



SUBMISSION:

Review of Domestic Waste Management Service Charges

Independent Pricing and Regulatory Tribunal

Western Sydney Regional Organisation of Councils Ltd.

April 2022


1. Introduction


1.1 This submission

This submission is prepared on behalf of western Sydney councils participating in the Western Sydney Regional Waste Avoidance and Resource Recovery Strategy program. These are Blacktown, Blue Mountains, Cumberland, Fairfield, Hawkesbury, The Hills, Liverpool, Parramatta and Penrith. Some of these councils will make their own submission. This document should be viewed in addition, and complimentary to those responses.

Please ensure this submission is taken to represent the nine councils that participate in the western Sydney regional waste strategy program. This submission was prepared following a comprehensive consultation process and analysis of council circumstances in comparison to this proposal. While individual councils may also lodge their own submission, the views and feedback of all nine councils should be noted as lodged in this feedback process, not just one organisation.

1.2 Contact

WSROC would welcome an opportunity to further discuss this submission. Should there be any questions, please do not hesitate to contact WSROC CEO, Mr Charles Casuscelli 



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

Councils are overwhelmingly concerned that the process of applying a ‘one size fits all’ measure to domestic waste charges ignores the complexity of different services, demographics, geography, access to infrastructure, transport distances, time of contracting, wage awards, resources trading and policy landscape that influences the cost of the domestic waste services to residents. Currently, councils’ domestic waste charges are set by recovering only the cost of the domestic waste services, as required under s496 of the NSW Local Government Act 1993, and through a competitive tendering process, under the Local Government (Tendering) Regulation 1999. Additionally, councils undertake comprehensive development of Council domestic waste strategies that are informed by detailed community consultation, contribute to the regional waste strategies to combine councils’ collective weight to drive improvements to services and policy, and respond to changes in state, federal and international policy that shapes options and services available to councils for delivery to residents.

Despite this complexity, councils deliver affordable domestic waste services that are markedly lower than prices that could be delivered through the private market. Importantly, western Sydney councils deliver equitable services ensuring households have access to services and that services are provided flexibly to ensure that almost every single resident can access efficient and affordable waste management services that may simply not be provided by private service providers.

Despite the myriad of legislation and policy driving cost and resource efficiency outcomes, IPART has failed to recognise that the variety of factors influencing waste services and contracts, as well as the various communities represented, cannot be harmonised year to year within any single benchmark applied across the industry. Unlike many other services regulated by IPART and other bodies, councils cannot simply rein in costs or scale back services to meet pricing caps- stopping kerbside bin services in certain suburbs, stopping collecting certain waste streams or deferring household collections to the new financial year is simply not feasible for an essential household service.

IPART quite rightly notes in the report that many factors at play are outside the control of IPART and councils, and there is a lack of data to assess this volatility on pricing. Given that councils consistently raised these issues over the previous consultation opportunities, noting their financial impact on councils’ services, there must be some recognition that this does occur and will be reflected in pricing in years following the IPART assessment ending in 18/19.

Western Sydney councils and WSROC noted in previous submissions that they are more than happy to be audited or have their domestic waste management charges assessed, and are complying with the intent of all directions on calculating domestic waste charges to date. Councils have nothing to hide on the development of domestic waste services, but this approach appears to find councils guilty unless they can prove through budgets less than a published waste peg they are “compliant”, and this is noted in language throughout the document such as the repeated use of “protect ratepayers”.

A single benchmark, calculated year to year, even using real contributing costs rather than representative index costs, cannot account for the irregular cost changes to domestic waste charges that often cannot be planned for despite best efforts. Dramatic change in policy, new contracts and significant population growth all contribute to irregular financial changes that cannot be managed within an averaged, best estimate benchmark. The proposed methodology effectively misrepresents the expected average cost impact from the distribution of councils as a metric that represent the equitable increase in revenue. Additionally, a waste peg would not address the imbalance in charges that already exist between councils' domestic waste charges.

Reports have consistently shown that the existing IPART pegging on councils is having detrimental effects on both councils and communities. Some examples that have come to this conclusion are the NSW Productivity Commission's Green Paper on Productivity Reform, Henry Review of Taxation, the NSW Treasury Corporation's assessment of the financial sustainability of NSW councils and the NSW Independent Local Government Review Panel's Final Report. Where this approach (rate pegging) has been clearly demonstrated to have failed, the logic in seeking to extend it further must be questioned.

On top of these issues, councils believe the proposed 2022/23 benchmark waste peg is grossly inadequate and fails to capture accurate domestic waste charge costs in the calculation of the 'waste peg'. This benchmark waste peg calculates value as low financial cost only, and is out of touch with reality of budgeting domestic waste services. The waste peg fails to account for significant basic challenges including:

- **population growth:** western Sydney councils are some of the fastest growing populations in Australia with a number of western Sydney councils' populations expected to double by 2040. A number of councils have noted the inconsistency between the calculation of the general rates peg, which includes both price indexation component as well as a population factor, with this waste peg.
- **increasing resident consumption:** it has been widely recorded that waste generation rates are increasing despite gains in resource recovery and diversion from landfill. Challenges such as fast fashion, low-cost homewares, increased packaging and changed purchase and delivery trends, corporate efforts to prevent reparability and changing economic patterns and expenditure are beyond the reach of councils to limit and impact on the tonnage of waste collected and charged for.
- The calculated **value of services** requested by residents to participate in a circular economy and prevent environmental harm.
- Responding to NSW Government **policy** and direction.

It is concerning that the biggest noted contributor to domestic waste charges in this report (Contracts, 52%) has no real cost index calculated so the application of a more general national figure of "other business services" is applied. Given the significant impact of contracts on domestic waste costs, this is woefully inadequate. Given the noted lack of waste indicators captured in ABS indices and Local Government Cost Index, councils felt that an examination in real data would give a better indication of exact cost increases faced by councils in recent years and the true inflation of costs to continue to provide household services. WSROC was tasked by western Sydney councils to undertake a detailed analysis of domestic waste budgets over the last three financial years of a representation of councils in western Sydney which included:

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- High density urban councils as well as semi-rural outer fringe councils;
 - Councils who contract out collection of waste and councils using day labour;
 - Councils who operate their own waste disposal facilities and councils who contract out disposal/processing; and
 - Councils who have large staffing teams and councils who have small staffing allocations for the management of domestic waste

Analysis of four councils' budgets representing all the variation above, since the 2019/20 financial year found that, with no significant changes to services in the time, carrying on with business as usual:

- Actual costs increased on average 5.76% per year over the last three years.
- Council real costs increased from 3.22% (lowest) to 8.01% (highest), all far exceeding the proposed waste peg.
- Contract and tipping costs make up on average 83% of western Sydney councils costs, compared to 78% noted in the IPART report. Waste Processing and disposal costs (tipping) alone increased between 8% and 10% across councils and resulted in an average 3.29% increase in budget costs.
- Contract costs alone have seen a contributing price increase of 1.84% over the previous two financial years.
- Council level data shows significant fluctuations year on year in expenditure on capital, plant and materials, demonstrating the difficulty restraining spending under a cap for significant and one-off plant and infrastructure purchases.
- A proposed 'benchmark' rate peg of 1.1% would fall below the needs of councils in this analysis, and create a deficit of on average of \$1.6 million dollars per council per year.

The report notes that there may be some discrepancies between councils on items charged to the domestic waste charge budget for categories such as staffing, illegal dumping and other waste services provided. Even with the clarification of differences between council budget allocations, it is unlikely to bring costs in line with the IPART waste cost index and benchmark peg due to the high contribution of fixed external costs and costs outside the control of council decision makers.

Additionally, there are additional costs for councils when introducing service improvements, future population growth or changes in services required in response to community request or government policy. The report notes the recently released NSW Waste and Sustainable Materials Strategy and its intent to address a number of challenges in the waste sector impacting domestic waste pricing. However, it should be noted that IPART appears to have overestimated the ability of this strategy to enact real change on many of these issues, and fails to recognise that many of the identified issues have been tasked to local government to deliver with minimal funding. In some cases, ongoing funding to local government that supports domestic waste services has been withdrawn, creating further financial pressure on councils. The NSW government is about to introduce the largest mandatory change to domestic waste services with the requirement of all NSW councils to provide food organics waste recycling services to all households by 2030. This comes at significant additional cost and is conservatively estimated to cost Sydney councils \$1.47 million ¹in the first year, at minimum, with additional costs required to meet NSW EPA best practice recommendations on

¹ Based on 2022 SSROC costs of FOGO modelling and published NSW EPA Grant funding opportunities

program delivery and household infrastructure. Even with NSW Government grants, NSW councils would require this significant additional funding to deliver this service above existing business as usual and to satisfy the NSW Government mandate. Additionally, there is no way NSW Councils could deliver any of the noted infrastructure shortfall under the proposed benchmark waste peg.

Additionally, recent efforts to shift the responsibility of household hazardous waste management to councils has also shifted responsibility without financial compensation. Most western Sydney councils are also making significant efforts to support Commonwealth schemes to divert household waste from landfill, manage textile waste and other problematic household waste products. Councils supporting these initiatives under this proposal would risk being labelled as financially irresponsible rather than supporting more cost effective proactive and preventative measures and failure to recognise this simply shifts the cost to the taxpayer in another way. This is not the time to be implementing rigid pricing systems that limit councils' ability to innovate and respond to regularly changing policy settings.

IPART should consider their own statement and framework for tackling climate change which "aims to make decisions that mean the people of NSW and future generations continue to benefit from...services that meet their needs over the long term" and "*we encourage solutions that mitigate or adapt to climate change by our regulated entities*". Never has this been more so relevant than looking at the impacts of introducing household organics waste services to increase resource recovery rates and contribute to NSW Net Zero Plan 2020-2030. Introduction of a benchmark is in direct contradiction of the noted regulatory response to "*support opportunities to address climate change risks efficiently*" and "*keep up with evolving climate change objectives science, economics, policies and standards.*"

It is noted that IPART has detailed in the report that the 'benchmark' waste peg is there to provide guidance on reasonable costs and councils can increase budgets more than the proposed waste peg with justification. This public reporting of information, while potentially logical in theory, is unlikely to result in any more than community confusion, unnecessary additional paperwork for councils and inertia on achieving state government waste, recycling, circular economy and net zero emissions policy.

While councils are confident in their ability to explain the calculation of domestic waste charges, which are already published for the community each year and scrutinised by elected representatives, the publication of comparative charges between councils in this form is likely to be misrepresented and misunderstood by a large bulk those accessing the information. Given the complexity of contributing factors to domestic waste charge pricing that has already taken two years of IPART research and review to get to this point, it likely to result in unfair comparisons and risks media misrepresentation. Councils have seen similar distortions of waste and recycling information and data, with media often drawing up league tables of waste diversion rates making unfair comparisons between councils with different services, contract timings and demographics to play out in public discourse and the front page of NSW newspapers.

This proposed benchmark waste peg methodology does not capture "reasonable costs" faced by western Sydney councils. If, as noted on page 17 of the Draft Report, IPART will obtain more detailed information from councils through surveying, it is likely that many costs will be prohibited from

sharing due to confidentiality clauses and concerns, relying further on unrelated indices. Nevertheless, detailed surveying of council real costs is likely to take considerable time if undertaken accurately and would unlikely to be completed in time to provide a more accepted peg for 2023/24 financial year, creating a number of years of financial instability and potential progress inertia.

It is likely that 100% of western Sydney councils would exceed the proposed benchmark 'waste peg' based on current tipping rates, contract pricing schedules and award wage increases. Additional unexpected price impacts such as volatile fuel prices and emergency disaster responses only add to the costs. There is concern that with most NSW councils (if not all) exceeding the benchmark peg, there would be a greater pressure on IPART of mandate the peg for councils, creating a financially unsustainable service. Having an extraordinarily low benchmark waste peg is setting councils up to fail. The assumptions and drivers used in the IPART waste cost index require detailed review and further analysis to provide a more realistic waste cost index to local government waste expenditure. However, despite this, the publishing of the peg each year is unlikely to provide any influence over councils' domestic waste charges given the inadequate calculation of the peg, the distinct difference between the proposed benchmark peg and real costs to councils, and the greater external influences of policy, population growth and consumer consumption on waste tonnages and services required to be provided. This puts councils in a difficult position of having to meet multiple conflicting state government requirements for housing targets, waste policy and budget caps.

Councils would prefer that IPART used the benchmarking and rebalancing model previously proposed in the August 2020 Discussion Paper. This is considered to offer a more balanced approach between a councils' ability to set a charge reflective of community needs and offers IPART the transparency and accountability it is seeking.

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

The publication of pricing principles may provide some greater consistency across councils in the development and application of domestic waste charges. Clear pricing principles may reduce any minor confusion however western Sydney councils are confident that they are abiding by existing allowances and intent of the current regulations and legislation guiding domestic waste charges, and have been openly transparent with OLG in previous audit programs. However, it is not expected that the application of pricing principles would significantly impact domestic waste charges. Western Sydney councils would welcome being involved in more detailed working groups to finalise pricing principles and develop detailed pricing guidance. The processes of transparency in pricing that exists within many western Sydney councils may contribute greatly to this process.

That said, councils have the following initial feedback that should be considered in this assessment of pricing principles:

- Pricing principles need to consider that domestic waste services are more than just bins presented on the kerbside and that setting simplistic waste pricing for single streams is complicated and unlikely to greater equip residents to undertake pricing comparisons. Pricing principles need to consider a modern view of domestic waste management and not rely on outdated definitions as a basis of acceptability.

- The role of equity in council services and the impact for differential pricing on service equity and cost. This needs to be carefully considered to ensure prohibitive pricing is not charged for rural properties, properties that are problematic to service, disability or medical bin carting services provided and other specialised community waste services responsive of councils' efforts to ensure every resident has access to waste services.
- Ensuring changes to purchase price recovery does not disproportionately force councils to undertake measures that ultimately increase the cost of the item to the ratepayer compared to existing financial practices.
- There is concern from councils about the prevention of building funds for future capital or services through the domestic waste reserve, given services are not immediately available to councils. Councils would argue that this issue differs from the issue raised by regional councils about inequitable access to services, first in best dressed services, or services not offered (as opposed to accessed) by all households. If the intent is to reduce costs on residents, then it is exactly this process that can reduce costs for residents by reducing the need for council loans, interest payments and inflated costs for residents by undertaking prudent future planning. Clarifying the important role of the domestic waste reserve and its development and application within these principles will be welcomed.
- Councils are not financially penalised by external non compliance of council service specifications and requirements, resulting in additional costs to council, and ultimately select residents. This has been demonstrated often in the construction of new high density residential apartments, and the cost impacts of domestic waste charging in MUDs was also noted as an issue in a recent NSW Audit Office review into waste service delivery of two western Sydney councils.
- Councils' ability to respond to emergency, disaster or significant unforeseen events that impact pricing without notice.

It is important that the ability of councils to undertake any required rectification to comply with pricing principles is simple and efficient. The original rebalancing model proposed in the August 2020 discussion paper, if implemented well, is councils preferred model if they had to choose between the two proposals published by IPART to date.

4. 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?

Yes, if these examples can find a way to balance the need for enough detail to be effective, with the significant range of input and contributing factors to domestic waste charges state-wide.

Submission ends