	601
<b>Operating surplus/(deficit)</b>	<b>4,951</b>	<b>5,195</b>	<b>5,454</b>

## ATTACHMENT 2 – CAPITAL FUNDING 2016-2017 – 3 YEARS

	Budget Year 1 2016-17 \$'000s	Estimate Year 2 2017-18 \$'000s	Estimate Year 3 2018-19 \$'000s
<b>Proposed sources of capital funding</b>			
Capital contributions and donations	0	0	0
Capital grants and subsidies	0	0	0
Proceeds on disposal of non current assets	0	0	0
Capital Transfer to/from Reserves	0	0	0
Non cash contributions	0	0	0
New loans	0	0	0
Funding from utility revenue	307	315	323
<b>Total sources of capital funding</b>	<b>307</b>	<b>315</b>	<b>323</b>
<b>Proposed application of capital funds</b>			
Contributed assets	0	0	0
Capitalised goods & services	233	238	245
Capitalised employee costs	0	0	0
Loan redemption	75	77	79
<b>Total Application of Capital Funds</b>	<b>307</b>	<b>315</b>	<b>323</b>
<b>Other budgeted items</b>			
Transfers to constrained operating reserves	0	0	0
Transfers from constrained operating reserves	0	0	0
WDV of assets disposed	0	0	0
Income tax	1,488	1,526	1,565
Dividend	1,731	1,775	1,821

**ATTACHMENT 3 – CAPITAL PROJECTS BUDGET 2016-17**

<i>Unit/Team: 3403 - Operations Waste</i>		<i>Expenses</i>
<i>Job Number</i>	<i>Description</i>	<i>\$</i>
65000	Mobile Garbage Bins	157,500
65031	Minor Capital Improvements	75,000
	RedWaste Infrastructure Sub Total	<u>232,500</u>
	Waste Planning Sub Total	<u>-</u>
<b>Operations Waste TOTAL</b>		<b>232,500</b>

## ATTACHMENT 4 KEY PERFORMANCE INDICATORS 2016-17

Vision outcome	RedWaste indicators – 2016-17	Monthly target	Unit	Reporting frequency	Annual target
<b>Green living</b> Our green living choices will improve our quality of life and our children's lives, through our sustainable and energy efficient use of resources, transport and infrastructure, and our well informed responses to risks such as climate change.	Total kilos of domestic waste land filled per capita per year	max 31	kg/ cap/ year	Monthly	max 372
	Municipal solid waste resource recovery rate	min 48.6%	%	Monthly	48.6%
<b>Healthy &amp; natural environment</b> A diverse and healthy natural environment, with an abundance of native flora and fauna and rich ecosystems will thrive through our awareness, commitment and action in caring for the environment	% compliance with EHP licence requirements for waste management facilities	min 98	%	Quarterly	min 98
<b>An efficient and effective organisation</b> Council is well respected and seen as an excellent organisation which manages resources in an efficient and effective way.	Waste operating revenue	+/- 5	%	Monthly	+/- 5
	Waste operating goods & services	+/- 5	%	Monthly	+/- 5
	Waste capital expenditure	+/- 5	%	Monthly	+/- 5
	Operating cost per tonne of waste	\$163.71	\$	Monthly	\$163.71
	Lost time injury frequency rate (LTIFR)	max 20	LTIFR	Monthly	max 20
	Missed service complaints	<0.035%	%	Annually	<0.035%