

Domestic waste management charges - Discussion Paper

Submission date: 16 October 2020, 4:06PM

Receipt number: 73

Related form version: 5

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 document
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 document
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 document
4. Do you have any other comments on councils' domestic waste management charges?	See attached Submission document
5. Which Council do your comments relate to?	Hornsby Shire Council
Your submission for this review:	
If you have attachments you would like to include with your submission, please attach them below.	Hornsby Shire Council IPART DWM Charge Review Submission PDF.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	Chris

Last Name	Horsey
Organisation Name	Hornsby Shire Council
Position	Manager, Waste Management
Email	
IPART's Submission Policy	I have read & accept IPART's Submission Policy

16 October 2020

Review of Domestic Waste Management Charges
Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket Post Shop
SYDNEY NSW 1240

Dear Ms Rapmund

Hornsby Shire Council Submission to IPART on Local Council Domestic Waste Management Charges Discussion Paper

Thank you for the opportunity to comment on IPART's Local Council Domestic Waste Management (DWM) Charges Discussion Paper.

Council has carefully considered the issues raised by IPART, the possible regulation of the DWM Charge and the proposed measures to address improved transparency and provide Local Government with better guidelines for setting DMW Charges. At its General Meeting of 14 October 2020, Council resolved to endorse the attached submission which details Council's response to IPART's Local Council Domestic Waste Management (DWM) Charges Discussion Paper.

In summary Council's submission addresses the following:

1. Council believes that the current system for setting DWM Charges under the Local Government Act and the OLG Rates and Revenue Raising Manual remains sound;
2. Council shares IPART's concerns regarding cost pressures on domestic waste management services, however issues around market competition and waste infrastructure are complex matters requiring broader solutions;
3. Council does not support the regulation of DWM Charges by way of setting a maximum percentage increase and considers that such an approach would be detrimental for meeting community waste service expectations and pursuing resource recovery improvements;
4. Council supports the concept of DWM Charge pricing principles, however Council does not support the "incremental cost" methodology for overheads, or the ceasing of apportioning pensioner rebates to the DWM Charge. Council also has concerns over IPART's definition and classification of overhead costs, where some direct costs associated with providing waste services are being classified as overheads; and
5. Council supports improved transparency and reporting measures on DWM Charges, including a register of waste contract costs and a publicly available waste services benchmarking tool. Council requests that Local Government be further consulted and involved in the development of waste benchmarking tools to ensure known barriers and constraints to a fair comparison of equivalent waste services and comparable councils can be facilitated.

Further detail on Council's position to the DWM Charge Discussion Paper can be found in the attached submission.

Should you require further information, please do not hesitate to contact Council's Manager Waste Management, Chris Horsey on [REDACTED] or by email at [REDACTED]

Yours faithfully,



Steven Head
General Manager

TRIM Reference: F2004/08817-008

RESPONSE TO IPART DISCUSSION PAPER ON DWM CHARGE

Questions from IPART paper

Council	Name
Hornsby Shire Council	Christopher Horsey Manager, Waste Management

IPART is seeking general feedback from stakeholders in response to their Discussion Paper, as well as responses to specific questions in both the on-line submission form and inside the discussion paper. (Please type responses after each question. Increase the space as required)

SUBMISSION QUESTION RESPONSES

A. Are there concerns with the prices councils charge for domestic waste management services? Why/why not?

Council has no direct concerns with its DWM Charge as it only includes the reasonable costs of providing these services as permitted under the Local Government Act. Council's concerns relate to current and emerging market cost pressures on the provision of waste services to the community and the impact that is having on overall costs.

B. 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?

IPART's suggested approach of transparency on the reasonable costs of domestic waste management is supported.

It is noted that council's already publicly report on their DWM Charge and any surplus held in restricted reserves in their Annual Delivery Program, Financial Statements and Annual Reports. A publicly available bench marking register of NSW council's waste services and associated DWM Charges is also supported, however care will need to be exercised to appropriately address the varying services, service levels and other factors detailed in this submission to ensure a fair comparison can be established and readily interpreted by residents.

The majority of the DWM pricing principles outlined by IPART are also considered reasonable, except for the use of incremental cost methodology to apportion corporate overhead costs and the proposal for DWM pensioner rebates to be recharged to general revenue, which Council disagrees with.

As noted further in the response to question 11, instead it is recommended that average cost methodology should be used to apportion corporate overhead costs, accompanied with transparent reporting on the methodology and metrics used for apportionment.

It is also recommended that the proportion of pensioner rebate costs attributable to DWM should continue to be costed to DWM as provided in the OLG Rating and Revenue Raising Manual as they are a legitimate cost in providing the DWM service to the community.

- C. **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?**

Yes. Council supports a centralised database of all NSW councils' DWM Charges, their equivalent services detailed to demonstrate service compositions, variations in service levels etc across comparable and equivalent councils to provide greater transparency to residents of the reasonable costs of these services and their value for money.

- D. **Do you have any other comments on councils' domestic waste management charges?**

Council would also like to see a review of the Local Government Act 1993 to broaden the scope of the services permitted to be covered under the Section 496 DWM Charge to better cover services constituent communities expect councils to deliver to residents such as Community Recycling Centres, periodic drop-off collections for items such as e-waste, repair cafés, clothing swaps, composting/worm farming workshops and the like.

It is recommended that the NSW Office of Local Government undertake a review of the Local Government Act domestic waste management services scope and charging methodologies, including a review of the OLG Rating and Revenue Raising Manual to better reflect current community expectations of local government waste services beyond the kerbside and immediate property.

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?**

As noted by IPART, under the *Local Government Act* and the NSW Office of Local Government's *Rating and Revenue Raising Manual*, councils are required to base their DWM Charge on the "reasonable costs" of the services they provide.

Council considers that measuring DWM Charge increases against the current rate peg has little relevance to the actual factors that are driving DWM Charge increases. What is of concern is managing the complex factors that are driving increasing DWM Charge reasonable costs and the level of influence and capacity councils have to bring about change or improvement to these factors.

Factors affecting DWM Charge increases include but are not limited to:

- Increasing government policy drivers (Waste and Resource Recovery Act 2001) requiring councils to divert waste from landfill and increase resource recovery levels which comes at significantly increased costs that are reflected in DWM Charges.

Increasing resource recovery outcomes come at increased costs for local communities. For example, in general, a council achieving a 50% resource recovery rate might have a DWM Charge of \$500, where another council achieving a 70% resource recovery rate might have a DWM Charge of \$950. More specifically, if Hornsby Shire Council was to implement a Food Organics

Garden Organics collection and processing service on top of its existing waste services for its community, this would cost an additional \$5M pa or around \$100 per household pa, to achieve 10% additional resource recovery - moving Council from 45% to 55% resource recovery of waste from landfill.

Council holds concerns that limiting the annual percentage increases on DWM Charges may limit councils' ability to meet resource recovery targets and create a situation of conflicting policy objectives/mechanisms.

- The NSW State Government's Waste Levy of \$146 per tonne on waste to landfill has also created a significant cost pressure for metropolitan councils that is reflected in DWM Charges.

For Hornsby Shire Council, the Waste Levy cost impost on the DWM Charge represents around 15-20% of the charge to residents i.e. approx. 36,000 tonnes waste to landfill at \$146/t equates to around \$5.2M of the total \$28M waste budget.

While the Waste Levy may represent a sound pricing policy signal/mechanism in diverting waste from landfill, local government holds concerns that the vast majority of funds raised have not been directed into much needed waste infrastructure (refer to LGNSW *At the Crossroads: The state of waste and recycling in NSW* report https://lgnsw.wpengine.com/wp-content/uploads/2019/10/LANSW_DES_recycling-report-online-081019-3.pdf).

LGNSW estimate that by 2022/23 approximately \$800 million p.a. will be generated by the Waste Levy, with the NSW Government retaining \$500-600 million p.a. of this. As these funds have largely been directed into NSW consolidated revenue, it could be argued that the Waste Levy is artificially inflating councils DWM Charges for little to no benefit for the purposes the levy was imposed in the first place.

- Market failures in infrastructure planning and development, and a lack of government intervention to address these failures.

The Sydney metro region has been facing significant and complex issues related to waste infrastructure and service planning and provision for some time, particularly post the sale and privatisation of Waste Services NSW who previously facilitated the provision of critical waste infrastructure.

Waste infrastructure does not seem to be regarded as a critical aspect to whole of city strategic planning processes on par with other infrastructure types such as water, power, transport, roads etc. There is no viable plan for Sydney's waste infrastructure such as a geographically established network of collection depots, direct drop off transfer stations, bulking and transfer stations, processing facilities (MRF's [comingled and mixed/dirty MRF's], garden and other organics, C&D waste, waste to energy) and landfills etc.

As noted by IPART, the cost to enter the market for the provision of waste infrastructure and services is a hurdle for new competitors. For example, a modern day Materials Recycling Facility (MRF) to process household recyclables, costs between \$10-20 million. At a time when global recycle markets have collapsed and a pending Commonwealth ban on the export of waste materials is set to structurally change the industry landscape, compounded by inadequate onshore manufacturing sectors to provide viable national markets, these conditions are not likely to stimulate other service providers to enter the market.

Of more critical concern is that Sydney only has two remaining putrescible landfills to service 5 million people. For Hornsby, one of these landfills is inaccessible due to distance and prohibitive transport costs, leaving only one viable service provider.

Green waste and or food and garden waste processing is similar with only 2-4 service providers in a suitable geographic boundary to enable council to maintain reasonable transport costs.

Neither individual councils nor regional groupings of councils, are equipped or resourced to facilitate this whole of Sydney waste infrastructure planning and development. Funds collected under the waste levy should be applied to essential waste infrastructure projects and stimulating competition in a limited market.

- Global market changes are also impacting waste services. For example, China and other countries' restrictions on accepting recyclable materials have structurally changed global markets and waste flows. More generally, international commodity prices for recycle products have collapsed meaning increasing costs on service providers (which are passed on to councils) to maintain processing materials and to continue to divert these materials from landfill into beneficial uses.
- Increasing government regulatory drivers are impacting on the cost of services. For example, the pending Commonwealth ban on exporting waste, increasing landfill design/operation standards for environmental protection, difficulty gaining planning approvals for new waste facilities, access to suitable land with permissible zoning etc.
- Increasing community expectations on councils to better manage a community's waste and to provide comprehensive and convenient services for residents. Most residents indicate they are willing to pay for improved waste services and the associated environmental and sustainability outcomes that can be delivered by local government.
- Councils are "price takers" for outsourced services (collection, transfer, processing and disposal) and needing to accept publicly tendered pricing from the market. Where adequate service providers and market competition is available, beneficial public tendering outcomes are being achieved.

- However, where limited service providers and market competition is in play, councils become “price takers” and the service providers have significantly more power to drive service prices above their reasonable costs and required profit margins.

In this sense limited market competition, particularly in MRF’s, alternative and/or organics processing and landfill disposal, has a strong influence on the price competitiveness that councils receive when going a market.

- Risk that joint regional council tendering processes may further concentrate council services into the hands of only a few large commercial sector companies and further weaken competition, albeit while trying to achieve improved economies of scale.
- Annual contract price increases based on rise and fall factors (plant, labour, fuel etc) that councils are obliged to contractually pay are often well above rate peg percentages.

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

Hornsby Shire Council regularly bench marks its DWM Charge with other similar councils to ensure its charges are of comparable value to other LGAs for the services delivered. However, through these bench marking exercises over the years, it is apparent that comparing DWM Charges must be carried out with due consideration for variations in services delivered, differing service levels, differing direct charging and user pays combinations, and differing service delivery approaches.

The nuances in services between councils and the manner in which councils recover the reasonable costs of providing these services can have a significant impact on DWM Charge comparisons. For example, a council delivering four scheduled bulky waste collections with charges included in the DWM Charge, is not comparable with a council providing booked on call services where residents may only be charged for two on call collections in the DWM Charge and pay a direct user fee for service charge to access the remaining two service entitlements.

Similarly, some councils may pay an additional premium to have their green and putrescible waste undergo additional processing (FOGO), whilst other council’s may have contracts to simply compost green waste and send putrescible waste to landfill.

This structural variability between councils has significant implications for comparing DWM Charges between councils if these nuances are not identified and appropriately considered or understood. Presenting like for like information for residents may be challenging and if not able to be done in a simple, easy to follow format, may lead to inappropriate or unfair comparisons.

There are also other factors that must be considered when comparing DWM Charges between councils that are less apparent. For example, Hornsby Shire Council (HSC) in Sydney’s north west fringe, is located a significant distance from waste facilities for MRF processing, putrescible and bulky waste acceptance. This

distance by nature, adds reasonable transport costs to HSC waste collection contracts and by extension the DWM Charge.

If HSC's DWM Charge is compared to say another council where these transport costs are not impacting on waste services, say an inner-city council within 10 kms of waste facilities, then Hornsby DWM Charge may unfairly appear to not be of similar value for money to residents.

Distance alone is not the only transport factor, many Sydney metro council's pay a traffic congestion premium on their collection contracts as the collection service providers model collection services on transport logistics factors such as vehicle routes, types of roads, presence of traffic lights, turnaround time, etc

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

The market competition for waste services is highly variable across NSW. Within the Sydney metro region there is sound market competition within the waste collection segment of the waste industry. Hornsby Shire Council has recently publicly tendered its Waste Collection Services and received five (5) strong tender responses indicating sound competition.

However, within the Sydney metro region other waste industry segments are less competitive and there is significant concern in the areas of:

- Materials Recycling Facilities (Comingled MRFs) processing and marketing comingled recyclables, where Visy hold a significant market share with little viable market competition. Visy also hold a market dominance and offer integrated markets for onshore processing of fibre, PET, HDPE and glass that provides councils with added security that their recyclables will be beneficially recycled into manufactured products.
- Dirty Materials Recycling Facilities (Dirty MRFs) processing mixed waste to recover standard recyclables prior to waste to energy or landfilling. There is currently no mixed waste dirty MRFs in Sydney metro.
- Garden waste processing facilities are also limited with Kimbriki at Terrey Hills, Suez at Eastern Creek and ANL at Badgerys Creek.
- Food Organics and Garden Organics (FOGO) processing facilities are highly limited with Suez Kemps Creek (although it is unclear if they are still providing FOGO services) and ANL at Badgerys Creek who undertake primary processing of FOGO material, then transport to Blaney for further processing and maturation.
- Landfill disposal services for both dry waste (bulky waste) and especially putrescible (red bin) waste are by far the highest risk waste infrastructure that is rapidly running out of capacity to serve the city. There are only two (2) remaining landfills available to Sydney councils being Lucas Heights (Suez) and Woodlawn (Veolia) landfills. For councils located north of the harbour, Lucas Heights is not a feasible

alternative due to prohibitive transport costs.

- Bulking facilities for councils to direct localised domestic collection fleet to, allowing bulking and mass efficient transfer of waste streams to waste facilities located some distances away that create cost inefficiencies in waste services are much needed and would deliver significant cost efficiencies.
- Transfer stations for residents to undertake self-haul and direct drop off are also extremely limited all of which are controlled and managed by Suez post the sale of Waste Services NSW assets. Many of these facilities now have restricted operational hours and access.

For a major metropolitan city of 5 million people with substantial economic activity, the waste infrastructure and associated waste services for Sydney are lacking. Of importance is the actual location of key waste infrastructure within and across the Sydney metro area, as proximity has a major bearing on the cost of transport of waste materials.

Without a properly planned network of integrated waste infrastructure, a major metro city will carry significant inefficiencies in its waste management systems. Such a system needs various components such as transfer and bulking stations strategically located to service the entire city, so that the different waste streams can be transported to waste facilities that are ringed within and surrounding the city depending on the infrastructure type.

Following the dismantlement and sale of Waste Services NSW, it was expected that the commercial waste industry would respond and take up the planning, development and operations of critical waste infrastructure and services. However, this has not occurred at the levels needed and government intervention to address this market failure is required.

Whilst joint tendering processes by local government have had some limited success in underpinning new infrastructure investment, the lead times to bring about these processes are not likely to meet the urgency to which critical waste infrastructure is required. Councils tendering alone often do not possess the needed minimum tonnages required for the commercial waste sector to establish new waste facilities of varying types for the different waste streams.

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

Hornsby Shire Council currently attributes approximately 15% of its total corporate overheads to the DWM Charge to support the delivery of domestic waste services.

Council's total corporate overheads are approx. \$7.634M, with \$1.113M being recovered from DWM Charge revenue to support the provision of domestic waste services. This 15% cost attribution of HSC corporate overheads to DWM is significantly less than the IPART reported 65% corporate overheads attribution from metropolitan councils. Hornsby considers that this 15% corporate overheads attribution to the DWM Charge is based on, only costing reasonable costs for the provision of the services to the DWM

Charge and it is not cost shifting from residential rates or undermining the rate pegging process.

In 2020-21 the corporate overheads cost of \$1.113M that was paid using DWM Charge funds represents approximately 4% of the total \$28.30M DWM Charge which is considered reasonable.

Council publicly reports on DWM Charges in its Annual Delivery Program providing details on collection services, disposal services, green waste processing, recycling acceptance, administrative waste services and corporate overheads to ensure routine transparency to the community.

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

Council supports IPART's suggestion to:

- Establish DWM Charge pricing principles
- Benchmark and publicly report DWM Charges to promote transparency
- Public report of tender/contract outcomes

Council does not feel that the alternative of imposing an annual percentage increase cap on the DWM Charge is warranted or the preferred way for IPART to bring about greater oversight of DWM Charges.

All councils currently set and publicly advertise their fees and charges annually, inviting community submissions on the proposed fees and charges before they are adopted by the elected Council. Providing readily accessible, comparative data on DWM Charges would provide further transparency for residents who review and making submissions to council in setting these charges.

Capping DWM Charge increases may also create problems for councils when new contracts commence and increases in contract prices are often experienced. These increases are often associated with new service outcomes being procured (i.e. additional waste processing to meet state resource recovery targets); or the length of time between contracts (typically at 5 to 10 year time intervals) and step increases in price that are often experienced when tendering after such an interval. The duration of these lengthy contracts is considered appropriate, as they align to the ideal plant and facilities amortisation period, which is critical to keep contract costs at their lowest possible price point.

6 Are there any other approaches that IPART should consider?

As discussed further in the response to question 11, IPART could develop common guidelines for councils regarding corporate overhead cost attributions using average cost methodology that could be consistently applied across all of a Councils operations, and publicly reported on. This would also enable comparison between councils.

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?

The following suggestions are made:

- Establishing defined geographical areas for LGAs across NSW e.g. Sydney metro region, urban NSW, regional NSW
- Each council could report their DWM Charge by dwelling types (SUD/MUD)
- A detailed services matrix could be developed enabling each council to identify the specific services they provide to residents under the DWM Charge
- Separate kerbside bin services by:
 - each waste stream i.e. general waste, recycling, (paper, glass – if applicable in NSW), green waste, FOGO
 - bin sizes
 - number of bins provided
 - additional bins based on use pays fee for service
 - collection frequency
 - how charges are applied for new bins, bin replacements and repairs i.e. are these covered in DWM Charge or additional user pays chargers
 - other inclusions/exclusions
 - general comments/notes
- Separate kerbside bulky waste collection services
 - type of service i.e. scheduled, booked on call, or a hybrid
 - are service charges included in DWM Charge or user pays fee for service, or a combination i.e. set allocation of collections in DWM Charge, then a user pays approach
 - collection volumes of bulky waste e.g. 2,3,5m³ etc
 - does the council charge for or consume allocations for oversize presentations
 - collection frequency/service level
 - specific materials collected separately for resource recovery e.g. metals, mattresses, e-waste, HHW etc
 - other inclusions/exclusions
 - general comments/notes
- Separate waste processing and disposal
 - identify processing type by waste stream
 - General Waste – W2E or landfill
 - Recycling – MRF – who owns materials
 - Green waste – mulched, composted or landfill
 - Food Organics Garden Organics – AWT in vessel or open windrow
 - Bulky waste – resource recovery, W2E or landfill, separate streamed metals/e-waste/mattresses collection or centralised resource recovery processing

- Identify destinations for waste materials processing or landfilling and the distance from the LGA centroid to each facility to demonstrate inherent transport inefficiencies
- Resource Recovery percentage (RR%) of domestic waste being achieved clearly detailing how this is to be calculated to ensure consistency between councils
 - i.e. $\text{total domestic recycling} / \text{total domestic waste generation} * 100 = \%RR$
 - where total domestic recycling = yellow bin, green waste, recovered material from bulky (e.g. metals, mattresses, wood etc)
 - where total domestic waste generation = all waste to landfill (putrescible & bulky), W2E, recycling and green waste

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?

IPART's proposed benchmarking approach has merit in providing a comparative tool for residents and the council's themselves to examine the DWM Charge, the services it covers and the value for money being achieved between LGAs. Council's could report on this within the Integrated Planning and Reporting Framework. Each council could publish its own information in each years Delivery Program and Annual Report and provide a link to the centralised benchmarking database.

It is suggested that the database may need to be accompanied with instructions and explanatory notes on how to use and compare the information and data between councils. It is also suggested that the database and benchmarking processes be subject to regular review and improvement to address any issues where comparisons between LGAs is problematic.

*It is noted that the NSW EPA already collect and publish regulatory data under the WARR Act Regulations which includes each LGA's DWM service descriptions, metrics and DWM Charges in a comparative table.

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

A self-reporting and publicly available benchmarking approach is considered to be more efficient and provides more transparency than periodic auditing of individual councils.

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?

The database matrix must accommodate different LGA characteristics, availability of service providers, categories of DWM Charges (SUDs/MUDs/other), service types (collections, process, disposal), waste streams (general waste, recycling, green waste, FOGO), service configurations, service levels, service delivery approach (inhouse/outsourced), direct cost recovery in DWM Charge verse user pays fees for service, and other relevant variables.

Other factors and characteristics of the LGA that may have a significant impact on the cost structure of waste services must also be considered such as:

- Geographic area in square kilometres
- Population density across the LGA
- Distribution of residential dwellings and settlement patterns across the LGA
- Distance to waste processing and disposal facilities (from LGA centroid)
- Available waste service providers within the LGA for each service component (collections, processing and disposal) and market competition
- Percentage resource recovery and waste diverted from landfill being achieved

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

The majority of the DWM pricing principles outlined by IPART are considered reasonable, except for the use of incremental cost methodology to apportion corporate overhead costs and the proposal for DWM pensioner rebates to be recharged to general revenue, which Council disagrees with.

It is recommended that average cost methodology is used instead of incremental cost methodology for the apportionment of corporate overhead costs. Average cost methodology is used to apportion costs across all of Council's functions, of which DWM is one part. The use of Incremental cost methodology for DWM would result in overheads being apportioned to DWM differently to the rest of Council.

Average cost methodology is utilised for several reasons:

- Many of Council's external funding bodies allow overhead costs to be apportioned on an average basis and budgets funded from Council's internal reserves are also apportioned this way. The use of a consistent methodology across all of Council means the same metrics are used to apportion corporate costs across all parts of the organisation, which is considered fair.
- All corporate overhead costs have an element of variability. With reference to Box 3.2 of IPART's report it is noted that the IT Manager's salary would have been set based on the size of responsibilities when the role was recruited including DWM, which is often a significant part of Council's operations and systems. Further, if Council were to cease DWM services, followed by other significant functions of Council there would become a point at which the IT Manager's salary would be reviewed and reduced, highlighting that there is a variable cost element to all corporate overheads that should be appropriately apportioned across Council operations using consistent methodology.
- Each function of Council benefits from efficiencies from sharing costs on an average basis. For example, the management of DWM requires complex financial systems and is a significant part of Council's annual budget. This system is provided to DWM at a discount because DWM benefits from the economies of scale achieved from using one system for all of Council's operations. If DWM was run on a separate financial system, the cost would be significantly higher than the apportionment of costs attributable to DWM on an average basis and it is fair that an average allocation is costed to DWM. An apportionment of costs would not be possible on an incremental basis as Council has signed long term contracts with IT providers that comprise fixed annual

payments. These annual payments would not reduce if DWM operations ceased. However, contractual amounts were agreed to after being tendered based on providing services for all of Council, including DWM.

4% of the total DWM expenditure budget in Council's 2020/21 Annual Budget relates to corporate overheads that have been apportioned on an average basis, which equates to 15% of total Council corporate overhead costs. This is considered fair and reasonable and has been calculated using the same metrics and using a consistent methodology as for all other parts of Council.

In support of IPART's recommendations around transparency, Council would support a reporting process that requires the nature and amount of corporate overheads that have been recharged to DWM to be disclosed, as well as the metric used to apportion the overhead and the percentage of the total Council overhead that has been apportioned. DWM principles could also include the requirement for a suitable metric to be used for apportionment, and that the same metric should be used consistently across all of Council's operations.

Council supports the inclusion of direct operating expenses as reasonable costs for the DWM Charge including direct labour/salary costs and direct material costs of providing waste services to the community. Council notes these direct operating costs would include management, contract management, procurement, legal fees and education, as reasonable costs of providing waste services.

With regards to the proposal to recharge DWM pensioner rebate costs to general revenue, Council notes Sections 575 (3)(a) of the Local Government Act which specifically note that eligible pensioner rebates cover both rates and DWM. Section 11.9 of the Council Rating and Revenue Raising Manual also states that *'It is important that an accurate apportionment of pensioner concessions between rates and DWMS charges is undertaken'* and provides a detailed example of how this apportionment should be calculated.

It is Council's view that apportioning DWM pensioner rebates to the DWM Charge is a better reflection of a 'User Pays' approach as the cost of subsidies is a legitimate cost of providing DWM services to all of the community and it should continue to be costed to DWM.

Council also disagrees with any consideration to specify a percentage variation for some or all councils DWM Charges. Contractual collection and disposal costs make up 84% of the total DWM expenditure budget in 2020/21 (compared to 4% for apportioned corporate costs) and the terms of these contracts include annual price escalations that are enforceable under the contracts. Specifying a percentage increase could result in a situation where there is insufficient DWM income to fund DWM expenditure within the budget that would require general funds to be allocated to cover any shortfall.

DWM is also exposed to macroeconomic factors and flexibility in the annual charge is needed to respond to these factors, which are outside of Council's control. China National Sword policy is a recent example where unexpected cost increases because of the recycling crisis were unavoidable. A fixed percentage would have resulted in insufficient DWM income to cover DWM expenditure.

It is also noted that any recommendation to specify a percentage would be inconsistent with IPART's final report on their review of the Local Government Rating System which proposes a range of measures to give Council's more flexibility in the setting of annual rates to better serve their communities.

IPART also recommend that councils deduct the services costs for the delivery of any Waste Less, Recycle More grant funded programs from the reasonable costs of providing waste services to avoid double counting and over recovery of these costs. It is noted that Hornsby Council does not cost the program or service costs of these grant funded programs and initiatives into its reasonable costs allocated to the DWM Charge. Any grant funded programs are above and beyond the normal activities of council.

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

IPART note that many councils have collected surplus DWM CHARGE and are holding significant funds in restricted reserves. Hornsby Council has intentionally generated DWM surplus' to create a reserve fund for the following purposes:

- Ongoing environmental management and remediation of numerous historical landfills within the Shire.
- A prudent reserve for contract claims and variations.
- A reserve for one off non recurrent projects or incidents related to DWM services e.g. major procurement facilitation, legal services, change of collection days, unscheduled storm clean-ups etc.
- Major strategic planning initiatives related to local and regional waste infrastructure.
- The possible acquisition of land and development of waste infrastructure for domestic services.

The LG Act and the LG Rates Manual have clearly contemplated and outlined the need to ensure the DWM Charge covers the above reasonable costs.

12 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 this information is extremely useful and most councils will appreciate accessing such information in a centralised data base allowing easy comparative analysis, under the Government Information (Public Access) Act 2009, councils are already required to maintain a publicly available contracts register of its various classes of contracts.

For Class 3 major value contracts over \$5m total value, the following details are recorded: name of contract; name and address of contractor/sub-contractors; date contract becomes effective; duration of contract; particulars of services to be delivered; estimated payable amount under the contract; any renegotiation provisions, method of tendering, criteria of assessment; and a range of other specified details.

It is noted that the proposed centralised database will not change the fact that when a council publicly tenders a service, they will undertake a tender evaluation process that identifies the best value for money tender offer which is then considered by council.

Knowing past tendered contract values or even specific service schedule of rates (which are usually maintained as commercial-in-confidence) does not influence the tenderers tender pricing offered for council acceptance. Essentially councils tendering services are “price takers” of what are considered market rates at the time of tendering.

Hornsby Shire Council already publishes the annual contract cost for collections, processing and disposal in its Annual Delivery Program to provide transparency to residents of the cost structure of the DWM Charge.