

## Independent Pricing and Regulatory Tribunal (IPART) Draft Report

### Review of Domestic Waste Management Charges December 2021

#### Shoalhaven City Council Submission to IPART

22 April 2022

#### Review of IPART Draft Report December 2021

The IPART initiated a review of the annual Domestic Waste Management (DWM) Charge through a discussion paper issued in May 2020. Following the review a draft Report was issued in December 2021 for comment. The draft report replaced the proposed setting of a monitoring, reporting and benchmarking regime with a *Waste Peg*.

The draft report proposed three draft decisions:

1. *Publish an annual benchmark waste peg for domestic waste management charges.*
2. *Publish an annual report highlighting the Councils where domestic waste management charges have increased by more than the benchmark rate peg, with Council's justifications for the increases above the benchmark rate peg.*
3. *Office of Local Government to publish pricing principles to guide Council's on how they should recover the costs of providing domestic waste management services*

IPART seeks comment on:

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

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

### *Current budgeting*

Currently the Domestic Waste Management charge in the Shoalhaven is calculated from first principles using zero based budgeting. The total actual cost of providing the service, including staff and resource costs, contractor costs, processing costs, disposal costs, regulatory costs, education and overheads is calculated.

The total cost is then apportioned across the bin sizes and number of services, to provide a combined break-even annual charge per household. The apportionment is not equivalent however, with a lower price incentive to use the smallest bin size (80 litres) and a higher price disincentive to use the largest bin size (240 litres).

### *Waste Peg budgeting*

Just like the rate peg, the proposed waste peg is a rear facing indicator that looks at the historical cost increases and as such, fundamentally this indicator will never reflect future economic trends and actual future business need. Ultimately this method of calculation will ruin financial sustainability of the local government as soon as the low interest rate and low-inflation era ends in Australia and prices increase above rate peg which is based on previous year CPI.

Current economic and political situation in the world demonstrates how quickly supply and demand and as a result, commodity prices can change in real world and any organisation, including local councils, need to plan for and react to these changes quickly in order to sustain its operations. Having a benchmark that is based on historical information that is irrelevant to the future economic indicators is illogical approach that will ultimately lead to financial collapse of the organisation. That's why proper budgets for organisations in private and government sectors are built based on the current trends and future economic forecasts rather than simply looking back on what changes last year.

As such, it is not appropriate to apply a flawed methodology of the rate peg calculation on other revenue streams of local government, especially, when there are debates and discussion happening in relation to changing this methodology for rates.

Using a waste peg effectively allows for incremental budgeting, which is simple and quick, but has disadvantages in that it may compound historic errors and doesn't consider future changes. This may result in unintended shortfalls or surpluses. A first principles calculation would result in a far more equitable charge being applied.

With the waste peg only being effective from 2023/24, there is a potential to have a large increase in DWC in the 2022/23 financial year to set a higher baseline. While this may be valid in certain scenarios and can be seen to be rebalancing, it could result in perverse pricing outcomes.

### *Industry trends and effects on pricing*

The waste industry is in a state of ongoing flux with new regulatory demands on service and standards changing regularly. Councils need to be prepared to adapt to new demands and

transition their residents into the new waste paradigm. Examples of major changes include the Waste and Sustainable Materials Strategy 2041 (WaSM) requiring a host of new or enhanced activities to deliver against the Strategy's objectives and targets. Add the challenges of waste export bans, significant fuel price increases and transport costs, impacts of bushfire, flood and pandemic and most recently the war in Ukraine, and a simplified "Waste Peg" may hamstring councils in their efforts to provide a reasonable level of service to their communities.

Response to question 1:

No, I don't believe that the proposed annual 'benchmark' waste peg will assist councils in setting their DWM charges. The peg is a very blunt instrument that can easily be misinterpreted.

In lieu Council recommend:

Publish very clear guidelines on components of the DWC that are deemed to be valid and let Councils provide the calculations from first principles to support the DWC.

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

The current pricing principles are outlined in the OLG Council Rating and Revenue Raising Manual. The manual is dated, has not kept up with rapidly changing waste processes and is centred on services provided in the Sydney Metropolitan areas. It neglects the different nuances of the waste collection service in regional and rural councils. The Shoalhaven therefore welcomes a review of the pricing principles.

Specific comments on services that Councils can fund through DWM charges, listed on page 20 of the Draft Report, include:

- **"DWM charges recover *only* the costs directly related to the service of *removing waste from domestic properties*". We recommend that the wording be changed to "DWM charges recover only the costs directly related to the provision of a waste service for domestic properties".**

Many rural and regional areas allow drop off of waste at depots and provide vouchers to enable the resident to do their spring clean. The voucher system is provided in lieu of the kerbside hard waste pick up provided by many metropolitan councils. The voucher system therefore doesn't entirely fit the definition of "removing waste from domestic properties", wording that was designed for metropolitan waste services.

- Ancillary functions such as Clean Up Australia Day, and similar litter programs, anti-litter education and advertising, education, identification and clean-up of illegal dumping could feasibly be traced to households. However, the Manual excludes these from the annual DWC. The need to continue to provide these functions needs to be reassessed.

It is noted on Page 13 of the draft report that that "*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". **We recommend that** a component of illegal dumping investigation and clean up be incorporated in the annual DWC.

- "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". This definition is confusing and may be very limiting. For example, does it cover a school visit to talk about recycling, composting, minimisation and avoidance, or a similar talk to a community group, or events to create awareness amongst the community? Do home sustainability workshops (which are intended to encourage waste avoidance, minimisation and reuse) qualify? **Recommend** clearer definition of what components of education can be included in the DWC.
- "Other functions related to waste which do not involve the periodic collection of domestic waste from households should be funded through general rates". The on-call green and bulky waste pick up service is on-call and therefore not "periodic" but is integral to our suite of domestic waste offerings. Voucher usage as described earlier is also not necessarily periodic, nor is it necessarily collection. More certainty needs to be provided on this terminology. **Recommend** remove the words *periodic* and *collection* from the definition to allow for on-call and voucher drop off at depots.

In summary Councils would be looking for a legally-verified clarification of the definitions of waste and domestic waste management services in the LG Act and OLG Rating and Revenue Raising Manual.

The IPART proposed pricing principles consist of:

- a) DWM revenue should equal the efficient incremental cost of providing the DWM service
- b) Publishing details of all the DWM services including the size of bin, frequency of collection and individual charges for each service.
- c) Within a Council customers should pay the same DWM charge for a particular service and should get the same level of service.
- d) Any capital costs to provide the DWM service should be recovered over the life of the asset to minimise price volatility

**a) DWM revenue should equal the efficient incremental cost of providing the DWM service**

Whilst this recommendation is reasonable and doesn't change significantly the current methodology used for allocation of overheads, some of the logic applied in the practical example needs to be revisited and more guidelines should be provided.

As per the example provided: 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. In our opinion this statement contradicts the incremental cost principle described, as the director and senior managers that indirectly manage Waste should have a portion of their salaries allocated to the Waste function because their total remuneration package would have been lower if they didn't have to manage Waste services. In a simple terms, in real life there is a direct correlation between pay and number of responsibilities: for example, an executive who oversees two major functions will always get

paid more than the executive who manages one function. As such, guidelines provided are overly simplified and misleading.

In addition, the practical example provided does not cover all typical overheads incurred by local Councils.

***b) 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***

More clarification is required. For example, page 21 of the draft report spells out that a separate price for each service (red bin cost, yellow bin cost, on-call collection, vouchers) but is silent on how to incorporate overheads and education. Our current service is sold as a bundle and is differently priced depending on the size of the red lid bin only. Does this requirement to publish costs of each separate bin need to be part of our advertised fees and charges or continue to be a bundle price in the fees and charges?

If residents are encouraged to compare prices from one Council to the next, the method for calculating the cost of each bin/voucher/pick up needs to include overheads and education costs in a definable proportion so that comparisons are similar. If this is not done annual waste peg comparison report has potential to become a battering ram for the community to use against Council.

Transparency in setting the annual domestic waste charge is essential, the geographic and demographic differences between Councils, and the different style of service provided, results in high variability in the average cost per service as described in the report. A simple waste peg comparison will not provide more clarity for householders, and if taken out of context, may cloud the issue

***c) 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***

This is in practice in the Shoalhaven, where the rural DWC is the same as the urban DWC in spite of the higher if the cost to provide that service.

***d) Any capital costs of providing DWM services should be recovered over the life of the asset to minimise price volatility***

More clarification is required over which capital costs and provisions can be included. More importantly how the calculation is done for a mixed waste stream. For example, Council accepts commercial waste as well as domestic waste at the landfill. If the proportion of acceptable capital cost is calculated by the proportion of the tonnes from each source, this will vary on a year to year basis. Landfill remediation costs which extend to 30 or more years after landfill closure need to also be covered proportionately but not varied on a year to year basis.

**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?***

As outlined earlier the current OLG Council Rating and Revenue Raising Manual is dated, has not kept up with rapidly changing waste processes and is centred on services provided in the Sydney Metropolitan areas. It neglects the different nuances of the waste collection service in regional and rural councils.

Further detailed examples will be very important to provide a broader understanding of how the principles apply. However, the examples need to cover all styles of servicing so that they are applicable to rural and regional areas

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