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PO Box K35  
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## **Canterbury-Bankstown Council's submission on the IPART Local Council Domestic Waste Management Charges Discussion Paper**

For the attention of the IPART Tribunal Members:

Dr Paul Paterson

Ms Deborah Cope

Ms Sandra Gamble

Independent Pricing and Regulatory Tribunal

PO BOX K35

Haymarket Post Shop

Sydney NSW 1240

Submitted via email to [ipart@ipart.nsw.gov.au](mailto:ipart@ipart.nsw.gov.au) on 20 October 2020.



## Introduction

Canterbury-Bankstown Council was amalgamated in 2016 to form the new council LGA. We are currently the largest local government area by population within Sydney, with a population of approximately 360,000 and over household 130,000 households. Our community is expected to grow to close to 500,000 people by 2036. We are one of the most socially diverse communities across NSW but also one of extreme socioeconomic areas as well.

As part of the amalgamation Council needed to align waste services which is still being completed, including a review of our domestic waste management charges and plan for future services. Below is our submission on IPART's Local Council Domestic Waste Management (DWM) Charges discussion paper.

## Questions for discussion and feedback

*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 DWM charge is based on the 'reasonable cost' of providing the service. There are many factors that go into the calculation of that 'reasonable cost' that can result in the DWM charge rising faster than CPI or the rate peg. Some of the costs included into the DWM charge are waste collection, disposal and capital expenditure. Councils need the flexibility to cover these costs without passing significant increases onto ratepayers in one go. The extent of population growth also influences the DWM charge. As collection contracts tend to be approximately 7-10 years in length, the cost of servicing the increased number of households needs to be considered at the beginning of the procurement cycle, and each new contract may need an increase in costs to factor in population increases.

As a part of council amalgamation and alignment of waste services, the Canterbury-Bankstown community voiced their desire to adopt the highest service levels from their former councils and as such harmonising services at the higher service level has increased the DWM charge above the rate peg to fund this higher service standard. As an example, in the former Bankstown LGA most households had their garbage bin size and weekly collections increased from 120L to 140L to align with the service of the former Canterbury Council.

Despite the different percentage of overhead allocations between councils these calculations do not on their own explain the increases above the rate peg as the basis of the calculation does not tend to change annually. Therefore, in line with Council's operating expenditure budgets the allocations from year to year generally increase in line with expenditure inflation. However, for amalgamated councils the harmonisation of overhead allocation from former councils may lead to a one-off increase to the DWM charge.

Federal and state government legislation, policies and strategies often affect service requirements and in turn costs, for example the NSW EPA 20-Year



Waste Strategy potentially mandating food organics collections, or as demonstrated in other jurisdictions such as Victoria banning e-waste to landfill or introducing additional kerbside glass collections. Councils need the flexibility to respond to any change in the regulatory environment and cover resulting cost increases to avoid a sharp spike in DWM charges.

Canterbury-Bankstown is concerned that limiting the increase on DWM charges may limit councils' ability to meet waste avoidance and resource recovery targets and create situations of conflicting policy objectives.

A significant part of waste disposal costs is the waste levy which has increased by almost 150% over the past 10 years, a rate considerably greater than CPI. Councils have no control over the waste levy and must allow for this annual increase. While councils receive some funding back through the NSW EPA Waste Less Recycle More program, it is a very small proportion of waste levies paid by councils and has in fact decreased over the same period.

There are a range of other drivers which have influenced the cost of providing DWM services, such as the China Sword Policy and contracting end markets for recycled materials, waste export bans, urban densification which demands higher cost servicing requirements, increased cost of processing technologies, the lack of waste infrastructure servicing Sydney Metropolitan councils and challenges brought upon by COVID-19 more recently.

The Sydney Metropolitan region faces a significant deficit of waste infrastructure and service planning. The barriers to new waste infrastructure is considerable and so is the time required to enter the market, which is currently not enticing for new investment. As there are only two landfills remaining in Sydney, transport costs and costs for disposal to alternate facilities such as for example food organics processing is only expected to increase. Councils need the flexibility to plan for and factor these costs.

Canterbury-Bankstown also manages a number of legacy landfill sites in addition to the Kelso Waste Management Facility which were used for the disposal of domestic waste. The lifecycle of landfill management carries significant costs which must be amortised over longer time horizons as obligations for site remediation and rehabilitation may continue long after closure. Canterbury-Bankstown's legacy landfills were designed, established and operated many years prior to the engineering and oversight required by modern regulation that protects the environment, creating persistent and costly environmental management challenges which are saddled on current and future Canterbury-Bankstown ratepayers through the DWM charge.

All these factors flow directly through to the costs associated with providing DWM services.



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

Each council is different in terms of community expectations, housing mix, topography, operating conditions, service configurations as well as strategic objectives which all contribute to the variance across councils.

Standard service is different for all councils and often reflects a unique geographical environment such as requiring smaller vehicles to access hard to access locations or basement collection areas. There is significant cost variations in catering to these differences. As the population within Canterbury-Bankstown increases and higher density development becomes more commonplace, there is increasing pressure to supply waste collection services using small rigid vehicles (SRV). Canterbury-Bankstown has recently undertaken initial studies to determine the impact of servicing with a SRV instead of a heavy rigid vehicle (HRV). Preliminary results indicate that it would be three to four times more expensive to run a SRV than a HRV, and that would have a direct impact on DWM charges.

Community expectation varies across LGAs and is often a reflection of socioeconomic demographics. However, community expectation rarely decreases and as society becomes increasingly busy there is less time spent wanting to deal with waste and an expectation that that council should take care of it. The trend of consumerism increases unabated with goods that don't last as long as they used to, leading to increased waste generation and expectation that councils will continue to support residents in disposing of waste to make it as easy as possible for them.

Often a new contract will see an increase in costs as technology changes and service level increases. Depending on where councils are along with their contract there may be a particular increase when councils retender and councils need the flexibility to factor this into the DWM charge not just at the commencement of a new contract.

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

There is a lack of competition for outsourced DWM services, with a large concentration of market share among a limited number of service providers, particularly for putrescible waste disposal and dry recyclables processing. The market structure often favours consolidation in the sector which limits competition and allows the dominant players to dictate contract terms.

The Local Government Act (sect 55) provides councils with parameters to ensure a fair and transparent process for the procurement of DWM services. Councils however are limited in their ability to access industry data to understand fair market prices which are often deemed commercial in confidence by tenderers.



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

Each council determines how, when and on what basis to allocate their overheads. This can lead to different levels and different methods of overhead allocations between councils. It can be difficult to 'ring-fence' overhead expenses from general residential rates as the one resource covers both general rates and DWM services. Further, wage increases need to be factored into overhead costs and without reflecting this into the DWM charge it may lead to decrease in service quality.

Whilst consensus on method and what overheads can be allocated would assist councils, the process should be simplified to ensure additional costs to allocate and regulate overhead costs are not embedded in the process. Canterbury-Bankstown currently allocates 10% to overhead expenses which is spread across various departments that have direct involvement with managing DWM services.

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

Canterbury-Bankstown supports a less intrusive approach to regulation which may include the development of pricing principles for setting DWM charges as guidance for councils with detailed investigation applied to outlier councils.

However, it would be difficult for IPART to determine the maximum increases given the differences in service provision and differences in reasonable cost inputs for each council.

Canterbury-Bankstown is accountable for its waste charges through the political process and details provided each year through community engagement associated with its Integrated Planning and Reporting Requirements.

*6. 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?*

Canterbury-Bankstown would strongly advocate for consultation with and the involvement of local government in any process for developing a framework to enable like-for-like benchmarking of DWM charges. Canterbury-Bankstown views that guidance needs to be given on specific aspects of DWM charges e.g. 'overheads', 'reasonable costs' and 'standard service' and all councils are given time to align to that guidance. Once all councils have aligned to the guidance then benchmarking may be possible. This would be a two-step process as there are currently too many differences between councils to allow effective benchmarking to occur.



*7. 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?*

Canterbury-Bankstown considers there to be merit in IPART's proposed approach to developing a reporting and monitoring regime but considers effective benchmarking to remain a challenge unless differences in services, service levels as well as cost drivers can be sufficiently accounted for. A reporting, monitoring and benchmarking approach may help to drive some consistency in approach and methodology for setting the DWM charge and aid the community's ability to compare between councils and enhance the accountability of Canterbury-Bankstown for their DWM charge.

Some details for benchmarking could include each council reporting its DWM charge:

- By MUD/SUD
- Detailed service matrix including bin sizes, number of bins, waste streams, additional bins, collection frequency, subsidies (and where subsidised from), and other services
- Details of processing and disposal for each waste stream
- Destination and travel distance / costs
- Generation of waste for all waste stream and resource recovery

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

Canterbury-Bankstown would support an approach based on pricing principles over audits of local councils' DWM charges by OLG which are costly and time-consuming. The cost of financial audits for councils has escalated significantly in recent years since oversight has been taken over by the Audit Office NSW. This is a monopolistic service where council has little say in audit requirements or costs. Additional audit requirements would mean significant additional costs to council that would be passed onto ratepayers through higher DWM charges.

*9. 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?*

Differences in services, service levels and cost-drivers such as contract cost differences and timing of contract terms would need to be accounted for to ensure meaningful comparisons can be made. Further differences in each LGA, such as population density, geographical area and distance to disposal sites would also need to be factored in.

Canterbury-Bankstown does not support the proposal to develop a centralised database to benchmark performance on DWM charges. Councils put DWM charges on public exhibition each year as part of their operational plans and fees and charges. They are also published on councils' websites and rates





notices. As explained above, a simple centralised database will not accurately represent quality or effectiveness of services.

Domestic waste services vary between councils, which can be influenced by politics. Some councils are risk-averse, and some are self-insured, which impacts the level of risk councils are willing to bear and makes it difficult to compare like services.

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

More clarity around what constitutes reasonable costs are needed. The OLG revenue raising manual addresses this to some extent but leaves many grey areas such as overheads and treatment of capital costs. Incremental (additional) cost allocation for DWM services can be complex to determine and administer and not necessarily an efficient method of allocating overhead costs. It can also be difficult to determine the incremental cost for resources that are dealing with both rates and DWM charges. Canterbury Bankstown Council supports average cost methodology for the apportionment of corporate overheads and direct operating costs along with reasonable costs such as education, legal fees, legacy landfill costs, procurement and contract management in calculating DWM charges.

Canterbury-Bankstown funds a portion of its pensioner rates subsidies in accordance with OLG's Rating and Revenue Raising Manual 2007. This is a significant cost for councils and if changed would be a significant burden to fund from general rates revenue. Councils would need a once off lift in the rate peg if this system was changed from the status quo.

The 'user pays' approach could have adverse effects on the type of domestic waste services offered by councils. It could increase undesirable behaviour, such as residents dumping waste in a neighbour's bin and increase the incidence of illegal dumping. However, there may be some cases where this approach may be appropriate such as bulky waste services as not all residents use this service. Some councils already adopt a 'user pays' approach for these services with a standard service included as part of the DWM charge while paying separately for additional collection services.

Canterbury-Bankstown considers the DMWC should be structured on the calculation of reasonable costs. Canterbury-Bankstown bases its DWM charge on the following:

- Collection costs – collection contracts and provision of in-house collection services and plant/vehicle costs;
- Disposal costs – domestic waste, recycling, clean-up, garden waste, transport and processing fees, and hazardous waste (asbestos);
- Staff costs and council overhead charges;
- Waste management and resource recovery education programs;
- Waste strategy and contract development activities;
- Capital purchases – vehicles and bins;





- Day to day administrative costs;
- Materials and consumables required to provide services;
- Waste reserve projects, such as landfill closure and site redevelopment; waste infrastructure and possible acquisition of land, changes to services, and major strategic waste planning initiatives, etc.

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

As mentioned in the response to Q10, the proposed treatment of pensioner subsidies needs further clarification. Canterbury-Bankstown Council would also urge IPART to consider the broader as well as specific impacts of an aging population on local government budgets in light of this proposal, as a reduction in general rates to fund pensioner DWM charge subsidies could potentially lead to a reduction in other council services.

Social programs which IPART considers should be funded from general rates revenue also requires more clarity.

Quality of service should be considered, as price alone should not be the only factor and does necessarily not equate to value. There is a difference between efficient costs and least cost. Often the least cost service will not provide the best quality of service. Managing the performance of a lower quality service provider can lead to incurring indirect costs for councils. Other contributing factors include:

- The type of domestic waste service provided to ratepayers;
- Efficiency, including best value and a holistic approach suited to the services most appropriate to the LGA;
- Quality of service in collecting ratepayers' bins on time.;
- Maximising diversion from landfill and resource recovery;
- The cost the community is willing to pay to get a good service (bins timely emptied, high rates of recovery, low levels of administrative management and ongoing costs).

Educational programs differ between councils depending on their demographics and avoidance education (and higher order waste hierarchy principles) requires greater spend.

Requirements for the waste reserves differ between councils. Not all councils have landfill obligations which consume large amounts of money and these need to be funded. Further, market uncertainties need to be considered and funding for a worst case scenario. Due to limited competition in the recycling markets, councils are in a very vulnerable pricing situation and if changes occur and recycling landfilled (as in Victoria) the price difference can be substantial at very short notice so councils need the ability to access reserve funds without passing huge increases immediately onto their community. Canterbury-Bankstown considers accumulation of a waste reserve to be appropriate where it is supported by a detailed plan outlining councils' proposed spending and/or



investment for the reserve. Prudent and strategic planning of the waste reserve can lead to improved value-for-money for ratepayers by considering the full lifecycle of council waste management costs over the long-term and using reserve funds to buffer against sudden short-term price increases.

A user pays system needs to be based in equity and efficiency and hence may not be a true reflection of user pays. As waste services are usually factored across the whole population, there are economies of scale achieved that may not occur with a user pays system.

Changes to legislation often leads to an indirect increase in costs, such as compliance with 'Chain of responsibility' requirements as there is greater oversight needed by council and increased capital and maintenance costs for vehicles. While this is a positive effect there are still costs associated with it.

Further issues that influence pricing that should be considered:

- Price alone is not the only factor used to determine DWM charges;
- Council demographics affect how DWM charges are calculated;
- Councils may require specialised vehicles or services with different maintenance and running costs; and
- Councils may be willing to accommodate different levels of risk associated with domestic waste management services. Existing collection infrastructure, political factors, community expectations and service levels are contributing factors in whether the domestic waste service is contracted out or day labour is used.

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

This information is already published by councils in line with GIPA requirements and has not been particularly helpful in assisting council procurement of DWM services. Councils procure DWM services through a wide range of contracting models which may comprise many discrete components and may require different units of pricing. Common contracting models for council procurement of waste collection services include those based on per lift/service, per household, per hour/day or some mix of these elements. There are a range of factors which councils may use to determine the contracting model most suited to the service and their community and a model used by one council may not necessarily be well suited to another.

Canterbury-Bankstown would strongly oppose any central database until guidance has been provided for councils to allow a standard service to be established then benchmarking can occur. We do not feel benchmarking can occur until councils have been provided with further guidance and councils have had time to implement the guidance. Until there is a level playing field benchmarking will not be effective and hence not provide a true reflection of services provided for any central database. Further, councils are a political



entity and consideration of political use of such a database should be considered as it may convert the provision of a service to a political discussion.

Thank you for the opportunity to provide feedback on the IPART Local Council Domestic Waste Management Charges Discussion Paper. Should you have any enquiries, please contact me through [REDACTED] or [REDACTED].

Sincerely,

**Narelle Bowly**  
**Team Leader Major Projects Waste**  
**The City of Canterbury Bankstown**