

3. TRADE WASTE CHARGES: LEVEL OF INCREASE

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The purpose of this report is to seek a decision on the proposed level of increase to be applied to Trade Waste charges for the 2002/03 year.

INTRODUCTION

Each year as part of the Annual Plan and Budget preparation process the Trade Waste charges are recalculated for the coming year. For several reasons the charges are going to increase significantly in the 2002/03-year and Committee input is sought to the rate at which these increases are to be applied.

BACKGROUND

Trade Waste charges are calculated on the basis of industry meeting its share of the costs of wastewater collection and treatment. Flows and loads from each of the major industrial dischargers (greater than 5,000 litres/day) are measured and that proportion of the total flows and loads calculated. Costs are then apportioned on that basis and rates calculated for flow, biochemical oxygen demand (BOD) and suspended solids (SS). In order to prevent wild fluctuations from year to year in costs, a three year rolling average for flows and loads is used, and the average of the last two years actual costs and the current (2001/2002) years budget is used to calculate the proposed charges. These rolling averages are used to smooth out the fluctuations caused by variations in flows and loads from year to year and to "soften" sharp increases in the budget. Nevertheless sharp increases in the trade waste charges will happen in the 2002/2003-year unless a staged implementation is adopted.

CHANGES IN NEW TRADE WASTE BYLAW

In July 2000 the Council adopted an updated Trade Waste Bylaw. This new bylaw now charges on the basis of total volume discharged (rather than flow rate) which encourages reduced water use. It also allows for the charging for the mass of heavy metals discharged. This new bylaw also encourages the adoption of off peak discharges by charging for flow at an off peak rate being 1/3 of the peak rate. This has the desirable effect of evening out the diurnal variation of flows and loads to the Treatment Plant. This off peak rate was offered on the basis that up to one half of the industrial discharges made could be done at off peak times by a small number of dischargers who had the ability to store large volumes of wastewater for overnight discharge. Since the new Bylaw was adopted a larger than expected number of dischargers have put in facilities to take advantage of the off peak discharge option. Where the new Bylaw charging regime significantly increased a company's costs the Council allowed a phase in period of the new charges. This affected a total of five companies.

During consultation with Industry representatives during the development of the bylaw undertakings were given that should proposed charges indicate significant increases (above the rate of inflation) then consultation with industry through the Canterbury Manufacturers Association would again occur. This consultation has started with the CMA being advised that a significant increase in charges is indicated for the 2002/03 year and meetings with potentially affected dischargers are being arranged.

REASONS FOR CURRENT PROPOSED INCREASES

There are several factors contributing to these increases. These factors include increased operating costs of the treatment plant as a result of the plant upgrading, increased collection costs from rates on infrastructural assets, reduced revenue from the treatment plant capacity upgrade charge. A reduced volume of total wastewater to the plant over the last few years (dry years) coupled with an increased flow from industry has increased the proportion of charge that rests with industry. The final factor is the larger than expected move to off-peak flow by the larger dischargers. This means that the average volume charge will need to rise to recover industries share of the volume costs. The impact on individual companies of the increases varies depending on the mix of off-peak flow, peak flow, BOD and SS. Typically the larger companies total charges will increase by 10 to 15%. For other companies the increases range from 10% to 19%.

OPTIONS FOR APPLYING INCREASED CHARGES

The council can decide to apply all or none of the increased costs or to stage the implementation of the new charges over two or more steps. There have been a number of precedents for the implementation of increased Trade Waste charges over several years, once with the advent of the new bylaw in 2000 and previously in the early 1990's where a 40% increase was adopted over 5 years. While a staged implementation of a significant increase in charges does soften the impact on industry it does in fact transfer the effect of the delay in collecting that revenue to all other ratepayers.

It is predicted that in the current year Trade Waste Revenue will be \$1.56m. Implementing the full costs from July 2002 will raise Trade Waste Revenue to approximately \$1.82m, while if half the increase was applied in the first year the Trade Waste Revenue would be \$1.75m. These figures take into account changes in current discharges that are known at present, allowances for staged implementation for the application of the new Bylaw in July 2000 (impacts only 5 companies) and that only 3 out of the 4 quarterly charges have the new rates applied to them in the financial year.

FUNDING POLICY

The Councils funding policy in this area requires that 100% of the identifiable costs are recovered from those who directly benefit.

RESULTS OF CONSULTATION WITH CANTERBURY MANUFACTURERS' ASSOCIATION

Preliminary discussions were held with John Walley from CMA and included two of the three persons on the Trade Waste Bylaw working party. From these discussions it is proposed to call a meeting of all the affected dischargers to explain the reasons for the increases that are to occur and to seek feedback from Industry on how they would wish to have these increased charges applied. A further report would then be made to the committee. This process also allows for industries either individually or collectively through the CMA to make submissions to the Annual Plan process.

SUMMARY

The 88 industries that discharge large volumes of wastewater to the sewer system are facing a 10% to 20% increase in Trade Waste charges in 2002/03. Industry would wish for the charges to be phased in over a period. The charges can be phased in over any period the Council decides, and there are precedents to do so. However the longer the period of phase-in the longer the Council needs to rely on the general ratepayers to make up the shortfall in revenue. A two year phase-in period would seem a reasonable compromise that goes some way towards meeting the wishes of Industry and not so long that the normal future increases become a significant additional burden. It is not anticipated that there are any circumstances that would lead further significant increase over next few years.

Recommendation: That the Council phase in the increased Trade Waste charges over a two year period, ie 50% of the increase to apply after 1 July 2002, and the final 50% of the increase to apply after 1 July 2003.