

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?	
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?	
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?	
4. Do you have any other comments on councils' domestic waste management charges?	
5. Which Council do your comments relate to?	The Hills Shire Council
Your submission for this review:	
If you have attachments you would like to include with your submission, please attach them below.	THSC staff submission FINAL.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.	Anonymous - my submission can be published but my name should remain anonymous
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IPART's Submission Policy	I have read & accept IPART's Submission Policy

IPART Review of Domestic Waste Management Charges **The Hills Shire Council submission**

Disclaimer

This submission has not been endorsed by the elected Council of The Hills Shire Council (THSC). The submission is made at staff level.

Background

THSC's standard Domestic Waste Management (DWM) charge increased by 5.06% between 2014-15 (\$395) and 2017-18 (\$415). This is lower than both the 10.3% rate peg increase and the 8.2% inflation increase over the same period. The 2017-18 charge places THSC in the middle ground compared to the average waste charges of other councils. No price increase concerns are raised apart from external forces of change, e.g. external market factors including the China National Sword Policy, renewal of long-term contracts and sector instability. The Hills Shire Council deemed it appropriate to increase the waste charge in 2018-19 by 12.04% because of external factors like these. The fortunate timing of Container Deposit Scheme legislation helped to partly offset some of the negative cost impacts in subsequent years. It is because of this continued sector turbulence that it is recommended that the Independent Pricing and Regulatory Tribunal (IPART) extend their review to delve deeper into external contributors of increasing costs and provide advice to key NSW Government agencies to inform new policy and funding packages.

Competition in the market

When approaching the market, THSC is mindful of price when procuring goods and services. A Price Criteria is always applied on all procurement processes. For all contract procurement processes where the price criterion is lowered, final approval must be sought via a council resolution. With that being said, there is little competition in the waste processing market. THSC's most recent garbage, recycling and clean-up waste processing service tenders received two respondents each. As the Local Council Domestic Waste Management Charges Discussion Paper appropriately acknowledges, the waste sector is subject to market concentration. The waste market in Sydney (where THSC is located) is dominated by a few big suppliers. The paper estimates that the three largest providers respectively control 69% of material recovery services, 70% of waste collection services and 98% of landfill services.

Pricing Principles

THSC does not agree with an incremental cost approach as suggested in the discussion paper. Aside from Roads and Parks maintenance, DWM expenditure accounts for the third highest cost in Council, and this would be the case for many NSW councils.

THSC uses an overhead allocation method to allocate support services to waste management and this is done through the use of appropriate cost drivers. These are supported by an internal overhead allocation policy. Waste management utilises a number of support services from Council via internal service arrangements and is charged an 'appropriate' amount of such corporate overhead costs to represent payment for these services. Support services include Human Resources, Information Systems, Financial and other services such as Rating Services, Accounting, Payroll, Procurement, Accounts Payable/Receivable, Customer Service, Records Management etc. In addition, a portion of costs related to Senior Management and Councillors who provide the executive oversight and valuable input through task groups/committees is also allocated. Such costs cannot be overlooked because such services incur costs in supporting the waste management program and a considerable amount of time is invested in ensuring that value for money is achieved.

In relation to overheads, one cannot just look at the HR/IT costs example as outlined in the paper. In order to levy the Domestic Waste Charge, data needs to reside in a database and regular updates to the database is required to add new customers, change personal information etc. Also the number of properties in the database needs to be reconciled and has to agree with the number of actual services that are provided to residents. In reality, it is extremely difficult to carve out the exact portion of back office function to be considered "incremental". It is more practical for Councils to devise a "cost-driver" approach in allocating its overhead, rather than an incremental approach. The onus is then on Council to review and update its cost drivers to ensure they are still relevant and to monitor reasonableness of the overall overhead charge as a percentage of DWM costs. As long as this is in place, Council considers this as an appropriate way of allocating overheads to DWM.

The current waste charge for a residential assessment is \$425 per annum, which equates to \$8.17 per week. For a weekly garbage service, fortnightly garden organics & recycling service, and twice-yearly kerbside clean-up collections with unlimited pile size, this amount per week (which includes overheads) seems quite 'reasonable' for the service that is being provided. Waste management operates in a monopoly market similar to water & sewerage supply activities. It is interesting to note that water and sewerage are classified as business activities and under the principles of competitive neutrality are required to apply full costing principles when reporting on such activities in the statutory financial statements. This is because "prices are set to achieve arbitrary rates of return and the purpose of such a return is not to inflate prices but rather to ensure the long term survival of the operation at an appropriate standard of service and measure of efficiency in providing for that service" (Reference "Department of Local Government Pricing & Costing for Council Businesses A guide to competitive neutrality"). The waste management function already operates as a business activity in accordance with full cost pricing principles and consumers have become accustomed to user pays based waste charges that reflect levels of use.

Understanding the full costs of waste management can help councils make better decisions, improve the efficiency of services, and better plan for the future. Much like the private sector, such overhead and support costs would have to be factored in in order to arrive at the pricing for such a service. In fact, by focusing attention on costs, full costing fosters a more business-like approach to waste management. Consumers of such services increasingly expect value, which means an appropriate balance between quality and cost of service. It can help identify opportunities for streamlining services, eliminating inefficiencies and facilitating cost-saving efforts through informed planning and decision-making. This would also ensure long term financial sustainability. In fact, this is a service that is unlikely to be supplied by anybody else and almost certainly will be provided by local councils well into the future. Further understanding is required on the current position that social programs should be funded from general rates revenue. It is not supported if it refers to waste education activities and contamination management functions. These services are considered reasonable cost categories and fundamental parts of running a safe, efficient and cost-effective domestic waste service. The functions are components of a system keeping the service structured and stable (e.g. improve quality of bin product, reduce resource loss, educate on service requirements and so on). Keeping these programs associated to the waste charge is important to show the interrelation and help ensure the longevity of the programs (something that is especially important given the significant amount of housing and population growth in Western Sydney).

In regards to THSC entering long term DWM contracts and the question of whether such contracts reflect the most efficient cost of delivering the services, it is important to note that DWM is a complicated industry with potential pricing fluctuation driven by political and industry wide factors outside Councils' control. One recent example was the change in China's National Sword Policy which saw the cost of recycling soaring. Sometimes it is in Council's best interest to enter long term contracts to reduce uncertainties around pricing. As

such, cost may not always be the best indicator of whether or not a Council has pursued the most appropriate methodology in delivering the service. It is important to note that decisions could also be driven by other factors such as risk management and Council's expertise. Addressing administration inconstancies and promoting better practice management of the charge is not enough to resolve the major underlying issue with charge instability. Administration factors are typically stable and predictable in THSC's experience. The NSW Environment Protection Authority (NSW EPA) is ultimately responsible for researching and developing waste infrastructure and other high level functions under the Waste Avoidance and Resource Recovery Act. Given that 60% of the waste charge (average for all councils as per Table B.10) is made up by materials and contract costs, it is critical that investment is made by the NSW Government to stimulate competition in the market through legislative leadership. Earlier in the year the Commonwealth Government committed to transform and modernise Australia's waste and recycling industry through the announcement of funding such as the Commonwealth Recycling Modernisation Fund and Product Stewardship Investment Fund. Though to date, no new funding package or Waste Less, Recycle More extension has been announced by the NSW Government, to the dismay of councils. Findings from this review process should be provided to the NSW Department of Planning, Industry and Environment and the NSW EPA to inform their upcoming 20-Year Waste Strategy for NSW and eagerly anticipated new funding package.

Approaches

One thing that IPART could consider is listing Domestic Waste as a declared business activity which is similar to the Water & Sewerage Services. These businesses i.e. Water and Sewerage are declared as business activities by Australian Bureau of Statistics and are required to be reported in the Statutory Financial Statements Special Purpose Financial Reports at year end and these are subject to audit by the Audit Office. THSC Operational Plan also details expenditure on waste management function separately with appropriate business indicators to measure performance. This is then reviewed and reported to Council quarterly and at financial year end through the Annual Reporting process. It may be appropriate to standardise these types of reporting so that information is consistent across the Councils and this will give the reader relevant information on waste management and the various services it provides. Another option could also be to extend the Financial Data Return which could capture specific information related to Waste and this information would then be used to report on the NSW Office of Local Government (OLG) website whereby all Councils information is readily available for comparative purposes.

In addition, it is proposed that Councils should be allowed to factor future needs in DWM charges. With the above example with China National Sword Policy changes, Council was able to consider and factor this risk into its DWM charge prior to its finalisation to avoid huge spikes in DWM charges from one year to another. It is also important for Council to be looking into the future to ensure appropriate infrastructure are planned and delivered timely in order to service its growing population and industry wide demands. As noted in the NSW 20 Year Waste Strategy Issues Paper, The NSW Government has indicated that based on current trends, NSW will not meet established targets to divert 75% of waste from landfill by 2021 (65% in 2017-18). With landfills expected to reach capacity in the next 10-15 years and no capacity to recycle the 240,000 tonnes of waste previously exported, there is a risk that the state's waste systems will soon be unable to cope. As waste generation continues to grow and outstrip population growth (2.3% per annum compared to 1.4%), a long-term strategy is being developed to give industry the confidence to respond to these challenges and support investment and innovation. There are great uncertainties and challenges facing this industry and it is important to note that NSW Councils would need to strategically align themselves with the requirements of this strategy once it is completed in early 2021. Whilst this matter has no immediate direct financial impact on Council's current DWM services, if serious infrastructure is not provided in time, there will be significant increases in DWM costs

in the future. Therefore, review of DWM charges need to be considered in this wider context to ensure Councils are heading in the right direction.

Centralised Databases

No merit is seen in developing an online centralised database for all NSW councils' DWM charges as each Local Government Area has differing types and levels of service which would make benchmarking a useless exercise. This is evidenced by the information collected via the Financial Data Return which OLG uses to publish data for all councils on their website. If IPART still views a centralised database to be useful, then adequate commentaries and context need to be provided for differences between Councils. The Discussion Paper mentioned that Councils are compared against other similar Councils, however no two Councils are exactly the same and it is important to explain factors that might have contributed to differences in prices in order to provide meaningful information to users of the data. For example, Councils with a high number of apartments may result in higher or lower costs compared to Councils with high proportion of houses. Growth Councils might also experience variance in costs as their population growth and dwelling mix changes.

It would also be important to address who will be responsible for the maintenance of centralised data if they were to be introduced, and whether this will have a cost impact to any councils (e.g. additional fee or staff time). When THSC's waste management contract was due for renewal in 2017, Council went through an open tendering process whereby all suppliers were invited to submit for a tender. In addition external consultants who are specialists in the waste management industry were engaged to ensure Council obtained best value for money. The tender process and results were reported to Council, and contracts were awarded through council resolution, thereby providing transparency and accountability. In addition, the Government Information (Public Access) Act 2009 (GIPA) requires all such contract information to be publicly available through a contract register. This register is available for public viewing on Council's website 24 hours a day which contains information about contracts worth more than \$150,000 with private sector bodies. For each service type, it contains details about the successful contractor, their ABN and address details as well as the Contract Awarded Amount; contract start and end dates, method of tender and evaluation criteria utilised. We believe this is sufficient and cannot see a benefit for a centralised database for those Councils who outsource such services with an open tendering process.

Conclusion

Audits of local council's DWM charges by the NSW OLG are preferred. This practice previously worked well and it provides credibility to the financial data and gives ratepayers confidence that the charges are true and fair. IPART's proposed approach, however, has the potential to add more red tape and administration costs for Councils. The instability and uncertainty of the dated 'export model' waste market is the main underlying issue causing unpredictable or large increases to waste charges. IPART's review should also have a focus on advocating to the NSW Government about the unideal market conditions and the lack of conducive legislation that can impact on the largest component of the waste charge. Given that waste management is an essential service sector that leads to livable and functioning societies, this will hopefully escalate the ongoing concerns for legislative leadership by the NSW Government and the need for them to directly invest and mandate in the sector to stimulate competition and support its overall success and stability.