

23 Sept 2021

General Manager
Wingecarribee Shire Council
PO Box 141
Moss Vale NSW 2577

Dear Ms Miscamble,

Domestic Waste Management Reserve Review

In accordance with a request from the Chief Finance Officer dated 23 August 2021, we have conducted an independent review of the Domestic Waste Management Cash Reserve to ensure that the potential requirement to increase the domestic waste management annual charge is considered in the lead up to the new contract period.

BACKGROUND

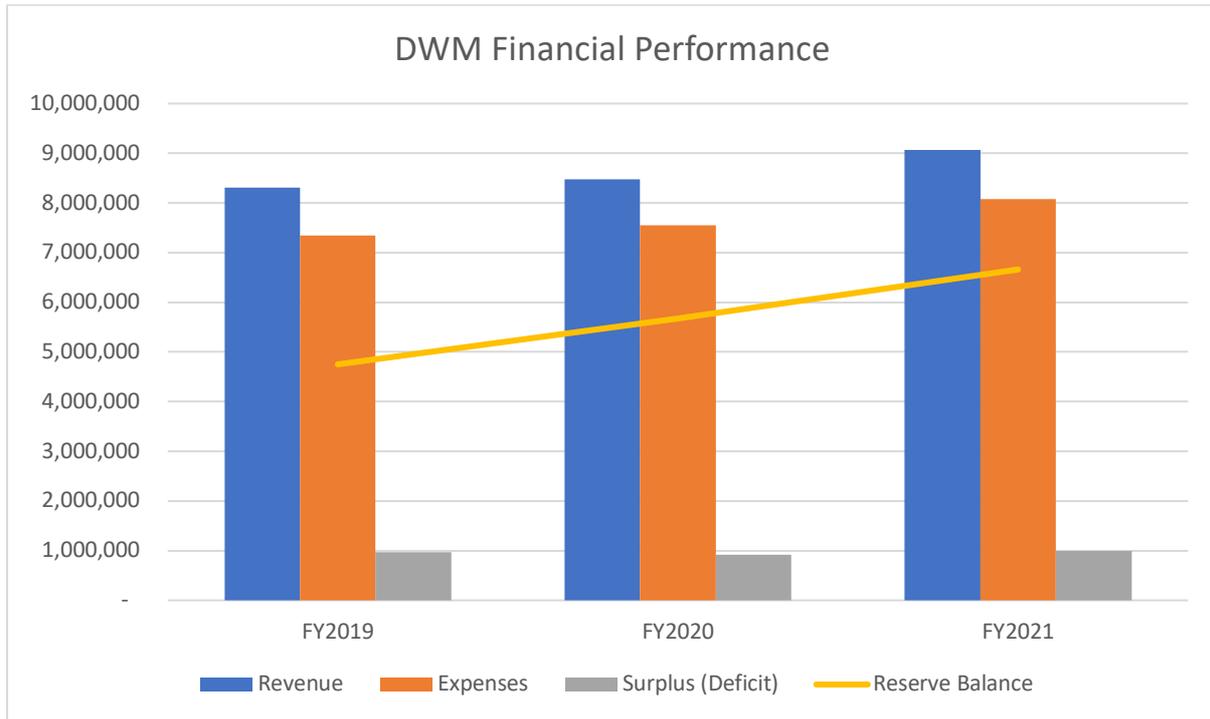
At the Council meeting held on 28 July 2021, it was resolved that Council provide a Bulk Waste Kerbside Collection Service (BWKC) at a cost of \$1.437m, to be funded from the existing Domestic Waste Management Cash Reserve (Reserve). The resolution was subject to the commissioning of an independent review of the Reserve to ensure that there is adequate funding without resorting to increasing charges beyond existing plans and before the expiration of the existing contract period ending June 2024.

The Local Government Act 1993 provides in sections 496 & 504 that the domestic waste management services (DWM) of the council must be financed by a specific annual charge and not subsidised ordinary rates. Section 504 of the Act clearly states that the income the council may raise from charges for DWM services must be calculated to not exceed the "reasonable costs" to the council of providing the services.

"Reasonable Cost" may include a surplus which is planned to be utilised on future capital expenditure or anticipated higher service delivery costs or in a reduction to the charge. Such surpluses must be set aside as an external restriction (Reserve).

DWM FINANCIAL PERFORMANCE

Over the last three financial years, Council has achieved positive DWM surpluses which have resulted in the Reserve increasing from \$3.78m as at 30 June 2018 to \$6.6m as at 30 June 2021 (2021 unaudited).



Surpluses have averaged 11.1% of revenue over the last three years.

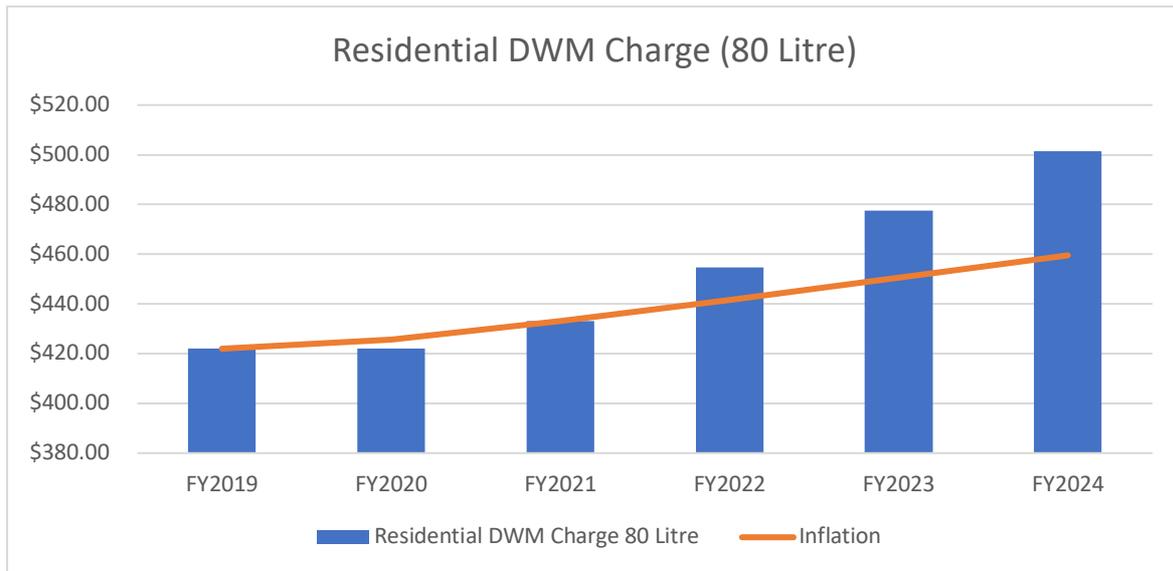
As Council outsources both collection and disposal, there is limited need to build substantial remediation or capital replacement Reserves. Council's reason for building the DWM Reserve is to counter the expected increase in disposal costs with the awarding of a new contract from 1 July 2024. The utilisation of surpluses for this purpose is allowable under the regulations.

Council is of the view that new Government regulations, FOGO collection, waste export restrictions and introduction of new technologies all point to significant cost increases in future years, thus the need to grow the Reserve to even out such future costs over a longer period.

There are also clauses in the existing contract that allow the contractor to vary disposal charges if there are regulatory changes that significantly impact on disposal costs, so there is potential for increases prior to the contract completion date.

FY2022 BUDGET & LONG TERM FINANCIAL PLAN

With the adoption of FY2022 Operational Plan, Council resolved to increase DWM charges by 5%. The Long Term Financial Plan (LTFP) also assumes 5% increases for FY2023 and FY2024. The impact of these charges is demonstrated in the following graph.



The FY2022 Operational Plan states:

“The increase (5%) reflects the current operational costs of Council’s waste collection service and ensures the reasonable cost recovery of waste service through the domestic waste charge, which is line with the Office of Local Government’s Rating and Revenue Raising Guidelines.

The increase also takes into consideration the upcoming changes in the regional waste disposal contract, which will come into effect in 2024. Council anticipates that the contract will result in a significant increase in waste disposal costs, and as such is aiming to minimise the impact of this increase over a four to five-year timeframe”.

The LTFP underlying growth assumptions are based on the growth projections in the FY2021 Operating Plan. This plan assumed an increase of only 1.4% in occupied dwellings, however the actual revenue for FY2021 exceeded budget by 7.6%. Accordingly, we are of the view that the LTFP projections FY2022 to FY2024 are understated.

In the following table we have adjusted the LTFP numbers by setting the actual result for FY2021 as the base. The LTFP also included a figure of \$2.32m for bulk waste kerbside collection. We have modified this amount to reflect the revised contract amount of \$1.437m. These amendments have been reviewed and confirmed by the Acting CFO.

As a result of these amendments the Reserve will grow by a further \$800,000 over the original LTFP projections to FY2024.

DWM UPDATED PROJECTIONS	FY2021 Actual	FY2022 Projection	FY2023 Projection	FY2024 Projection
Revenue	9,065,916	9,646,245	10,259,805	10,910,516
Expenses	8,075,688	9,674,202	9,867,686	10,065,040
Surplus (Deficit)	990,227	(27,957)	392,119	845,476
Surplus %	10.9%	-0.3%	3.8%	7.7%
Reserve Balance	6,659,608	6,631,651	7,023,770	7,869,246

If the LTFP assumptions of a 5% increase in charges, is confirmed by future adopted operating plans, Council will be in a position to both fund the BWKC service and grow the Reserve. In fact, the 5% increase in DWM charges is sufficient to cover the cost of the BWKC service without resorting to utilising the Reserve. It is important to recognise that these projections assume that there will be no variations to the disposal contract between now and the end of FY2024.

As indicated above, it is expected that there will be a substantial increase in disposal costs post FY2024. Should disposal costs increase by say 20%, without any offsetting increases in DWM charges, it would take approximately seven years to fully utilise the Reserve. A 25% increase would utilise the Reserve in approximately 5.75 years. (*This projection assumes only one BWKC collection per annum*).

Recommendations

It is recommended that Council consider the following:

1. The LTFP DWM assumptions should be revisited, after first the BWKC cycle is accomplished, to ensure that the expected growth in the Reserve is appropriate.
2. In adopting future increase in DWM charges, Council should be mindful of the "Reasonable Cost" constraints imposed by regulation and ensure that there is an appropriate balance between the cost to current residents versus the potential cost increases for future residents.

Acknowledgement

Our review has been conducted with the assistance of the Council's Acting CFO and Manager Business Services. We would like to thank them both for their valuable assistance in providing the necessary information and documentation during the course of the review and responding to queries in a timely manner.

We would be happy to respond to any questions in relation to this report.

Yours faithfully



Robert Finch
Finch Consulting