

# Domestic waste management charges - Discussion Paper

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Question	Response
Feedback and Submission Form	
Industry	Local Government
Review	Review of domestic waste management service charges
Document Reference	c1e253a1-4210-41d3-97de-3be8f315fce7
1. Are there concerns with the prices councils charge for domestic waste management services? Why/why not?	See attached submission
2. If there are concerns, how should IPART respond? For example, if IPART was to regulate or provide greater oversight of these charges, what approach would be the most appropriate? Why?	See attached submission
3. Would an online centralised database of all NSW councils' domestic waste charges allowing councils and ratepayers to compare charges across comparable councils for equivalent services (eg, kerbside collection), and/or a set of principles to guide councils in pricing domestic waste charges, be helpful? Why/why not?	See attached submission
4. Do you have any other comments on councils' domestic waste management charges?	See attached submission
5. Which Council do your comments relate to?	City of Canada Bay
Your submission for this review:	See attached submission
If you have attachments you would like to include with your submission, please attach them below.	<a href="#">IPART review of Domestic Waste Management charges.pdf</a>
Your Details	
Are you an individual or organisation?	Organisation
If you would like your submission or your name to remain confidential please indicate below.	Publish - my submission and name can be published (not contact details or email address) on the IPART website
First Name	Michael

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IPART's Submission Policy	I have read & accept IPART's Submission Policy

# IPART review of Domestic Waste Management charges

## City of Canada Bay Response

### Key feedback points

- **As noted by IPART in the discussion paper, the cost and impacts of setting annual maximum DWM charge increases would outweigh any benefits.**

The costs to councils for delivering effective waste services do not increase by simple increments each year. Costs may increase more in some years than others, due to negotiation of new collection and processing contracts as these expire, delivery of new services which deliver improved resource recovery outcomes and respond to changing community expectations and preferences outcomes, and impacts of changes to NSW government levies, and state, federal and international regulatory changes (including import bans, export bans and revocation of approvals for use of materials from waste processing). Limits on DWM charge increases would not account for these changing cost impacts.

- **Councils maintain DWM reserves for strategic investment.**

It is judicious and reasonable for councils to be in surplus for DWM services, and maintain DWM reserves from any surpluses. DWM reserves are key for strategic investments such as new infrastructure, major service changes, full refresh of all household bins, etc. Councils capacity to undertake strategic investment has recently been limited by a lack of clear NSW government policy and strategy (which may be improved with the upcoming release of the 20 Year Waste Strategy), and NSW Government policy changes made with little to no notice such as the revocation of approval of use of organic outputs from alternative waste treatment facilities.

- **Reasonable costs for domestic waste management services should account for the full range of programs and services within the Circular Economy framework**

The definitions for use of Domestic Waste Management charges have not been updated in some time, but the range of services, programs and outcomes managed by Councils have changes significantly over previous years, as acknowledged in the NSW Circular Economy Policy. To improve circular economy outcomes from waste collection, DWM charge definitions and guidance should be updated to recognise the full range of waste services provided by councils within a Circular Economy framework, including education and behaviour change programs, management of waste and resource recovery in public spaces, support for reuse and repair, innovative collection and drop-off options, and repurchase of recycled materials in order to develop markets. Updated unambiguous guidance and principles for 'reasonable cost' would be welcome, but should incorporate the full Circular Economy Framework, and should be provided in draft for councils to review and provide feedback and comments prior to being adopted.

- **Cost is only one factor in value for money**

The Discussion paper describes principles for DWM charges reflecting reasonable costs. Any consideration of reasonable cost should note that cost is only one factor in value for money, and that the least cost service is not always the most effective or best value. Councils need to ensure that waste services are not only delivered, but that these are, provided on-time, to

a high standard, are convenient for our community, and hold safety as a first priority. Similarly, when considering options for waste processing and disposal, cost is only one factor – community expectations and preferences, contractor reliability and transparency, and environmental outcomes are all key factors.

Overall, Council does not support rate capping, or any limits on domestic waste management charge increases, as costs fluctuate significantly due to state government policy, council-adopted targets, and market changes such as international import bans or the impacts of COVID-19.

Council would support guidelines and principles for setting domestic waste management rate charges, where those guidelines and principles are aligned with the NSW and Australian Government policies, including the Circular Economy Policy and the National Waste Policy, and do not simply aim to drive costs down in a race to the bottom for service delivery.

#### Responses to Discussion Paper questions

#### **1. Is it a concern that DWM charges appear to be rising faster than the rate peg? Are there particular cost-drivers that may be contributing to this?**

NSW-wide factors for increasing DWM costs include:

- NSW landfill levy rates increased over 140% over a 9 year period. Levy payments are a significant portion of waste service delivery costs for all metropolitan Councils, and make up around 20% of all domestic waste management expenditure by City of Canada Bay).
- Recycling processing costs have increased significantly for all councils due to international import restrictions, more advanced recycling processing, and increased compliance requirements.
- Reduced funding from the NSW Government –funding provided to councils for waste and resource recovery services, funded from the waste levy (previously Waste and Sustainability Performance Improvement Payment, and currently called Better Waste Recycling Fund) has reduced by more than half, from around \$270,000 in 2010 to around \$121,000 in 2020. This is despite waste levy payments and LGA population increasing in that time.
- Increasing community expectations and preferences for waste management. In the past 15 years we have moved from a simple crate system to a three-bin system able to collect nearly 40% of all waste generated by households for processing and recycling. Community expectations for improving services and outcomes are continuing to grow, with greater preference for recovery of food waste and other waste streams.
- NSW Government targets for resource recovery outcomes drive increasing levels of servicing and processing each year.

Given these factors, it is unsurprising that average NSW DWM charges may be increasing faster than inflation or the rate peg.

#### **2. To what extent does the variation in services and charges reflect differing service levels, and community expectations and preferences across different councils?**

The variation in charges is likely to be primarily driven by a large number of factors, including but not limited to service levels and community expectations. It will be difficult, if not impossible to simply

compare council costs and charges, councils are not like-for-like. Differences between councils include:

- Bin sizes
- Bin collection frequency
- Collection of food organics in garden bins, or separate food bins
- Processing of red-bin contents for material recovery, or whether this is sent direct to landfill
- Frequency of bulk household collections, whether these are on-call or scheduled
- Volume and type of materials accepted in bulk household collections (may or may not accept e-waste, white goods, carpets, mattresses)
- Chipping services for large volumes of bulk garden vegetation
- Drop off centres or community recycling centres, and materials accepted at these (ranging from paints and hazardous waste, to e-waste, polystyrene foam, textiles and cardboard)
- Distance from recycling processing and disposal infrastructure
- Geographic distances and elevation variation within council borders
- Frequency of illegal dumping (can also be impacted by demographics and rates of tenancy/owners, as there tends to be more illegal dumping from rental move-in move-out)
- Proportion of high-density areas – these have tighter vehicle clearances requiring smaller vehicles, traffic risks, and tend to have greater recycling contamination
- Demographics, and the need to provide education in languages other than English

Levels of service delivery are driven by community preferences and expectations, adopted through strategies and policies endorsed by Council, and designed to respond to the specific issues and requirements of each council area.

### **3. Is there effective competition in the market for outsourced DWM services? Are there barriers to effective procurement?**

There is a lack of competition in the market, particularly for processing and disposal services. With the recent closure of one of Sydney's recycling processors, there is now a near monopoly for recycling processing in the Sydney Metropolitan Area (SMA), which is highly anti-competitive. Similarly, there are very few landfill disposal providers. We are aware that Veolia has offered to purchase a 29.9% stake of SUEZ, which would represent an even greater consolidation of the collection, processing and disposal market.

Simplifying and improving the flexibility and adaptability of the procurement process for councils could result in significant benefits in tender outcomes, such as reducing barriers to joint procurement to ensure economies of scale and improving negotiating leverage. NSW Government should provide support to joint local government procurement, particularly in regards to managing competition issues that may require approval from ACCC. Existing exceptions to tendering requirements could be utilised, such as an amendment to the Local Government (General) Regulation 2010 to vary the operation of section 55 for the procurement and delivery of waste processing facilities, or a direction from the NSW Procurement Board. An alternative to seeking an ACCC authorisation for each particular tendering circumstance would be including a general exemption within the governing legislation.

While it is not IPART's role to plan infrastructure, IPART should note the lack of competition in the market in any report they prepare to the NSW Government and particularly as part of the review for the NSW Waste Strategy. NSW Government should undertake detailed infrastructure mapping and gap analysis across material types, and re-invest NSW waste levy revenue into development of infrastructure ranging from recycling processing, effective food waste processing, reuse and repair centres, to onshore reprocessing of materials collected in the recycling bin stream. This should include the potential for Council to be in the market through direct investment, joint ventures etc

The discussion paper states that councils have a monopoly on provision of waste services. We would disagree with that position, as councils are obligated to provide waste services to the community, and are much more often a price taker for delivery of these services with significant costs that are largely out of our control such as landfill levies. As with other local governments, City of Canada Bay tests the market through tendering when seeking to enter into a major new contract for services. Councils also tests and compares costs and efficiencies of providing these services in-house, such as by inviting Council Operational areas to also tender for these services. Services are outsourced where this is more cost effective or reduces risks.

#### **4. Are overhead expenses for DWM services appropriately ring-fenced from general residential rates overhead expenses?**

The discussion paper claims that overheads on average represent about 59% of DWM costs for all NSW councils, and 65% for metropolitan councils. This appears inaccurate. For all councils, collection and processing of waste represent some of the highest direct costs faced by council, and overheads would be a relatively smaller portion of these costs. From discussions with other councils, overheads of around 20% or less appear to be fairly standard. IPART should review their research and modelling of overhead costs to account for this discrepancy.

As with all services provided by councils, it is reasonable for there to be overhead expenses for domestic waste management services. Guidelines, principles and definitions for allocating overhead expenses could provide clarity, and these should recognise that waste education services are critical to delivery of effective waste services, and that education costs are core costs not overheads. Any proposed guidelines should be provided in draft form for feedback from councils prior to implementation, as councils have the most familiarity with cost demands for providing services.

The discussion paper suggests that overhead costs should be calculated as incremental increase—the cost that would be avoided if provision of DWM services was outsourced. This approach does not account for fact that services can be outsourced, but oversight and responsibility for delivery cannot be outsourced. In reality, outsourcing services often increases administrative staff requirements and related overheads for oversight of outsourced services.

Also, while any individual function of council service provision may be hypothetically outsourced with relatively limited incremental impact on overheads such as property, HR and IT costs, this is only because there are efficiencies gained by sharing corporate services across functional areas. It is not more reasonable to only count the incremental gain of outsourcing any one of those services individually, rather than the costs saved by outsourcing all of those services, and then averaging across each functional area.

Council reserves are dedicated reserve for waste related spending. Adopted Waste Strategies outline Councils spending and planned spending of reserve (ours is in the process of being drafted now)

**5. If IPART was to regulate or provide greater oversight of DWM charges, what approach is the most appropriate? Why?**

Domestic Waste Charge increases are tied to Delivery Plan commitments that are fully costed and consulted on with the community via the IPR requirements and allows for sound financial management as well as accountability to the community.

The cost and impacts of regulating annual maximum DWM charge increases would outweigh any benefits. There are many factors that drive the cost of delivering domestic waste management charges, and several of these are outside of Council's control (such as changes to NSW government levies, and state, federal and international regulatory changes). Other factors include changing community expectations and preferences for waste management services and resource recovery outcomes, as captured in Waste Strategies adopted by Council.

It is very difficult to compare councils, as every council circumstance is different. Levels of service delivery are driven by community preferences and expectations, adopted through strategies and policies endorsed by Council, and designed to respond to the specific issues and requirements of each council area. There are significant risks that any simple reporting of different DWM charges without full context would lead to misapprehension and potential negative media and community response. Any benchmarking or reporting should clearly note and describe differences in service levels and other potential cost impacts.

Council supports any initiative that helps councils and ratepayers get quality services at reasonable prices. If it is felt that better transparency could be achieved by sharing unambiguous guidance and best practice examples then we are in favour.

If IPART was to provide greater oversight of DWM charges, one approach could be to provide clear definitions and guidance to assist Councils. This guidance should recognise the range of circular economy community expectations and outcomes that are delivered by modern domestic waste management services, which go beyond simply collecting, transporting and disposing of materials at lowest cost. Updated unambiguous guidance and principles for 'reasonable cost' would be welcome, but should incorporate the full Circular Economy Framework, and should be provided in draft for councils to review and provide feedback and comments prior to being adopted.

**6. Are there any other approaches that IPART should consider?**

As mentioned above and in your report, the cost and impacts of regulating annual maximum DWM charge increases would outweigh any benefits. Current legislation already requires that these represent reasonable costs, and no additional limits should be set on DWM charge increases. Council's collect reserves for strategic purposes to fund service changes, additional services, rate variations, policy changes and trial programs which happen throughout each financial year.

Improved guidance on DWM charge definition may be of assistance. This guidance should recognise that the range of services, programs and outcomes managed by Councils have changed significantly over previous years. To improve circular economy outcomes from waste collection, DWM charge definitions and guidance should be updated to recognise the full range of waste services provided by councils within a Circular Economy framework, to ensure that critical function in waste services are

itemised such as resident education and behaviour change programs, support for reuse and repair, innovative collection and drop-off options, and repurchase of recycled materials in order to develop markets. For any waste strategy submission to the 20 year waste strategy, there needs to be a clear link between the definition of waste, the money collected by Council and the required areas of spending to meet government driven targets and community needs. These guidelines need to be broad enough to allow flexibility and adaptability over time to achieve changing targets and goals.

**7. If a reporting and benchmarking approach was adopted, how could differences in services and service levels, as well as drivers of different levels of efficient cost, be accounted for?**

As described above, it is very difficult to benchmark across different councils as there are significant differences in Council demographics, service delivery and resource recovery outcomes, which would make it very difficult to ever compare councils like-for-like. There are significant risks that any simple reporting of different DWM charges without full context would lead to misapprehension and potential negative media and community response. Any benchmarking or reporting should clearly note and describe differences in service levels and other potential cost impacts.

Levels of service delivery are driven by community preferences and expectations, adopted through strategies and policies endorsed by Council, and designed to respond to the specific issues and requirements of each council area. Even with a margin of error, Council would not recommend a benchmarking approach as it would be very resource-intensive for both IPART and councils to collect that data and, even if the best attempts were made, this would still very likely produce an incomplete picture, potentially leading to poor outcomes for IPART and councils.

**8. Is there merit in IPART's proposed approach to developing a reporting, monitoring and benchmarking approach and pricing principles for setting DWM charges? Is it likely to be an effective approach? Why/why not?**

As described above, there are significant differences in Council demographics, service delivery and resource recovery outcomes, which would make it very difficult to ever compare councils like-for-like. There are significant risks that any simple reporting of different DWM charges without full context would lead to misapprehension and potential negative media and community response. Any benchmarking or reporting should clearly note and describe differences in service levels and other potential cost impacts.

**9. Would IPART's proposed approach be preferable to audits of local councils' DWM charges by OLG?**

Most councils have financial audits conducted on a yearly basis by an external auditor; DWM charges are included in these audits as a requirement under the Local Government Act. As councils are already conducting audits, there seems little benefit in duplicating this process. Additionally, councils already report DWM charges and waste and recycling data to the NSW EPA on a yearly basis.



**10. Are there any issues that should be considered with regards to developing an online centralised database for all NSW councils' DWM charges to allow councils and ratepayers to benchmark council performance against their peers?**

There are significant risks due to domestic waste management service provision and service impacts not being directly comparable. The challenge in development meaningful KPI's is "like for like" comparisons are difficult to adopt given the numerous service options across local government given the numerous service options and demographic geographic differences between councils.

One option could be benchmarking of a notional service that Council must report on, such as part of any annual audit requirements. Other Council objectives, KPIs and deliverables for inclusion in council comparative outcomes could include resource recovery rates and contamination rates. There are significant risks that any simple reporting of different DWM charges without full context would lead to misapprehension and potential negative media and community response. Any benchmarking or reporting should clearly note and describe differences in service levels and other potential cost impacts.

**11. Do you agree with IPART's proposed pricing principles? Why/why not?**

In regards to each of the proposed pricing principles:

- **That DWM charges should reflect a 'user pays approach'**
  - **DWM charges should recover the costs of providing DWM services, not the councils' other functions and services**
  - **Incremental cost allocation should be applied**
  - **Social programs should be funded from general rates revenue**

It is not a straightforward matter to charge individuals for the waste they generate. Charging based on waste volumes could have negative impacts, such as encouraging dumping in neighbouring bins, and the issues of landlords paying rates while tenants generate waste and use services. User-pays charging can also be quite regressive, or punishing to families with many children due to nappy waste. Medical issues can also cause residents to increase waste generation.

The paper describes incremental cost allocation as the cost that would be avoided if provision of DWM services was outsourced. This approach does not account for fact that services can be outsourced, but oversight and responsibility for delivery cannot be outsourced. In reality, outsourcing services often increases administrative staff requirements and related overheads for oversight of outsourced services.

The discussion paper also proposes funding voluntary pensioner rebates from general rates rather than domestic waste management charges. We would disagree with this approach, as shifting those costs does not provide any benefit to ratepayers, and the services being subsidised are entirely domestic waste related.

- **Only reasonable cost categories should be reflected in DWM charges**

Effective waste services are no longer just collecting and transporting materials for disposal. As per

the NSW Government Circular Economy Policy, 20-Year Waste Strategy Discussion Paper, and the National Waste Strategy, government approaches and community expectations are that Australia move to a circular economy, where we maintain the value of resources for as long as possible. Domestic Waste Management rate charge guidelines and principles should recognise that waste management is not just disposal for lowest cost, but incorporates education, behaviour change, purchasing of recycled materials, designing for reuse, and only entering into contracts where recovery of resources is prioritised.

Council supports a ‘full cost’ recovery approach in setting Domestic Waste Management charges. This includes costs associated with compliance, environmental and regulatory obligations, costs directly associated with the service and an appropriate allocation of indirect costs and capital costs.

With regard to Capital Costs, Council has established a reporting mechanism to identify assets utilised in the provision of the service.

These externally restricted assets are reported in the Audited Financial Statements under Note 10(b).

The ability to for DWM charges to include factors such as a “Return on Assets” and an annualised allocation of capital via depreciation charges is currently adopted and should continue.

- **DWM charges should reflect efficient costs**

The paper takes a position that cost is the most important factor in waste management however this is not the correct position. Cost is not the only factor in delivering effective and efficient waste services. Collection efficiency, community safety, community convenience and critically improved resource recovery outcomes are key factors, that can be undermined if cost is the overriding measure. You can’t achieve high resource recovery outcomes with a focus on lowest cost.

Councils, including City of Canada Bay, consult with our residents to understand their preferences for waste service delivery and outcome, and base our service levels and environmental goals on this feedback—which are the drivers of DWM costs and rates.

Community feedback has continuously demonstrated that price is not the only factor, or even the most important factor in community preferences for service options. In a recent council-wide survey, 87% of residents ranked reducing waste to landfill and reducing greenhouse gas emissions as more important than the cost of waste services.

- **DWM charges should be transparent**
  - **To assist local councils**
  - **To assist customers**

Council DWM charges are already transparent – all rates, fees and charges these are published annually. Major new contracts are also listed on Council’s public contract register. As discussed above, it is not a simple process to compare costs across councils by each service provided, as there are a wide range of factors that would make it difficult, if not impossible, to meaningfully compare

service costs between councils.

- **DWM charges should seek to ensure price stability**

While some minor variation in year-on-year costs may be managed through surpluses/deficits over a small number of years, the reality is that waste costs do not only increase incrementally. Costs may vary more significantly due to negotiation of new collection and processing contracts as these expire, delivery of new services which deliver improved resource recovery outcomes and respond to changing community expectations and preferences outcomes, and impacts of changes to NSW government levies, and state, federal and international regulatory changes (including import bans, export bans and revocation of approvals for use of materials from waste processing).

Domestic waste management costs, and associated cost recovery, are driven by factors including:

- Increasing landfill levy rates
- Reduced funding from NSW Government
- NSW Government targets for resource recovery and service outcomes
- Unexpected market changes like the China National Sword Policy or NSW Government revocation of approvals for use of material from waste processing
- Increasing community expectations and preferences for waste management, which are incorporated in council policies and strategies.

## **12. Are there any other pricing principles or issues that should be considered?**

The paper takes a position that cost is the most important factor in waste management however this is not the correct position. Cost is not the only factor in delivering effective and efficient waste services. Collection efficiency, community safety, community convenience and critically improved resource recovery outcomes are key factors, that can be undermined if cost is the overriding measure. You can't achieve high resource recovery outcomes with a focus on lowest cost.

Councils, including City of Canada Bay, consult with our residents to understand their preferences for waste service delivery and outcome, and base our service levels and environmental goals on this feedback—which are the drivers of DWM costs and rates.

Community feedback has continuously demonstrated that price is not the only factor, or even the most important factor in community preferences for service options. In a recent council-wide survey, 87% of residents ranked reducing waste to landfill and reducing greenhouse gas emissions as more important than the cost of waste services.

## **13. Could a centralised database and display of key elements of all successful DWM service contracts (eg, name of tenderer, service provided and contract amount) assist councils in procuring efficient services? If not, why not?**

While more information or a centralised database could be useful, much of this information is already available through individual council contract registers. Similar to other benchmarking, there are risks to publishing details as if these were like-for-like and without context, when there are significant differences between councils.