

Chairperson and Committee Members
CORPORATE BUSINESS COMMITTEE

17 FEBRUARY 2011

Meeting Status: Public

Purpose of Report: For Decision

REALLOCATION OF PLANT RENEWAL ACCOUNT

PURPOSE OF REPORT

- 1 To consider and approve the transfer of surplus funds in the plant purchase and renewal account, including to the offset the deficit in the solid waste account.

SIGNIFICANCE OF DECISION

- 2 This report does not trigger Council's Significance Policy.

BACKGROUND

- 3 The Council runs a Plant Purchase Renewal Account which is currently in surplus and a Solid Waste Activity which is currently in deficit (see below for a detailed explanation). This outlines options to use the Plant Purchase Renewal Account to reduce this deficit.

CONSIDERATION

Issues and Options

- 4 The Plant Purchase Renewal account is used to fund the purchase of motor vehicle and plant. Its main source of revenue is from the depreciation charged against the individual plant accounts which is then used to fund the replacement of those vehicles at the end of their useful lives.
- 5 Under the previous Motor Vehicle and Plant Replacement Policy, petrol vehicles were replaced when they reached 70,000 kilometres and diesel vehicles at 100,000 kilometres. This Policy was reviewed and the petrol vehicles are now replaced at 100,000 kilometres and diesel vehicles at 150,000 kilometres.
- 6 The main reason for the significant increase in the Plant Purchase Renewal account balance over the last 2 years has been the fact that the vehicle sale price achieved has been well in excess of the book value. Also in some years, the vehicle replacement expenditure has been significantly below the annual depreciation recovered.
- 7 Based on the change to the Motor Vehicle and Plan Replacement Policy, the projected total vehicle and plant purchases over the next three years are as follows:
\$840,000 for 2010/11 year
\$585,000 for 2011/12 year
\$590,000 for 2012/13 year

- 8 With the change to the Motor Vehicle Replacement Policy which has also resulted in a lower level of depreciation being charged, vehicles are being held longer which means that the Plant Purchase Renewal Fund's balance can be maintained at a lower rate level.
- 9 For the Plant Purchase Renewal Fund to have sufficient funds to replace Council's vehicle and plant as they need renewing, it needs to have a balance at the end of this year of \$650,000.
- 10 The forward forecast of our Plant Purchase Renewal account, based on our forecast Vehicle and Plant Replacement Programme, is as follows:

Plant Purchase & Renewal Fund	2010/11	2011/12	2012/13
Opening Balance	-2,080,000	-1,935,000	-1,950,000
Vehicles/Plant Replacement Costs	840,000	585,000	590,000
Depreciation	-565,000	-600,000	-610,000
Interest	-130,000	-	-
Closing Balance	-1,935,000	-1,950,000	-1,970,000

- 11 Based on the above forecasts, the Plant Purchase Renewal account will have \$1,285,000 of funds in excess of the \$650,000 minimum requirement as at 30 June 2011.
- 12 The Solid Waste account has accrued operating deficits over the last two financial years and the accumulated annual deficits at the end of the last two years are as follows:

	Operating Deficit	Accumulated Deficit as at 30 June 2010
2008/09 year	574,804	574,804
2009/10 year	338,478	913,282
Projected 2010/11 year	120,000	1,035,282

- 13 This paper proposes an option for eliminating this deficit from the solid waste account.
- 14 The reasons for the Solid Waste account deficits include:
- one-off costs due to the commencement of the kerb side recycling service before the Otaihanga Resource Recovery Station was completed, due to Council wanting to start the service early This required additional funding for a temporary processing site;
 - the need to carry the additional costs of one of the partners of the Kerbside Recycling contracts until final agreement was reached. In addition, Council was also covering the costs of both kerbside recycling and recycling drop off stations throughout the District until the recycling drop off sites were phased out over time.
 - continued operating costs associated with the Otaihanga landfills that were not budgeted for. The lack of detail and understanding of historical contracts and associated costs.

- the high operating costs associated with the Otaki transfer station which had previously been covered from the Otaihanga landfill revenue
 - charges for wheelie bin rubbish disposal (collected alongside Council's bag collection) were not matching the actual costs and had not been increased for several years.
- 15 Many of these problems were the result of a lack of resources to ensure Council solid waste services were consistent with the wider solid waste economy which is volatile and very subject to market forces. In some cases pricing and contracts had not been reviewed or updated for some time. Over the last four years, these structural and pricing issues have been resolved through the development of a range of new services and contracts. The recent appointment of a Solid Waste Manager will ensure these matters are appropriately managed into the future.
- 16 The operating deficits arising from each year's solid waste operations were reported to the Corporate Business Committee each quarter in the quarterly financial report, together with the reasons and what action was being taken to reduce the annual operating deficits.
- 17 The solid waste operating costs are solely funded from user/ disposer charges with no funding from rates. Solid waste charges include refuse bag charges, greenwaste charges, Otaki Transfer Station disposal fees. Council's bags are currently picked up by a wheelie bin operator and the cost of the wheelie bin disposal costs is on-charged to the collector. All these charges need to be set at a level that recovers the costs of those solid waste operations.
- 18 For the 2010/11 year the solid waste fees and charges are predicted to cover all the costs except for approximately \$120,000; this deficit is because some of the charges were adjusted during the year.
- 19 Based on the draft solid waste account budgets and proposed increase in charges which will be discussed during the Draft Annual Plan workshops, it is projected that for the 2011/12 year the solid waste account will break even.
- Use of the Plant Purchase and Renewals Fund*
- 20 To clear the projected accumulated solid waste deficit as at 30 June 2011, this account would need funds of \$1.035 million. A proposed source of the funds is the Plant Purchase and Renewal account which has accumulated surplus funds over the past two years.
- 21 The other alternative is to fund the \$1.035 million solid waste operating deficit from rates. This projected deficit represents a 2.5% rate rise in any one year if the deficit was cleared as a charge against rates. As important as the issue of immediate rates impact is that this would not comply with Council's current Revenue and Finance Policy for solid waste which states that solid waste operating costs are met from user charges. A change to the Policy would require an amendment to the LTCCP.
- 22 Rates funding of solid waste services is not recommended as it is important to have clear price signals around solid waste disposal. The innovative business model for kerb-side recycling which has the private sector paying for half the service is reliant on carefully calibrated bag charges within the overall

collection market. Rates funding would undermine this model and could result in all costs being borne by Council.

- 23 There is no other source of funding for clearing the Solid Waste account deficit apart from increasing the refuse bag charges and the charges the Ōtaki charges for greenwaste and also the charges at Ōtaki Transfer Station. This is unsustainable as these services would then be out of line with the market, resulting in reduced revenue.
- 24 Therefore it is proposed that:
- \$1.035 million of surplus funds in the Plant Purchase and Renewal account be used to fund the accumulated deficit in the Solid Waste account.
 - Transfer the remaining surplus balance of \$250,000 in the Plant Purchase Account to rates credit account.
 - As from 1 July 2011, the interest on capital charged to each plant operating account will cease as there is sufficient depreciation levied each year to fund annual vehicles and plant purchases without this additional cost of capital charge.

Financial Considerations

- 25 The financial considerations are covered within the report.

Legal Considerations

- 26 There are no legal considerations in relation to this report.

Consultation

- 27 No consultation is required.

Policy Implications

- 28 There are no policy implications.

Publicity Considerations

- 29 A press release will be prepared on this issue.

Delegations

- 30 The Corporate Business Committee has delegated authority to consider this report under the following delegation in the Governance Structure, Section B.3:

Annual Planning

7.2 - Authority to re-allocate funding already approved by the Council as part of the Annual Budget process provided that the re-allocation of funds does not increase the overall monies committed in the budget and is consistent with the existing LTCCP strategic and policy framework.

RECOMMENDATIONS

- 31 That the Corporate Business Committee approve:
- a) the reallocation of \$1.035 million of funds from the Plant Purchase and Renewal account to the Solid Waste account to clear the accumulated deficit of \$1.035 million in the Solid Waste account;
 - b) the transfer of \$250,000 from the Plant Purchase and Renewal Fund to the Districtwide General Rates Account; and
 - c) that as from 1 July 2011 the plant cost of capital charge is not applied to the operating costs of individual plant items.

Report prepared by:

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