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Ms Carmel Donnelly  
Chair of Tribunal  
Independent Pricing and Regulatory Tribunal NSW

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[Sheridan\\_Rapmund@ipart.nsw.gov.au](mailto:Sheridan_Rapmund@ipart.nsw.gov.au)

Dear Ms Donnelly,

### **Review of Domestic Waste Management Charges**

The City of Sydney (the City) welcomes the opportunity to comment on IPART's Domestic Waste Management Charges (DWMC) Draft Report and to continue in the conversation about how IPART can best support local government's implementation of Domestic Waste Management (DWM) charges.

The City has openly and in good faith participated in the initial project working groups with IPART and in subsequent discussions and forums with the intention of providing clarification on actual costs and the operational realities of providing domestic waste management services to the residential community.

The City is committed to transparency with our community as evidenced by independent annual audits and exhibition of any increased fees and charges. Since 2017-18 the City's model for calculating costs levied to residents and business is audited annually by the Auditor General. Prior to this event the City's models were independently audited by accounting firm PwC. The City's annual Fees and Charges are also on display before adoption each year. The period of public exhibition provides the community opportunity to communicate expectations, provide criticism, approval or other feedback, and for the Councillors to consider before adoption.

Furthermore, the City supports the Local Government NSW position that some of IPART's Draft Report recommendations go beyond IPART's remit and the strong recommendation that IPART does not introduce a DWM charge peg or any other benchmark at this time, but instead works with local government and the NSW Government to update the definitions and guidance relating to the DWM charge.

The City has considered the Draft Report and has the following recommendations. A more detailed response to the proposed principles and issues for comment are provided in the attached response document.

- **The City does not support the capping of the DWM charges through a percentage variation under section 507 of the *Local Government Act 1993*.** The City is primarily concerned that the potential regulation would fail to address the differing service levels, service requirements and community expectations of each local government area and the flow on effect that these have on DWM charges.

- **The City notionally supports the development of key pricing principles that reflect good business practices and drive cost efficiencies** but notes that councils already have a legislative requirement to ensure the income from DWM charges does not exceed the reasonable cost to the council of providing those services. Additionally, the City has many concerns about IPART's contradictions with the *Local Government Act 1993* and Office of Local Government Council Rating and Revenue Raising Manual.
- **The draft principles are flawed** as they focus heavily on waste collection and disposal and fail to incorporate the breadth of *managing* waste.
- **All of the City's residential waste collection and processing services are delivered by external contracts that have been subject to competitive tender processes** already governed by law.
- The City can demonstrate strong community support for increased recycling services from thousands of residents and **rigid definitions around pricing principles could lead to stifling of innovation and long-term increased reliance on landfill** where costs will continue to rise in Metropolitan Sydney.
- **Increased transparency regarding the DWM charges and factors influencing the charge is supported providing the proposed approach ensures that the data can be easily understood and is inexpensive to administer and maintain.** The City suggests leveraging from publications already collated and provided such as the Office of Local Government's Comparative Data.
- **The calculation of the Waste Cost Index (WCI) uses cost data from 2017-18 and 2018-19 which is up to four years old and does not include the cost impact of more recent events** where many of the service cost impacts were not applied until the year(s) following an event or change. Restricting future DWM income based on historical expenditure increases wouldn't allow councils to look ahead and budget for known and expected expenditure requirements.
- **The NSW Office of Local Government (OLG) Council Rating and Revenue Raising Manual was last updated in 2007 and does not reflect how waste and recycling services to the community have changed in NSW over the last fifteen years** and the expectation from the community with regard to the types of services that are available. A review and update of the manual is required prior to incorporation of the proposed pricing principles.
- **Implementation of new services acknowledged.** The recent review of changes in the waste and resource recovery industry show how external factors can have significant impact on council residential services. The Pricing Principles need to acknowledge that new services required by federal and state legislation or policy will require increased costs during implementation and that those new services will need to be funded out of the DWMC.

Should you wish to speak with a Council officer about this submission, please contact Cathy Price, Manager Cleansing and Waste by telephone on [REDACTED] or by email at [REDACTED]

Yours sincerely

[REDACTED]

**Monica Barone**  
Chief Executive Officer

# City of Sydney Response to IPART Domestic Waste Management Charges Draft Report



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# Introduction

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## Our organisation

The City of Sydney (the City) welcomes the opportunity to comment on IPART's Domestic Waste Management Charges Draft Report and to continue in the conversation about how IPART can best support local government's implementation of Domestic Waste Management (DWM) charges.

The City has openly and in good faith participated in the initial project working groups with IPART and in subsequent discussions and forums with the intention of providing clarification on actual costs and the operational realities of providing domestic waste management services to the residential community.

The City is committed to transparency with our community as evidenced by independent annual audits and exhibition of any increased fees and charges. Since 2017-18 the City's model for calculating costs levied to residents and business are audited annually by the Auditor General. Prior to this event the City's models were independently audited by accounting firm PwC. The City's annual Fees and Charges are also on display before adoption each year. The period of public exhibition provides the community opportunity to communicate expectations, provide criticism, approval or other feedback, and for the Councillors to consider before adoption.

Furthermore, the City supports the Local Government NSW position that some of IPART's Draft Report recommendations go beyond IPART's remit and the strong recommendation that IPART does not introduce a DWM charge peg or any other benchmark at this time, but instead works with local government and the NSW Government to update the definitions and guidance relating to the DWM charge.

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## Summary

The key points of this submission are listed below. A more detailed response to the proposed principles and issues for comment are provided in the remainder of this document.

- **The City does not support the capping of the DWM charges through a percentage variation under section 507 of the *Local Government Act 1993*.** The City is primarily concerned that the potential regulation would fail to address the differing service levels, service requirements and community expectations of each local government area and the flow on effect that these have on DWM charges. Additionally, the City disagrees with the proposal of removing the cost of social policy from the charge.
- **The City notionally supports the development of key pricing principles that reflect good business practices and drive cost efficiencies** but notes that councils already have a legislative requirement to ensure the income from DWM charges does not exceed the reasonable cost to the council of providing those services. Additionally, the City has many concerns about IPART's contradictions with the *Local Government Act 1993* and Office of Local Government Council Rating and Revenue Raising Manual.
- **The draft principles are flawed** as they focus heavily on waste collection and disposal and fail to incorporate the breadth of *managing* waste.
- **All of the City's residential waste collection and processing services are delivered by external contracts that have been subject to competitive tender processes** already governed by law.
- The City can demonstrate strong community support for increased recycling services from thousands of residents and **rigid definitions around pricing principles could lead to**

- stifling of innovation and long-term increased reliance on landfill** where costs will certainly continue to rise in Metropolitan Sydney.
- **Increased transparency regarding the DWM charges and factors influencing the charge is supported providing the proposed approach ensures that the data can be easily understood and is inexpensive to administer and maintain.** The City suggests leveraging from publications already collated and provided such as the Office of Local Government's Comparative Data.
  - **The calculation of the Waste Cost Index (WCI) is using cost data from 2017-18 and 2018-19 which is up to four years old and does not include the cost impact of more recent events** where many of the service cost impacts were not applied until the year(s) following an event or change. Restricting future DWM income based on historical expenditure increases wouldn't allow councils to look ahead and budget for known and expected expenditure requirements.
  - **The NSW Office of Local Government (OLG) Council Rating and Revenue Raising Manual was last updated in 2007 and does not reflect how waste and recycling services to the community have changed in NSW over the last fifteen years** and the expectation from the community with regard to the types of services that are available. A review and update of the manual is required prior to incorporation of the proposed pricing principles.
  - **Implementation of new services acknowledged.** The recent review of changes in the waste and resource recovery industry show how external factors can have significant impact on council residential services. The Pricing Principles need to acknowledge that new services required by federal and state legislation or policy will require increased costs during implementation and that those new services will need to be funded out of the DWMC.

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## General comments on the IPART Review

### Cost for services are market driven

All of the City's residential waste collection and processing services are delivered by external contracts that have been subject to competitive tender processes as prescribed by Section 55 of the *Local Government Act 1993* (the Act) and Part 7 of the Local Government (General) Regulation 2021. The costs to deliver these services represents the best value for money at the time of going to the competitive tender process. The City has seen increases in the cost for services due to the external market drivers mentioned at length in the IPART report.

### Waste Index Cost Calculations

A benchmark waste peg would not be of any benefit to councils due to the vast differences between councils in service offering, current stage of asset life cycles, and community needs and expectations. IPART acknowledges the volatility of the external factors e.g. China Sword, landfill levy, changes in legislation and environmental regulations could lead to councils needing to increase the domestic waste charge. IPART proposes that, under a benchmark process, any significant increases in costs would need to be justified by councils in an annual report. However, the suggested benchmark waste peg of 1.1% is not reflective of recent annual cost increases within the waste management industry and immediately highlights the inadequacy of the benchmark peg calculation method to accurately forecast changes in costs and service requirements.

## **Community support for increased recycling services**

As part of the engagement process in 2019/20 to update our Community Strategic Plan the City received more than 5,000 responses to our most recent community wide survey<sup>1</sup> with 86% of respondents said they would rather recycle products rather than having them go to landfill.

Residents strongly endorsed better waste management with more recycling, reuse and waste reduction. How we manage waste in the future was a specific discussion at the community sessions. Many participants were eager to see more education programs and initiatives that encourage people to reduce their waste as well as the City initiating new technologies to manage waste and recycling more efficiently.

The City has recently trialled two new doorstep services, food scraps and Recycle Smart. The food scraps service is targeting the largest single waste stream, food waste, still going to landfill. The City provided opportunity for residents to apply to be part of the two-year trial. The trial attracted more than 1,000 houses and 233 apartment buildings (servicing more than 18,000 households across the local government area) and more being added every month. The Recycle Smart trial scheme offers an on-demand service to residents to pick up small items for recycling that are not managed through our larger recycling contracts e.g. clothing, soft plastics, light bulbs, and batteries.

Recent trial services such as food scraps and Recycle Smart, both doorstep services, have had strong uptake by the community and the City continues to add new services every month.

Rigid definitions around pricing principles could lead to stifling of innovation regarding new services and long-term increased reliance on landfill where costs will certainly continue to rise in Metropolitan Sydney due to reducing landfill void capacity and lack of alternative infrastructure development e.g. energy from waste.

The City is not satisfied that the IPART Draft Report can demonstrate a similar level of concern from residents regarding domestic waste charges based on only 33 rate payer submissions from across NSW.

## **Delivering Federal and State Policy**

The IPART approach to the DWM charge reflects a linear waste model and does not reflect the innovation and different way of thinking that is necessary for transitioning to a circular economy.

Transitioning to a circular economy underpins the NSW Waste and Sustainable Materials Strategy 2021-2041<sup>2</sup> and is the NSW Government's stated policy direction for better managing our resources and minimising waste. It will potentially require councils to undertake activities beyond what IPART (and the definitions in the Local Government Act and Rating Manual) currently considers 'domestic waste management' to be.

## **Consistency with Legislation**

Section 496 of the NSW Local Government Act<sup>3</sup> requires that *a council must make and levy an annual charge for the provision of domestic waste management services for each parcel of rateable land for which the service is available*. Further, Section 504 of the Act also stipulates that *income obtained from charges for domestic waste management must be calculated so as to not exceed the reasonable cost to the council of providing those services*. It should be assumed that councils are complying with the legislation and governance need only be by exception, through the existing annual audits of the reasonable cost calculation.

Increased transparency regarding the DWM charges and factors influencing the charge is supported with a caveat that the proposed approach ensures that the data can be easily

<sup>1</sup> <https://www.cityofsydney.nsw.gov.au/vision-setting/planning-sydney-2050-what-we-heard>

<sup>2</sup> <https://www.dpie.nsw.gov.au/our-work/environment-energy-and-science/waste-and-sustainable-materials-strategy>

<sup>3</sup> [http://www5.austlii.edu.au/au/legis/nsw/consol\\_act/lga1993182/s496.html](http://www5.austlii.edu.au/au/legis/nsw/consol_act/lga1993182/s496.html)

understood and is inexpensive to administer and maintain. The City suggests leveraging from publications already collated and provided such as the Office of Local Government's Comparative Data.

### **Option to Rebalance**

The City is aware that during discussions with IPART as part of the review process there has been discussion of a 'rebalancing' approach as an alternative to the benchmark peg.

The City does not support the implementation of such an option for the following reasons:

- the City already apportions non-domestic waste services to general costs and this process is already subject to annual audits by the Auditor General
- the rebalancing option has not been formally presented by IPART in the Draft Report as an alternative to the benchmark peg and therefore the scope for this option has not been made clear
- this option has not been part of the consultation process.



# Response to Waste Peg and Pricing Principles

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## Benchmark Peg

Introducing a benchmark peg does not support the intent of Sections 496 and 504 of the *Local Government Act 1993* that the domestic waste management services of the council must be financed by a specific annual charge made and levied for that purpose alone, and that council is expressly prevented from applying income from an ordinary rate towards the cost of providing domestic waste management services<sup>4</sup>.

Restricting future DWM income based on historical expenditure increases wouldn't allow councils to look ahead and budget for known and expected expenditure requirements.

The calculation of the Waste Cost Index (WCI) is using cost data from 2017-18 and 2018-19 which will be up to four years old and does not include the cost impact of more recent events as noted in Table 2.1 of the Draft Report where many of the service cost impacts were not applied until the year(s) following an event or change.

The use of ABS to measure changes in costs is not appropriate as this is based on wage costs, producer, and consumer prices<sup>5</sup>. The ABS is not reflective of waste contractor rise and fall agreements or other cost factors such as fuel.

It is unclear how the IPART proposed methodology for the 2022-23 1.1% benchmark peg can be reconciled with the actual 4.5% average increases in domestic waste management charges as they reflect true cost of service.

Theoretically, the introduction of a benchmark peg seems to encourage councils to increase domestic waste charges by the benchmark waste peg rather than account for the actual cost of the services. Furthermore, a council with very efficient services and relatively low DWM charges would be able to increase its annual charge by less, in dollar terms, than an inefficient council with higher charges, further exacerbating the issue. As with an actual waste peg, the theory of a benchmark waste peg just doesn't make logical sense.

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## Pricing Principles

The City would support an initiative by the Office of Local Government (OLG) to update its Council Rating and Revenue Raising Manual including the setting of DWM charges. Any update should be

<sup>4</sup> <https://www.olg.nsw.gov.au/wp-content/uploads/Council-Rating-And-Revenue-Raising-Manual-January-2007.pdf>

<sup>5</sup> P.17 of Draft Report

based on input directly from NSW local councils and reflect the levels of service currently provided and expected by the community.

IPART's proposed key pricing principles are largely principles already used by the City. They mostly reflect good business practices which drive cost efficiencies. This includes tendering regularly to ensure that prices and costs are tested.

However, the City disagrees with the notion of excluding the cost of social policy in relation to the cost of providing pensioner rebates. Policy decisions on providing additional voluntary rebates on DWM charges are part of the City's annual Operational Plan and Revenue Policy that undergoes a public exhibition and feedback process before adoption. We note the Draft Report acknowledges that '*how pensioner concessions should be funded is outside the scope of this review*'<sup>6</sup>. Therefore, the City proposes to continue to operate pensioner rebates in line with its existing policies and procedures.

### **Pricing Principle 1 - DWM revenue should equal the efficient incremental cost of providing the DWM service**

The NSW Office of Local Government (OLG) Council Rating and Revenue Raising Manual<sup>7</sup> was last updated in 2007 and does not reflect how waste and recycling services to the community have changed in NSW over the last fifteen years and the expectation from the community with regard to the types of services that are available. A review and update of the manual is required prior to incorporation of any pricing principles. In particular, the definition of 'domestic waste management services' on p.48 of the manual should expand the current definitions of recycling activities to include services to residents that may or may not include collection from premises but may be in the form of an aggregated centre such as council depot or community centre. Additionally, reducing residential waste generation is the best way to keep the escalating costs of managing waste down and therefore the provision of residential waste avoidance and recycling education by local government is a critical long term part of domestic waste management services and should be reflected as such in the definitions.

The City disagrees with IPART's suggestion to remove all costs of managing illegal dumping from the DWM charge. The City asserts that managing illegal dumping absolutely meets the criteria of managing domestic waste because in the City's experience 90% of illegal dumping in the City of Sydney local government area is generated domestically and if booked services are not utilised they are discarded on the street and the City is charged for its removal and processing. IPART's view of what encompasses the management of domestic waste is far too narrow.

The City notes a suggestion that, if particular costs were *not* recovered through the DWM charge, councils could apply to IPART for a special variation to its general rate revenue and recover the costs through rates instead. However, the rates income is subject to a rate peg and the City has already explained why a peg based on retrospective changes in expenditure don't allow accurate recovery of future costs.

### **Pricing Principle 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**

The IPART paper describes the domestic waste charges on a user-pays basis defined as *charges are reflective of the cost of providing the service to that customer*<sup>8</sup>. It is the City's view that this definition is misleading. The OLG Council Rating and Revenue Raising Manual includes two separate methods for raising revenue under sections 496 and 502 of the Act and it is at the discretion of the council which part of the Act it uses to recover the cost for providing domestic

<sup>6</sup> P.12 IPART Review of Domestic Waste Management Charges

<sup>7</sup> <https://www.olg.nsw.gov.au/wp-content/uploads/Council-Rating-And-Revenue-Raising-Manual-January-2007.pdf>

<sup>8</sup> Page 1 of the IPART Draft Report

waste management services. Councils also have the option to use both parts of the Act in combination, or separately, in recovering costs of service.

The City provides services for waste and recycling across the local government area that satisfy the overall needs of the residents in our local government area. It sets annual DWM charges under section 496 and charges for the service that has been made available. This is different to an actual use charge under section 502. For example, the cost of hard waste pickups makes up a small portion of every annual DWM charge, although the actual use of this element of the service (i.e. the number of times a hard waste pickup is requested) will vary from ratepayer to ratepayer.

Publishing individual charges for every service reflects more of a bespoke commercial service and is at odds with an availability charge under section 496.

**Principle 3 - imposing similar costs for a particular service should pay the same DWM charge and paying the same DWM charge for a particular service should receive the same level of service.**

This principle will not always work in practice.

Councils can provide the same service to every property but the cost of providing the service may vary depending on a number of factors including location and accessibility. Therefore, councils may justifiably charge different amounts for the same service if they explain why the different charge applies.

**Principle 4 - Any capital costs of providing DWM services should be recovered over the life of the asset to minimise price volatility**

The draft report is proposing that any capital cost of providing domestic waste management services should be recovered over the life of the asset to minimise price volatility.

In Section 12 of the OLG Manual under reasonable costs of domestic waste management service the following is stated '*the charge includes provisions for future events that are planned but not current legal commitments. The charge may typically cover those short term, recurrent and operational costs of waste management, longer term capital costs, anticipated material shifts in outsourcing costs or future replacement costs*'. The manual also states, '*in addition to using up existing assets, council can create provisions for future events so as not to leave the burden of abnormally large periodic costs to customers at that future time*'.

Rather than be subject to the cost of a loan councils can use money collected in a reserve to manage future capital cost impacts to residents. The City does not make any additional allowance in its domestic waste management charge for a reserve however as a result of the prospective charge and combined with an increase in residential rateable properties and the variability of costs there can sometimes be a surplus of funds collected for waste management purposes. The surplus funds are 'restricted' in a DWMC reserve.

# Response to issues for comment

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

No. All of the City's residential waste collection and processing services are delivered by external contracts that have been subject to competitive tender processes as prescribed by Section 55 of the *Local Government Act 1993* (the Act) and Part 7 of the Local Government (General) Regulation 2021. The costs to deliver these services represents the best value for money at the time of going to the competitive tender process.

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

The City would support an initiative by the Office of Local Government (OLG) to update its Council Rating and Revenue Raising Manual including the setting of DWM charges. Updates to the NSW Office of Local Government (OLG) Council Rating and Revenue Raising Manual should be based on input directly from NSW local councils and reflect the levels of service currently provided and expected by the community.

The OLG Manual was last updated in 2007 and does not reflect how waste and recycling services to the community have changed in NSW over the last fifteen years and the expectation from the community with regard to the types of services that are available. A review and update of the manual is required prior to incorporation of the proposed pricing principles.

In particular, the definition of 'domestic waste management services' on p.48 of the manual should expand the current definitions of recycling activities to include services to residents that may or may not include collection from premises but may be in the form of an aggregated centre such as council depot or community centre. Additionally, reducing residential waste generation is the best way to keep the escalating costs of managing waste down and therefore the provision of long term residential waste avoidance and recycling education by local government is a critical part of domestic waste management services and should be reflected as such in the definitions. The current definitions also do not include flexibility for future services and how they may evolve with ongoing changes within the waste and resource management industry.

A more detailed discussion of the individual pricing principles is provided earlier in this response.

### 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?

Updates to the NSW Office of Local Government (OLG) Council Rating and Revenue Raising Manual should be based on input directly from NSW local councils and reflect the levels of service currently provided and expected by the community.

The recent review of changes in the waste and resource recovery industry show how external factors can have significant impact on council residential services. The Pricing Principles need to acknowledge that new services required by federal and state legislation or policy will require increased costs during implementation and that those new services will need to be funded out of the DWMC.

