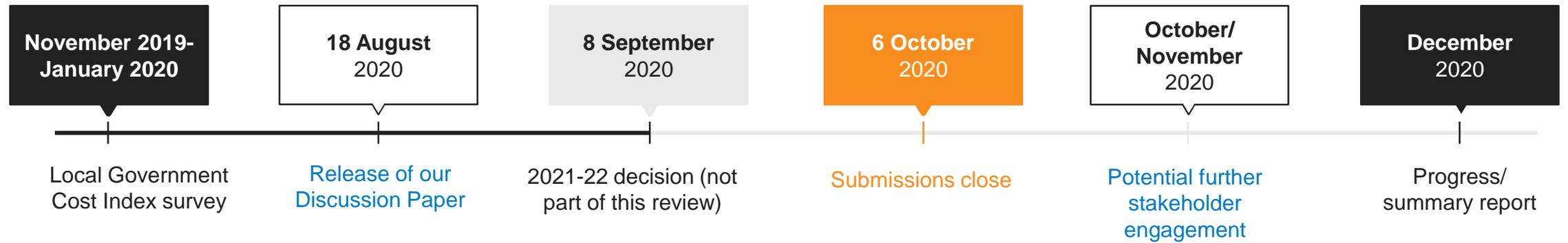


REVIEW OF LOCAL COUNCIL DOMESTIC WASTE MANAGEMENT CHARGES

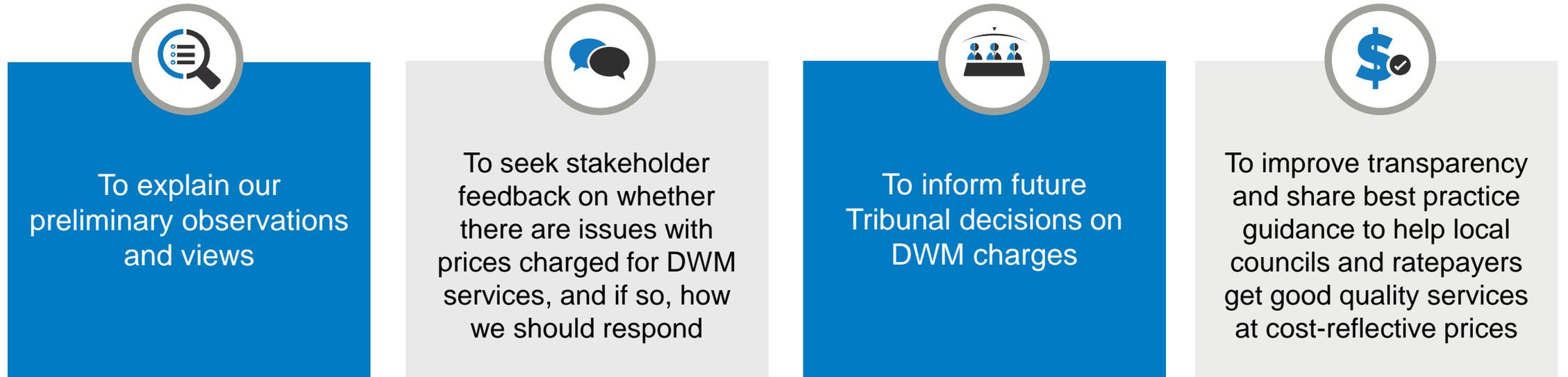
Agenda

- ▼ Introduction
- ▼ Presentation on Discussion Paper
- ▼ Question & answer session

This Discussion Paper is the first part of the review



The objectives of our review include:





Power to act

- ▼ 2010 delegation to cap council rates and DWM charges

Why act now

- ▼ OLG are currently not auditing DWM Charges
- ▼ We have noticed DWM charges rising considerably in recent years

What we have found so far

DWM charges

In the four years of available data from 2014-15 to 2017-18, DWM charges across NSW appear to have risen by:

- ▼ more than double (123%) the rise in the rate peg
- ▼ 178% more than inflation

Supply market concentration

Top 3 contractors market share:

- ▼ 69% kerb-side collection
- ▼ 70% material recycling
- ▼ 98% landfill (tips)

We want to explore if regulation is actually needed

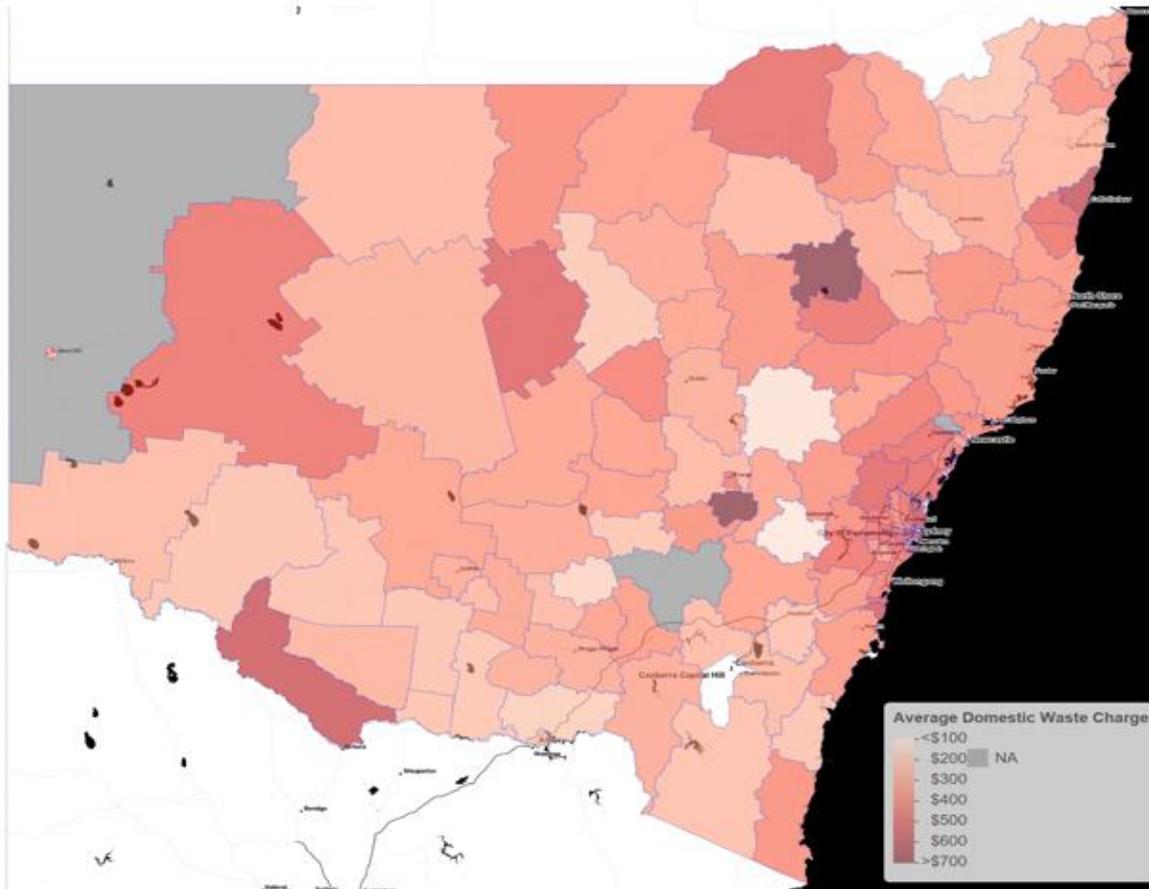
- ▼ If stakeholders consider greater oversight or regulatory intervention is necessary, we would favour a less prescriptive approach that focuses on information and guidance.
- ▼ A proposed regulatory approach may include developing, in consultation with stakeholders:
 - Pricing principles for DWM charges, to provide guidance to councils in setting DWM charges
 - A reporting, monitoring and benchmarking regime to develop a publicly available comparison tool comparing DWM charges for equivalent services across comparable councils
 - A publicly available centralised, comprehensive register of successful tender contract values for DWM services across councils.

Potential key issues

- ▼ Wide variation in services and charges
- ▼ Domestic waste charges are rising
- ▼ Some councils appear to be in surplus
- ▼ Outsourcing and procurement
- ▼ Cost allocation

There is wide variation in DWM services and charges

Average DWM charge by NSW local council area (2017-18)



- ▼ There is wide variation in:
 - the number and type of DWM services provided across councils
 - DWM charges across councils.
- ▼ In 2017-18, across all councils, the average annual DWM charge was about \$388.
- ▼ We recognise that variability in charges across councils may reflect a number of factors.
- ▼ However, there may be scope for greater transparency in DWM charges & services across councils.

Note: Average DWM charges and average residential rates presented do not include inflation.

Data source: OLG time series data (<https://www.olg.nsw.gov.au/public/about-councils/comparative-council-information/your-council-report/>), and IPART analysis.

Allocation of overheads

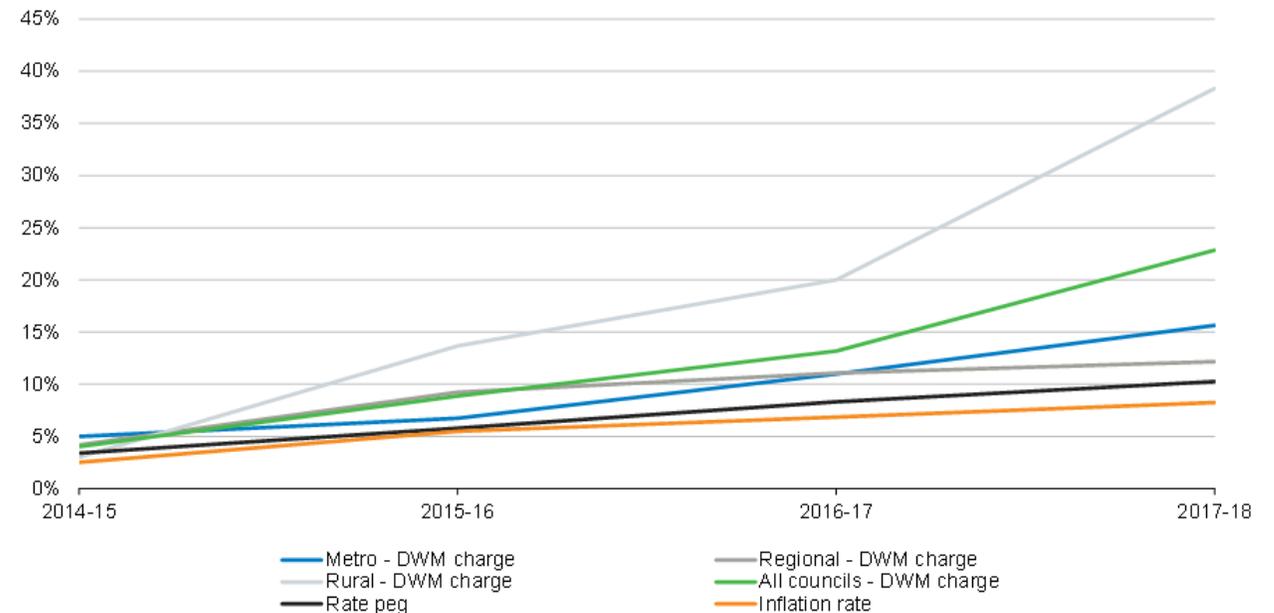
- ▼ Some councils appear to be allocating overhead expenses that contribute more than half of total DWM costs.
- ▼ The basis of these cost allocations is not necessarily apparent.
- ▼ For councils responding to the LGCI survey, overhead expenses (on average) represent about 59% of DWM costs, whereas for residential rates expenses, overheads represent only 41% of expenses.
- ▼ For metropolitan councils, the proportion of overhead expenses appears comparatively higher.

	Overheads as % of reported	
	DWM expenses	Residential rates expenses
Metropolitan	65%	43%
Regional	47%	37%
Rural	45%	33%
All reporting councils	59%	41%

DWM charges are rising

- ▼ Our preliminary analysis indicates that, in general, DWM charges appear to be increasing faster than the rate peg and inflation.
- ▼ In the four years of available data from 2014-15 to 2017-18, the weighted average of DWM charges across NSW appears to have risen by:
 - more than double (123%) the rise in the rate peg
 - 178% more than inflation.

Cumulative % increase in DWM charges, inflation & rate peg, 2014-15 to 2017-18



Note: Average DWM charges and average residential rates presented do not include inflation.

Data source: OLG time series data (<https://www.olg.nsw.gov.au/public/about-councils/comparative-council-information/your-council-report/>), and IPART analysis.

Some councils appear to be in surplus for DWM services

- ▼ Some councils appear to be in surplus, having over-recovered the costs of DWM services for DWM services.
- ▼ Of councils responding to the LGCI survey, 75% reported a surplus for DWM services, averaging \$1.6 million (about \$81 million in aggregate) for 2018-19.
- ▼ We note that most councils reporting a surplus (94%) indicated they have plans to use it for capital replacements/works, site remediation and/or as a 'precautionary reserve'.

	Metro	Regional	Rural	All reporting councils
Surplus				
Number reporting surplus	25	12	13	50
% reporting surplus	89%	60%	68%	75%
Sum of surplus (\$2018-19, '000)	56,569	17,141	7,144	80,854
Average surplus (\$2018-19, '000)	2,263	1,428	550	1,617
Deficit				
Number reporting deficit	3	8	6	17
% reporting deficit	11%	40%	32%	25%
Sum of deficit (\$2018-19, '000)	-1,086	-5,482	-432	-7,000
Average deficit (\$2018-19, '000)	-362	-685	-72	-412

Potential barriers to effective competition & procurement

- ▼ Many councils either fully or partially outsource the provision of DWM services (87% of councils responding to our LGCI survey) with a higher proportion of metropolitan councils appearing to outsource compared to rural councils.
- ▼ It is not clear that there is effective competition in the market for procuring such services & there may be barriers to effective procurement.
- ▼ There are a number of potential sources of market inefficiency in the DWM market, as well as barriers to effective procurement including:
 - the existence of a relatively concentrated market
 - barriers to entry for new entrants (such as high start-up and capital costs)
 - information asymmetries varying procurement capabilities & practices.
- ▼ Therefore it is not clear that contractor & consultancy costs reflect the reasonable & efficient cost of out sourced DWM services.

Potential options going forward

- ▼ Potential responses
- ▼ Our proposed approach
 - Reporting and benchmarking
 - Pricing principles

We want to explore if regulation is actually needed

While IPART continuing to not limit percentage variations for DWM charges is an option, if greater oversight or regulatory intervention is necessary for DWM charges, there are a number of other potential options, which may include:

- ▼ Less intrusive regulation, such as:
 - Developing a set of pricing principles for setting DWM charges, as guidance for councils
 - Reporting enabling comparison of like services across similar councils
 - Detailed further investigation and regulation only applied to outlier councils
- ▼ IPART regulating price increases through setting maximum percentage variations for some or all DWM charges
- ▼ Other stakeholder suggestions.

Our proposed reporting and benchmarking regime

- ▼ If greater oversight or regulatory intervention is necessary for DWM charges we would favour a less prescriptive approach.
- ▼ A proposed regulatory approach may include developing, in consultation with stakeholders:
 - A reporting, monitoring and benchmarking regime to develop a publicly available comparison tool comparing DWM charges for equivalent services across comparable councils
 - A publicly available centralised, comprehensive register of successful tender contract values for DWM services across councils
 - Pricing principles for DWM charges, to provide guidance to councils in setting DWM charges.

Our proposed pricing principles for setting DWM charges

DWM charges should reflect a 'user pays' approach (Incremental cost approach)

Only reasonable cost categories should be reflected in DWM charges

DWM charges should reflect efficient costs

DWM charges should be transparent

DWM charges should seek to ensure price stability

Benefits of proposed approach

Benchmarking Council Rates

- ▼ Promotes scrutiny by both councils and ratepayers-drives efficiency
- ▼ Avoids expensive and intrusive audits-only investigate outliers

Tender Data Base

- ▼ Empowers councils in negotiations with large contractors-drives down DWM charges to ratepayers
- ▼ Helps facilitate Joint Tendering by Councils – scale efficiencies leading to lower cost

Agenda

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Further questions?

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