

## Woollahra Municipal Council's Submission to IPART on the Review of Domestic Waste Charges

In IPART's *Review of Domestic Waste Management Charges Draft Report* released in December 2021, submissions have been sought in relation to three questions. Below are the three questions asked by IPART with Woollahra Municipal Council's feedback.

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

No we do not, because in its current form, namely rearward looking and based on the Local Government Cost Index (LGCI), it does not reflect the actual costs to Council of providing DWM Services.

The LGCI measures employee benefits and on-costs by the ABS Wage Price Index for the NSW public sector. However, Councils are bound by the Local Government (State) Award 2020 (LG Award). The LG Award annual award increase for 2021-22 was 2% with the superannuation guarantee also increasing 0.5%. Similarly, the LG Award annual award increase for 2022-23 is 2% with the superannuation guarantee also increasing 0.5%. Schedule B (page 27) of the IPART draft report shows the Employee benefits and on-costs annual price increase is 1.2%. This is far below the 2.5% that Council employee benefits and on-costs rose in 2021-22 and will be rising in 2022-23.

A rearward looking annual benchmark does not take into account the real operating environment that Council works within. Over the twelve months to the December 2021 quarter, CPI rose 3.5%. CPI is forecast to increase further in 2022-23 with some analysts forecasting CPI of 5% or more. Disposal and Processing contracts also include an annual gate fee increase that is linked to CPI. In the twelve months to December 2021, average retail petrol prices increased by about 34 per cents per litre.

A proposed benchmark waste peg of 1.1% in 2022-23 is unrealistic and does not reflect the actual costs to Council of providing DWM Services nor does it reflect the 'reasonable cost' principles in the *Council Rating And Revenue Raising Manual*.

Under the *Council Rating And Revenue Raising Manual* it specifies that:

*Section 504(3) of the Act provides for income from charges for domestic waste management being calculated so as not to exceed the reasonable cost to the council of providing those services.*

and

*The concept of reasonable cost in the context of charging for DWM services is in keeping with the principle that all costs, which can be reliably measured and reasonably associated with providing a DWM service, should be included in determining the charge for the service.*

Applying an annual benchmark waste peg that is rearward looking and based on the Local Government Cost Index (LGCI) to set DWM charges contradicts the concept that DWM

charges be based on the 'reasonable cost' of providing the service as per the *Council Rating And Revenue Raising Manual*.

If an annual benchmark waste peg is to be adopted by IPART then it needs to be based on a forward-facing methodology that takes into account the real operating environment that Councils work within. For example, it needs to include the LG Award costs for employee benefits and on-costs increases and realistic inflation forecasts.

The proposed benchmark waste peg approach has the following implications:

- It incentivises councils to prioritise cost over innovation and delivering best-practice services
- The proposed peg could create unreasonable pressure to reduce costs while continuing to deliver a high-quality service, thus creating an unsustainable situation.
- It poses a significant barrier to delivery of council targets and the NSW Waste and Sustainable Materials Strategy (WaSM) targets
- Increases risk to the successful roll-out of new services such as Food Organics and Garden Organics (FOGO), which the NSW Environment Protection Authority (EPA) has mandated by 2030. Introducing FOGO will require councils without a sufficient waste reserve to raise DWM charges well above 1.1%.
- The peg further entrenches the gap between councils with relatively low DWM charges and councils with relatively high DWM charges, allowing the latter to continue levying high charges and increasing these at a higher annual increment than councils with lower DWM charges.
- As more councils inevitably exceed the voluntary peg, pressure will build on IPART to make the voluntary peg mandatory.

The proposed annual 'benchmark' waste peg approach would not allow a rebalancing between DWM charges and general rates, even if councils become aware of cost allocations that are not compliant with IPART's updated pricing principles, without requiring a special rate variation. We stress that we do not support this approach, however, if only given a choice between the annual benchmark waste peg and a rebalancing approach, we advocate for a rebalancing approach, whereby councils would have a two year grace period to rebalance the DWM charge with general rates based on clear pricing principles. The general rates peg would be applied to the new level of general rates after rebalancing. This would result in total council revenue being unaffected by the new DWM pricing principles.

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

Principal One: DWM revenue should equal the efficient incremental cost of providing the DWM service

Woollahra Municipal Council response: We do not agree with this principle as it conflicts with the reasonable cost principles in the *Council Rating And Revenue Raising Manual*. We currently allocate overhead costs based on activity based costing which we believe reflects the reasonable cost of providing DWM services.

Excerpts from the *Council Rating And Revenue Raising Manual* are below:

*Section 504(3) of the Act provides for income from charges for domestic waste management being calculated so as not to exceed the reasonable cost to the council of providing those services.*

and

*The concept of reasonable cost in the context of charging for DWM services is in keeping with the principle that all costs, which can be reliably measured and reasonably associated with providing a DWM service, should be included in determining the charge for the service.*

We do not agree with the incremental cost approach. Using payroll costs as an example, Council have two payroll people who manage the payroll and associated functions for the whole of Council including DWM employees. If we were to outsource DWM and no longer have DWM employees would we be able to reduce our payroll function to 1 employee? The answer is no, so under IPART's approach there should be no payroll costs allocated to DWM Charges. This is despite the fact that we still have to pay the DWM employees and if we were to decide to outsource DWM then the outsourced cost would include costs associated with the company paying their employees.

Currently, our payroll cost allocation to DWM Charges is based on activity based costing. We allocate the costs based on the number of FTEs i.e we find an average payroll cost per employee using FTEs then allocate an amount to DWM using the number of DWM FTEs.

The incremental cost approach does not make a great deal of sense. On Page 1 of the draft report it states '*DWM charges are the price paid for household waste services on a "user-pays basis"'. In the footnote it states 'User-pays charges are reflective of the cost of providing the service to the customer'. Using the payroll example, the cost of paying our DWM employees is a 'cost of providing the service' however under their incremental cost approach we would not be able to include these costs.*

On Page 19 of the draft report the approach is rationalised:

*Using an incremental cost approach would assist councils to understand the costs of providing the services. This is particularly important where a council might be considering the most cost efficient way of providing the service, including evaluating options such as competitively tendering out the services or providing them in-house.*

An evaluation of whether to outsource something is being confused with recovering the cost of providing a service on a user pays basis. They are totally different things.

We also disagree with excluding the costs associated with illegal dumping from DWM charges as outlined in Principle One. The majority of illegal dumping is generated from households and is a form of domestic waste. The only difference being that residents did not "book in" a collection for this material and simply placed it on the verge without notification. This should be separated from any illegally dumped commercial, or industrial type waste.

Furthermore, it is incredibly difficult to separately identify the costs of illegal dumping. We do not do separate trips to collect illegally dumped rubbish nor do we weigh it. It is collected at

the same time, in the same truck and by the same staff when they collect other household waste collections.

Principle Two: 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

Woollahra Municipal Council response: We currently comply with this principle, this information is published on our website.

Principle Three: 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 receive the same level of service.

Woollahra Municipal Council response: We currently comply with this principle.

Principle Four: Any capital costs of providing DWM services should be recovered over the life of the asset to minimise price volatility

Woollahra Municipal Council response: We disagree with this principle. Currently we recover capital costs over the life of the asset as we are using the asset. For example in relation to garbage trucks we recover the costs of that garbage truck whilst we are using it so that when it is due to be replaced in 5 years we have the funds available in the DWM reserve at the time of replacement.

However, per principle four, we can only recover the costs of a garbage truck once it has been purchased. So if we do not have the funds available to purchase the garbage truck in a reserve then we will need to take out a loan and incur interest costs. We believe this will be more costly to the ratepayer as they are now paying interest on capital purchases whereas before they weren't.

We believe you should be able to recover the costs before the capital purchase in line with current practise.

**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?**

Yes it would be.

Furthermore, we believe the definition of "domestic waste management services" in the Local Government Act 1993 needs to be reviewed and updated to cover modern day services. This definition is 29 years old.

The definition currently is: *"domestic waste management services" means services comprising the periodic collection of domestic waste from individual parcels of rateable land and services that are associated with those services.*

Domestic waste management has evolved over the last 29 years and the definition above does not cover the modern day services now provided. The definition should be expanded to include Community Recycling Centres, Recycling Drop off Events and Illegal dumping since the majority comes from households.