IPART Independent Pricing and Regulatory Tribunal | NSW

Review of Domestic Waste Management Charges

Draft Report

December 2021

Local Government »

Tribunal Members

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Invitation for submissions

IPART invites comment on this document and encourages all interested parties to provide submissions addressing the matters discussed.

Submissions are due by Friday, 25 March 2022

We prefer to receive them electronically via our online submission form.

You can also send comments by mail to:

Review of Domestic Waste Management Charges
Independent Pricing and Regulatory Tribunal
PO Box K35
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If you require assistance to make a submission (for example, if you would like to make a verbal submission) please contact one of the staff members listed above.

Late submissions may not be accepted at the discretion of the Tribunal. Our normal practice is to make submissions publicly available on our website as soon as possible after the closing date for submissions. If you wish to view copies of submissions but do not have access to the website, you can make alternative arrangements by telephoning one of the staff members listed above.

We may decide not to publish a submission, for example, if we consider it contains offensive or potentially defamatory information. We generally do not publish sensitive information. If your submission contains information that you do not wish to be publicly disclosed, please let us know when you make the submission. However, it could be disclosed under the *Government Information (Public Access) Act 2009* (NSW) or the *Independent Pricing and Regulatory Tribunal Act 1992* (NSW), or where otherwise required by law.

If you would like further information on making a submission, IPART's submission policy is available on our website.

The Independent Pricing and Regulatory Tribunal (IPART)

Further information on IPART can be obtained from IPART's website.

Acknowledgment of Country

IPART acknowledges the Traditional Custodians of the lands where we work and live. We pay respect to Elders, past, present and emerging.

We recognise the unique cultural and spiritual relationship and celebrate the contributions of First Nations peoples.

Contents

1	**Executive summary**	**1**
1.1	A 'benchmark' waste peg and pricing principles	1
1.2	The review so far	3
1.3	We propose to publish a 'benchmark' waste peg that reflects the changes in the costs of providing DWM services	4
1.4	We propose to recommend that OLG publish pricing principles	4
1.5	List of draft decisions	5
1.6	List of issues for stakeholder comment	6
1.7	Structure of this report	6
2	**What we found**	**7**
2.1	Increases in prices	7
2.2	External cost drivers cause price increases	8
2.3	Variability in prices	9
2.4	What you told us	12
2.5	Changes in the waste management sector	14
2.6	The way forward	15
3	**A benchmark waste peg and pricing principles**	**16**
3.1	Publish an annual benchmark waste peg	17
3.2	Report on councils' performance against the benchmark waste peg	18
3.3	Provide pricing principles guidance on how to set DWM charges	18
A	**Analysis of Southern Sydney ROC DWM charges**	**25**
B	**Change in the WCI for the year ended June 2021**	**27**
C	**The change in the weighted average price – a worked example**	**28**
D	**Applying the pricing principles – a worked example**	**29**

1 Executive summary

The Independent Pricing and Regulatory Tribunal of NSW (IPART) is reviewing domestic waste management (DWM) charges levied by NSW local councils.

Domestic waste management is a key responsibility for councils, with social, public health, environmental and economic significance. NSW councils provide a range of DWM services to their residents, such as kerbside collection, drop-off facilities and periodic clean-up services. To recover the cost of these services, councils levy DWM charges (separate to general rates) on their residential ratepayers.[a] DWM charges are the price paid for household waste services on a 'user-pays' basis[b], while general rates are a tax based on land value. Total DWM charges revenue in NSW is $1.29 billion (2018–19) each year.[1] This is 28% of councils' total annual revenue.[c]

The NSW Government recently released its *Waste and Sustainable Materials Strategy 2041* (Waste Strategy).[2] The Waste Strategy outlines actions to ensure that we have the services and infrastructure in place to deal with waste safely, achieve waste recovery and recycling targets, and support a circular economy.

What is IPART's role?

In 2010 the Minister for Local Government delegated to IPART the function of approving special rate variations and minimum rates, and the function of varying annual domestic waste management charges.

1.1 A 'benchmark' waste peg and pricing principles

On 13 December 2021, IPART decided not to set a limit on annual DWM charges made by local councils for 2022–23.[3] This decision is in line with our decisions on these charges to date and is not a part of the current review.[4]

[a] Councils are required to set DWM charges that do not exceed the reasonable cost of providing DWM services and revenue collected through DWM charges may only be used for DWM purposes: *Local Government Act 1993*, s 504(3). Revenue from the DWM charge must be kept separate from general rating income, and only used for expenditure related to DWM services: *Local Government Act 1993*, s 409(3)(a).

[b] User-pays charges are reflective of the cost of providing the service to that customer.

[c] General rates revenue is $3.373 billion each year (IPART calculations based on 2018–19 data from Office of Local Government, Your Council Report, accessed on 24 November 2021).

To protect ratepayers and also assist councils in setting their own DWM charges we propose to publish annually a 'benchmark' waste peg. The benchmark waste peg would be non-binding on councils. It is intended to give guidance to ratepayers and councils on how much the reasonable cost of providing DWM services should change year-to-year. We propose to request councils whose charges increased more than the benchmark waste peg to explain why. There may be good reasons why a council may need to increase more than the benchmark peg, such as a step-up in costs resulting from the competitive tendering of their waste services.

We propose to publish an annual report that highlights councils whose DWM charges have increased by more than the benchmark waste peg and include the councils' explanations for the increases. This will provide greater transparency to ratepayers, councils and IPART. Ratepayers will gain greater awareness of increases in DWM charges and we will gain a better understanding of the drivers of the price changes. This will enable us to assess if DWM charges should be regulated through a binding DWM waste peg or setting individual DWM charges in future.[d]

We also propose to recommend to the NSW Office of Local Government (OLG) that they provide guidance to councils through pricing principles in their *Council Rating and Revenue Raising Manual,*[5] on how to set DWM charges to ensure they reflect the costs of providing the service and best value for ratepayers. We propose pricing principles for inclusion in OLG's Manual.

We consider our draft decisions are a proportionate response to the issues we have identified to date. While we have evidence that domestic waste charges have increased by more than double inflation and general rates, and there is a wide range of charges across councils, we don't have sufficient evidence to explain why the costs of providing services have varied. We have identified a wide range of factors that may be contributing to variability in charges, including the possibility that DWM charges may either be under or over recovering the cost of providing domestic waste services.

Most Sydney metropolitan councils contract out most of their DWM services to external providers, while many regional and rural councils provide most DWM services in-house.[6] The number and type of DWM services provided across councils varies widely – some councils provide regular kerbside collection of general waste, recycling and organics, while in other areas residents deliver their waste directly to a waste facility.

There are multiple external factors likely to be putting upward pressure on DWM costs, such as the change in the market for recyclables, increases in the waste levy and shortages in landfills. And these all impact costs.

[d] Throughout this report we talk about setting individual councils' DWM charges or setting a waste peg as shorthand for our delegated functions which require us to specify 'the percentage' by which a council can increase the amounts of annual charges for DWM services. We can set a positive or negative percentage, or nil percentage, so in effect we can set the resulting charge.

1.2 The review so far

Since being given the delegation in 2010, IPART has decided not to set a limit on the annual DWM charges made by councils.[7] We had been satisfied that DWM charges were likely to be reasonable, and that the cost of additional regulation would likely outweigh the benefit as:

- Councils are required to set charges that do not exceed the reasonable cost of providing DWM services.[8]
- DWM costs have been independently audited as required by OLG each year.
- Many councils outsource DWM services through a competitive tender process.

In 2019 OLG informed IPART that it had ceased conducting audits of the reasonable cost basis of DWM charges in 2016–17. We decided it was necessary to investigate the level of DWM charges across NSW to help inform our future decisions on DWM charges. We asked councils to report on their DWM expenses and services for the 2017–18 and 2018–19 financial years as part of our 2019–20 Local Government Cost Index (LGCI) survey to inform this process.[e]

We found:

1. Relatively large increases in DWM charges in recent years.
2. DWM charges vary significantly across councils and between similar councils.

Based on those preliminary findings, we released a Discussion Paper[9] in August 2020 to seek feedback on whether stakeholders considered that there are issues with the prices charged for domestic waste services and whether any regulatory or other action is required. We also sought feedback on potential options if regulatory action is required, noting that we would favour a less prescriptive approach. We outlined our proposed regulatory approach may include developing, in consultation with stakeholders a reporting, monitoring and benchmarking regime. This would involve developing a publicly available comparison tool, comparing DWM charges for equivalent services across comparable councils, and pricing principles.

In response to our Discussion Paper, **Councils** told us the major contributors to increases in DWM charges were external cost drivers outside their control. They also had major concerns about:

- the lack of investment in waste recycling and disposal infrastructure
- the Waste Levy[10] increasing, but not resulting in additional funding to councils for recycling
- market concentration in the waste services industry.

Most councils were not in favour of any regulation of DWM charges. Nevertheless, many councils indicated support for clear and unambiguous pricing principles. However, some councils were concerned that benchmarking DWM charges would not work, because it would be 'comparing apples to oranges'.

[e] We note that the response rate for the LGCI survey questions on DWM charges was relatively low. We received a response from 67 (i.e. 52%) of councils. Of councils that responded, 42% were 'metropolitan', 30% 'regional' and 28% were 'rural'.

In contrast, most **ratepayers'** submissions indicated their support for detailed regulation of DWM charges and the introduction of publicly available benchmark comparisons. They also raised specific concerns about:

- high landfill charges leading to significant illegal dumping
- an inequitable practice in one council of providing limited tip vouchers on a first-in first-served basis
- councils imposing DWM charges on residents of multi-unit developments (MUDs) that require waste collection by private contractors due to physical limitations in accessing bins.

Submissions from **industry** - waste contractors and related industry associations - generally were not in favour of IPART intervening because they consider the market is competitive, and charges are cost reflective.

1.3 We propose to publish a 'benchmark' waste peg that reflects the changes in the costs of providing DWM services

Councils are required to ensure that their DWM charges are calculated so as not to exceed the reasonable cost to the council of providing DWM services.

To assist councils in setting their annual DWM charges and to protect ratepayers from unjustified price increases we propose to publish a benchmark waste peg that reflects the average annual change in costs of providing DWM services. Councils can use this information to compare how their costs have varied compared to the benchmark and where their costs are increasing at a faster rate, investigate what's driving these increases and why. We would request councils explain to us and their ratepayers why their charges for DWM services are increasing at a faster rate than the average.

The benchmark waste peg would not prohibit councils increasing charges above the peg. But it spotlights these increases and would encourage councils to explain to their ratepayers the reason for the increases. Councils can recover the costs of providing waste services and are also accountable to their ratepayers. We would review the councils' information about cost drivers and where councils cannot justify the increase in their charges, we may consider regulating the individual council's charges or implementing a binding waste peg.

1.4 We propose to recommend that OLG publish pricing principles

We also propose recommending that OLG publish pricing principles to guide councils on how they should recover the costs of providing DWM services. Our proposed principles are:

1. DWM revenue should equal the efficient incremental cost of providing the DWM services.
2. Councils should publish details of all the DWM services they provide, the size of the bin, the frequency of the collection and the individual charges for each service.

3. Within a council area, customers that are:
   a. imposing similar costs for a particular service should pay the same DWM charge
   b. paying the same DWM charge for a particular service should get the same level of service.
4. Any capital costs of providing DWM services should be recovered over the life of the asset to minimise price volatility.

Have your say

We are now seeking written submissions on this Draft Report and encourage all interested parties to comment on the draft decisions by 25 March 2022.

We will also hold an online public hearing on 28 April 2022.

Submit feedback »

Attend the public hearing »

1.5 List of draft decisions

Draft Decisions

1. IPART proposes to publish annually a 'benchmark' waste peg to assist councils in setting their domestic waste management charges. We would publish the benchmark waste peg at the same time we publish the rate peg to assist councils setting charges from 1 July each year. 16
2. IPART proposes to publish annually a report on the extent to which councils' annual domestic waste management charges increase more than the benchmark waste peg each year. 16
3. IPART proposes recommending that the Office of Local Government publish pricing principles to guide councils on how they should recover the costs of providing domestic waste management services. Our proposed pricing principles are in section 3.3.1. 16

1.6 List of issues for stakeholder comment

Seek Comment

1.	Do you think our proposed annual 'benchmark' waste peg will assist councils in setting their DWM charges?	18
2.	Do you think the pricing principles will assist councils to set DWM charges to achieve best value for ratepayers?	23
3.	Would it be helpful to councils if further detailed examples were developed to include in the Office of Local Government's *Council Rating and Revenue Raising Manual* to assist in implementing the pricing principles?	23

1.7 Structure of this report

The following chapters provide more information on this review, our approach and our draft decisions:

Chapter	
02	Sets out what we found in relation to increases and variability in councils' DWM charges, and the context for our review.
03	Explains our approach and our proposed decisions to provide guidance and create greater transparency through publishing a 'benchmark' waste peg, reporting and pricing principles.

2 What we found

We have found that DWM charges have increased more than inflation and general rates, and there is a wide range of charges across councils. We further analysed the available data to identify the possible cost drivers responsible for these increases and wide price variability. We also considered what you had to say in response to our Discussion Paper and the broader context in which councils undertake their domestic waste management functions. Since our Discussion Paper, the NSW Government has released its Waste Strategy.

We discuss our findings in this chapter.

2.1 Increases in prices

We recently updated the analysis of DWM charges levied by councils to include the last five years of DWM cost data from OLG (2013–14 to 2018–19). We have compared this to the change in Sydney CPI and the Local Government Rate Peg for the same period.

Over the last five years DWM charges have increased by more than double the rate of inflation and the rate peg.[f]

[f] There are 128 local councils in NSW, but this includes several mergers that occurred during this period. We have controlled for this by only considering the change in total revenue across the State of the 108 councils that did not merge.

2.2 External cost drivers cause price increases

Stakeholders identified several factors they believed were putting upward pressure on DWM costs that were largely outside councils' control. These are set out below.

01 **China's National Sword policy**[11]
China significantly reduced the level of contamination in recyclable material that it will accept in recycled waste exports for processing in China. Councils consider this has reduced the demand for and the revenue from recyclable materials and increased landfill costs.

02 **Federal Government's export ban on waste and recyclables**[12]
The Federal Government has legislated to prohibit the export of waste and recyclable materials from 2022. Councils consider this has reduced the value in recycling and increased landfill costs.

03 **Lack of new investment in waste infrastructure**
NSW lacks investment in waste and recycling infrastructure. According to stakeholders, regulatory uncertainty faced by the private sector – such as that around mixed waste organics output (MWOO)[g] –is contributing to this lack of investment.

04 **Increases in the Waste Levy**[13]
Increases in the Waste Levy are driving up councils' DWM charges. Around 33% of the levy is being used to fund recycling or reduce waste.[14] Stakeholders consider this has contributed to an increase in illegal dumping, particularly of hazardous materials such as asbestos.[15] This results in significant clean-up costs for councils.

05 **Market concentration**
A small number of large players dominate each sector of the domestic waste market – about 70% of waste collection services, 69% of materials recovery facilities services and 98% of landfill services in Sydney are provided by the 3 largest private service providers.[16]

06 **The Container Deposit Scheme (CDS)**[h]
According to councils, the CDS removes a large amount of the high value recyclables from yellow bins, lowering offsetting revenue to councils from recyclables and increasing net costs.

We note in **Table 2.1** that most of these factors did not have an impact until after December 2017.[i]

[g] The NSW EPA revoked mixed waste organics output (MWOO) approvals due to contamination of recyclables, which is increasing landfill charges and decreasing recovery rates. See NSW EPA, Future use of mixed waste organic outputs, accessed on 22 November 2021.

[h] The NSW CDS 'Return and Earn' is a litter reduction scheme. Under CDS people can earn a 10-cent refund when they return an eligible drink container. See NSW EPA, Return and Earn, accessed 23 November 2021.

[i] Councils would have set charges for the 2018–19 financial year in March 2018. The DWM charges data is only up to the 2018–19 financial year.

Table 2.1 Impact of external cost drivers on DWM charges

External cost driver	Starting date
Increases in Waste Levy	Has been continuous
Market concentration	Has been continuous
Container deposit scheme	Commenced December 2017
China Sword	Commenced January 2018
Lack of investment/regulatory risk (e.g. MWOO)	Occurred October 2018
Federal waste export ban	Commenced July 2021

2.3 Variability in prices

We have found a wide range of charges across councils for their domestic waste services. In 2018–19 the average[j] DWM charge was $439 ($2018–19)[k] and the median DWM charge was $389 ($2018–19). However, DWM charges ranged as high as $728 ($2018–19).[17]

The large variability in prices among councils could be partially explained by:

- economies of scale, that is, the size of the council
- differing service levels and/or scope of services
- potentially different timing of negotiating long term contracts, where those negotiated more recently could be impacted by external drivers of increasing costs that older contracts may not yet fully reflect
- different cost allocation practices
- locational cost differences
- differing number of properties serviced per kilometre
- whether some councils are inside or outside the Waste Levy zone.

2.3.1 DWM charges vary across council groupings

Table 2 below is a summary of the 2018–19 DWM charges for all 128 councils disaggregated to their 11 OLG peer groupings based on size and population density.

The large variations within peer council groupings of a similar size is significant and indicates that the variation in costs may not be explained by scale alone. Some of the difference may reflect different services such as how frequently waste is collected.

[j] We calculated a weighted average DWM charge by adding the DWM revenue from each of the 108 unmerged councils and dividing it by the number of residential properties in those 108 councils that receive a DWM service.

[k] The standard deviation was $106 (2018–19) (IPART calculations based on Office of Local Government, Your Council Report, accessed on 24 November 2021).

Table 2 Variation of DWM charges by OLG grouping (2018–19)

OLG Grouping	Red Bin Services[a]	No. of Councils	Average DWM Charge $	Maximum Charge $	Minimum Charge $	Variation Charges (%)
Sydney (1)	113,504	1	464	NA	NA	NA
Small Metro (2)	76,220	6	536	728	419	**74%**
Large Metro (3)	1,135,393	18	494	667	381	**75%**
Small Regional (4)	391,966	26	357	569	245	132%
Large Regional (5)	521,600	11	424	663	339	96%
Small Metro Fringe (6)	40,814	2	517	523	509	**3%**
Large Metro Fringe (7)	414,433	7	464	520	383	**36%**
Small Rural (8)	637	1	406	NA	NA	NA
Medium Rural (9)	16,557	14	325	617	220	**180%**
Large Rural (10)	75,853	23	365	495	207	**139%**
Very Large Rural (11)	95,016	19	365	522	207	**152%**

a. Red bin services are the number of households that are serviced weekly by the council. In some areas with multi-unit developments that the councils service, councils may use "dumpsters". In this case councils determine a red bin equivalent.

Note: We excluded the lowest reported DWM charges in the Small Regional (4) and Large Regional (5) groupings, as these charges appeared to be erroneous. Otherwise the variation in charges would have been greater in these two OLG council groupings.
Source: IPART calculations based on data from OLG "Your Council" data cube and 2018–19 DPIE WARR data.

2.3.2 DWM charges vary across regional affiliations

Most NSW councils (126 of the 128) are members of a Regional Organisation of Councils (ROC) or Joint Organisation (JO) by their affiliation. Councils in ROCs and JOs often undertake joint tendering for the provision of DWM services and this can result in similar service costs for councils in the same ROC or JO.

Below is a summary of the 2018–19 DWM charges for councils disaggregated to their 14 ROC / JO peer groupings.

Average DWM charges also vary by ROC. Some of this variation may be explained by differences in services (such as how frequently bins are emptied, and the level of recycling provided). There may be other council specific factors within ROCs or JOs causing cost variations. However, there is an absence of comparable data on cost drivers, such as bin lifts per kilometre, to enable this to be assessed. We undertook further analysis of one of the ROCs to see if the variation in service levels could explain the variation in DWM charges, However the available information does not permit conclusive findings on the causes of the cost variations (see Appendix A).

Table 2.3 Variation of DWM charges by Regional affiliation (2018–19)

ROC/JO Name	Red Bin Services[a]	No. of Councils	Average DWM Charge $	Maximum Charge $	Minimum Charge $	Variation Charges (%)
WSROC	571,781	9	453	523	386	36%
SSROC	664,925	11	521	667	422	**58%**
REROC	45,573	8	333	397	207	**91%**
RAMJO Riverina	18,870	6	306	387	248	**56%**
RAMJO Murray	47,076	8	272	329	207	59%
NSROC	220,616	8	468	570	381	**50%**
NIRW	67,353	12	358	485	269	**81%**
NEWF	116,489	7	357	443	312	**42%**
MidWaste	131,026	6	493	663	372	78%
MACROC	106,103	3	414	509	383	**33%**
ISJO	191,915	5	427	569	364	**57%**
Hunter	409,309	10	453	520	339	**54%**
CRJO	87,654	8	296	410	237	**73%**
NetWaste	119,246	25	374	617	218	183%

a. Red bin services are the number of households that are serviced weekly by the council. In some areas with multi-unit developments that the councils service, councils may use "dumpsters". In this case councils determine a red bin equivalent.

Note: We excluded two councils with low charges, one in Midwaste and one in Netwaste, as the charges appeared erroneous. This has had the effect of reducing the variation in those two ROC/JO groupings.
Source: IPART calculations based on data from OLG "Your Council" data cube and 2018–19 DPIE WARR data.

2.3.3 Cost allocations cause price variability

In their submissions to our Discussion Paper and consultations[l], councils noted the lack of clarity as to what costs could be attributed to DWM charges. Some councils indicated they were unclear whether specific items such as pensioner concessions, street sweeping, public space bins and illegal dumping costs should be attributed to DWM charges or general rates. It was apparent from our consultations that the approach taken by councils varied significantly, with some attributing these costs to DWM charges and others to general rates, potentially resulting in cross-subsidisation between DWM charges and rates. The way councils allocate corporate overheads to DWM charges can also lead to variations in prices.

[l] IPART convened a working group with 15 representatives from councils and representatives from OLG to further work through the issues and develop our proposals.

2.3.4 Pensioner concessions cause variability

Currently many councils increase their DWM charges to account for the pensioner concessions they are required to provide. Where councils do so, this would cause significant variations in DWM charges among councils.

Data from OLG indicates that the percentage of pensioners in the different LGAs varies from 3% in Woollahra up to 38% in Kyogle.[18] This means that charges are higher in areas with a higher percentage of pensioners to fund the cost of providing pensioner concessions.[19]

How pensioner concessions should be funded is outside the scope of this review. Councils that provide water and sewerage services also fund concessions for these services.

A separate targeted review would be best placed to consider issues around the equity and efficiency of funding pensioner concessions.

2.4 What you told us

In August 2020, we published our Discussion Paper and sought submissions from you. We have taken these submissions into account in formulating our draft decisions in this report.

What councils told us

We received 64 submissions from councils, ROCs, JOs, professional organisations and Local Government NSW, which are available on our website here.

Approximately two-thirds of councils opposed IPART regulating charges in any form. Of those opposed, a small number suggested councils should be allowed to engage their own external auditors or OLG should return to conducting low level audits of DWM charges.

Approximately one-third of councils supported benchmarking indicators and offered suggestions on what indicators should be included. Councils opposed to benchmarking argued that there were too many variables in levels of service, environmental outcomes, population density and transport costs for benchmarking to work. Some councils commented ratepayers can easily benchmark councils now because much of the information is available on individual council websites. However, a small number of councils also commented that the community would not understand the benchmarks and it would generate complaints to council.

Nearly all councils identified the external cost drivers (see section 2.2 of this chapter) as leading to recent significant increases in DWM charges. Councils' submissions were most concerned about the lack of investment in waste and landfill facilities. They were also concerned about further market concentration now that 2 of the largest waste management companies had then recently announced an intention to merger.[20]

Most councils commented that the Waste Levy should fund waste and recycling infrastructure and ensure sufficient landfill capacity exists for waste that cannot be recycled.

However, most of these issues are outside the scope of this review. The NSW Government's recently released Waste Strategy seeks to address many of councils concerns through its key reforms, targets, actions and financial support. We discuss the Waste Strategy further in section 2.5.1.

Councils also provided comment on our proposed pricing principles. We have sought to capture and address those comments in section 3.3.1 of chapter 3 below.

What ratepayers told us

We received 33 submissions from individuals and one submission from a neighbourhood group, which are available on our website here.

Most submissions argued for detailed regulation of councils' DWM charges and supported introducing a publicly available benchmark comparison. Two submissions said DWM charges are fair and IPART should not be involved in regulating DWM charges.

Five submissions related to a complaint concerning access to a service in a particular LGA. These ratepayers said their council had reduced access to local tips. Residents used to receive 3 annual tip vouchers per residential property. Now the council offers a total of 5,000 tip vouchers per year on a first-in-first-served basis across the 19,000 properties in the area. This results in all DWM customers funding the 5,000 tip vouchers through their DWM charges, but less than 25% of customers can get a tip voucher. Our proposed pricing principles would mean that if customers are paying the same DWM charge then they should all receive the same number of tip vouchers (see section 3.3.1 of chapter 3).

Another five submissions related to high density multi-unit developments (MUDs) in metropolitan LGAs. These submissions complained that councils' garbage trucks cannot get into their basements to collect the waste and recyclables, so residents must arrange collection by a private contractor but are still charged a DWM charge by councils. Application of our recommended pricing principles should result in councils' charges for MUDs being lower than the full DWM charge.

Submissions also raised issues that are outside of the scope of this review. For example, a small number of ratepayers wanted to be able to opt out of DWM services and not pay for them. Some also suggested they should only pay by weight. Some individuals and Sydney Water also raised the issue of illegal dumping. There was concern that high landfill charges have led to significant illegal dumping, with associated environmental and clean-up costs.

What industry told us

We received 7 submissions from contractors and their industry association, which are available on our website here.

Industry contractors generally were not in favour of IPART regulating DWM charges because they consider the market is competitive, and charges are cost reflective. A number of submissions attributed many of the cost increases to risk around EPA decisions.[21]

Generally, contractors did not favour benchmarking and publication of councils' DWM charges. However, one contractor who services MUDs supported benchmarking because it would highlight the cost difference between private contractors and council in servicing MUDs.[22]

We also received a submission from a consulting firm which argued that the increase in DWM charges has largely been driven by the increase in the Waste Levy and the fall in the value for recycled material. They also commented that benchmarking is a good way for councils to compare costs and performance, to drive savings initiatives.[23]

2.5 Changes in the waste management sector

There are currently many challenges being faced in the waste management sector that impact on councils' DWM costs and services, such as the disruption that China's National Sword policy and the Federal Government Waste Export Ban are having on the recycling market. The NSW Government recently released its Waste Strategy to address these challenges.

2.5.1 NSW Government's Waste Strategy

The Waste Strategy outlines the actions the Government will take over the next six years, as a first phase, to deliver long-term objectives such as:

- Transitioning to a circular economy, minimising waste and using and reusing resources efficiently.
- Putting the services and infrastructure in place to deal with waste safely for the benefit of future generations.[24]

The key reforms of the Strategy include:

- phasing out problematic single-use plastic items
- financial incentives for manufacturers and producers to design out problematic plastics
- having government agencies prefer recycled content
- mandating the separation of food and garden organics for households and selected businesses (FOGO)
- incentivising biogas generation from waste materials.

The Strategy targets are:

- reduce total waste generated by 10% per person by 2030
- have an 80% average recovery rate from all waste streams by 2030
- significantly increase the use of recycled content by governments and industry
- phase out problematic and unnecessary plastics by 2025
- halve the amount of organic waste sent to landfill by 2030
- reduce litter by 60% by 2030 and plastics litter by 30% by 2025
- triple the plastics recycling rate by 2030.

Some of the key actions under the Strategy involve:

- Strategically planning for critical waste infrastructure, working closely with local councils and industry, with a focus on co-locating businesses in precincts that support circular economy and clean technology activities
- Helping local councils to jointly procure waste services at scale to underpin investment in new infrastructure
- Reviewing and updating planning instruments to make it easier to develop waste and circular economy infrastructure.

The NSW Government announced $356 million in funding to help deliver the Strategy.[25]

2.6 The way forward

It is clear from the evidence we have gathered to date that there have been significant increases in average DWM charges across NSW, coupled with wide variations in DWM charges among similar councils. But it is not clear to what extent the cost drivers we have identified are contributing to these increases and variability. There is a lack of comparable data to assess this.

In developing our draft proposals, the benefit of our regulatory approach needs to outweigh the costs. We have an obligation to protect ratepayers, but our approach needs to be proportionate and effective.

We have considered the responses of stakeholders to our Discussion Paper and the broader issues they raise. We have also considered our ability, and councils', to address these issues for the benefit of ratepayers. Our delegated powers cannot respond to many of the issues raised. We can only set an annual limit on the extent to which councils' DWM charges may be varied.

Having taken all these matters into account we propose to provide guidance to councils through a 'benchmark' waste peg and recommend that OLG provide further guidance through pricing principles. We also propose to collect more information from councils to provide transparency to ratepayers and help guide the future decisions of IPART. The details of our approach are in Chapter 3.

3 A benchmark waste peg and pricing principles

To protect ratepayers and to assist councils in setting DWM charges we propose to:

1. Release an annual 'benchmark' waste peg.
2. Publish an annual report that highlights councils whose DWM charges have increased by more than the benchmark waste peg and include the councils' explanations for the increases.
3. Recommend OLG provide guidance to councils through pricing principles in their *Council Rating and Revenue Raising Manual*[26] on how to set charges to reflect reasonable costs.

Our approach is intended to:

- Raise awareness and provide more information in the public domain on DWM charges
- Inform and protect ratepayers, as they will have greater awareness of their DWM charges
- Help provide better information and transparency on DWM costs and the drivers of price changes to ratepayers. We would review the councils' information about cost drivers and where councils cannot justify the increase in their charges, we may consider regulating the individual council's charges or implementing a binding waste peg.

Draft Decisions

1. IPART proposes to publish annually a 'benchmark' waste peg to assist councils in setting their domestic waste management charges. We would publish the benchmark waste peg at the same time we publish the rate peg to assist councils setting charges from 1 July each year.

2. IPART proposes to publish annually a report on the extent to which councils' annual domestic waste management charges increase more than the benchmark waste peg each year.

3. IPART proposes recommending that the Office of Local Government publish pricing principles to guide councils on how they should recover the costs of providing domestic waste management services. Our proposed pricing principles are in section 3.3.1.

3.1 Publish an annual benchmark waste peg

We propose to release annually a benchmark waste peg that gives guidance on how much the reasonable costs of providing DWM services have changed over the previous year. The proposed benchmark waste peg for 2022–23 is 1.1%.

We propose to calculate the waste peg using a similar methodology to the one we use to calculate the change in the Local Government Cost Index (LGCI) – a key component of the rate peg.[27] The difference being that the rate peg applies to revenue, while the waste peg would apply to DWM charges.

The proposed Waste Cost Index (WCI) will be a price index for domestic waste services provided by NSW councils. It will measure average price changes over the past year for goods, services materials and labour used by a council to provide DWM services. It would be similar, in principle, to the Consumer Price Index (CPI), which is used to measure changes in prices for a typical household. We propose to set the benchmark waste peg equal to the annual change in the WCI.

We propose to calculate the WCI for the 2022–23 benchmark waste peg as follows:

- We will construct the 'basket' of cost items by using the information councils provided to us on DWM expenditure in 2017–18 and 2018–19 as part of our 2019 LGCI survey. The 'basket' has 26 cost items, such as contracts, waste levy and employee benefits and on-costs. The cost items represent the costs or purchases made by an average council to undertake its typical waste-related activities (See Appendix B).
- We will use the 2019 LGCI survey information to decide how much each cost item in the 'basket' contributes to the total value of the 'basket' (i.e. each item's expenditure weight). We will combine the items using these expenditure weights.
- To measure changes in these cost items, we will use ABS price indexes for wages costs, producer and consumer prices. The ABS uses quality adjustments in its price measures to take into account improvements in labour and capital productivity. We will use the same indices that we use to calculate the LGCI.

Many councils use contractors to provide DWM services, so a large proportion of expenditure (around 52%) is captured under the 'contracts' cost item. A further 17% is the Waste Levy and 13% is unspecified 'other' expenditure. The ABS does not have indices specific to waste management services, so for 'contracts' we propose to use the index that we apply to 'other business services' in the LGCI.[28] For the Waste Levy and 'other' expenditure we propose to use CPI.

We aim to refine our benchmark waste peg for 2023–24 by obtaining more detailed information on the costs of providing waste services by surveying councils. This (more detailed information) would allow us to apply the available ABS indices at a more disaggregated level.

The proposed benchmark waste peg for 2022–23 is 1.1%, which represents the change in the WCI over the year to June 2021 (Appendix B).

Seek Comment

1. Do you think our proposed annual 'benchmark' waste peg will assist councils in setting their DWM charges?

3.2 Report on councils' performance against the benchmark waste peg

We propose to request councils whose charges increased more than the benchmark waste peg to report to us on:

- How much their average DWM charges have varied compared to the benchmark waste peg.
- Why charges have increased more than the benchmark waste peg.

The weight to be applied to each charge is the number of services provided on that charge as at 30 June. Appendix C provides a simple example of how to calculate the change in the weighted average price.

We propose to publish this information on our website for the benefit of ratepayers.

3.3 Provide pricing principles guidance on how to set DWM charges

To assist councils setting cost-reflective charges and to protect ratepayers from unjustifiably high DWM charges we propose to recommend that OLG provide guidance to councils on how to set DWM charges in their *Council Rating and Revenue Raising Manual* through clear pricing principles. Our proposed principles identify the categories of costs that can be included in DWM charges.

We further developed the following draft pricing principles after considering submissions and consulting further with representatives from metro, regional and rural councils and OLG. We seek feedback from stakeholders whether it would also be helpful to develop further detailed examples for OLG to include in the Manual to support councils' ability to implement the principles.

Our intention is that the pricing principles provide guidance to councils on best practice cost-reflective pricing. Where councils find that implementing them leads to a reduction in DWM revenue as functions and/or allocated costs are shifted to general rates, then councils can apply for a special rate variation to address any revenue shortfall.

3.3.1 IPART's proposed pricing principles

Our proposed four pricing principles are as follows:

01	DWM revenue should equal the efficient incremental cost of providing the DWM service
02	Councils should publish details of all the DWM services they provide, the size of the bin, the frequency of the collection and the individual charges for each service
03	Within a council area, customers that are: - imposing similar costs for a particular service should pay the same DWM charge - paying the same DWM charge for a particular service should get the same level of service
04	Any capital costs of providing DWM services should be recovered over the life of the asset to minimise price volatility

We explain our pricing principles and how we have responded to stakeholder feedback below.

Principle One
DWM revenue should equal the efficient incremental cost of providing the DWM service

DWM services should reflect efficient incremental costs

Our first proposed pricing principle is that councils only charge the additional cost of providing the domestic waste service over and above the cost of providing its general or base functions (e.g. roads, libraries, planning). This is the costs that would not be incurred by the council if the council no longer undertook its DWM function. This proposed pricing principle applies whether the council directly provides the waste services or whether it contracts out the functions to an external party.

Using an incremental cost approach would assist councils to understand the costs of providing the services. This is particularly important where a council might be considering the most cost-efficient way of providing the service, including evaluating options such as competitively tendering out the services or providing them in-house.

Some councils commented in submissions that they did not support the use of incremental cost pricing, mainly because they were concerned it may reduce their total revenue. Where applying these principles sees costs being allocated from DWM charges to general rates then councils can apply for a special variation.

Councils also commented during consultations that it was not clear how an incremental cost approach would be applied in calculating DWM charges. We have provided a simplified worked example of how the incremental cost principle would apply in Appendix D.

The services councils can fund through DWM charges

Councils are required to separate revenue from DWM services from general rates revenue and to treat DWM revenue as restricted funds.[29] Domestic waste is waste generated on domestic premises and includes waste that may be recycled (not including sewage).[30]

DWM charges recover only the costs directly related to the service of removing waste from domestic properties.

In practice this means councils should only levy charges to cover the cost of providing the following services, and services associated with these services:

1. Landfill waste (normally a red lidded bin)
2. Dry recycling (normally a yellow or blue lidded bin)
3. Green waste and FOGO (normally a green lidded bin)
4. Bulk collections &/or tip vouchers for bulk collections.

Costs that can reasonably be collected through DWM charges include:

- direct costs of providing services or contracts for DWM services, including staff on-costs
- some council overheads (discussed below)
- education costs directly related to separating recycling.

Education costs directly related to sorting of waste and inspections of bins should be included to the extent education helps reduce the level of contamination in recyclables (normally yellow or blue lidded bins) and lowers landfill costs.

Other functions related to waste which do not involve the periodic collection of domestic waste from households should be funded through general rates. To the extent that the functions do not involve the periodic collection of domestic waste from premises, the following costs should not be collected through DWM charges:

- street sweeping
- public place rubbish bins
- general litter reduction campaigns not related to collecting domestic waste
- cleaning up illegal dumping.

Principle Two
Councils should publish details of all the DWM services they provide, the size of the bin, the frequency of the collection and the individual charges for each service

Our second proposed pricing principle would require councils to publish on their website details of all the DWM services they offer, along with the individual charges for those services.

For the published details to be comparable, councils should publish these details using the following common categories of waste services:

- landfill waste (normally red lidded bin)
- recyclable waste (normally yellow or blue lidded bin)
- green waste (normally green lidded bin)
- FOGO (normally green lidded bin).

For each service offered we propose that councils publish details of the:

- bin size
- frequency of collection (e.g. weekly or fortnightly), and
- individual charge for each service offered.

Where councils offer kerbside bulky goods collections or tip vouchers, we propose councils publish the:

- weight/volume of the service
- frequency (e.g. 4 times per year), and
- separately calculated charge.

Providing public and readily accessible information on DWM services and charges assists ratepayers to engage more readily with councils on their desired level of service and costs by comparing peer councils. This data will also make it easier for councils to compare themselves and their costs.

Principle Three
Within a council area, customers that are:

- imposing similar costs for a particular service should pay the same DWM charge
- paying the same DWM charge for a particular service should receive the same level of service.

Our third proposed pricing principle is about DWM charges being both cost-reflective and equitable:

- The service level a council provides is a question for councils to decide after consulting with their ratepayers.
- Once a council has decided on a level of service, there must be equal access to that service for all ratepayers paying the same amount for that service.
- This does not preclude regional or rural councils from having different charges for a similar service based on the cost of providing that service in different locations.

Principle Four
Any capital costs of providing DWM services should be recovered over the life of the asset to minimise price volatility

Spreading capital costs over the life of the assets rather than charging for them in the year of purchase helps stabilise prices, while reflecting the costs current ratepayers impose.

These capital costs include:

- garbage trucks
- workshops
- bins
- remediation cost of landfills.

Where councils have excess or insufficient DWM reserves to meet these obligations then councils may wish to transition DWM charges over a small number of years to prevent large fluctuations in DWM charges.

Seek Comment

2. Do you think the pricing principles will assist councils to set DWM charges to achieve best value for ratepayers?

3. Would it be helpful to councils if further detailed examples were developed to include in the Office of Local Government's *Council Rating and Revenue Raising Manual* to assist in implementing the pricing principles?

Appendices

A Analysis of Southern Sydney ROC DWM charges

				Residual Waste			Dry Recycling			Garden Organics			FOGO[c]			Total DWM Weight and Recycle		
	DWM Charge 2018–19 ($)	Red Bin Services[b] 2018–19 ($)	DWM Revenue 2018–19 ($)	Typical bin size	Frequency	Kg/hh/wk	Typical BIN Size	Frequency	kg/hh/wk	Typical bin size	Frequency	kg/hh/wk Organics	Typical bin size	Frequency	kg/hh/wk FOGO	Total kg/hh/wk	Bin System	Recycling Rate (%)
Bayside (3)	466	62,743	29,245,767	240L	Weekly	12.76	240L	F/N	3.05	240L	F/N	3.31			0.00	19.12	3	37%
Burwood (2)	429	13,458	5,776,631	120L	Weekly	11.02	240L	F/N	3.06	240L	F/N	3.33			0.00	17.41	3	35%
Canada Bay (3)	422	26,423	11,146,695	120L	Weekly	13.21	240L	F/N	5.04	240L	F/N	4.63			0.00	22.88	3	39%
Canterbury-Bankstown (3)	550	126,833	69,799,247	120L	Weekly	12.25	240L	F/N	3.40	240L	F/N	4.51			0.00	20.17	3	38%
Georges River (3)	470	50,656	23,788,977	120L	Weekly	10.76	240L	F/N	4.52	240L	F/N	4.46			0.00	19.75	3	45%
Inner West (3)	582	72,661	42,312,538	120L	Weekly	9.56	120L	Weekly	3.68	120L	F/N	3.63	240L	Weekly	0.64	17.50	5	46%
Randwick (3)	667	58,238	38,849,941	140L	Weekly	8.16	240L	F/N	3.34	240L	F/N	3.13			0.00	14.64	3	64%
Sutherland (3)	475	86,071	40,913,170	120L	Weekly	8.82	240L	F/N	4.67	240L	F/N	6.86			0.00	20.34	3	50%
Sydney (1)	464	113,504	52,694,251	240L	Weekly	7.58	240L	Weekly	2.30	120L	F/N	2.67			0.00	12.55	3	
Waverley (3)	594	29,399	17,471,737	240L	Weekly	9.24	240L	Weekly	3.55	240L	F/N	4.18			0.00	16.96	3	63%
Woollahra (2)	574	24,939	14,319,724	120L	Weekly	8.47	120L	Weekly	4.60			0.00	240L	Weekly	2.97	16.04	4	70%
Total Revenue	346,318,680																	
Total Services Red Bin Services	664,925																	
Count	11																	
Average Charge 2018–19	521																	
Median Charge 2018–19	475																	
STD DEV 2018–19	80																	
MAX CHARGE	667																	
MIN CHARGE	422																	
Variation in Range of Charges	58%																	

a. Red bin services are the number of households that are serviced weekly by the council. In some areas with multi-unit developments that the councils service, councils may use "dumpsters". In this case councils determine a red bin equivalent.

b. FOGO is mixed garden waste and kitchen scraps. This processing reduces the amount of kitchen waste that goes to landfill

c. Inner West council is not providing both FOGO and a separate Garden Organics service to the same properties. Parts of the amalgamated LGA receive a FOGO service and other parts receive a Garden Organics service.

Source: IPART calculations based on data from OLG "Your Council" data cube and 2018–19 DPIE WARR data

A.1.1 Different service levels causing variability

We undertook further analysis of one of the ROCs to see if the variation in service levels could explain the variation in DWM charges.

We selected the Southern Sydney Regional Organisation of Councils (SSROC) for this analysis.[a] SSROC provides 23% of NSW's DWM services.

SSROC has a weighted average[b] DWM charge of $521 per property with a median charge of $475. There is a standard deviation of $80 and a range of $422 to $667 for DWM charges. The range of $245 between the lowest charge and the highest charge represents a range of 58% based on the lowest charge.

All councils in 2018–19 had a weekly red bin service with the typical bin size varying between 120L and 240L. There is no correlation between the red bin size and the DWM charge or the average kg per property of weekly red bin waste and the DWM charge. All the councils provided a dry recycling (yellow bin) service with 4 of the 11 councils providing a weekly service. The seven councils that provided a fortnightly yellow bin service used 240L bins. Two of the four councils with a weekly service used 120L yellow bins. There is no discernible correlation between yellow bin service and the average DWM charges.

Ten of the 11 councils provided a fortnightly garden waste (green bin) service with City of Sydney and the Inner West providing smaller 120L bins given the percentage of units and terraces.

Woollahra provides a weekly 240L food and garden organics (FOGO) purple bin service.

The variation in DWM charges between councils in part may reflect differences in service levels but is likely to also reflect differences in council specific costs and cost allocations.

[a] SSROC comprises Bayside Council, Burwood Council, Canterbury-Bankstown Council, City of Canada Bay, City of Sydney, Georges River Council, Inner West Council, Randwick City Council, Sutherland Shire Council, Waverley Council and Woollahra Municipal Council.

[b] Weighted by households serviced each week.

B Change in the WCI for the year ended June 2021

Cost components	Weight as at end June 2020 %	Price change to end June 2021 (% annual average)	Contribution to index change (percentage points)
Operating cost components			
Employee benefits and on-costs[a]	14.5	1.2	0.17
Plant and equipment leasing	0.3	1.1	0.00
Contracts	50.1	1.0	0.48
Legal and accounting services	0.1	1.4	0.00
Cleaning services	0.2	1.4	0.00
Other business services	0.1	1.0	0.00
Insurance	0.1	3.0	0.00
Telecommunications	0.0	-2.4	0.00
Printing, publishing and advertising	0.1	2.3	0.00
Motor vehicle parts	0.1	-1.2	0.00
Motor vehicle maintenance	0.5	1.4	0.01
Automotive fuel	0.5	-2.4	-0.01
Electricity	0.1	-3.8	0.00
Gas	0.0	-6.8	0.00
Water and sewerage	0.0	-6.6	0.00
Building materials - roads and bridges	0.2	1.1	0.00
Building materials - other	0.8	0.0	0.00
Office supplies	0.1	0.9	0.00
Waste levy	15.3	1.5	0.23
Other expenses[b]	12.4	1.5	0.19
Capital cost components			
Buildings – non-dwelling	0.3	0.0	0.00
Construction works – roads and bridges	0.1	1.1	0.00
Construction works – other	1.2	1.1	0.00
Plant and equipment (machinery)	2.9	-0.3	0.00
Plant and equipment (furniture)	0.0	0.1	0.00
Information technology and software	0.0	-0.4	0.00
Total change in WCI	**100.0**		**1.08**

a. Employee benefits and on-costs includes salaries and wages.

b. Comprises mainly 'other materials and contracts' and unspecified 'other' expenses. Also includes miscellaneous expenses with very low weights in the index – e.g. postage and contributions and donations.

Note: Figures may not add due to rounding. Percentage changes are calculated from unrounded numbers.

C The change in the weighted average price – a worked example

To calculate the change in the weighted average price, the first step is to calculate the revenue you would receive by applying the existing and new charges to the same number of services in both years**. Table C.1** provides a simple example of how to calculate the revenue.

Table C.1 Step 1 - Calculate total revenue on new and old prices for the same number of services

Service	Price in 2021–22 a $ pa	Price in 2022–23 b $ pa	Number of each service provided as at 30 June 2022 c number	Revenue with 2021–22 prices d = a x c $	Revenue with 2022–23 prices e = b x c $
Standard Prices					
Urban	410	422	10,000	4,100,000	4,220,000
Vacant land	45	47	100	4,500	4,700
Rural	355	355	3,000	1,065,000	1,065,000
Additional services					
Recycling bin	125	126	2,000	250,000	252,000
Organics bin	245	247	2,000	490,000	494,000
Mixed waste bin (urban)	125	129	3,500	437,500	451,500
Mixed waste bin (rural)	245	250	200	49,000	50,000
Total			20,800	6,396,000	6,537,200

In the second step. you use the information from the first step to calculate the weighted average price in each year, and the change in this price. **Table C.2** provides a simple example of how to calculate the change in the weighted average price.

Table C.2 Step 2 - Calculate the increase in the weighted average price.

	Weighted average price in 2021–22 f = d(total)/c(total)	Weighted average price in 2022–23 g = e(total)/c(total)	Increase in weighted average price to 2022–23 Increase = g/f- 1
Revenue	6,396,000	6,537,200	na
Volume	20,800	20,800	na
Weighted average Price	308	314	na
Increase in weighted average price	na	na	**2.2%**

D Applying the pricing principles – a worked example

Table D.1 presents a simplified example of an incremental allocation of DWM costs. It demonstrates how to calculate the revenue to be recovered from DWM charges by estimating/calculating the costs that would not be required if councils stopped providing DWM services.

Table D.1 Incremental cost allocation for collection services

Contracted out			**Day labour**		
Direct operating cost			**Direct operating cost**		
Contract costs	$8.00 m		Day labour (+ on-costs)	$4.00m	
Direct managers (+on costs)	$0.40 m		Direct managers (+ on-costs)	$0.80 m	
Mileage allowance (shared Car)	$0.05 m		Fuel, maintenance	$1.20 m	
Waste Levy	$1.00 m		Waste Levy	$1.00 m	
Direct operating cost subtotal		$9.4 5m	Direct operating cost subtotal		$7.00 m
Direct capital costs			Direct capital costs		
Capital costs	$0.00 m		(DWM asset base = $50 m)		
			Return on assets (@ 3%)	$1.50 m	
			Depreciation (@1%)	$0.50 m	
Direct capital cost subtotal		$0.00m	Direct capital cost subtotal		$2.00 m
Direct cost subtotal		$9.45m	Direct cost subtotal		$9.00 m
Overhead costs			Overhead costs		
CEO/directors	$0.00 m		CEO/directors	$0.30 m	
Education	$0.10 m		Education	$0.10 m	
HR/IT	$0.05 m		HR/IT	$0.10 m	
Call centre	$0.20 m		Call centre	$0.20m	
Lease space	$0.00 m		Lease space	$0.10 m	
Overhead subtotal		$0.35m	Overhead subtotal		$0.80m
Total waste cost		$9.80m	Total waste cost		$9.80m

Where a council has contracted out collection services

Direct operating costs

Contract costs – The contract agreement costs would not be required if councils were no longer responsible for the DWM service, so 100% of the contract costs go into the DWM incremental cost basket.

Direct managers – The direct contract managers' positions would not be required if councils were no longer responsible for the DWM service, so 100% of their salary and on-costs go into the DWM incremental cost basket.

Mileage allowance – In this example, we assume the vehicles the DWM contract managers drive are council pool vehicles. If council was no longer responsible for the DWM service, there would be less mileage on the vehicles. A cents/kilometre mileage allowance goes into the incremental cost basket.

Waste Levy – If the DWM function went to another agency, council would not be paying the Waste Levy. Therefore, 100% of the Waste Levy goes into the DWM incremental cost basket.

Direct capital cost

Direct capital costs – In this example, the council has contracted out the collection service and the bins are owned by the contractor. There are no direct capital costs to the council and therefore $0 goes into the DWM incremental cost basket.

Overhead/indirect costs

CEO/directors salary – In this example with contracted out collection, there would be very little change in council staff if the DWM function left council. If no senior executive positions were removed, 0% of these salaries would go into the DWM incremental cost basket.

Education– The council has an education budget of, say, $500,000 spread across companion animals, tidy towns, recycling and domestic waste. Council calculates $100,000 of that budget relates directly to education on separating waste and notifications of council clean-ups. Therefore, $100,000 goes into the DWM incremental cost basket.

HR & IT – A 10% reduction in total staff numbers if council was no longer responsible for the DWM function. It is important for councils to consider how many IT and HR staff would be reduced if council was no longer responsible for the DWM function when apportioning HR and IT costs to the DWM incremental cost basket. In this case, we assumed only 2% of council's total HR and IT costs would not be required if the DWM function was transferred to another agency. Therefore, in this simple example 2% of HR and IT costs ($50,000) goes into the DWM incremental cost basket.

Lease costs – In this example where the collection services are contracted out, only the reduction in these costs if the council was no longer responsible for the DWM function should be included in the incremental cost basket.

Where a council uses day labour for collection services

Direct operating costs

Day labour – All the salaries and salary on-costs of the day labour staff would be removed if council was no longer responsible for the DWM function. Therefore 100% of these costs go into the DWM incremental cost basket.

Direct managers – The direct contract managers' positions would not be required so 100% of their salaries and on-costs go into the DWM incremental cost basket.

Fuel and maintenance cost – This example assumes garbage trucks are owned by the council. Therefore, the fuel and maintenance costs of these vehicles would not be incurred if the council was no longer responsible for the DWM function, so these costs go into the DWM incremental cost basket. (We address the capital component of the infrastructure below.)

Waste Levy – If the DWM function went to another agency, council would not pay the Waste Levy. As with the contracted out example, 100% of the Waste Levy would go into the DWM incremental cost basket.

Direct capital cost

Direct capital costs – DWM asset base – It is important that capital costs are recovered from all the customers who benefit from that capital over the life of the asset. To achieve this, councils would have developed a DWM asset base. It would include all the capital assets including trucks, tools and garbage bins (assuming in this example that council own the bins).

Return on assets – Having established a DWM asset base, the opportunity cost of the capital invested in the DWM asset base is included in the DWM incremental cost basket.

In our example, the DWM asset base is $50 million and we are assuming if council was no longer responsible for the DWM function it would be able to invest that $50 million and earn a 3% per year return ($50 million x 3% = $1.5 million). Therefore, council would include $1.5 million of return on assets in its DWM incremental cost basket.

Depreciation – In this example, we assume the average life of the assets in the DWM asset base is 100 years.[c] This means every year, 1% of the assets are consumed and need replacing ($50 million x 1% = $500,000). If council was no longer responsible for the DWM function, we assume council would sell its assets and therefore avoid depreciation on those assets. All of the $500,000 of depreciation costs would be included in the DWM incremental cost basket.

Overhead/indirect costs

CEO/directors salary – Assuming a significant DWM day labour force, if council was no longer responsible for the DWM function this would materially reduce total council staff numbers. We assumed staff changes would save $300,000 per year. Therefore, $300,000 would be included in the DWM incremental cost basket.

Education– The council has an education budget of, say, $500,000 spread across companion animals, tidy towns, recycling and domestic waste. Council calculates $100,000 of that budget relates directly to education on separating waste and notifications of council clean-ups. $100,000 goes into the incremental cost basket.

HR & IT – A 10% reduction in total staff numbers if council was no longer responsible for the DWM function. It is important for councils to consider how many IT and HR staff would be reduced if the DWM function transferred when apportioning HR and IT costs to the DWM incremental cost basket. In this day labour example, we assumed double the reduction in HR and IT costs compared with the contracted out example. Therefore, $100,000 would be included in the DWM incremental cost basket.

[c] In reality the average asset life will be much shorter, but this assumption simplifies the calculation in this example.

Lease costs – In the contracted out collection example, we assumed there would be no reduction in lease costs because the size of the council administration building would not be reduced. In this day labour example, we assumed the depot for the council garbage truck fleet and maintenance facility is leased and the lease cost would not be required if the DWM function went to an outside agency. Therefore, in this example $100,000 of lease/rent costs would go into the DWM incremental cost basket.

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1 IPART calculations based on Office of Local Government, Your Council Report, accessed on 24 November 2021.
2 NSW Department of Planning, Industry and Environment, NSW Waste and Sustainable Materials Strategy 2041, June 2021
3 IPART, Order under section 507, *Local Government Act 1993*, 13 December 2021.
4 For more information, see our Media Release. 13 December 2021.
5 Department of Local Government, Council Rating and Revenue Raising Manual, January 2007.
6 IPART. *Local Council Domestic Waste Management Charges - Discussion Paper*, August 2000, Appendix A, Table A.1 (Marsden Jacobs, *Overview of DWM in NSW*), p 29.
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ISBN 978-1-76049-507-7