

# Domestic waste management charges - Discussion Paper

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Question	Response
Feedback and Submission Form	
Industry	Local Government
Review	Review of domestic waste management service charges
Document Reference	c1e253a1-4210-41d3-97de-3be8f315fce7
1. Are there concerns with the prices councils charge for domestic waste management services? Why/why not?	<p>IPART has raised several concerns in the Discussion Paper. We do not agree with many of these concerns or the interpretation of the data and will respond in detail in this submission.</p> <p>There are industry factors that have not been considered in the Discussion Paper which contribute to the current pricing of waste services. Despite councils not having influence over most of these, they hold themselves to the upmost standards for sound financial stewardship and in delivering value for money and outstanding customer service for their communities.</p> <p>Councils dutifully fulfill their obligations to the community under the Local Government Act 1993 and other responsibilities, and unequivocally support the principle of transparency.</p>

<p>2. If there are concerns, how should IPART respond? For example, if IPART was to regulate or provide greater oversight of these charges, what approach would be the most appropriate? Why?</p>	<p>Western Sydney councils have not opposed or lobbied against the Office of Local Government (OLG) audits of the past. They have complied willingly and were not consulted or aware that there was a need for these audits to cease occurring. If the audits can no longer continue or additional measures are needed, councils would accept the preparation of guidelines by IPART for expenditure under the DWM funds.</p> <p>Rate pegging of the DWM is not necessary as the charge does not exceed the reasonable costs of the services, having been set in accordance with sound financial management principles for local government. It would only limit councils' purchasing influence and ability to procure services that best meet their community's needs.</p>
<p>3. Would an online centralised database of all NSW councils' domestic waste charges allowing councils and ratepayers to compare charges across comparable councils for equivalent services (eg, kerbside collection), and/or a set of principles to guide councils in pricing domestic waste charges, be helpful? Why/why not?</p>	<p>We cannot imagine a situation where an online centralised database of this type would be helpful for comparisons by council or ratepayers. In most cases, truly comparable councils do not exist and without sufficient context (detail often confidentially contained within a contract), the charges cannot be appropriately compared.</p> <p>This would lead to perverse outcomes such as community misunderstanding, wrong comparisons and the superficial driving down of prices by contractors for competitive advantage on such a database.</p> <p>Should IPART feel that the current guidance (Local Government Act 1993, Council Rating and Revenue Raising Manual 2007) is not adequate, of the suggestions offered, councils would accept a set of principles to guide councils in pricing domestic waste charges.</p> <p>Other suitable alternatives, as suggested by our councils, include: establishing an accounting standard for setting the DWM charge, amending the financial reporting by local governments to include a new reporting standard; developing OLG guidelines for the development of the DWM similar to the ones developed for preparation of an application for a special variation to general income.</p>

<p>4. Do you have any other comments on councils' domestic waste management charges?</p>	<p>The relationship of the levy to the DWM charge cannot be understated as the levy paid by Western Sydney councils represents 24% of the total DWM charges collected in the region.</p> <p>State and federal government decisions have contributed to the current market failures, which has led to price instability and increased costs for councils. Since the waste levy introduction and the state government sale of its waste business in 2010 (contributing to the lack of competition), the NSW government has gained significant revenue from the waste industry with an insignificant proportion invested back.</p> <p>There is much needed leadership and investment by state government to ensure resource recovery remains affordable, as progressing towards the state targets comes at an additional cost to councils and will be impacted by community willingness to pay.</p>
<p>5. Which Council do your comments relate to?</p>	<p>This submission represents the professional views from WSROC member councils and participating councils under the Western Sydney Waste Avoidance and Resource Recovery Strategy (funded by the NSW EPA): Blacktown City Council, Blue Mountains City Council, Cumberland City Council, Fairfield City Council, Hawkesbury City Council, Lithgow City Council, Liverpool City Council, City of Parramatta, Penrith City Council and The Hills Shire Council.</p>
<p>Your submission for this review:</p>	
<p>If you have attachments you would like to include with your submission, please attach them below.</p>	<p><a href="#">WSROC Submission to IPART Oct 2020_FINAL.pdf</a></p>
<p><b>Your Details</b></p>	
<p>Are you an individual or organisation?</p>	<p>Organisation</p>
<p>If you would like your submission or your name to remain confidential please indicate below.</p>	<p>Publish - my submission and name can be published (not contact details or email address) on the IPART website</p>
<p>First Name</p>	<p>Guada</p>
<p>Last Name</p>	<p>Lado</p>
<p>Organisation Name</p>	<p>Western Sydney Regional Organisation of Councils</p>
<p>Position</p>	<p>Regional Waste Coordinator</p>
<p>Email</p>	<p>[REDACTED]</p>

IPART's Submission Policy	I have read & accept IPART's Submission Policy
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*Advocating for the people of Western Sydney*

**SUBMISSION:  
IPART Review of Local Council Domestic Waste  
Management Charges**

Independent Pricing and Regulatory Tribunal  
PO Box K35  
Haymarket Post Shop, Sydney NSW 1240

For the attention of:  
Dr Paul Paterson  
Ms Deborah Cope  
Ms Sandra Gamble

For more information, contact:  
Guada Lado, Regional Waste Coordinator



# SUBMISSION

## Introduction

In 2014, the NSW Environment Protection Authority (EPA) funded WSROC to develop and deliver the Western Sydney Regional Waste Avoidance and Resource Recovery Strategy (Strategy) on behalf of nine councils in western Sydney.

The Waste Strategy team has been working with public sector agencies, private sector organisations and councils to develop and implement a number of waste initiatives that will collectively:

- facilitate the shaping of waste and resource recovery policy,
- contribute to the NSW Government 20 Year Waste Strategy,
- provide a sound basis for waste infrastructure planning, and deliver progress towards a circular economy.

This submission represents the professional views from WSROC member councils and participating councils under the Western Sydney Waste Avoidance and Resource Recovery Strategy (funded by the NSW EPA): Blacktown City Council, Blue Mountains City Council, Cumberland City Council, Fairfield City Council, Hawkesbury City Council, Lithgow City Council, Liverpool City Council, City of Parramatta, Penrith City Council and The Hills Shire Council.

In this submission, we take this opportunity to provide feedback on whether we consider that there are issues with the prices charged for DWM services; and how we think IPART can most appropriately respond.

## Overarching Feedback:

- We do not agree that there are concerns with the prices councils charge for domestic waste management services.
- We do not agree with the interpretation of data and therefore the concerns raised by IPART in the Discussion Paper, which we will respond to in detail in this submission.
- DWM charges should not be limited by IPART. Western Sydney councils would welcome the fit-for-purpose audits be resumed and prioritised and that these audits satisfy IPART that DWM charges are reasonable, efficient and transparent.
- The DWM charges in Western Sydney have remained reasonable, in spite of significant waste levy increases.
- Council reserves for DWM services are reasonably justifiable and serve to protect their communities from future price shocks beyond the influence of councils.
- In-house collection by councils is competitive with the market and suggest there is adequate competition for collection services. However, there is inadequate competition for waste processing and significant barriers to market entry.
- Overheads are appropriately ring-fenced from general rates.
- We agree that only reasonable cost categories should be reflected in DWM charges and welcome additional detail by IPART on these cost categories.
- We do not agree that an online centralised database would be helpful in facilitating the desired policy outcomes, rather it would lead to perverse outcomes.

- Explicit user-pays models would be overly complex to administer for waste and would result in disproportionately high overhead costs. Councils aim to provide value for money to residents by balancing efficiency and appropriate resource recovery.
- Pensioner rebates should be funded from the DWM charge and not the ordinary rate as per the LG Act s.504.
- State and federal government decisions have contributed to the current market failures, which has led to price instability and increased costs for councils.
- Recognition of waste as an essential service akin to energy and water, strategic planning and land provision for waste infrastructure by state government, and regulatory certainty are critical to ensuring waste and resource recovery remain affordable for our growing population. The right planning and policy frameworks (and not regulation of the DWM) are pivotal in addressing the issues of pricing, efficiency, industry structure and competition in the waste sector and should be considered by IPART in its advice to the NSW Government.

### **IPART is reviewing domestic waste management charges**

Western Sydney councils appreciate IPART's interest in domestic waste management services to ensure value for money for the community (ratepayers) and the opportunity to respond to the *IPART Review on the Domestic Waste Management (DWM) Charges* Discussion Paper.

We acknowledge that IPART has not limited DWM charges in the past and agree with IPART's evaluation that DWM charges were likely to be both reasonable and efficient, and that the cost of additional regulation would likely outweigh the benefit. This conclusion was based on council's requirement to set charges that do not exceed the reasonable cost of providing DWM services as per the *Local Government Act 1993* (LG Act); that DWM costs were independently audited by the Office of Local Government (OLG) each year, and; many councils outsource DWM services through a competitive tender process in accordance with the *Local Government (General) Regulation 2005*. Today, councils abide by the same set of principles, and the only practice that has changed is the discontinuation of the OLG audit.

Western Sydney councils have never opposed or objected to the audits of the past and should separate audits for DWM charges be required due to the essential nature of this service, provision should be made to do so as DWM charges should not be capped. Waste is the only essential service delivered by local government; essentially 128 providers in the state; and this complexity requires the expertise of OLG, who is best placed to conduct the audits.

The Discussion Paper referenced informal stakeholder feedback and incomplete data in its considerations, yet councils were not given an opportunity to provide input before potentially harmful information to councils' reputations was published.

### **FEEDBACK ON DWM CHARGES**

#### **DWM charges reflect reasonable and efficient costs**

Despite the discontinuation of OLG audits from 2016/17, councils continue to abide by the same principles that led to IPART's previous evaluation that DWM charges are reasonable and efficient.

The initial analysis conducted as part of this review does not provide an accurate picture to conclude otherwise.

For instance, that DWM charges appear to be increasing faster than the rate peg and inflation, can largely be explained by market challenges and increases to the waste levy.

### **DWM increase in Western Sydney**

With 128 local government providers and different services available to each of these councils, there will always be a wide variation in the number and type of DWM services. The variation itself should be not a concern if the charges are applied in accordance with the LG Act and the Department of Local Government's *Council Rating and Revenue Raising Manual 2007* (OLG Manual).

Even in western Sydney, where majority of waste infrastructure for metropolitan Sydney is located, there is a variance in the DWM services offered by councils. These are determined by access to available infrastructure, drivers for resource recovery and willingness to pay by the community.

Essential waste services are peculiar in that they are delivered by local government and not given the same considerations as essential services delivered by state government (water and electricity). As we have raised in numerous submissions to state agencies, the lack of strategic planning for essential waste services results in downstream costs (due to market disruptions, lack of sound competition, regulatory changes, and stifled innovation), that are borne by councils and their communities.

For example, when the State received advanced warning of the China National Sword Policy (prior to giving it effect from January 2018), there was no strategic response by our governments to wean from unsustainable exports and invest in domestic capacity. Instead, there was a 12% increase of exports to new markets, for a lower price. These costs are passed on to councils through their contracts, and ultimately communities via the following year's DWM charge. Costs are expected to increase as export bans continue, whilst there is yet to be any investment in processing infrastructure in NSW.

Councils are dutifully committed to ensuring value for money service continuation for their communities yet are subject to the price set by available providers. With their significant experience in delivering waste services and intimate understanding of their communities, they are best placed to provide the best value for money for DWM and they take pride in doing so.

The average DWM charge in Western Sydney is \$9.37 per household, per week. Compared to a do-it-yourself option, it would cost the same household \$16.75 per week for zero resource recovery, plus their individual transportation time and cost. Councils are mindful that it is not practical for residents or groupings of residents to arrange their own DWM services, and so ensure their communities are consulted and the service reflects what community is willing to pay for.

However, residential flat buildings have presented instances where residents have deviated from the standard council service. Generally, these private services do not include resource recovery, and were a substitute for the waste service requirements for the building as per council's planning assessment. Councils' experience is that when the service becomes too difficult or less profitable for a private contractor, the service will be discouraged through charging a significant cost. The council is then obligated to service the building at additional

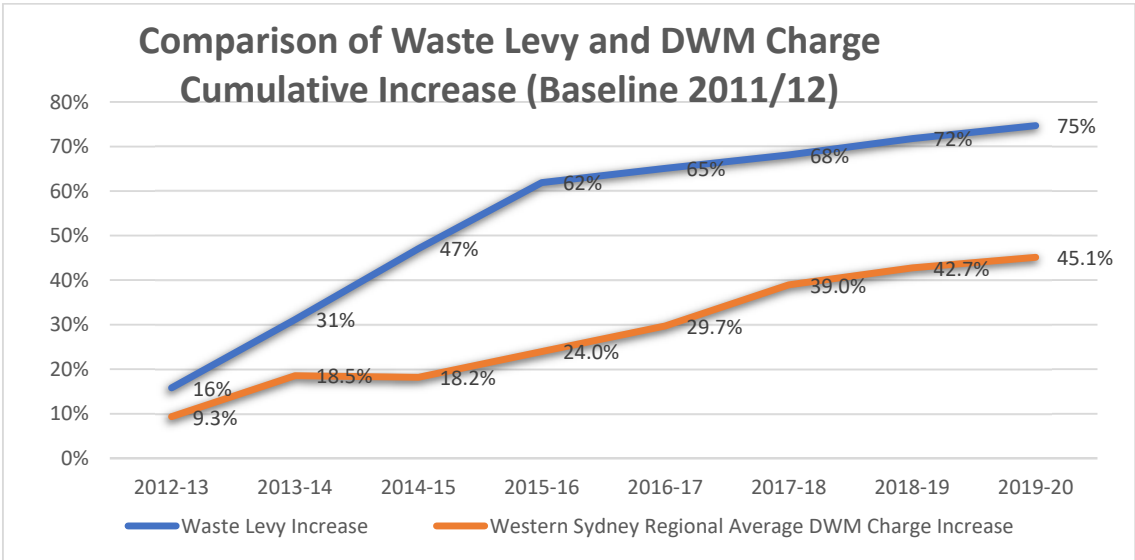


cost as it did not comply with the standard service requirements. As a result, private services are now being discouraged due to its negative impact on efficiency of the overall council service.

Western Sydney councils conduct resident satisfaction surveys on their waste services every 1-2 years and consistently receive high service satisfaction ratings, affirming that councils are meeting their community’s expectations and preferences for waste services. This includes ensuring an appropriate cost-benefit to progress towards resource recovery targets set by state and federal governments. However, as costs increase, councils’ decisions will still be driven by the community’s willingness to pay, even to the detriment of resource recovery.

**Waste levy impacts on DWM charges have been overlooked and are significant**

DWM charges are set annually and factor in unexpected costs from the preceding year. In 2009-10, Western Sydney councils began paying the waste levy. The waste levy increased at a fast rate in its early years until it could achieve adequate market influence. The waste levy increases have been significant and, can explain much of the DWM increases set by councils as shown in the figure below.



The figure shows the impact of the waste levy on the DWM charge increase in the subsequent year, with a cumulative waste levy increase of 75% compared to the DWM increase of 45.1% in Western Sydney. The relationship of the levy to the DWM charge cannot be understated as the levy paid by Western Sydney councils represents 24% of the total DWM charges collected in the region.

From 2012/13, the waste levy has increased annually from 2 to 17%, whereas the range of annual increase for DWM charges in Western Sydney was only -0.3 to 9.3% for the same period. This equates to an 8% average annual waste levy increase, or 4.7% annual DWM charge increase in Western Sydney (since 2011/12).

Since the waste levy introduction and the state government sale of its waste business in 2010 (contributing to the lack of competition), the NSW government has gained significant revenue from the waste industry. In blatant disregard of the reasons for establishing the

waste levy as an economic driver for resource recovery, much of the levy is used to fund non-waste infrastructure and services.

Without the injection of much-needed levy funds, the desired resource recovery outcomes for establishing the levy will not be achieved. The levy will simply need to continually increase in line with the cost of resource recovery, and DWM charges will inevitably increase just to maintain the status quo.

This is not an acceptable outcome for the community, which is doubly paying for the waste levy, as well as the increased costs as a lack of strategic planning and investment by state government to address this issue.

IPART should seriously consider why the waste levy is being used by the NSW Government to subsidise non-waste programs across the state budget as we are not aware of any other levies being used this way.

### **Council reserves for DWM services are reasonably justifiable**

The Discussion Paper indicated that councils held an average of \$1.6 million in reserve. This represents less than 1% of the average annual DWM revenue for Western Sydney councils. Considering contract lengths are generally 7 to 10 years (with some more than 20 years), this is loose change. However, it is built up slowly and intentionally by councils, in accordance with the LG Act, to ensure there is an appropriate amount to protect ratepayers from future price shocks.

Specific purposes that councils establish the reserve for include legacy landfill remediation and capital replacements costs (e.g. collection vehicles). Recently, however, there have been an increasing number of price shocks beyond the control of local government, due to unforeseen regulatory changes resulting in commercial costs that are passed on to councils.

They have been charged costly variations to council contracts due to the introduction of the Container Deposit Scheme, China National Sword Policy, the AWT MWOO regulatory change (with less than 24 hours' notice for councils), and recent Covid-19 impacts.

Additional costs also arise from planned and ongoing changes to urban development (particularly in the growth centres of western Sydney), also result in additional or bespoke services as required for difficult-to-service developments. Many of these issues (e.g. narrow or incomplete roads, lack of bin collection space) are inherited by councils due to lack of provision for waste services in the planning system.

Councils must factor in these cost impacts when setting the annual DWM charge, with some of the unexpected costs reflected in the subsequent year. Whilst the option exists, Western Sydney councils have never undertaken a mid-year review of DWM charges but have used the reserve to absorb some of these additional costs. Councils are even more mindful now to build in a sensible reserve as a cushion from unexpected price shocks, which will continue to come in the current context of regulatory uncertainty, pending 20 Year Waste Strategy and upcoming waste export bans.

All Western Sydney councils are reliant on the commercial sector for part of their waste service, and their ability to set the DWM charge is the main lever whereby councils can influence the nature and delivery of essential waste management services. For service selection, local governments value a quadruple bottom line approach, however, rate pegging

will ensure that environmental social and cultural benefits are foregone in favour of the cheapest option.

Rate pegging should not be applied to essential services, including delivery of waste services by local government. Local governments should be supported and empowered to make the most socially responsible decision in selecting the right service and using their purchasing power to influence the industry towards sustainable waste management. Limiting their ability to set the most appropriate DWM for their community will surely eventuate in perverse outcomes that will become more costly to remediate in the future.

### **Outsourcing is common and competition is adequate for waste collection but not waste processing**

All nine Western Sydney councils partially or fully outsource waste collection services, but there is no statutory obligation for councils to do so. Fairfield City Council, which does in-house collection of all domestic waste streams, considers their assessment of their service costs in line with other councils that partially or fully outsource. The community's values have been reflected in this decision and are met with high service satisfaction levels. In-house collection enables councils to manage and mitigate their own risks, have full ownership of service levels, and create jobs.

Where councils have not found in-house collection to be appropriate for their situation, they have moved towards outsourcing collection. The range from in-house to fully outsourced collection models supports the view that there is active competition in collection contracts. Council activity in this space promotes transparency within the sector, also benefiting councils that choose to outsource. This flexibility and accountability in waste collection services promotes opportunities for councils to find the best value solution for their community.

Unlike waste collection, however, only two western Sydney councils perform in-house waste processing of any kind. Apart from these landfills, all other sorting and processing is outsourced to private contractors.

Whilst there may be acceptable competition levels for collection services, since the state government sale of all its waste assets, there is inadequate competition for waste processing. As population and waste generation continue to increase and landfills approach maximum capacity, there is no approved new waste infrastructure in the pipeline to service western Sydney. There are high barriers for new players to enter the waste processing market, particularly the regulatory uncertainty which is unattractive for the significant investment required for waste infrastructure.

### **Overheads are appropriately ring-fenced from general rates**

The calculation of overheads in the Discussion Paper is inconsistent and inconclusive as the definition of overheads were ascribed differently by councils. Regardless of accounting method chosen by councils, overheads are appropriately ring-fenced from general rates as councils abide by the requirements of the LG Act and OLG manual for setting the DWM.

Where councils prefer the overhead allocation method, they use a range of cost drivers to allocate these costs. These cost drivers are reviewed annually to ensure they are relevant and reasonable as a percentage of DWM costs. This fosters a business-like approach, whilst drawing on a range of experiences from technical staff to elected representatives, to ensure value for money to the community.

Western Sydney councils unquestionably have their community's needs at the forefront and are financially accountable. Therefore, councils should retain the flexibility to decide which accounting method most effectively and efficiently suits their needs (which differ based on council size, organisational structure and operation of waste facilities, among others).

## **POTENTIAL OPTIONS IN MOVING FORWARD**

Councils support the need for transparency and do not take issue with reinstating OLG audits. The essential and complex nature of waste should be a strong consideration in determining whether the cost of the audits provide value.

However, if this level of rigour is no longer necessary, we agree that a less prescriptive, more targeted approach that focuses on information and guidance would be the most appropriate intervention by IPART. High-level data from individual councils, without enough context, should not be used for service comparison.

Councils would argue that there are no truly comparable councils given all the factors that constitute the tender requirements, for example, topography, traffic conditions, travel distances, urban density, resource recovery, contamination rates, community preferences and changing development. Even timing of the tender affects market availability and price and so councils tendering to continue existing services, cannot be compared to councils that tender at different times.

For these reasons, Western Sydney councils do not support an online centralised database for all NSW councils' DWM charges. There would be no benefit to such a database; only the negative impacts of ratepayers misunderstanding the information and the administrative and political burden of handling the resulting enquiries.

To better promote industry transparency, we believe that reliable, up to date and consistent data on waste streams and infrastructure capacity, is crucial to good policy and investment decisions for the industry. The former National Waste Account compiled by the Australian Bureau of Statistics is the closest to this and the federal government is best placed to facilitate a centrally coordinated and consistent approach. This data is necessary for the strategic planning of essential waste infrastructure and ensuring waste and resource recovery processing continue at reasonable costs to communities.

With the unprecedented growth in population and waste generation in Western Sydney, it has been in the interest of our councils to ensure that waste capacity needs are met and continue to be affordable for the community. This has been the focus of much of WSROC's recent work and we have found that overcoming these barriers must begin with:

- The recognition of waste as an essential service (in the same way as water and electricity) in government policy and all levels of the planning system.
- Strategic planning of waste infrastructure by state government.
- Identification of new lands and protection of existing lands suitable for waste infrastructure.
- Regulatory certainty and state government leadership.

The right planning and policy frameworks are instrumental to addressing the issues of pricing, efficiency, industry structure and competition in the waste sector. We encourage IPART to consider the impact of these in its advice to the NSW Government.

Whilst we eagerly await and recognise the opportunity in the 20 Year Waste Strategy for addressing some of these, local government delivery of waste services must continue in its

absence. Although local government's responsibilities do not extend to waste infrastructure and this would require significant investment from councils, there is increasing impetus for exploring this avenue to increase the security and stabilise costs for these services. IPART must ensure that any changes to the framework for DWM charging provides an incentive for positive change and innovation and not the reverse.

### **IPART's proposed key pricing principles for DWM charges**

Our views on IPART's proposed key pricing principles are outlined below.

#### **1. 'User pays' approach**

The cheapest alternative for ratepayers would be to send all waste to landfill, and whilst there would be those in the community who would opt for this, consultation with the community indicates that many are willing to pay a little more for resource recovery to progress sustainability for future generations.

Therefore, the advantage of a 'user pays' approach would be to encourage waste reduction and increased resource recovery. Councils subscribe to sustainable waste management principles under the LG Act 1993, for ensuring sound financial, environmental, and social practices of the waste service.

However, unlike clear user-pays models such as the billing of water and energy usage, councils can only send basic price-based signals to residents based on service selection, with the main variation being additional costs for larger waste bins or additional waste collections. Further price signals in kerbside services will require much more consideration due to antisocial practices such as using neighbours' bins, localised dumping of wastes in public bins, and malicious illegal dumping.

Explicit user-pays models such as weight or bag-based charging as seen in other countries would be overly complex to administer and result in disproportionately high overhead costs to potential benefit. To provide value for money for residents, councils must balance efficiency with sustainable waste management principles.

Councils abide by all means to ensure that DWM charges recover the costs of providing DWM charges and not the council's other functions and services. For example, councils' litter management programs are generally provided through grants under the Waste Less, Recycle More program or other revenue as public litter is not considered part of domestic waste<sup>1</sup>. Waste education and contamination management activities, however, are not considered by councils to be social programs as they are critical to the safety, efficiency, and smooth delivery of waste management services.

However, if pensioner rebates are considered a social program, we agree with the OLG manual that a pro-rata discount for the waste service component should be funded from the DWM and not the ordinary rate as per the LG Act s.504.

Western Sydney councils believe this approach promotes intergenerational equity and is consistent with other pricing regimes such as general rates, car registrations and public transport.

#### **2. Only reasonable cost categories should be reflected in DWM charges**

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<sup>1</sup> *Local Government Act 1993*, s496

We agree that only reasonable cost categories should be reflected in DWM charges and IPART may like to provide more detail on these cost categories.

### 3. DWM charges should reflect efficient costs

We agree that DWM charges should reflect efficient costs. Therefore, we do not agree that the traditional 'user-pays' models for water and electricity are appropriate or efficient for waste services.

Grants provided to councils under the Waste Less, Recycle More initiative are approved based on EPA guidelines, and only used for the purpose submitted in the grant application. These are usually for new or additional programs that are not part of the general service.

### 3. DWM charges should be transparent

We agree that DWM charges should be transparent and they are published each year on councils' website and on rates notices. However, a centralised database is not appropriate and does not assist councils or ratepayers as we have explained previously.

### 4. DWM charges should seek to ensure price stability

DWM charges are subject to the prices offered by the industry and market decisions that councils have no influence over. Strategic planning for waste and resource recovery infrastructure at higher levels of government, and investment of the waste levy into domestic processing capacity would influence market and price stability in the sector.