

<b>ORDINARY MEETING</b>  <b>11 DECEMBER 2013</b>	<b>7</b>
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## BUSINESS CASE FOR 'BUYBACK SHOP' UPGRADE

N Crumpton : 18/22/1-03: #4167435v7

### **RECOMMENDATION:**

**That Council approves the Buyback Shop Upgrade business case, incorporating measures to improve revenue, safety and customer experience, and also approves progression of the associated capital expenditure (option 1 in the report).**

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### **EXECUTIVE SUMMARY:**

This report details the business case for the upgrade to the Buyback Shop. The shop is managed by Council and has been in operation for ten years.

The Buyback Shop layout and buildings have grown in an ad-hoc manner over time resulting in a number of issues. Business planning has identified opportunities for improvement to revenue, profitability, safety, security and the customer experience. Achieving these changes depends on improvements to the layout of the site and this requires capital expenditure of approximately \$300,000.

The financial analysis has used conservative assumptions and shows the net present value (NPV) for the preferred Buy Back Shop upgrade (Option 1) is \$307,436 with an internal rate of return (IRR) of 25.8%. This assumes an estimated growth of revenue in Year 1 of 15%. A revenue growth rate of only 9% is required to produce a similar outcome to the 'do nothing' option and this is considered to be readily achievable.

### **BACKGROUND:**

The Buyback shop has the potential to act as a figurehead to Councils sustainable resource management and provide leadership in positive community behaviour change in recovery, reuse and recycling practices in accordance with the principles underpinning Council's Waste Management Strategy and community education campaign.

The Buyback Shop operations are in line with National and State Waste Management Policy, and provide a mechanism for Council to maximise the recovery of resources from the waste stream and thereby send less waste to landfill. It also provides Council with:

- Budget savings on transport and landfill disposal costs;
- A business revenue stream; and
- A mechanism to contribute to Councils sustainability targets.

*Photo of current the Buyback Shop*



The site is open to the public between 8.30am – 5.00pm, Thursday to Sunday. The value to the community is shown in the level of return customers. By 8.00am on Thursday mornings there may be up to 50 cars and 100-150 people waiting to enter the site to view new stock. There are inherent safety issues associated with large numbers of people competing to access the shop at one time, particularly in relation to the current method of storing and display of goods. The opening hours are to be reviewed as part of the overall improvement plan.

*Photo of goods on pallets*



The growing customer base is made up of, small business/self-employed, DIY enthusiasts, teachers (for school resources), artists and community members simply seeking to source cheaper second hand items. The shop now attracts over 600 customers per week.

*Photo of Thursday morning waiting customers*

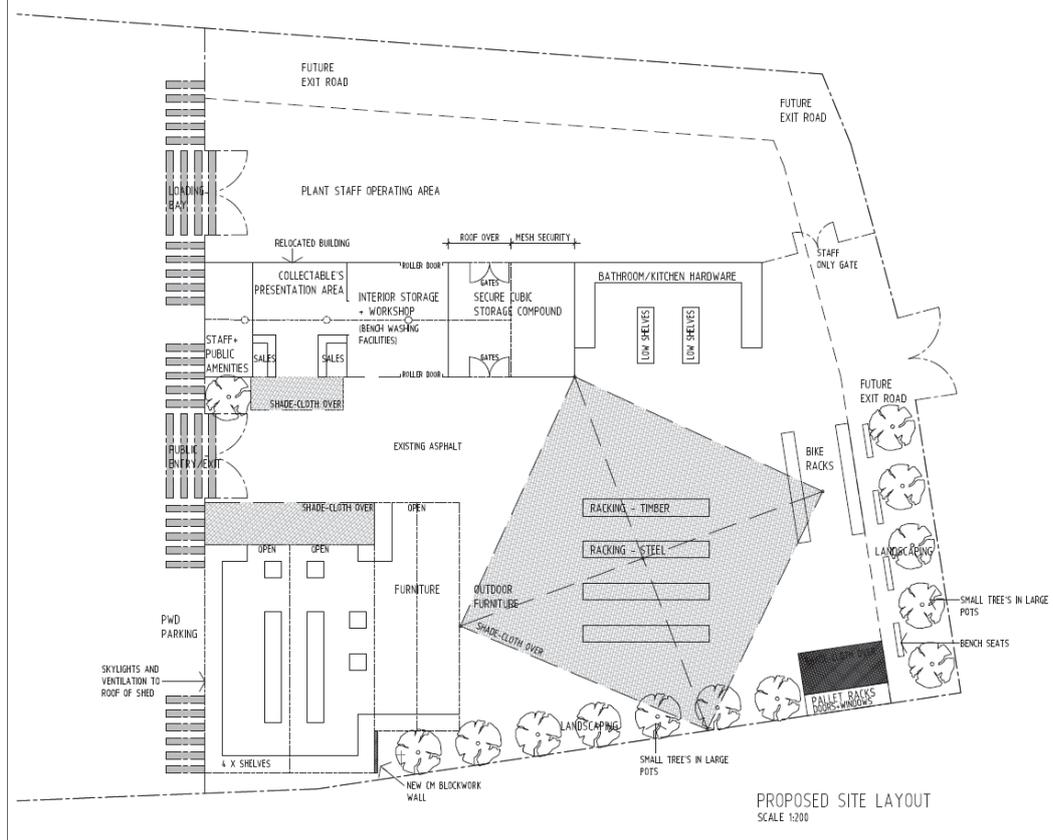


The Buyback Shop is reliant on the sale of reusable items which are sourced from discarded items at the transfer stations. This represents a revenue stream that is not entirely predictable as changes in the quality and quantity of recovered materials can result in an increase or decrease to revenue. The sale price of reusable items sold at the Buyback Shop has not significantly increased since 2003 with revenue at approximately \$200,000 per year. The pricing structure is to be reviewed as part of the site improvement plan.

A growing number of local governments across Australia have incorporated a resource recovery centre (or buyback shop) as a key element of an integrated waste management system. In general, these businesses aim to achieve a retail like environment and may be managed by Councils, industry and charity organisations.

Planned business improvements to the shop layout, site infrastructure and processes are aimed at increasing productivity and revenue through improved material handling, customer servicing and site safety. These improvements will translate to a forecast increase in net profit for the Waste business, and a corresponding reduction in waste disposal costs.

Proposed plan layout of the Buyback Shop Upgrade



PROPOSED SITE LAYOUT  
SCALE 1:200

ISSUE	REVISION	DATE	BY
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**PROJECT**  
BUY BACK SHOP  
RENOVATIONS

**LOCATION**  
LYONS ST, CAIRNS

**CLIENT**  
CAIRNS CITY COUNCIL  
- WASTE

DRAWN	KX	CHECKED	GG
APPROVED:			
SCALE:	AS SHOWN @ A3		
DATE:	OCT 2013		
SHEET NO.:	W01.01		
JOB NUMBER:	1323		

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### *Proposed Visual Interpretation of the Buyback Shop Upgrade*



#### **COMMENT:**

The intention of this report is to detail improvements to the layout and performance of the Buyback Shop and establish its importance as a sustainable alternative to dumping waste to landfill while providing the community with a cheap source of second hand products, a vehicle to take responsibility for their waste generation and gain significant environmental benefits.

The following business case establishes the business upgrade needs for the Buyback Shop and confirms the cost benefit of the corresponding capital project investment and takes into account associated operational improvements in pricing, opening hours, presentation of goods, branding and marketing.

#### **Situational Assessment and Problem Statement**

The current site configuration is difficult for a minimum of two staff to adequately monitor safety and security during opening hours. There is a need to reduce inefficient double handling of materials, develop a pricing model on which to value items for resale, review operating hours to improve trading and improve the retail environment and customer amenity through the display and pricing of goods and the provision of shaded areas. Addressing these issues requires a combination of site upgrades and changes to the site operation.

#### **Legislation, Policy and Strategies**

International, National and State legislation provides the context behind the Buyback Shop service. Reducing waste generation, limiting waste to landfill and increasing the recovery of resources from the waste stream for reuse, recycling and reprocessing underpin Australia's direction in waste management.

The waste management hierarchy provides the basis for Government waste management policies. The hierarchy provides a methodology for managing waste with a preference for resource recovery over landfill disposal.

*The waste hierarchy*



The Buyback Shop specifically provides for the 'Reuse' element of the hierarchy.

### **Opportunities for Improvement**

A connecting customer survey and a site safety audit, both conducted in 2013, identified a range of areas for improvement which have informed the site upgrade planning. A high priority was the provision of shaded areas and the need to improve the safe presentation of goods. Business planning has also identified a number of key areas as part of a roadmap for improvement in order to increase revenue and provide ongoing business sustainability:

1. Revenue stream
2. Customer numbers
3. Retail experience
4. Volume / quality of feedstock

## 1. Revenue stream

Issue	Management
Revenue has levelled out at approx. \$200,000 p.a. and prices have not been substantially increased since the shop opened in 2003.	Implement a pricing structure using existing data management systems to target a 10% price increase across the board.
Lack of detailed price guide that can be used as the basis for establishing prices.	Develop a three tiered price guide and Introduce individual pricing of all saleable items to streamline the point of sale process and offer customer greater certainty while shopping.

## 2. Number of customers

Issue	Management
The number of customers has levelled out at around the 600 <sup>+</sup> per week with significant repeat customers during this time.	Develop a branding strategy and marketing plan to promote the shop within the wider community. Integrate with the Waste & Recycling communication and education program and target a 5% increase in customer numbers.
Potential new customers are not aware of the types of items that are for sale at the shop.	

## 3. Retail experience

Issue	Management
Products are stored and presented in clusters on pallets directly on the ground, with arising safety issues and history of incidents involving minor cuts and abrasions.	The reconfigured site layout utilises new and existing shelving / racking (AS4084) in specific departments of sale. All items are to be priced and displayed using this system. Target improved customer safety by presenting saleable items in a logical and safe manner.
Passageway/walkways between pallets and racks are cluttered and narrow.	High end collectable goods will be secured and displayed at the point of sale (POS) area.
The current shop layout is a series of buildings / colorbond sheds, overheads and shipping containers pieced together over the years. The configuration of these structures creates a number of safety and security black spots across the site that are difficult for staff to monitor the site during operations.	Relocation of existing main structure to become the POS, high range display and preparation of goods area to provide increased monitoring and the ability to value add (prepare) goods for resale in an efficient manner.
Lack of shade during hot weather periods currently causing customer discomfort and safety risk.	A new overhead shade sail will provide approx. 144sq meters of covered area for customer comfort and storage of saleable items to prolong the lifespan of saleable goods presented outdoors.
Products are exposed to weather due to limited overhead protection resulting in unnecessary loss of product, additional handling and decrease in revenue.	
Limited ability to separate forklift	Incorporate staff only working areas with

Issue	Management
movements from the customer service area during delivery/storage of incoming goods and loading of vehicles.	forklift entry and exit gates and a dedicated loading bay.

#### 4. Volume / quality of stock

Issue	Management
The volume of reusable items recovered needs to be increased.	Continue to implement customer service and operating efficiencies at transfer stations to increase resource recovery.
Quality of reusable items recovered needs to be improved.	Develop and implement staff training in the appropriate identification and recovery of reusable products.

#### **CONSULTATION:**

Customer Connecting survey undertaken in January 2013 #3849784  
 CRC WH&S safety audit of the site in July 2013 #4054105  
 Waste Services Branch staff provided input into the planning for site upgrades.  
 Corporate Finance Branch staff provided analysis of the financials.

#### **CONSIDERATIONS:**

##### **Risk management**

A recent OH&S audit at the Buyback Shop highlighted a number of risks that need addressing as part of the rectification action plan and will be mitigated through the upgrade, as follows:

- **Fire Prevention:**
  - Customer congestion around the entrance/exit area becomes problematic and inadequate design around the pay station area causes items for sale to gather and become obstructions to the exit gate.
- **Building Safety:**
  - Walkways between racks are cluttered and narrow and there is no clear delineation of walkways and pathways whereby some stacked items are placed in an ad-hoc fashion.
- **Storage Design & Use:**
  - Storage is ad-hoc on a combination of pallets and racks & shelving. Items are intermingled together and different weighted items sometimes stored together. This process has the potential to cause manual handling issues.
  - The current rack system is not secured and has the potential to become airborne in cyclonic conditions. The current rack system also has no evidence of weight and storage limits and does not conform to AS4084 (steel storage racking).

- **Electrical Safety:**
  - A number of extension leads are used and joined together due to current design of the shop.
- **Other Areas of Concern:**
  - The difficulty staff have during opening hours in monitoring the entire site and in particular children who can access and pull down items leading to injury.
  - Lack of warning signs within the shop (sharp edges, forklift etc.)
  - The forklift enters through the main gate and interacts with customers whereby a risk of customer contact is possible.
  - Staff use pallets to store item, this leads to overhanging of items with sharp edges whereby risk of customer contact is possible.

**Financial**

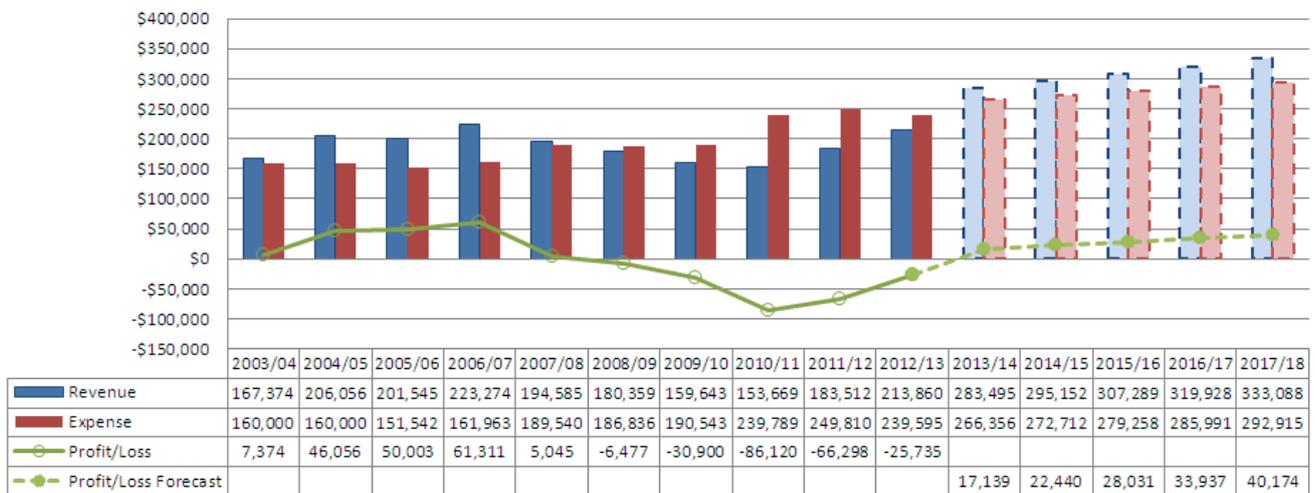
Current Operating Position

2012/13 Actuals	\$
Revenue	213,860
Employee Costs	165,491
Operating Maintenance	26,364
Depreciation	32,859
Corporate Overhead	14,881
Total Expenses	239,595
<b>Operating Position</b>	<b>(25,735)</b>

Projected Revenue and Expenses for Option 1

The chart and table below shows the projected profit and loss up until 2017/18.

**Buy Back Shop Profit & Loss 2003/04 - 2017/18**



### Capital Costs

The additional capital costs associated with addressing all the key areas identified within the business planning are estimated to be:

<b>Upgrade item</b>	<b>2013/14</b>
Relocation of existing 16mx8m building	110,000
9mx9m storage compound	10,000
Fencing and gates	7,000
Shade sails	120,000
Office, storage and shop fit out	45,000
<b>Total</b>	<b>292,000</b>

### **Financial Analysis**

<b>10 Year Forecast</b>	<b>Cash Flow</b>	<b>NPV</b>	<b>IRR</b>
Option 1 - Buyback Upgrade	683,863	307,436	25.8%
Option 2 - Business as usual	283,100	190,754	n/a
Option 3 - Dispose to Landfill	(394,628)	(253,007)	n/a

Option 1 – This is the recommended option with the greatest NPV to upgrade the buyback shop to increase productivity and growth.

Option 2 – Continue operating without the upgrade resulting in reduced ability to improve productivity and growth.

Option 3 – In absence of the buyback shop, all feedstock would be redirected and disposed to landfill resulting in an increase in additional disposal fees and loss of revenue.

## Assumptions

NPV Key Index Assumptions	Option 1 - Upgrade	Option 2 – No Upgrade	Option 3 - Dispose
Revenue Growth - Year 1	15%	2%	na
Revenue Growth - Year 2-5	4%	2%	na
Volume @ Year 10	573	530	573
Employee Costs Index	3%	3%	3%
Maintenance Index	3%	3%	3%

The positive NPV of \$307,436 in option 1 is largely driven by the revenue growth assumption in year 1 of 15%. The growth estimate is based on a combination of implementation of a pricing structure (10%) and growth in the feedstock volume (5%).

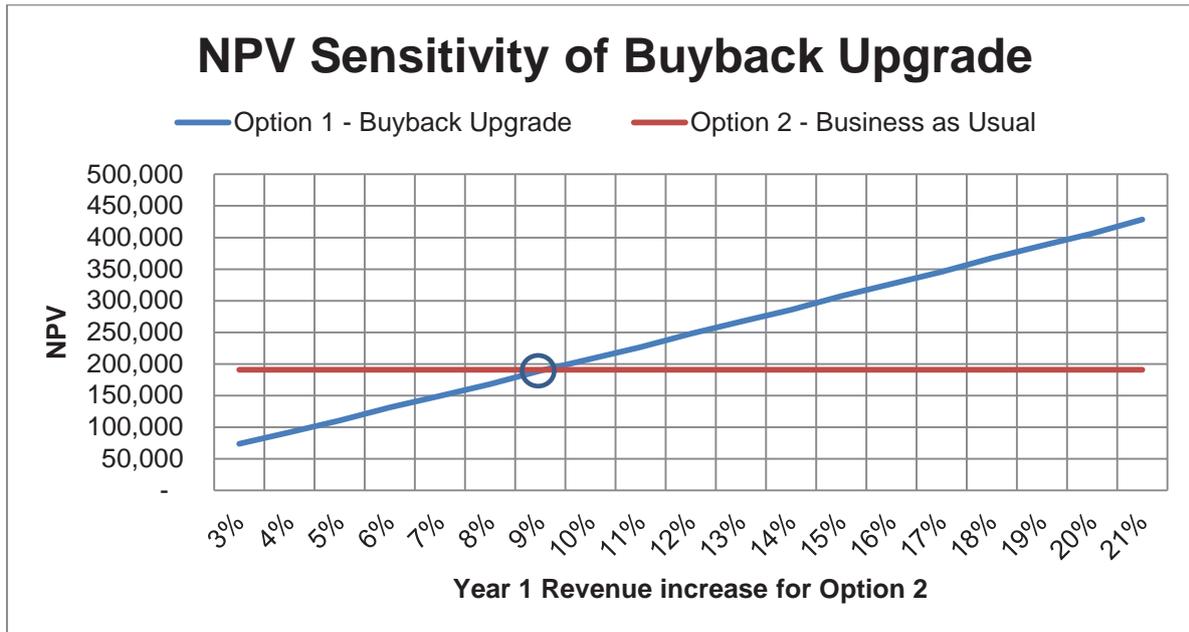
The marketing & branding strategy to promote the upgrade is to be funded by integrating into the current waste and recycling campaign education program, and as a result has not been factored in as an additional cost.

The revenue assumption in option 2 is based on the limited capacity of the current facility which leads to inefficient and double handling of materials.

The upgrade option has also factored in a saving of the associated disposal fees for the incremental growth in volume.

## Sensitivity Analysis

Since there are minimal differences in operating costs between the two options it is implied that the key driver of the difference in NPV is the growth in revenue in the first year after the upgrade. The graph below identifies a 9% growth in revenue as a minimum for the NPV of the upgrade to be equal to or better than the business as usual option. i.e. If we could simply increase the price by 9% without the upgrade, the NPV would be the same, however, this would not deliver a mechanism for Council to maximise the recovery of resources from the waste stream and thereby send less waste to landfill.



#### Corporate and Operational Plans:

Corporate Goal 3.1 *A natural environment that is valued and sustainable* and 3.4 *An environmentally educated and empowered community.*

Waste Services Operational Plan: Investigate and recommend management options for the Buy Back Shop

CRC Waste Management Strategy 2010-2015: Programme Area 2 Recycling and Composting, Action 5.5 Develop a Business Model for future Buyback Shop operation.

#### Statutory:

##### National Policy and Strategies

The National Waste Policy: *Less Waste More Resources* endorsed by the Council of Australian Governments in 2009, sets Australia's coordinated waste management and resource recovery direction to 2020.

##### State Policy and Strategies

Queensland is currently undergoing crucial legislative and strategic reform for waste starting with the introduction of the Waste Reduction and Recycling Act 2011.

The Act will be supported by the Waste Avoidance and Resource Productivity Strategy (currently in draft) for Queensland 2014-2024. Entitled 'Waste – Everyone's responsibility every day.

Sustainability:

The majority of positive scores are generated from the diversion and recovery of reusable items from landfill and the generation of positive community behaviour change in recovery, reuse and recycling practices.

Options

Option 1: To approve the Buyback Shop upgrade business case and associated capital expenditure to focus on improvements in the following areas:

- Operating efficiency and the revenue stream;
- Customer numbers and their shopping experience;
- Quantity and quality of feedstock; and
- Safety for customers and staff.

Option 2: To continue with business as usual maintaining present inefficiencies, safety risks and associated loss of opportunity.

Option 3: Close the Buyback Shop forcing all feedstock to be redirected and disposed to landfill resulting in an increase in additional disposal fees and loss of revenue.

**ATTACHMENTS:**

Nil

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**Manager Waste and Environment**

Paul Utting  
**General Manager Water and Waste**