

16. IMPLEMENTATION OF INCREASE IN TRADE WASTE CHARGES

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The purpose of this report is to inform the Committee of serious concerns being expressed by industry representatives over the proposed increases in Trade Waste charges that have been previously reported to the Sustainable Transport and Utilities Committee (on 19 February 2002 at the Annual Plan Draft Sub-budget meeting) and recommended by that committee to the Annual Plan Subcommittee.

This current report, which was submitted to and adopted by the Annual Plan Working Party on 27 February 2002, slightly alters the basis of calculating the Trade Waste charges to lessen the impact of sharp fluctuations in Trade Waste unit costs to provide industry with a more certain climate in which to make investment decisions. Approval was also given to review with industry representatives later in the year, a revised Trade Waste pricing structure that further rewards industry for reducing discharges in the long term rather than penalising industry as flows are reduced. This report is now being submitted to the Sustainable Transport and Utilities Committee for information.

BACKGROUND

Trade waste charges are calculated each year as part of the annual plan process. Expected revenue from this source is then calculated based on expected discharges from industry in the coming year. The calculation of trade waste charges is based on a rolling average (currently taken over three years) of net total wastewater costs divided by total volume to arrive at a unit volume cost (cents/m³). Similarly the unit cost per kilogram of BOD (biochemical oxygen demand – a measure of the wastewater strength) and SS (suspended solids) are calculated. These derived unit costs are then applied to the expected contribution of volume (BOD and SS) that industry is expected to discharge to arrive at the expected revenue. Further the expected revenue from the volume component is then split into a peak and off-peak flow in the ratio of 3:1. This measure encourages industry to discharge as much flow as possible at off-peak times to assist in evening out the flows and loads to the wastewater treatment plant. Industry trade waste costs are made up of varying combinations of peak and off-peak flows, BOD loads, and SS discharged that for large industrial dischargers are measured in each quarter.

Clearly as the total costs increase so do the unit costs. Also as the total volume decreases so do the unit costs increase. Also, as the proportion of volume discharged at off-peak increases the volume charges need to be adjusted upwards (but still keeping the 3:1 ratio) to recover the full volume component of the cost.

THE NEW TRADE WASTE BYLAW ADOPTED IN JULY 2000

In July 2000 the Council adopted the new Trade Waste Bylaw that made some significant changes over the previous 1967 version. The new bylaw developed in close consultation with industry moved from a flow rate charge basis to an actual volume charge to encourage reduction of waste discharged. The new bylaw also provided for the charging for the discharge of particular contaminants (heavy metals). The peak to off-peak ratio was also established to better utilise the capacity of the reticulation system and of the treatment plant. The use of a three-year rolling average to calculate the unit costs has the effect of smoothing any sharp changes in costs or volumes. However in the coming year four factors have combined to produce an increase in trade waste charges for some companies of nearly 20%. These factors are, an increase in treatment plant operating costs associated with the treatment plant upgrade, the additional cost in the budget of rates on infrastructural assets (\$1.2m), a reduction in volume of wastewater to the plant due relatively dry years, and a greater than anticipated shift in industries investing in facilities to enable increased discharge at off-peak times. It is the combination of these factors that has resulted in the required 20% increase to recover the industry share of costs by the current formula. As part of the consultation in the development of the new bylaw it was agreed that when in any year cost increases were expected to be greater than increases in the producer price index then the impact of the proposed increases would be discussed with industry representative prior to implementation. Industry representatives through the Canterbury Manufacturers Association were alerted to the likely large increases in November 2001.

INDUSTRY RESPONSE

Clearly some industries were extremely concerned over potentially large trade waste cost increases and have indicated that for some industries their continued viability in Christchurch is threatened. This happening in a climate, following the adoption of the new bylaw in July 2000, that was expected to provide some long term certainty of costs for industry to be confident about making capital investments in plant and equipment to reduce their discharge volumes and contaminant loads. This is particularly so for large wet industries that employ significant numbers of staff. Industry representatives are disappointed that despite the best intentions with the new bylaw their efforts to reduce trade discharges has merely resulted in the costs of their discharges increasing to cover the costs that are based partly on the decrease in volume that they have invested in to achieve. A corollary is the decrease in tonnage of solid wastes disposed of merely increases the cost per tonne to dispose of that waste. Industry representatives agree entirely with the concept that industry should meet its full share of costs but strongly emphasise that the need for investment decisions to be taken to improve the quality of these discharges and to reduce the volume of these discharges there needs to be long term certainty over costs that effect those decisions. The currently proposed trade waste charge increases clearly show that the current method of calculating trade waste charges does not provide that long term certainty of costs, and nor does the current method of charge calculation provide the correct pricing signals to further encourage industry to continue to reduce the waste it discharges.

COUNCIL RESPONSE TO INDUSTRY CONCERNS

A report was presented to the Sustainable Transport and Utilities Budget Review Committee on 19 February 2002 proposing that the new trade waste charges be implemented in two stages, half the increase in 2003, and the other half in 2004. This was done in acknowledgement of industry concerns over the possible increase of nearly 20% in one year. The committee has recommended to this committee that this two-stage implementation be adopted. While industry representatives acknowledge this move as positive, they continue to voice the concerns outlined above and have requested that the basis of the trade waste charges be fully reviewed so that the system of increasing trade waste charges does ensure industry meet their share of all costs but that certainty of charges be better assured and that the pricing signals do encourage the reduction of wastewater discharged. Such a review is a complex matter and while it is agreed that a review is desirable it is not a matter that should be rushed.

POSSIBLE INTERIM SOLUTION

One of the key factors concerning industry in the setting of trade waste charges is the longer-term certainty of trade waste costs. To avoid wild fluctuations in costs use of a three year rolling average of costs and flows and loads has been used, but as seen this year even a three year rolling average can still result in marked fluctuations in costs when a number of factors combine adversely. The adoption of a longer period rolling average would limit these fluctuations to more acceptable levels and provide industry with greater long-term certainty of costs. Costs are expected to rise in the future particularly as the upgraded treatment plant comes on stream. Future flows to the plant are generally expected to increase as population increases, however the average flow per year is more volatile as flows are significantly influenced by rainfall, groundwater levels and consequent groundwater infiltration into the sewer system. The long-term success of groundwater infiltration control measures and the sewer-grouting program add further uncertainty to the likely future flows to the plant. There is therefore good reason to extend the period of the rolling averages used to calculate trade waste costs. It is suggested that a six-year rather than a three-year rolling average would be appropriate. Doing so will provide industry with better certainty of costs, by limiting annual cost increases to smaller amounts spread over a longer period. This will however lower the unit charges for flow, BOD and SS from those currently proposed. The six-year rolling average will result in a 9.52% increase in the flow cost and reductions in the BOD and SS unit costs of 2.26% and 5.97% respectively. The adoption of the six year rolling average immediately removes the anomaly of a staged increase in costs.

BUDGET IMPACT

After each quarter when the trade waste charges are incurred the flow, BOD and SS components are recalculated to predict the likely revenue against budget and the likely revenue for the coming year. In the current year (2001/2002) \$1.4m in trade waste revenue is budgeted. For the 2002/2003 year the sum of \$1.8m has been allowed for Trade Waste revenue. This was based on the flow and loads as calculated in November 2001 and allowed for half the originally proposed increase in charges to be applied in the 2002/2003 year. The amount of trade wastes discharged is always changing as industries vary their production and processes, and as new industries start up and others close down. Current calculations of expected revenues show that with a six year rolling average and with the trade

waste volumes and loads predicted to be discharged in the coming year the currently budgeted revenue of \$1.8m would still be achieved.

SUMMARY

A change from the use of a three-year rolling average to a six-year rolling average for the calculation of Trade Waste charges will provide better certainty of costs for industry over a longer period and can be implemented without affecting the currently budgeted revenue of \$1.8m in 2002/2003. A review of the basis of the trade waste charges is needed to ensure correct pricing signals are embodied in the charging structure, to ensure continuing industry focus on reducing wastewater discharged, but that this review carefully considers all factors in consultation with industry. This review could be completed before the preparation of the 2003/2004 budget.

The recommendations passed by the Annual Plan Working Party were as follows:

1. That a six-year rolling average be adopted for the calculation of trade waste charges for the 2002/2003 year.
2. That the Sustainable Transport and Utilities Committee be asked to convene a review of the trade waste charging policy before the preparation of the 2003/2004 budget.

Recommendation: That the information be received.

Chairman's

- Recommendation:**
1. That the Committee endorse the Annual Plan Subcommittee recommendation to the Council for the purposes of the 2002/03 Annual Plan.
 2. That a comprehensive review be undertaken later in 2002, and that a Subcommittee be established to work with staff for this purpose, comprising the Chairman, Councillor Williams and Councillor Carole Evans.
 3. That the CMA and other stakeholders be invited to take part in the review.