

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?	Refer to 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?	Refer to 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?	Refer to attached Submission.
4. Do you have any other comments on councils' domestic waste management charges?	Refer to attached Submission.
5. Which Council do your comments relate to?	Hawkesbury City Council
Your submission for this review:	Submission is attached
If you have attachments you would like to include with your submission, please attach them below.	Submission to IPART Discussion Paper - Domestic Waste Management Charges.pdf
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	Emma

Last Name	Galea
Organisation Name	Hawkesbury City Council
Position	Chief Financial Officer
Email	
IPART's Submission Policy	I have read & accept IPART's Submission Policy

Submission to IPART's Review of Domestic Waste Management Charges in Local Councils

• DWM may not reflect reasonable Cost

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?

The rate peg increase is not relevant to the main cost drivers contributing to the DWM Charge. Main contributors to the DWM Charge are:

- *Section 88 Waste Levy – Determined by the NSW State Government, and until recently was being increased faster than inflation*
- *Contractors Charges – Increases in contract charges when renewing contracts are not necessarily aligned with inflation. Due to high entry costs and the length of waste contracts new contracts include allowances for risks such as changes in legislation*
- *Changes in the Waste Industry - there has been major changes in the waste and recycling industry which have resulted in much higher processing costs, for example the impact on recycling costs following the China National Sword Policy*
- *Changes in the environmental regulations – as an example of this there are increasing costs for rehabilitation and monitoring of both existing and legacy landfills, management of landfill gas migration and management of generated methane, for environmental protection purposes.*

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

Councils across NSW offer different services to their communities. There are wide variations in regard to the number and types of bins and other services such as the kerbside bulk collection service. Just taking the latter as an example, some Councils offer one service a year, others offer up to twelve services a year.

Services offered reflect the particular council's:

- *approach to waste management*
- *the size and nature of the area*
- *the population of the area*
- *the population density*
- *the urban and rural composition*
- *proximity to waste infrastructure*
- *the residents' demand and expected service level*
- *exposure to natural disasters*

As the cost to deliver the DWM service is driven by all these factors, so is the charge to the residents. Accordingly it would not be appropriate to compare charges across councils without having regard to the differences in the services being provided. As a specific example relevant to Hawkesbury Council, the impact of natural disasters such as floods and fires has a particular and increasing effect on services and associated costs. Another issue having a significant impact on Hawkesbury Council is the size of the area,

being of the same scale as the rest of the metropolitan council areas combined, and the need and desire for provision of equivalent service levels to remote areas within this area.

It is further to be noted that services and associated charges are exhibited each year as part of each council's Operational Plan. This is an opportunity for residents to provide feedback on services, service levels and associated charges.

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

There are only very few players in the market, partly due to the cost of establishing this type of business. Whilst councils call Tenders for their outsourced DWM services, generally always the same few Tenderers respond. However, as the value of these contracts are high, there is an incentive for the respective Tenderers to submit their best offer. The lengthy term of these contracts, again due to high entry and establishment costs, is another contributing factor to high charges. Due to the evolving nature of the waste industry Tenderers build in risk in their charges to mitigate their business's exposure to adverse changes.

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

As each council would have their own methods of calculating overheads we restrict our comments to the allocation of overheads at Hawkesbury City Council.

Council applies a consistent overheads allocation methodology across Council. The drivers of the allocation are employee costs, materials and contract values, other expenses and capital expenditure. Costs charged out through overheads are information services, records, financial services, risk management, human resources, corporate governance costs, plant management, legal costs, executive management, customer service, internal audit and strategic planning.

The nature of costs generally allocated through overheads is such that it would not be practical or efficient, to be specifically identified to a particular activity, like a direct cost would be. A specific activity would generally consume only a portion of corporate resources and costs, and the costs of calculating the exact usage would outweigh any benefit. In the case of council services the net impact on the end ratepayer is nil as regardless how the overheads are allocated they are still a cost ultimately paid through rates or annual charges.

In the case of DWM, there would not be one or more human resources staff, or financial services staff, solely dedicated to this activity, but rather a portion of one or more specific staff time would be consumed. For example, Financial Services process invoices and payroll, and carryout a variety of financial accounting and financial management tasks related to DWM. However if DWM did not exist, there would be no reduction in overall resources required, as it is only a portion of individual's staff time that would be "released". This is especially the case in councils, such as Hawkesbury, where teams are very small.

Accordingly overheads associated with DWM are not ring fenced from general residential rates overhead expenses because it is neither practical or cost-effective to do so.

- **Options for oversight**

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

It is suggested that IPART does not regulate DWM charges but rather provide oversight to ensure councils are only recovering cost applicable to their specific DWM service, including overheads. The audit of “reasonable cost” previously undertaken by external auditors provided a level of oversight.

As referred to in the response to Question 2 above, services offered by each council vary in line with their community’s desired standards. Whilst comparisons with other councils’ costs and charges would be interesting, they should not be used as a tool to achieve consistency.

Services offered and charges are already subject to the specific community’s feedback through the Operational Plan mechanism.

In regard to costs, it should be up to each council to determine the most cost effective way to provide the service. Cost effectiveness for each council will be dependent on various factors including but not limited to, the nature of the area and waste management infrastructure available.

IPART could issue a set of basic principles as guidance (not prescriptive) for setting DWM charges, however such principles should not such so as to restrict specific circumstances / costs applicable to specific councils to be reflected in the DWM charge.

In regard to the issue of Overheads allocation, rather than prescribing a method, IPART could suggest a reasonable range of percentages of the total DWM costs that may be attributed to Overheads.

In regard to outlier councils, consideration could be given to an initial audit so as to understand what is driving the anomalies. If anomalies are justified there would be no scope to regulate and they could just be brought under the oversight regime applied to all other councils.

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

The discussion paper focuses on the DWM charge set by councils, and the costs that councils have some level of control on. There does not appear to be any suggestions to improve transparency around the setting of the Section 88 Waste Levy set by the NSW State Government and matters such as a council’s classification for the purposes of the Levy.

The paper also fails to acknowledge the challenges of the waste industry including legislation changes and actions of major stakeholders in the industry.

The paper also does not consider the net impact on ratepayers, going as far as suggesting that any shortfall in cost recoupment regarding the DWM charge could be made up through a Special Rate Variation.

The remit that has been given to IPART, whilst it may be aimed at improving transparency, is too narrow in scope. It excludes the major factors driving DWM costs, and therefore the factors driving changes in DWM charges.

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?

If reporting was introduced for comparative purposes, this reporting should not come at a cost to councils, and ultimately its ratepayers. The information regarding waste services

and charges is already contained within councils' Operational Plans and can therefore be easily accessed and collated by the agency seeking the information.

As referred to in the response to Question 5, the focus should be on ensuring that each council is only recouping DWM costs as specific to them, rather than as compared to others. Accordingly benchmarking could result in councils charging more due to their specific higher costs, being under fire for being more expensive and having to continually justify the difference. Again, this process would simply add costs to councils, and ultimately its ratepayers.

Rather than trying to account for differences in services and service levels and specific cost drivers, it would be more appropriate not to try and compare between councils in the first instance.

Rather than a comparison between councils what would be more useful is perhaps additional information in a council's Revenue Pricing Policy each year to explain any significant changes in the charges compared to the previous financial year.

- **Preference for a less prescriptive, more targeted approach if regulation is required**

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?

Comments regarding reporting and benchmarking are as per Question 7 above.

In regard to monitoring, a similar process to what previously was in place with annual audits would be sufficient. This should not come at an extra cost as the NSW Audit Office is already charging more than what previously was being charged by external auditors. Monitoring approaches such as annual audits would be effective in ensuring councils are only recouping costs that can be recouped. A check on the percentage of overheads to overall DWM costs would also highlight any issues in this regard.

There is merit to establish broad pricing principles that do not limit a council's ability to recoup all costs specific to its services, and including overheads. Broad pricing principles would be effective in ensuring cost recoupment is being done in a consistent manner across councils.

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

Broad pricing principles could be used in conjunction with annual audits. As commented in response to Question 7, reporting could be useful, and benchmarking would be interesting but should not be used as a tool to achieve consistency.

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?

We do not see issue with a central database, as long as the collation of the database does not require any additional reporting by councils.

It is further noted that generally councils would compare themselves with neighbouring and / or similar councils. Comparisons with very different council is generally not useful. Accordingly, potentially there is not much benefit in collating all councils' information, given the same information is available in each council's Operational Plan.

- Proposed Pricing Principles

Box 3.1 IPART's proposed key pricing principles for DWM charges set by councils

1. **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
2. **Only reasonable cost categories should be reflected in DWM charges**
3. **DWM charges should reflect efficient costs**
4. **DWM charges should be transparent**
 - ▼ To assist local councils
 - ▼ To assist customers
5. **DWM charges should seek to ensure price stability**

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

Comments are provided for each pricing principle as in Box 3.1 above:

DWM charges should reflect a 'user pays' approach

It is agreed that customers should pay for the full reasonable costs of the DWM services they receive. It is agreed that this is important for ensuring that Councils' recover their costs, and hence are able to continue to provide appropriate levels of service. It could also result in customers face appropriate price signals, which means they are more likely to efficiently use DWM services over time (although this also largely depends on how DWM charges are structured).

It is agreed that the 'full cost' represents the value of all the resources used in the provision of a service – including the costs of preventing, collecting and disposing waste, complying with any environmental or other regulatory requirements in the supply of the service. In addition to the costs directly associated with the service, the full cost includes an appropriate allocation of indirect costs. Capital costs associated with the DWM service should also be recouped.

Costs of providing the various waste services should be able to be separately identified; however the annual waste charge should be able to be "packaged" in one fee to reflect the full cost of providing DWM services.

We agree with applying an incremental approach for the inclusion of direct costs.

We strongly oppose the proposed incremental cost allocation of corporate overheads. The very nature of costs generally allocated as overheads is such that these costs cannot be directly and specifically attributed to a service. In practice there is no identifiable single resource reduction that would occur if a service did not exist. In the case of Hawkesbury council for example we have a People and Development team consisting of a team of 3.5 full time equivalents. Should the DWM service not exist there will not be a reduction of resources in this team, rather a proportion of the team's team that would be freed up. Calculating the exact proportion would also be problematic as time consumed dealing with a particular service will vary depending on what is occurring within the team. In one month there could be an industrial matter relating to the service, or in another month there could be a disciplinary issue being dealt with, and then there

could be time where there is no specific activity, outside of the usual processes relating to the service.

Capital Costs associated with DWM services should be recouped in full, as should depreciation.

In regard to the rate of return on assets such as a landfill, we do not support the application of the discount rate published by IPART (currently 3.6%). The rate of return on an asset such as a landfill should be reflective of a commercial rate of return that a council would be required to pay if it disposed of its waste at a commercial waste facility other than its own. The rate of return should reflect the opportunity costs and risks associated with the investment, same as a commercial rate of return would.

Any social program associated with domestic waste management, that is funded by Council should **not** be funded by general rates. We do not support this component of the proposed pricing principles.

Only reasonable cost categories should be reflected in DWM charges - service costs that are not included in reasonable costs

It is agreed that any waste management program funded by government initiatives such as Waste Less, Recycle More initiative is not included in the costs recovered to provide the DWM service.

DWM charges should reflect efficient costs

Same as for any other service being provided, a council should be seeking the most cost effective way to provide the DWM service. For each council the manner by which cost effectiveness is maximised is different. As stated earlier in this submission benchmarking should not be used as a tool to achieve consistency. Differences in costs are not necessarily an indication of efficiency, but rather a reflection of the specific circumstances of each council and service levels provided. For example, in the case of Hawkesbury City Council, it costs more to collect and transport waste simply because of the dispersed population in some of its areas.

It should be left to each individual council to determine the most cost effective way to provide the service. For some council services outsourced through competitive tender using best practice procurement approaches and processes may be the most efficient cost of providing the service, whilst an in-house model may be more efficient for another council.

It is agreed that the length of contracts and contract provisions may in some cases prevent councils from achieving efficient costs. Councils could consider different models in regard to what is outsourced and what is done / purchased in-house, but these decisions should be left to councils to make.

DWM charges should be transparent

It is agreed that there should be transparency for ratepayers however we do not support displaying a separate charge for each of the bins. In addition to this process being practically difficult to implement due to limited room on the Rates Notice, it is also difficult and impractical to allocate direct and indirect costs to each type of bin or service.

Again, as outlined in earlier responses the ability for ratepayers to be able to compare charges between different council, may have a detrimental impact on councils being required to justify why their costs are different.

DWM charges should seek to ensure price stability

It is agreed that price stability should be aimed for. The appropriate management of the Domestic Waste Reserve, legislatively restricted for that purpose, underpins the ability for councils to be able to “smooth out” significant cost spikes in any year.

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

No further comments

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?

Councils already procure outsourced DWM services through a competitive tender process. Each tender would reflect the specific council's circumstances, approach to waste management and service level expectations.

It is further to be noted that the context and situation at the time of tendering also has an impact on the end contract price. Factors having an impact include:

- *The number of waste companies active in the market*
- *State and National Government Policy Setting and Legislation: (e.g. National Waste Export Bans, Introduction of the Container Deposit Scheme, Energy from Waste, Mixed Waste Organics Output, Mandating Food Organics and Garden Organics)*
- *The availability and location of waste infrastructure*
- *International Market Forces e.g. China National Sword*

As the details within each contract would be subject to commercial confidentiality, there appears to be little point in comparing contract amounts only.

It is further noted that contracts awarded are publicised on councils' website in the GIPAA register.