

# 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?	<p>Council believes there should be a fee for service model that targets the use of the services and is not based on the availability of services.</p> <p>Council does not support further regulation at this point in time.</p>
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?	<p>IPART's Discussion Paper is the NSW EPA Levy of \$146 per tonne (55% of total tipping costs), which for Cumberland is \$11m per annum paid for by ratepayers. The expenditure of this Levy is not regulated by the State Government and a large portion is not being reinvested in waste services.</p> <p>Consequently, when the Discussion Paper compares the fees charged, it should consider that ratepayers have already contributed to the under investment of the EPA Levy and will now pay again as the cost of tipping for recyclables is increasing due to a lack of competition and market failure.</p> <p>The increase in tipping fees for yellow bin waste has increased from a subsidy to a projected large cost per tonne. This is a cost of \$2.0m over the last few years which cannot be accurately captured in the analysis. Therefore, the analysis the Discussion Paper relies on is not in alignment with Council's views.</p>

<p>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?</p>	<p>Council supports the benchmarking criteria if it is done on the basis of Litre Capacity offered. The benchmarking would need to consider contracted waste versus in-house waste tipping services.</p> <p>Council supports the benchmarking criteria if it is done on the basis of Litre Capacity offered. The benchmarking would need to consider contracted waste versus in-house waste tipping services.</p> <p>Council supports this process, noting there are challenges in:</p> <ul style="list-style-type: none"> <li>• Commercial in Confidence discussions with private operators.</li> <li>• Length and timing of contracts due to the issues relevant at the time the contract is signed.</li> <li>• Disclosure of tipping service method being used.</li> </ul> <p>The current pricing principles are sound. There are concerns in the review around cost principles. Council believes the cost principles need to align to 1997 Guideline to Competitive Neutrality and this should be used for all the services delivered by Council.</p> <p>This will allow Council to compare a range of services in a consistent way.</p>
<p>4. Do you have any other comments on councils' domestic waste management charges?</p>	<p>Section 3.1 "DWM charges should reflect a 'user pays' approach"</p> <p>Council supports the principle that the fee should be a user pay service.</p> <p>3.1a) Incremental (additional) 18 cost allocation for DWM services Council disagrees with this. The cost principles should be aligned with the existing 'Pricing and Costing for Council Business, July 1997'.</p> <p>This s23a Guideline states a cost allocation system is based on a fair share of the costs. The allocation of costs should be on a reliable basis.</p> <p>Therefore, an initial independent review would be the best way to address this issue.</p>

	<p>Introducing a new and confusing system will only cause misunderstandings and disruption.</p> <p>3.2 “Only reasonable cost categories should be reflected in DWM charges” Council agrees in principle with the categories of costs and can confirm this is Cumberland’s current practice.</p> <p>Council disagrees with any use of the reference ‘Incremental Costs’ unless the rate cap can be increased for an equivalent amount so we are no worse off.</p> <p>3.3 “DWM charges should reflect efficient costs” Council agrees in principle, noting the market is deregulated and Council can only negotiate the most efficient price based on our current expenditure, or through work with WSROC or LGP, for opportunities to achieve value for money.</p> <p>3.4 “DWM charges should be transparent” Council agrees with this and would encourage transparency as long as the comparisons are fair, consistent and effective.</p> <p>3.5 “DWM charges should seek to ensure price stability” Council agrees in principle. This is not being achieved at Cumberland at the moment, as the Waste Reserve is insufficient to allow Council to absorb the current increases in tipping costs well beyond CPI.</p>
5. Which Council do your comments relate to?	Cumberland Council
Your submission for this review:	See attached the response to the answer. This was resolved by Council;
If you have attachments you would like to include with your submission, please attach them below.	<a href="#">IPART Discussion Paper.pdf</a> <a href="#">Council report IPART.DOCX</a>
<b>Your Details</b>	
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	Richard
Last Name	Sheridan
Organisation Name	Cumberland

Position	Director Finance and Governance
Email	[REDACTED]
IPART's Submission Policy	I have read & accept IPART's Submission Policy

## IPART Discussion Paper – Local Council Domestic Waste Management Charges

IPART Question	Response
1. Is there 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?	The expenses that form the basis of Council DWM charge are increasing faster than CPI and Council is merely passing on these costs. For example over the last two years the cost to Council to process recycling material (via a contractor) has gone from Council receiving payment for the material to Council paying for the material to be processed. Cumberland City Council is forecast to incur over \$2,000,0000 in past few years.
2. To what extent does the variation in services and charges reflect differing services levels, and community expectations and preferences across different councils?	Costs to councils will vary even for a similar service. For example the timing of a tender process will reflect market conditions at that point in time and can vary within a short period of time.
3. Is there effective competition in the market for outsourced DWM services? Are there barriers to effective procurement?	Whilst there are a number of companies in the waste collection sector in Sydney, there is a lack of competition in the waste receipt, processing and disposal sector. Council's continue to advocate for Government policy that stimulates the development of waste treatment and disposal infrastructure and leads to greater competition.
4. Are overhead expenses for DWM services appropriately ring-fenced from general residential rates overhead expenses?	There may be a need to provide guidance to councils in regard to what proportion of expenses should be included in the domestic waste charge but it needs to be a flexible mechanism that allows for individual council circumstances and arrangements to be considered. For example councils may have different customer service arrangements to handle waste related requests and therefore the overhead expenses of providing this may be different.
5. If IPART was to regulate or provide greater oversight of DWM charges, what approach is the most appropriate? Why?	Benchmarking between councils may be appropriate. However setting maximum percentage variations for some or all DWM charges is not considered appropriate as cost increases may be outside councils control and subject to market forces.
6. Are there any other approaches that IPART should consider?	IPART should ensure all money collected under EPA Waste Levy is re-invested in reusable or more efficient waste strategies. Failure to do so will result in residents having to pay additional increase due to money being diverted in general revenue as a tax.
7. If a reporting and benchmarking approach was adopted, how could differences in services and	Commercial in confidence nature of contractual agreements may prevent detailed reporting of costs. Some councils select options that have environmental outcomes that align to their community but may not be captured in cost or service level comparison.

<p>service levels, as well as drivers of different levels of efficient cost, be accounted for?</p>	
<p>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?</p>	<p>Agree,</p> <p>The Benchmarking needs to be meaningful and ensure it compares similar service offering based on the available facilities.</p> <p>A straight Comparison between contracted services and tip service is not efficient as the cost of a Tip are very different due to timing constraints. Contracted services tend to pay for the whole cost upfront.</p>
<p>9. Would IPART's proposed approach be preferable to audits of local councils DWM charges by OLG?</p>	<p>Principle based approach has many advantages. I still foresee in the interim there will be a need for an independent to review the process.</p>
<p>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?</p>	<p>Some difference in services are not apparent in high level benchmarking. The level of detail to enable a true and fair comparison would be required such as including environmental outcomes.</p>
<p>11. Do you agree with IPART's proposed pricing principles? Why/Why not?</p> <div data-bbox="271 884 842 1166" style="border: 1px solid black; padding: 5px;"> <p><b>Box 3.1 IPART's proposed key pricing principles for DWM charges set by councils</b></p> <ol style="list-style-type: none"> <li>1. <b>DWM charges should reflect a 'user pays' approach</b> <ul style="list-style-type: none"> <li>▼ DWM charges should recover the costs of providing DWM services, not the councils' other functions and services</li> <li>▼ Incremental cost allocation should be applied</li> <li>▼ Social programs should be funded from general rates revenue</li> </ul> </li> <li>2. <b>Only reasonable cost categories should be reflected in DWM charges</b></li> <li>3. <b>DWM charges should reflect efficient costs</b></li> <li>4. <b>DWM charges should be transparent</b> <ul style="list-style-type: none"> <li>▼ To assist local councils</li> <li>▼ To assist customers</li> </ul> </li> <li>5. <b>DWM charges should seek to ensure price stability</b></li> </ol> </div>	<p>See the report</p>
<p>12. Are there any other pricing principles or issues that should be considered?</p>	<p>Nil</p>
<p>13. Could a centralised database and display of key elements of all successful DWM service contracts (e.g., name of tenderer, service</p>	<p>This may be of some interest but unless there is sufficient detail to allow comparison in may not assist procuring efficient services. For example councils are obliged to use an open tender process to procure the services they require and the market determines what the</p>

provided and contract amount) assist councils in procuring efficient services? If not, why not?	council pays. The nature and circumstances of the tender at that time for that locality may produce a different result simply due to timing or other not so apparent factors.

Item No: C09/20-552

## **IPART DOMESTIC WASTE MANAGEMENT CHARGES SUBMISSION**

Responsible Division: Finance & Governance  
Officer: Director Finance & Governance  
File Number: 8424445  
Community Strategic Plan Goal: *A clean and green community*

### **SUMMARY**

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The Independent Pricing and Regulatory Tribunal of New South Wales (IPART) is currently reviewing the domestic waste management (DWM) service charges levied by local councils in NSW. Comments and submissions on IPART's Discussion Paper, released 18 August 2020, are due by 6 October 2020.

### **RECOMMENDATION**

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**That Council endorse the provision of a submission and attachment on IPART's Discussion Paper 'Local Council Domestic Waste Management Charges' based on the information in this report.**

### **REPORT**

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IPART's Discussion Paper 'Local Council Domestic Waste Management Charges' calls for submissions on three (3) core issues and responses to thirteen (13) specific questions listed in Section 1.5.

The Discussion Paper is located on IPART's website, on the following webpage:

<https://www.ipart.nsw.gov.au/Home/Industries/Local-Government/Reviews/Domestic-Waste-Management-Service-Charges/Review-of-domestic-waste-management-service-charges>

In addition to this waste discussion, there are numerous challenges relating to cost leadership for services within the local government sector. The accuracy of the Local Cost Index for rates income has been inadequate as it does not reflect the true cost of the responsibilities borne by the local government sector.

Given the challenges, it is evident that funding arrangements for Council are inadequate. These include the following:

- Rate Capping
- Federal Grants Assistance
- Domestic Waste Pricing
- User pay charges, where a service is delivered at a substantial subsidy.



IPART's Discussion Paper seeks to implement new regulations. The analysis however is inadequate as it fails to consider all costs borne by Councils. The local government sector is experiencing a financial sustainability crisis. This is reflected on page 18 of the Discussion Paper, where IPART recognises some waste costs could be funded by either the Waste Income or Rates Income. This approach cannot work as there is no legislation that allows Council to make that decision; A Special Rate Variation (SRV) would be required, which is a costly and lengthy exercise.

### Rate Peg Issue

The NSW Productivity Commission's Green Paper on productivity reform, 'Continuing the Productivity Conversation', states the following on page 267:

*"Population growth is driving demand for new infrastructure (such as roads, parks, sewerage and street lighting) and services (such as waste collection and recycling and use of community facilities). As the rate peg system does not currently compensate councils for having to service a larger pool of ratepayers, this leaves local governments with insufficient revenue to meet demand and an incentive to avoid housing growth."*

Another major challenge not discussed in IPART's Discussion Paper is the NSW EPA Levy of \$146 per tonne (55% of total tipping costs), which for Cumberland is \$11m per annum paid for by ratepayers. The expenditure of this Levy is not regulated by the State Government and a large portion is not being reinvested in waste services.

Consequently, when the Discussion Paper compares the fees charged, it should consider that ratepayers have already contributed to the under investment of the EPA Levy and will now pay again as the cost of tipping for recyclables is increasing due to a lack of competition and market failure.

The increase in tipping fees for yellow bin waste has increased from a subsidy to a projected large cost per tonne. This is a cost of **\$2.0m** over the last few years which cannot be accurately captured in the analysis. Therefore, the analysis the Discussion Paper relies on is not in alignment with Council's views.

### Submission

Council's primary submission is per Section 1.5 of IPART Discussion Paper relating to Domestic Waste.

Council will also submit an additional attachment for further information.

ITEM	COUNCIL'S RESPONSE
<p>Whether stakeholders consider that there are issues with the prices charged for DWM services, and, if so, how we should respond, e.g., whether any regulatory (or other) action is required.</p>	<p>Council believes there should be a fee for service model that targets the use of the services and is not based on the availability of services.</p> <p>Council does not support further regulation at this point in time.</p>
<p>Potential options if regulatory action is required, noting that we would favour a less prescriptive approach. A proposed regulatory approach may include developing, in consultation with stakeholders:</p> <ul style="list-style-type: none"> <li>- A reporting, monitoring and benchmarking regime to develop a publicly available comparison tool comparing DWM charges for equivalent services across comparable councils.</li> <li>- A publicly available centralised comprehensive register of successful tender contract values for DWM services across councils.</li> <li>- Pricing principles for DWM charges, to provide guidance to councils in setting DWM charges.</li> </ul>	<p>Council supports the benchmarking criteria if it is done on the basis of Litre Capacity offered. The benchmarking would need to consider contracted waste versus in-house waste tipping services.</p> <p>Council supports this process, noting there are challenges in:</p> <ul style="list-style-type: none"> <li>• Commercial in Confidence discussions with private operators.</li> <li>• Length and timing of contracts due to the issues relevant at the time the contract is signed.</li> <li>• Disclosure of tipping service method being used.</li> </ul> <p>The current pricing principles are sound. There are concerns in the review around cost principles. Council believes the cost principles need to align to 1997 Guideline to Competitive Neutrality and this should be used for all the services delivered by Council.</p> <p>This will allow Council to compare a range of services in a consistent way.</p>
<p>The proposed pricing principles presented in Chapter 3.</p>	<p><b>Section 3.1 “DWM charges should reflect a ‘user pays’ approach”</b></p> <p>Council supports the principle that the fee should be a user pay service.</p> <p><u>3.1a) Incremental (additional) 18 cost allocation for DWM services</u></p> <p>Council disagrees with this. The cost principles should be aligned with the existing ‘Pricing and Costing for Council Business, July 1997’.</p> <p>This s23a Guideline states a cost allocation system is based on a fair share of the costs. The allocation of costs should be on a reliable basis.</p> <p>Therefore, an initial independent review would be the best way to address this issue. Introducing a</p>

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	<p>new and confusing system will only cause misunderstandings and disruption.</p> <p><b>3.2 “Only reasonable cost categories should be reflected in DWM charges”</b></p> <p>Council agrees in principle with the categories of costs and can confirm this is Cumberland’s current practice.</p> <p>Council disagrees with any use of the reference ‘Incremental Costs’ unless the rate cap can be increased for an equivalent amount so we are no worse off.</p> <p><b>3.3 “DWM charges should reflect efficient costs”</b></p> <p>Council agrees in principle, noting the market is deregulated and Council can only negotiate the most efficient price based on our current expenditure, or through work with WSROC or LGP, for opportunities to achieve value for money.</p> <p><b>3.4 “DWM charges should be transparent”</b></p> <p>Council agrees with this and would encourage transparency as long as the comparisons are fair, consistent and effective.</p> <p><b>3.5 “DWM charges should seek to ensure price stability”</b></p> <p>Council agrees in principle. This is not being achieved at Cumberland at the moment, as the Waste Reserve is insufficient to allow Council to absorb the current increases in tipping costs well beyond CPI.</p>

Further to the core submission, Council has also prepared a more detailed response to the thirteen questions (see Attachment 1).

### COMMUNITY ENGAGEMENT

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There are no consultation processes for Council associated with this report.

### POLICY IMPLICATIONS

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There are no policy implications for Council associated with this report.

### RISK IMPLICATIONS

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There are no risk implications for Council associated with this report.

## **FINANCIAL IMPLICATIONS**

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There are no financial implications for Council associated with this report.

## **CONCLUSION**

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Submissions on IPART's Discussion Paper 'Local Council Domestic Waste Management Charges' are due by 6 October 2020. This report has been prepared to ensure Council can meet the 6 October 2020 deadline. Like the Rates Review, Council supports sensible reform that improves efficiency and uses a consistent approach to cost management.

## **ATTACHMENTS**

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1. IPART Discussion Paper - Section 1.5 - Detailed Responses