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Submission on IPART's Review of Domestic Waste Management Service Charges

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

Councils obligations are to set their respective DWM charges based on operational and amortisation capital costs (either by way of setting money aside in reserves for future work or by repayment of loan funds – depending on the financial position and life cycle of the waste facilities) - which is the basis of the reasonable cost calculations. If recent DWM increases are perceived to be higher than needed – then reintroduce the auditing of the calculation.

Additionally, the proposed annual 'benchmark' waste peg will have similar issues to that used for general rates in that it is historical (i.e. based on average price changes over the past year for goods, services). The Waste Cost Index (WCI) needs to be adjusted for the estimated impact of any items that will cause additional costs/savings over and above the previous year e.g. Legislation and/or market changes altering existing practices/procedures, extraordinary costs associated with disposing of flood waste etc.. Large extraordinary costs may also require adjustments over more than one year in order to recoup the full amount of the expenditure.

Currently, the IPART calculated 1.1% cap on the Domestic Waste Management Charge does not reflect CPI for 2021/22 financial year. The lag factor in the LGCI index is being reviewed – this outcome could inform the WCI index.

Other factors

Further, the IPART calculation only covers changes in costs from year to year, there is no allowance for capital construction/replacement costs to be recouped over the life of the asset.

There has also been an expectation built into the Waste Avoidance and Resource Recovery Act through the establishment of targets (70% diversion of household waste collected) which has led to the introduction of a third bin for the collection of organic waste material from household. The introduction of the third bin and collection service has been very successful in diverting waste from landfill but is an increase in service level and cost.

A NSW Council who introduced a third bin and outlaid \$7 million in capital expenditure to build the infrastructure to process the Organic material had to increase

its Domestic Waste Management Charge DWM by \$90 per service to cover the additional associated costs.

The processing of recyclables is controlled in the majority by one monopoly business, with a number of small to very small players also involved. The level of risk that is involved in the recycling processing and commodities market following the collapse of markets as a result of China's and the other Asian countries withdrawal from the market for recyclables mean there is very high levels of volatility and risk. This leaves Council in a precarious position with no certainty in the short or longer term and thus unable to determine if tenders and offers are reasonable as contractors need to factor in this risk.

Councils are being pressured to divert waste but this can only be done at a cost and any increase in service level will likely lead to a cost increase that exceeds rate pegging or CPI. Council needs the ability to explain this and to understand what the NSW government sees as the priority.

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

Pricing Principles 2, 3, and 4 are considered acceptable, however pricing principle No. 1 (DWM revenue should equal the efficient incremental cost of providing the DWM service) is the **direct opposite** view to that previously used by IPART in its "Review of local government election costs" and therefore needs to be amended.

In Tweed Shire Council's submission to IPART's report on the "Review of local government election costs", it argued that only the NSW Election Commission's (NSWEC) incremental costs should be charged to Councils because the NSWEC is primarily legislated to conduct, regulate, and report on general elections and by-elections for the Parliament of New South Wales and the electoral services provided to local government, public and commercial organisations, statutory boards etc. are ancillary services and only the direct costs associated with the provision of these services should be distributed by the NSWEC.

The final IPART report however recommended that Councils be required to pay incremental costs as well as:

"Common costs – a proportion of the NSWEC's head office costs (eg, salaries, rent), which are operating costs, and any shared capital expenditure it incurs across several of its functions (including, but not limited to, managing local government elections)."

"3.7 Tax allowance

We have calculated the tax allowance by applying the relevant tax rate (30%), adjusted for gamma, 162 to the NSWEC's (nominal) taxable income. Taxable income is the NSWEC's NRR (excluding the tax allowance) less its operating cost allowance, tax depreciation and interest expenses. Two stakeholders¹⁶³ questioned the need for a tax allowance when the NSWEC has no tax liability. Allowances for tax (and return on working capital discussed below) are consistent with our other pricing determinations. Given there is competition with third party providers to provide election services for local government elections, there is a compelling case to include a tax allowance in the NSWEC's efficient costs on competitive neutrality grounds. This is consistent with IPART's principle that a regulated entity's revenue requirement should be as close as possible to that of a well-managed privately owned business, operating in a competitive market."

"3.7.1 Working capital

Councils are charged every four years following the local government elections. This means the NSWEC needs to fund the holding cost of its expenditure in the lead up to each round of elections over the four year period, prior to receiving payment from councils. Our allowance for a return on working capital compensates the NSWEC for this delay between incurring the expenditure and receiving payment. We calculate it by determining the net amount of working capital the NSWEC requires (see Table 3.10) and then multiplying it by the WACC.”

The two arguments applied in the IPART reports on domestic waste charges and election costs are therefore conflicted. The only elements that they have in common is that they both result in local government being disadvantaged.

Regardless of who is providing the waste service, they will need to ensure that they have sufficient management oversight and reporting in place to effectively and efficiently provide the service. This requires board/council, manager, accounting, information technology etc. resources. It is therefore considered appropriate to allocate part of the cost of these resources to the provision of the waste service.

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?

Provided the pricing principles are amended as per 2. above, then it would 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.