

## 23. SOLID WASTE BUDGET – DEDICATED FUND FOR WASTE MINIMISATION

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The purpose of this report is to respond to a Council resolution seeking advice on the implications for the Council's budget of the formation of a dedicated fund for waste minimisation activities.

This report has been reviewed by and is supported by the Corporate Team. The report is also being considered by the Strategy and Finance Committee.

### BACKGROUND

On 16 July 2002 the Council resolved:

1. *That the Council change to the 'waster pay's' system for rubbish bags, with effect from 2004/05, on the following basis:*
  - (a) *Comprehensive public consultation and information supported by a budget of \$200,000 in 2003/04.*
  - (b) *Integration with the Solid Waste Strategy in the statutory Waste Management Plan to be revised this year, to show how the waster pays system forms part of the action plans to be incorporated in the strategy.*
2. *That the Council agree in principle to a more transparent system for solid waste accounting based on:*
  - (a) *All waste minimisation operations being provided for from waste levies (incentive and disincentive charges), not rates, via a dedicated fund incorporating both the levies and the Transwaste dividend.*
  - (b) *Household collections of recyclables paid from rates.*
  - (c) *Refuse collection and disposal paid from the waster pays revenue.*
3. *That the adoption of the principles set out in Clause 2 be subject to consideration of a staff report on the implications for the Council's budget and implementation issues.*
4. *That, to eliminate the personal dumping of unwanted household rubbish and taking into account social issues, a line item be provided in the budget for the supply of rubbish bags and/or stickers to address cases of hardship.*
5. *That the Council devise a process for the distribution of rubbish bags and/or stickers.*
6. *That recycling systems be investigated and set up for those living in apartment blocks.*

This report addresses the first part of item (3) of this resolution ie the budget implications of the proposal in clause 2(a) and 2(b).

The apparent intent of the Council resolution was to:

- Provide a certain income stream for waste minimisation which was not dependent on rates and subject to potential cutbacks when rate rises are under pressure.
- Provide transparency that waste minimisation levies are being applied to waste minimisation activities.
- Enable clear identification of the application of waste minimisation levies to that purpose

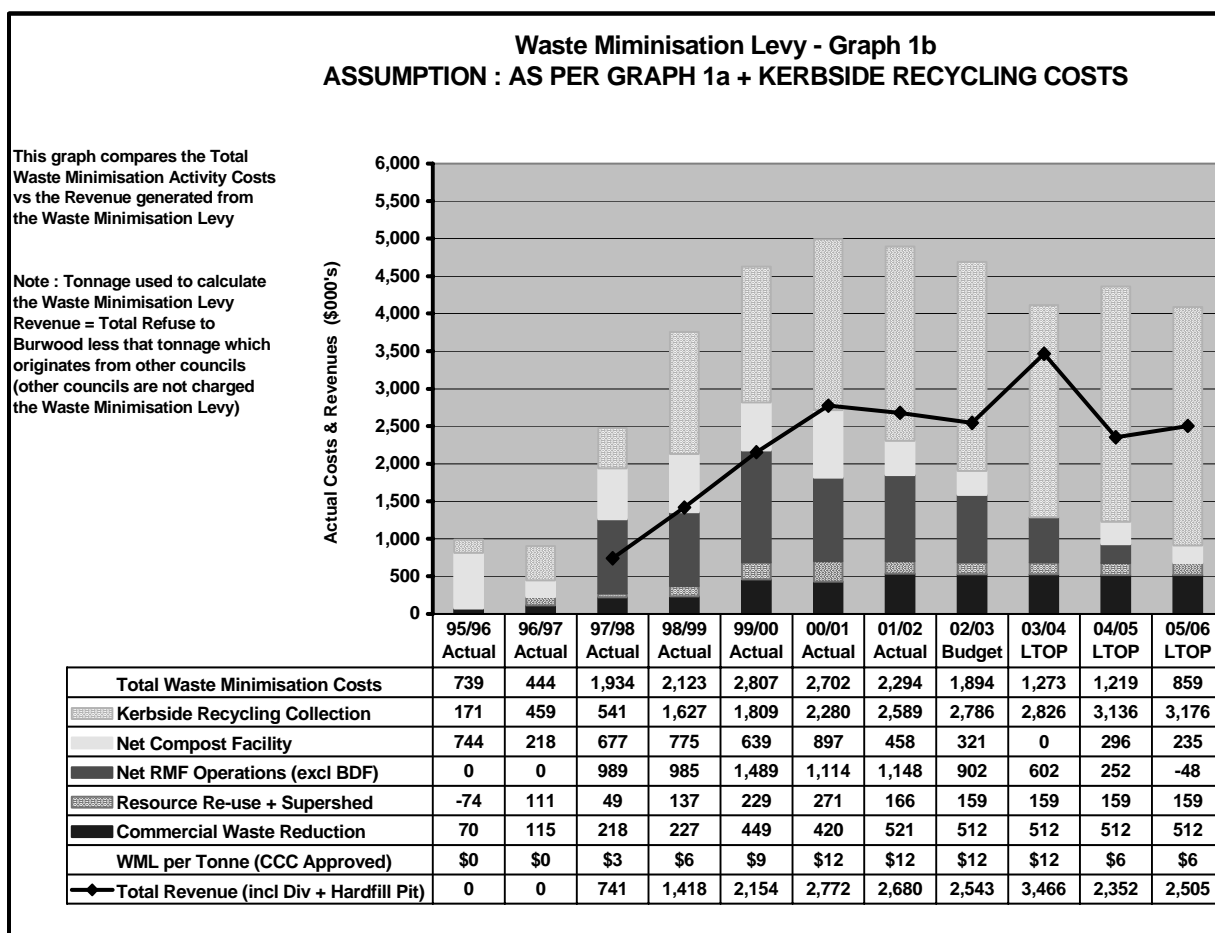
As can be seen, clauses 2 and 3 of the resolution above were passed in the context of a budget decision to implement a waster pays charging system for the black bag collection. The Waste Minimisation Fund proposal was intended by those who proposed it to be implemented in conjunction with the introduction of charging for black bags so that the savings made from black bags could help to fund the Waste Minimisation initiative as part of an overall package. However, in the 2002/03 budget forecasts the black bag charging was factored in but the Waste Minimisation Fund proposals were not as they were only approvals in principle and awaited confirmation by Council after this report. Waste Minimisation costs are currently funded from a combination of rates and a waste minimisation levy which is charged as part of the per tonne charge for waste through the transfer stations. Waste minimisation costs currently include:

- Kerbside recycling,
- Composting,
- Net cost of RMF\*,
- Resource re-use and Supershed,
- Commercial waste minimisation.

(\*Note: RMF also receive a Business Development Levy of \$2 per tonne on all waste. This is administered separately by RMF and not included in this report. It currently produces about \$480,000 per annum.)

Waste minimisation levies are based on \$12 a tonne charged as part of the refuse charges. This amount is forecast to reduce to \$6 per tonne from 2004/05 in the Council's current long-term forecasts, although it is under consideration whether the \$12 per tonne could continue.

The following graph shows the history and forecasts of the waste minimisation expenditure and waste minimisation levies. This also includes the forecast dividends from Transwaste.



## THE PROPOSAL OUTLINE

In addition to the proposed charging for black bags which will reduce the level of the rates, it is proposed that kerbside recycling costs are separated out and funded direct from rates and that all other waste minimisation initiatives be funded from a dedicated fund which is not sourced from rates but from dividends and levies. This is intended to be treated as a dedicated fund so that it can be illustrated that waste levies are being applied to waste minimisation projects and to insulate a funding source for waste minimisation from the pressures of the greater Council budget process.

Currently dividends from Transwaste are treated in the budget as corporate revenues (in the same way as all other dividends). The first dividends are forecast on the long term plan to be received in 2004/05 and they have been budgeted relatively conservatively because the company has not yet commenced operations and it would be unwise to be optimistic on the result until there is more certainty. It does however, leave the possibility of a growing revenue source for the 'waste minimisation fund' if it is established and a reduced source of unbudgeted additional income to reduce rates.

The Council is borrowing \$7.57 million to fund its investment in Transwaste and the cost of servicing this debt is currently being charged against Council general revenues. If the dividends from Transwaste are earmarked for a dedicated waste minimisation fund then it is appropriate that the fund meet the debt servicing charges. These currently exceed the forecast dividends from Transwaste.

The Council has agreed to a new levy being placed on hardfill dumping in private landfills from 2003/04. This is estimated to bring in \$1 million of revenue from 2003/04.

In the graph in the previous section of this report the line represents the income from the existing waste minimisation levies plus Transwaste dividends and the proposed hard fill levies. The top section of each bar represents kerbside recycling so the graph illustrates that if kerbside recycling were transferred to rates funding and the fund was established there is significant flexibility for the funding of additional waste minimisation activities from the revenue currently forecast to be generated.

## IMPACT ON RATES

The following table sets out the currently forecast expenditure and funding sources assuming that the black bag collection was still being funded from rates (base case):

**Table A: Current Expenditure and Funding**

	2002/03	2003/04	2004/05	2005/06
	\$000	\$000	\$000	\$000
Net Cost of black bag collection	5,401	5,501	5,671	5,671
Kerbside recycling collection costs	2,786	2,826	3,136	3,176
Other Current waste minimisation costs	1,894	1,273	1,219	859
<b>Total costs</b>	<b>10,081</b>	<b>9,600</b>	<b>10,026</b>	<b>9,666</b>
Funded by:				
▪ Waste Minimisation Levies	2,542	2,466	1,172	1,140
▪ Projected hardfill levy	0	1,000	1,000	1,000
▪ General Funds (primarily rates)	7,539	6,134	7,854	7,526
<b>Total Funding</b>	<b>10,081</b>	<b>9,600</b>	<b>10,026</b>	<b>9,666</b>

If the principles of the Council resolution are all confirmed, the black bag collection would be funded by user pays and kerbside recycling costs would no longer be partially funded from waste minimisation levies but from rates. In addition dividends from Transwaste would no longer be available to reduce rates. The following table shows the changed funding arrangements which would result in applying the new principles of the resolution:

**Table B: Impact of all New Funding Arrangements**

	2004/05	2005/06
Funding Required as above	10,026	9,666
Extra Funding for waste minimisation	953	1,281
Less specific charges:		
• Bag Charges	4,566	4,566
• Waste Minimisation Levies	1,172	1,140
• Projected hardfill levy	1,000	1,000
Required from rates	4,241	4,241
<b>Change in rate funding from combination of black bag charging and Waste Minimisation Fund</b>	<b>-3,613</b>	<b>-3,285</b>

In Table B the reduced rate funding takes account of the revenue from black bags charges. It needs to be noted that these have already been factored into the long-term budget projections since that was a final Council decision whereas the changes to Waste Minimisation funding have not yet been factored into the long-term forecasts since they were a decision in principle only.

The following table shows the impact on rates against the current budget forecasts which result from the Waste Minimisation proposals alone:

**Table C: Impact of Proposal on Rates**

	2004/05	2005/06
	\$000	\$000
Kerbside recycling collection costs	3,136	3,176
Less currently funded from rates	2,183	1,895
<b>Additional cost of recycling collection from rates</b>	<b>953</b>	<b>1,281</b>
Budgeted Transwaste dividends diverted from rates to fund	180	365
Debt servicing charges transferred from rates to fund	-720	--720
<b>Total additional cost on rates</b>	<b>413</b>	<b>926</b>

Assuming that the Waste Minimisation proposals are introduced to coincide with black bag charging there will be additional costs above the current forecasts of \$413,000 in 2004/05 and \$926,000 in subsequent years. Without taking dividends and debt servicing into account the costs will be \$953,000 and \$1,281,000 respectively.

While the structure would increase the level of rates, there would be surplus funds available for new waste minimisation initiatives, as illustrated in the following table:

**Table D: Waste Minimisation Activity Surplus**

	2004/05	2005/06
	\$000	\$000
Waste Minimisation Levy (excluding the Business development levy forwarded directly to RMF)	1,172	1,140
Proposed new hardfill levy	1,000	1,000
Transwaste Dividends*	180	365
Debt servicing on share acquisition	-720	-720
<b>Total Funds Available</b>	<b>1,632</b>	<b>1,785</b>
Less currently budgeted expenditure	-1,219	-859
<b>Available for new Waste Minimisation initiatives</b>	<b>413</b>	<b>926</b>

\*Note: Transwaste dividends could be conservatively assessed at this stage.

## DISCUSSION OF ISSUES

The Council currently has a policy of seeking to reduce the level of rating by \$10 million by 2005/06. The complete package of black bag charging together with the Waste Minimisation Fund proposals produces an overall reduction in rates of \$3.61 million in 2004/05 and \$3.28 million in subsequent years. However, the black bag charging has already been factored into the budget and the incremental effect of the other proposals in resolution 2 have the potential to increase the rates by \$926,000 - \$1,281,000 (0.6% to 0.8%). The extra cost on rates enables this increase to be applied to new initiatives which are not currently in the budget forecasts. No doubt there are many worthwhile waste minimisation projects to which these funds could be applied but it appears to be contradictory for the Council to be seeking to expand and contract in the same time frame especially since the driver for the need to make savings is the additional costs being caused by the need for new solid waste disposal facilities.

There is a legal framework in the Local Government Act which requires that waste minimisation levies must be applied for the purposes of waste minimisation and therefore the Council must be able to illustrate that the funds raised by way of levy is applied properly. The Legal Services Manager advises that the Council has the legal power to meet the cost of the kerbside recycling from either rates, waste minimisation levies or a combination of both.

The Council policy enunciated in its July 2002 resolution, transfers the cost of kerbside recycling to rates funding. This is a policy issue and within the powers of the Council. As noted in the advice from the Legal Services Manager above it is also quite legitimate to treat kerbside recycling cost as waste minimisation. It is, after all, part of the chain of waste minimisation through recycling. It is also quite reasonable to fund the cost of kerbside recycling from these levies. This would more than soak up the projected surplus revenue from waste levies and save any further increase in the rates over and above that already forecast. It is in effect the way the budget is currently structured.

If the prime concern is accountability of the way that Waste Minimisation levies are spent the budget format can be easily structured to illustrate that all levies are being applied to legitimate waste minimisation purposes without the establishment of a fund. This is especially so if these projects exceed the amount of levies collected as is currently the case with household recycling collection treated as a waste minimisation project.

Until this time it has been consistent Council policy that dividends received from the Council's various trading companies should be treated as general revenues of the Council and as a consequence go to the reduction of general rates. The capital committed to ownership rights in the companies has been treated as an investment of the general capital of the Council. This is a sound policy stance.

An alternative argument can be mounted that the profits of Transwaste (which enable dividends to be paid) arise from the charges it makes which ultimately are paid by the waste generators either directly or through the solid waste budget. It could perhaps be contended that these charges are higher than if Council was the sole owner of the landfill facility because the involvement of commercial partners demands the need to make commercial level of profits. Return of the dividends to the solid waste budget would net out the Council's share of those profits. This argument is however flawed because it mixes up the investment and operating expenditure aspects of the Council's finances and does not recognise that the ratepayers as a whole made the investment in Transwaste. It also does not recognise the contribution which will be made to the Transwaste profits by those who will pay directly for their waste disposal through the black bag and commercial charges which are proposed. In addition it should be noted that the investment in Transwaste is an investment in the landfill aspect of solid waste rather than waste minimisation which is a separate initiative of the Council.

It is understood that consideration could be given in the future to a domestic putrescible collection. The estimated cost of this, which is not already provided in the budget forecasts, is approximately \$1 million. Since this would involve a household collection it raises the question of whether this should be funded from rates as proposed for kerbside recycling or from the 'surplus' waste minimisation funds. An inconsistency could arise whichever method of funding was chosen.

The Council has avoided, as far as possible, the separation of revenue streams in separate accounts and this has provided flexibility in its financial structure. There are only two exceptions being the Housing Account and the Dog Control Account. The first is a result of a longstanding desire to be able to prove that no rate funding is applied to this activity. The Housing Account is based on an historic precedent and is not necessarily in the best interest of efficient Council funding. The Dog Control Account is required by statute although it also requires input of rates funding and in spite of this has for many years been struggling to recover a deficit because of a reluctance to push up dog licensing fees abruptly to overcome previous bad years. Separate accounts often lead to an inefficient use of funds through 'jam-jar accounting' and should be avoided except in exceptional circumstances.

It is an important principle that the Council should regularly review the relative importance of all outputs in relation to one another. The establishment of a separate fund should not preclude this practice. The fact that an activity has a non rate funding stream should not exempt it from such reviews but there will likely be a temptation to do so in the pressure of dealing with the volume of annual plan reviews. While special waste minimisation levies must be applied to that purpose the levies can nevertheless be reviewed in the interest of those who are required to pay them. In respect of non levy income, such as dividends, consideration needs to be given as to whether that income can more effectively be applied for another purpose. It is far more straightforward for the Council to be diligent in reviewing its priorities and expenditure levels if they are not separated into separate funds.

### **OTHER POTENTIAL CHANGES**

The Budget Scrutiny process has identified the potential to reduce the cost of the Commercial Waste Minimisation Team by \$200,000 per annum. Under the present funding regime this would be a direct saving in rates. Under the dedicated separate funding of Waste Minimisation these savings would be available for other Waste minimisation initiatives with no reduction on rates.

The waste management levies are currently budgeted to reduce from \$12/tonne to \$6/tonne from 2004/05. However, under consideration is the possibility that the waste minimisation levy could remain at \$12 per tonne. This would provide an extra \$1.1 million of revenue per year from 2004/05. Under the current regime this could be used to fund the additional cost of kerbside recycling collections and thus reduce the rates. Under the dedicated fund scenario it would be available to add to the funds available for new waste minimisation initiatives shown in Table D above.

At the time the annual plan was prepared it was noted that due to the introduction of charging for black bags, provision would need to be made for funding rubbish bags in hardship cases and also for resources for additional litter and illegal dumping costs. These costs have been estimated to be \$40,000 and \$80,000 each respectively. These costs will need to be factored into forecasts in the next budget round and have not been included in the analysis used in this report as they are regarded as separate from the issue of a dedicated fund.

### **HOW WOULD A DEDICATED FUND WORK?**

While this report points out the implications of a dedicated fund, it is recognised that the Council resolution has expressed a preference for this to happen subject to an evaluation of the implications for the Council's budget. If the Council decides to confirm its decision in principle, then a dedicated fund would be operated as follows:

- A Waste Minimisation output would be established and revenues would be credited direct to this output. Expenditure on waste minimisation would be charged against the output. If at the end of the year there remained a surplus it would be transferred to a Waste Minimisation Development Fund and this fund (if in credit) would be the first call to fund any shortfall in subsequent years or to fund additional waste minimization projects. However, all projects funded should still be based on budgets approved as part of the annual plan or variations of the annual plan according to established Council procedures. If there is a shortfall in a year when there is no balance in the development fund then it should be operated in deficit (funded temporarily from general funds), which would need to be repaid from the development fund as a first call on that fund. This is comparable to the way in which the Council Housing fund is operated.

### **CONCLUSIONS**

There will be a significant adverse impact on the level of rating in the next few years if the proposal outlined in Clause 2 of the Council resolution of 16 July 2002 is proceeded with.

It is inappropriate for dividends from Transwaste to be earmarked specifically as revenue for a separate Waste Minimisation Fund. If however, the Council resolves to do that, then it should also expense the debt servicing costs related to funding the equity in Transwaste against the fund.

It is not appropriate in the ordinary course of financial management to insulate one particular activity from budget review and priority setting.

If the Council chooses to establish a separate Waste Minimisation Fund it should do so from 2004/05 to coincide with the introduction of black bag charging.

## OPTIONS

For the reasons outlined in this report it is not recommended that a separate dedicated Waste Minimisation Fund be set up. However, it is recognised that the Council has expressed an intention in principle to establish a separate Waste Minimisation Fund (subject to an evaluation of the implications on the budget) and it is therefore necessary for the Council to now make the decision following consideration of the facts and implications set out in this report. The Council does have two principal options open to it and these are summarised below:

1. Establish a separate Waste Minimisation Fund on the basis outlined above. Household recycling costs funded from rates and dividends and debt servicing remaining in the general accounts. This will have the consequence of increasing the rate requirement above that forecast in the Council's long-term financial forecasts by \$953,000 in 2004/05 and rising to \$1,281,000 in 2005/06 and beyond. In percentage terms this amounts to 0.6% to 0.8% increase in rates. The fund would have uncommitted amounts available for waste minimisation projects which are equivalent to what is added to rates.
2. Remain with the status quo and fund the household recycling collection from a combination of waste minimisation levies and rates. There would be no unbudgeted funds for waste minimisation projects. Any new initiatives would have to be bid for through the budget process.

## CHAIRMAN'S COMMENTS

1. The intention and substance of the motion adopted by the Council as part of its annual plan, set out on page 1 of this report, is set out as follows:
  - (i) To introduce a '**waster pays**' policy for the collection, transfer, and disposal of kerbside refuse, in accordance with the national waste strategy.
  - (ii) To do this **from the year 2004/05**, so as to coincide with the probable date on which the new regional landfill at Kate Valley would open.
  - (iii) To very substantially reduce the forecast rate increase as from 2004/05, a major driver for which was the significantly increased gate charges for the Kate Valley facility. The **rates reduction** from this decision is, as shown in the report, approximately \$4.5 million per year. **In considering this report, this fact needs to be kept firmly in mind.**
  - (iv) To put the issue into the context of the **solid waste strategy**, as represented by the current review of the statutory Waste Management Plan
  - (v) To establish, as policy, the payment of "**all waste minimisation operations**" from "waste levies (incentive and disincentive charges), not rates". This frees rates from the burden of funding "waste minimisation operations". **Note:** the term "operations" was used in 2(a) of the resolution to identify the distinction between waste minimisation (recycling) collections, and waste minimisation operations (being materials processing, research and development, special projects, and other operations directly concerned with the materials collected or with avoidance programmes). Clause 2(b) of the resolution refers to "**collections**" only of recyclables, and clause 2(c) refers to "**collection and disposal**" of refuse.

- (vi) To do this in a **more transparent and manageable** way than at present, through the establishment of a Waste Minimisation Fund to facilitate the **'unbundling'** of funding between 'operations' and 'household services' (kerbside collection). The fund would be the only source of funds for "waste minimisation operations" and would be funded from the waste stream itself (the waste levies), while the collection service to households would be paid by households. Additional initiatives for waste minimisation, eg Council composting of putrescibles, and RMF business development needs, can be funded from this fund, which allows accumulation of income to occur for such purposes (not currently possible).
  - (vii) To fund kerbside collection of recyclables from rates to generate an **incentive** to use the service.
  - (viii) To fund kerbside collection (as well as transfer and final disposal) of refuse from 'waster pays' charges to generate a **disincentive** to use the service.
  - (ix) To introduce these changes together, **as a package**, so that the cost of introducing the above unbundling, and a more transparent and manageable system, (about \$1 million per year) is set-off against the rates saving of about \$4.5 million per year, thus conferring a net rates saving of about \$3.5 million per year (see bottom line of Table B).
2. Table C is labelled "Impact of Proposal on Rates". The bottom line of this table shows that the "total additional cost on rates" is about \$1 million per year (about half of this sum for 2004/05 because it is not for the a full year). This "total additional cost on rates" is actually the difference between what has been put in the current annual plan (which has already incorporates the waster-pays revenue from 2004/05, ie a rates saving of about \$4.5 million) and the cost of establishment of the Waste Minimisation Fund (which would occur in the same year but which was not brought into the current annual plan forecast for 2004/05). As stated above, the intention of the council resolution was to introduce both the waster-pays revenue and the waste minimisation fund at the same time, ie as a package. Therefore while the "impact of proposal on rates" is an increase of about \$1 million per year by comparing the current annual plan (\$4.5 million saving from waster-pays included) with the 2004/05 forecast, the "impact of proposal on rates" of the whole package (\$4.5 million saving from waster-pays, less about \$1 million dollars per year to establish the Waste Minimisation Fund) is in fact a positive impact on rates - saving about \$3.5 million per year from 4004/05.
3. The staff report says, under the heading "Discussion of Issues", in relation to the targeted rates saving of \$10 million by 2005/06, that "it appears to be contradictory for the council to be seeking to expand and contract in the same time frame especially since the driver for the need to make savings is the additional cost is being caused by the need for new solid waste disposal facilities". In fact, when viewed as a package (as clearly intended by the council resolution quoted on page 1 of this report), the first contribution to the targeted rates saving of \$10 million is achieved by this proposal to the tune of about \$3.5 million. Furthermore, as also stated above, the restriction of funding for waste minimisation operations from the waste minimisation fund, removes that cost from rates altogether. It should also be noted in this context, that recent surveys of residents shows clearly that a significant majority (65%) of people are prepared to pay for their refuse bags (waster-pays) if:
- (a) recycling is expanded, and
  - (b) the recycling bin is supplied 'free' (ie kerbside collection paid from rates).
4. At the top of page 5 of the staff report, it is stated that the "resolution transfers the cost of kerbside recycling to rates funding. This is a policy issue and within the powers of the council. As noted in the advice from the legal services manager above it is also quite legitimate to treat kerbside recycling cost as waste minimisation" and that "it is also quite reasonable to fund the cost of kerbside recycling from these levies". Where the words "kerbside recycling" are used they should be read as 'kerbside recyclables collection'. The intention of the council resolution is to identify the collection activity as primarily a service to the household payable (for incentive purposes) from rates. Recycling itself (ie materials processing, and research and development activities) is paid for from a combination of the sales of secondary materials created from the recyclables, and council contract payments to the RMF. While it is indeed legally possible to pay for recyclables collection from the waste minimisation fund, it is:



- (a) not appropriate to do so when this activity as primarily a service to households.
- (b) not feasible to do so when there would never be enough money in the fund (see *Table D: \$1.1 million p.a. from 2004/05, or double this is the waste minimisation levy remains at \$12 per tonne instead of being reduced to \$6 per tonne*) to meet the collection cost (see *Table C: \$3.1 million per year from 2004/05*). In other words, the payment of recyclables collection from the waste minimisation fund would permanently extinguish it, leaving nothing for recycling operations (the purpose of its establishment), thus making its creation pointless. Fundamentally, the real issue is the sustainable management and funding of waste minimisation operations - it is not just a simple matter of legal powers or accounting practice.

More important still, it is now clear that the majority of residents will embrace waster-pays for refuse bags if they can be assured that recycling is expanded (so that more can be put into the 'free' recycling bin, and less into the waster-pays refuse bag). Recycling cannot be expanded unless the capacity to do so is increased. This depends on research and development and improved materials processing. This is what it is intended to fund from a secure funding source in the form of the waste minimisation fund. This objective is self-defeated by attempting to pay for recyclables collection from the waste minimisation fund.

5. The council resolution 2 (a) specifies that the Transwaste dividend be paid into the waste minimisation fund as well as the waste levies. The staff report states that "it has been consistent council policy that dividends received from the council's various trading companies should be treated as general revenues of the council and as a consequence go to the reduction of general rates". While Transwaste is a trading company (37.5% CCC shareholding) the governance arrangements for it are necessarily different from other council trading enterprises which are under CCHL. The primary reason for this is to ensure that Transwaste's activities are integrated with other solid waste operations and functions. It is therefore not inappropriate for the Transwaste dividend to be seen in a different way than the dividend the stream paid indirectly to the council via CCHL. The Transwaste dividend can quite properly be diverted to other solid waste activities in this context, by way of payment to the waste minimisation fund. In addition, the council has been accused of being involved in the commercial joint venture represented by Transwaste Canterbury Ltd in order to make money, and that this is inconsistent with the council's waste minimisation operations. The proposal to pay the Transwaste dividend into the waste minimisation fund will explode this accusation, while at the same time adding much-needed income to what will surely be an inadequate fund for future waste minimisation operations, if we are to have any chance of reaching the targets set in the waste plan.
6. With regard to the other comments made in the staff report concerning the Transwaste dividend, while it is true that the council has provided part of the capital for Transwaste, and that it is intended that the dividend cover the cost of capital, it should also be noted that for approximately three years, the council has been, and will be, collecting very significantly more in landfill gate charges than it is required to spend on running the landfill. The resulting surpluses, running into millions of dollars, have provided for the capital required to invest in the Transwaste joint venture and other capital requirements for solid waste operations. The staff comments on this aspect are therefore inappropriate, or at least incomplete.
7. The staff report refers to plans for a future domestic putrescibles collection, and states that "it raises the question of whether this should be funded from rates as proposed for kerbside recycling or from the surplus waste minimisation funds. Any inconsistency could arise whichever method of funding was chosen". This is incorrect. There is no inconsistency if the collection of putrescibles from the kerbside is paid from rates, just like the other recyclables, and the processing of the putrescibles is paid for from the waste minimisation fund, just like the processing of other recyclables.
8. The staff report correctly points out that "the council has avoided as far as possible the separation of revenue streams in separate accounts and this has provided flexibility in its financial structure. There are only two exceptions being the Housing Account and the Dog Control Account". I would say that these exceptions tend to show that well justified exceptions are not exceptional. I would also point out that there is a sound statutory basis for the establishment of a waste minimisation fund, in that it is clearly a requirement of the Local Government Act that a council may only charge incentive and disincentive charges if those charges are justified in its statutory waste plan and the funds are applied accordingly. In the past, the council has been remiss in this respect. The waste minimisation fund will correct this, and improve management, accountability, and statutory compliance by:

- (a) Transparently showing the source of funds and the application of funds in accordance with the waste plan.
- (b) Avoiding the confusion resulting from the intermingling of rates and waste levies for specified functions pursuant to the waste plan.
- (c) Enabling the accumulation of waste levies in the fund (currently not possible) to fund the capital for future initiatives.
- (d) Assist in the management, prioritisation, and timing of waste minimisation projects and programmes via the annual plan process.

While the avoidance of "jam jar accounting" is a sound policy, there certainly are justifiable exceptions - this is one of them!

9. The staff report moves on to say that the council "should regularly review the relative importance of all outputs" and correctly points out that "a separate fund shall not preclude this practice". It goes on to say that the activity (the waste minimisation fund) "should not be exempted from... reviews but there will be a temptation to do so in the pressure of dealing with the volume of annual plan reviews". This is a cynical and unrealistic view. The reality is that there will be much work to do by both the Sustainable Transport and Utilities Committee and the budget review working party to ensure that the many demands on the fund are properly prioritised and justified. For example, the RMF contract requires the business development component to be negotiated and agreed every year via the annual plan process. The funding for this would come from the waste minimisation fund. This is in contrast to a relatively much easier task for both the Housing Account and the Dog Control Fund. The report also says that "it is far more straightforward for the council to be diligent in reviewing its priorities and expenditure levels if they are not separated into separate funds". The reverse is true: it is much more straightforward for the council to be diligent in carrying out its responsibilities set out in the waste plan and in reviewing its priorities for waste minimisation initiatives and programmes, if those activities are considered together and managed in an integrated way in a separate fund. Further, there is an additional discipline in the process, when these initiatives and programmes can only, as a matter of policy, be funded from the waste minimisation fund, in which the available funds (including accumulations) will have to be matched to the outputs required. It will also be positive from the public point of view (the public has consistently put waste management and recycling at the top of the survey list requiring the council to do more) if the council is seen to be making adequate ongoing provision to implement the waste plan, isolated from the competing demands of rates.
10. The matter raised at the bottom of page 5 of the staff report regarding the savings to rates in the reduction of the cost of the commercial waste minimisation team (Target Zero), is specifically irrelevant in that these savings will have been made well before the waste minimisation fund has been established. If it is an example of something, then it also seems generally irrelevant for immateriality to the issues raised in the report.
11. I agree with the comments made in the staff report under the heading "how would a dedicated fund work?"
12. Under the heading 'Conclusions' in the staff report, it is stated that "there will be a significant adverse impact on the level of rating in the next few years if the proposal outlined in clause 2 of the council resolution... is proceeded with". This is obviously and grossly incorrect. It is wrong to isolate clause 2 of the resolution, as though clause 1 did not exist. It is very obviously the council's intention that clauses 1 and 2 are part of one package to be implemented in the same year (2004/05). The result of clause 1 is a saving to rates of approximately \$4.5 million per year. The result of clause 2 (especially funding of recyclables collection from rates) is an added cost of approximately \$1 million per year. The net result is a saving to rates of approximately \$3.5 million per year from the package as a whole.
13. Also under the heading 'Conclusions', it is stated that if the council resolves to pay the Transwaste dividend into the waste minimisation fund "then it should also expense the servicing costs related to funding the equity in Transwaste against the fund". This is not appropriate. As I have pointed out above, the council will have collected far more in waste charges than is required to run the landfill, over three years. If the staff comments are valid, then following that logic, the surpluses collected in waste charges should be paid into the waste minimisation fund - but this too is inappropriate. It is quite appropriate in the circumstances for the surplus collected in waste charges currently, to be regarded as having provided the capital for Transwaste Canterbury, thus justifying the payment of Transwaste dividend into the waste minimisation fund. In the end though, these arguments are peripheral and academic - the point is that the council has good reason (set out earlier in these comments) as a matter of policy to pay the Transwaste dividend into the fund to be used exclusively for waste minimisation purposes.

14. Contrary to the statement in 'Conclusions' that "it is not appropriate in the ordinary course of financial management to insulate one particular activity from budget review and priority setting", it is not only appropriate, but indicated (although not specifically required) by the LGA requirements concerning waste plans, to separate waste minimisation operations and programmes into a dedicated fund to improve transparent and effective management in the application of incentive and disincentive charges collected under Christchurch's waste plan.
15. Regarding the description of the two options near the end of the staff report, option 1 should not refer to "household recycling costs funded from rates and dividends and debt servicing remaining in the general accounts". It should refer to 'kerbside recycling collection costs funded from rates, and Transwaste dividends and all incentives and disincentive charges paid into the waste minimisation fund, and debt servicing of Transwaste capital contributions remaining in the general accounts'. While the remaining description of option 1 is correct in terms of the additional rates required over what is currently forecast in the annual plan, it is to be remembered that the annual plan already incorporates the rates reduction of \$4.5 million per year (the waster-pays portion of the package), so that in fact, there is a net rates saving overall of approximately \$3.5 million resulting from the package as a whole. The description in option 1 of the effect on rates is misleading in this respect.
16. With regard to the description of option 2, it is not accurate to describe the funding of the recyclables collection "from a combination of waste minimisation levies and rates". If there is no waste minimisation fund, the incentive and disincentive charges are paid into general funds with which they become intermingled, and it is not possible to identify them as having been paid for any purpose at all, since without a dedicated fund, all that is possible is for the council's accounts to show what has been spent on waste minimisation and what has been collected in incentives and disincentive charges - in particular, it is not feasible to differentiate between recyclables collection and waste minimisation operations.

## CONCLUSION

The council resolution comprises a package set out in clauses 1 and 2. The package sets off the costs of implementation of clause 2 (approximately \$1 million per year) against the rates reduction of approximately \$4.5 million per year resulting from the waster-pays proposal in clause 1. The net result is a saving of approximately \$3.5 million in rates as from the 2004/05 year. I believe that it is correct to say that the two parts of the resolution are dependent upon each other, and amount to a social contract, ie residents would pay for their refuse bags on the basis that the recycling bin continued to be free (rates funded) and improvements and expansion to waste minimisation operations (especially recycling development) would be funded by the waste stream itself (incentives and disincentive charges) via the waste minimisation fund.

If the waste minimisation fund (clause 2 of the resolution) is not now established, then it would not be appropriate to proceed with the waster-pays proposal contained in clause 1 of the council resolution either. If the two parts of the package are not implemented as envisaged in the council resolution, then there will be a much larger rates increase 2004/05 to the tune of approximately \$4.5 million. Accordingly, if the waste minimisation fund is not established as envisaged in the council resolution, as part of one whole package, then I will feel reluctantly obligated to move also for the abandonment of the waster-pays policy notwithstanding the large rates increase which would result.

### Staff

**Recommendation:** That the Council make a choice between the two options listed above.

### Chairman's

- Recommendation:**
1. That the above report be received in satisfaction of clause 3 of the Council resolution of 16 July 2002.
  2. That the proposals set out in clauses 1 and 2 of the resolution, as a package, be confirmed, subject only to the conditions relating to comprehensive public consultation and information set out in clause 1(a) and the revision of the waste plan set out in clause 1(b).