



City of Ryde

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IPART Draft Report – Review of Domestic Waste Management (DWM) Charges

City of Ryde Submission

28 April 2022

Disclaimer: This submission has not been endorsed by the elected Council of The City of Ryde Council. The submission is made at staff level.

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

RESPONSE:

Strongly oppose the use of a Waste Peg based on the methodology in the Draft Report.

With the proposed annual waste peg, it is very concerning that IPART are once again looking backward. The report proposes to use the Cost Index data collected, applying weightings and changes in price movements over the year to calculate the Waste Cost Index. The proposed benchmark for 2022-2023 is 1.1%.

This does not consider what is currently happening in the market with rising interest rates, cost of fuel, supply chain issues and shortage of contractors to name the least. It is interesting to note that the same methodology used for the rate peg is now being reviewed after concerns were raised by Councils and others. This resulted in the Minister announcing a broader review of the rate peg methodology, including the Local Government Cost index, with outcomes from the review expected to shape rate peg determinations in future years (Circular 22-03 Office of Local Government).

Moreover, this ‘benchmark’ waste peg does not consider any external cost drivers such as China’s National Sword Policy, Federal Government’s export ban on waste and recyclables, lack of new investment in waste infrastructure, as noted in Table 2.2 of the Draft Report. IPART have commented that “most of these issues are outside the scope of this review (page 13 of Draft Report). These external cost drivers have had a significant impact on the cost of providing domestic waste services and continues to do so. The draft report mentions that further analysis has been undertaken between 2013-2014 to 2018-2019 as the average increase in DWM charge has been 4.5% compared to average CPI of 1.9% and average increase of rate peg at 2.1%. Interestingly IPART agrees that the external cost drivers mentioned above did not have an impact until after December 2017 and yet they are using data from 2013-2014 to 2018-2019 to arrive at the average increase of 4.5% in DWM. This distorts the average results because it ignores the impact of the inevitable variations. As is demonstrated in the table below over the past five years Ryde has only had an average yearly increase of 0.60%. City of Ryde has not tested the market for collection and disposal contracts since 2014 and anticipate substantial increases in future procurement.

FY Year	DWMC	% Increase/Decrease
17-18:	\$432	
18-19:	\$422	-2.30%
19-20:	\$422	0%
20-21:	\$433	2.60%
21-22:	\$442	2.10%
	Average Yearly Increase	0.60%

Table 1: Average yearly increase of DWMC

Effective from 1 July 2022, the NSW EPA Better Waste and Recycling Funding will cease. This non-contestable grant has been relied upon to support NSW Council's in the delivery of their waste programs and projects since 2013-14. At the time of this submission, the NSW EPA have not provided plans to introduce an alternative non-contestable funding. This puts additional pressure on Council's to rely on the DWMC to resource and deliver these programs and projects. Without considering the current and future market conditions, the external global and national factors, there will be significant implications on the future provision of Waste services. It is recommended that while the rate peg methodology is being reviewed, that IPART reconsider this waste peg methodology. In addition to opposing the waste peg methodology, there is no benefit in benchmarking and publishing such information as you need to be able to 'compare apples with apples'. No two Councils are the same and each Council provides differing types and levels of service which would make benchmarking and publishing such information a useless exercise. It also doesn't address the issue of outlier councils that charge above the average costs, which was the primary motivator for the IPART review.

Transparency is necessary and it is important to explain factors that might have contributed to differences in prices to provide meaningful information to users of the data. However, this will just add more red tape and administration costs for Councils. Councils have limited resources and this administrative burden and cost shifting will only hinder Council's ability to deliver effective and efficient services to the community. We would prefer audits of Council's DWM Charges. This practice previously worked well, and it provides credibility to the financial data and gives ratepayers confidence that the charges are true and fair.

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

RESPONSE:

Strongly oppose incremental costing and rebalancing the DWM revenue shifted to general rates through a special variation process. Once again, this principle would add additional pressure and administrative burden on Council's having to apply to IPART to move the "justifiable" revenue to general rates. Aside from Roads and Parks maintenance, domestic waste management expenditure accounts for the highest cost, and this would be the case for many NSW Councils. Waste management operates in a monopoly market similar to water & sewerage supply activities. It is interesting to note that water and sewerage are classified as business activities and under the principles of competitive neutrality are required to apply full costing principles when reporting on such activities in the statutory financial statements. This is because "prices are set to achieve arbitrary rates of return and the purpose of such a return is not to inflate prices but rather to ensure the long term survival of the operation at an appropriate standard of service and measure of efficiency in providing for that service" (Reference "Department of Local Government Pricing & Costing for Council Businesses A guide to competitive neutrality"). The waste management function already operates as a business activity in accordance with full cost pricing principles and consumers have become accustomed to user pays based waste charges that reflect levels of use.

Understanding the full costs of waste management can help Council's make better decisions, improve the efficiency of services, and better plan for the future. Much like private sector, such overhead and support costs would have to be factored in to arrive at the pricing for such a service. In fact, by focusing attention on costs, full costing fosters a more business-like approach to waste management. Consumers of such services increasingly expect value, which means an appropriate balance between quality and cost of service. It can help identify opportunities for streamlining services, eliminating inefficiencies, and facilitating cost-saving efforts through informed planning and decision-making. This would also ensure long term financial sustainability. Waste services are tailored to meet the needs of the community and it is likely to be provided by local Councils well into the future.

Having an approved overhead allocation policy with the use of appropriate cost drivers is reasonable and fair considering that full cost recovery should be pursued. Waste management utilises several support services from Council via internal service arrangements and is charged an 'appropriate' amount of such corporate overhead costs to represent payment for these services. Support services include Human Resources, Information Systems, Financial and other services such as Rating Services, Management/Financial Accounting, Payroll, Procurement, Accounts Payable/Receivable, Customer Service, Records Management etc. Such costs cannot be ignored because these services incur costs in supporting the waste management program and a considerable amount of time is invested in ensuring that value for money is achieved. In relation to overheads, one cannot just look at the HR/IT costs alone as suggested. In order to levy the Domestic Waste Charge, relevant data needs to reside in a secure database and data integrity needs to be maintained. Also, the number of properties in the database needs to be reconciled and must agree with the number of actual services that are provided to residents. In reality, it is extremely difficult to isolate the exact portion of back office function to be considered "incremental". It is more practical for Councils to devise a "cost-driver" approach in allocating its overhead, rather than an incremental approach. The onus is then on Council to review and update its cost drivers to ensure they are still relevant and to monitor reasonableness of the overall overhead charge as a percentage of DWM costs.

City of Ryde uses an overhead allocation method to allocate support services to waste management and this is done through the use of appropriate cost drivers. The current waste charge for a residential assessment is \$442 per annum, which equates to \$8.50 per week. For a weekly garbage service, fortnightly garden organics & recycling service, and 5 kerbside clean-up collections per annum, this amount per week which includes overheads seems quite 'reasonable' for the service that is being provided. There are other concerns with what direct costs are not allowed to be considered as part of DWM services. What can be charged to DWM (kerbside services) may result in some domestic waste services losing funding. Specific examples include the medical waste disposal program, clothing bins, problem waste stations and wastes collected at Community Recycling Centres. If these services need to be funded from general revenue, they will need to compete for limited funding and may not proceed in the future. Ultimately this will adversely impact on kerbside service as it will likely increase the levels of contaminants (non-complaint materials) in kerbside bins.

The services that Councils can fund through DWM charges (as listed on Page 20 of the Draft Report), however there are a lot of waste services that are not mentioned. What can and can't be charged to DWM does not align with the expectations of residents. Litter, resource recovery, public place recycling bins and illegal dumping are all issues that residents relate to domestic waste management, what is the benefit of reallocating these costs? Did public consultation with community groups assess waste perceptions and their expectations of Domestic waste services? Once again, if these services need to be funded from general revenue, they will need to compete for limited funding and may not proceed in future. The proposed pricing principals may at the very least, provide basic guidance on an economically justifiable approach to setting DWM charges, however an assessment of "best value" waste management must also consider environmental benefit. For example, identifying outlier Councils in any annual pricing report may lead to Councils being wearier of adopting new, more innovative, and/or environmentally beneficial waste services and waste processing technologies, as these can be more costly. Landfill disposal may in turn appear more commendable within the proposed system because it is often cheaper than processing or recovering material. There is therefore a need, regarding any annually published DWM pricing data, to very clearly show some measure of landfill diversion / environmental benefit factor(s) achieved – so that advanced waste technologies are not discouraged because of cost. A visual indicator that adequately highlights variations in environmental benefits would likely assist ratepayers in interpreting comparable waste services e.g. an environmental star rating system. If published annual comparisons do not also clearly reflect 'environmental best value' then outcomes contrary to those desired, may ensue.

Furthermore, Councils should be allowed to factor future needs in DWM charges. It is also important for Council to be looking into the future to ensure appropriate infrastructure are planned and delivered timely to service its growing population and industry wide demands. With landfills expected to reach capacity in the next 10-15 years and no capacity to recycle tonnes of waste previously exported, there is a risk that the state's waste systems will soon be unable to cope. As waste generation continues to grow and outstrip population growth, the NSW Waste and Sustainable Strategy needs to give industry the confidence to respond to these challenges and support investment and innovation. Whilst this matter has no immediate direct financial impact on Council's current DWM services, if serious infrastructure is not provided in time, there will be significant increases in DWM costs in the future. Therefore, review of DWM charges need to be considered in this wider context to ensure Councils are heading the right direction. So, whilst changing the legislation or having a revenue and rating raising policy may provide guidance and clarity, until this is aligned with full cost recovery and the future of Waste, there is no benefit to local government.

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?

RESPONSE:

If further examples are required, then this should be done in consultation with the industry. However, there are some examples which may be of more assistance:

- Guidance on which landfill remediation costs may be covered by DWM funds;
- Guidance on costs that can be covered as part of the DWMC, in consultation with community to align service expectations.
- Examples showing cost accounting for moving to advanced waste technology waste services, such as FOGO, noting the potential need to justify a typical DWM cost increase with IPART.