

14 October 2020

**Review of Domestic Waste Management Charges  
Independent Pricing and Regulatory Tribunal**

PO Box K35  
Haymarket Post Shop  
SYDNEY NSW 1240

Via online: <https://www.ipart.nsw.gov.au/Home/Reviews/Lodge-a-submission>

Dear Dr. Paterson

**NSROC submission to IPART on Local Council Domestic Waste Management Charges Discussion Paper**

Northern Sydney Regional Organisation of Councils (NSROC) appreciates the opportunity to make a submission to the IPART on Local Council Domestic Waste Management Charges Discussion Paper. NSROC is a voluntary association of eight local government authorities in northern Sydney whose member councils service an area of 639km<sup>2</sup>.


NSROC disagrees with IPART's assessment of the status of the Domestic Waste Management Charge as outlined in the Discussion Paper. In summary, NSROC feedback on Discussion Paper focuses on the following points:

1. Our member councils provide a reasonable domestic waste management charge, which is based on community expectations, the market and efficient provision of an agreed service level.
2. Councils' existing processes are already transparent in determining the service level, fees and charges, use of reserves and the procurement process in accordance with legislation and regulation.
3. The basis for the Discussion Paper, being the survey results in Appendix B, is not sound.
4. Council's domestic waste management charge is difficult to benchmark given the significant variances in community expectations, contracts, demographics and needs of the individual local government area.
5. There are many cost drivers in the waste sector which council has no influence over and which rely on market forces.
6. Community and state expectations have changed dramatically since the domestic waste management charge was first established, yet councils are expected to address various new requirements from the State and Federal Government and market changes.

Further detail on these points can be found in the attached. NSROC member councils would welcome further engagement on this matter if new requirements are being developed.

Should you require further information, please do not hesitate to contact me on (02) 9911 3660 or by email at [MKenyon@lanecove.nsw.gov.au](mailto:MKenyon@lanecove.nsw.gov.au).

Yours sincerely



**Maxine Kenyon**  
Executive Director

# Submission

## IPART

# Local Council Domestic Waste Management Charges Discussion Paper

14 October 2020

Prepared by Northern Sydney Regional Organisation of Councils

**Member Councils:**     Hornsby Council  
                              Hunter's Hill Council  
                              Ku-ring-gai Council  
                              Lane Cove Council  
                              Mosman Council  
                              North Sydney Council  
                              City of Ryde Council  
                              Willoughby City Council

**Contact:**               Maxine Kenyon  
                              Executive Director, NSROC  
                              [mkenyon@lanecove.nsw.gov.au](mailto:mkenyon@lanecove.nsw.gov.au)

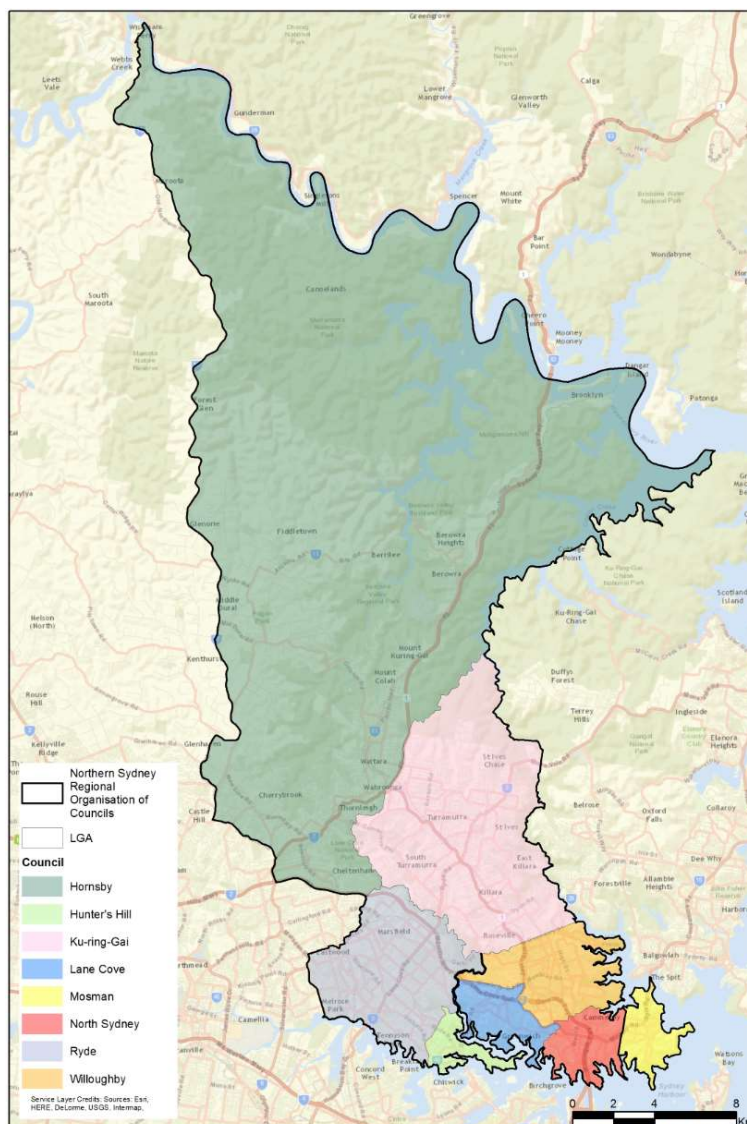
## INTRODUCTION

The Northern Sydney Regional Organisation of Councils (NSROC) is pleased to make this submission to the IPART, Local Council Domestic Waste Management Charges Discussion Paper.

NSROC is a voluntary association of eight local government authorities in Sydney. The councils service an area extending from the Hawkesbury River in the north to Sydney Harbour in the south, west to Meadowbank on the Parramatta River, as shown in Map 1.

The region is home to over 625,000 people, over 400,000 jobs, more than 82,000 businesses and a Gross Regional Product of \$68.65 billion, representing 11.52% of the Gross State Product.

As local government authorities, our member councils have been delivering waste services for many years and understand the complexity, challenges and opportunities of the sector, and delivering services to our communities. Councils deliver a diversity of initiatives to support appropriate waste management and resource recovery, including:



Map 1: Northern Sydney Regional Organisation of Councils area

### The provider of services

- Household waste collection
- Commercial and trade waste services
- Litter collection
- Problem waste drop off zones
- Television and computer collection service
- Household chemical clean out
- Chipping and Mulching services

### The educator

- Education programs for individuals, community groups and businesses
- Events
- Research

### The provider of infrastructure

- Community Recycling Centres
- Construction Waste Recycling Facility
- Provision of filtered water stations

**The planner**

- Development of planning controls
- Approval of development applications
- Adoption of regional waste planning controls and checklists for new developments
- Preparing waste management plans for Council run events

**The enforcer**

- Illegal dumping enforcement

**The funder**

- The source of funding
- The recipient of funding

**The procurer**

- Joint procurement of waste services
- Procurer of significant materials

**The coordinator**

- Collaborate on joint waste initiatives and programs
- Share knowledge and align strategies
- Develop alliances for shared service and facility provision
- Command common and strong governance.

As the deliverer of domestic waste services to our residents, any changes to the current framework will have impacts on our strategic planning, funding models, operational processes, and may impact the level of services we have agreed with our communities. Given the extensive role Local Government have in waste and resource recovery, Local Government is in a unique position to provide valuable feedback and contribute to the solution now and into the future.

It is in this context that NSROC makes this submission, which represents the view of our member councils, while noting, individual councils may also make an independent submission.

## OVERARCHING FEEDBACK

### The Discussion Paper is flawed

The Discussion Paper does not appear to have had sufficient rigour applied in its development, especially given that the paper is seeking comment from the public. The first page of the document states *“Our preliminary analysis indicates that DWM charges may not be delivering good value for ratepayers and there may be challenges for local councils in purchasing and pricing these services.”* Then on page 3 the Paper states: *“We have identified several potential issues with DWM charges levied by local councils, which are usually monopoly providers of DWM services. These issues suggest that, in some cases, DWM charges may not reflect the reasonable and efficient costs of providing DWM services.”* The latter statement gives the impression that there are likely to be widespread systemic problems, even though the wording really suggests a small percentage of possible concerns.

The Domestic Waste Management Charge (DWMC) data from the Local Government Cost Index Survey appears to have been misinterpreted and may not have been adequately checked because it was not data required to compute the Index.

Furthermore, the Discussion Paper highlights that the Office of Local Government (OLG) have not carried out audits of the DWMC since 2016, yet the Paper does not indicate if that has resulted in a significant increase in costs or other inappropriate actions taken by particular councils, but leaves it as a possible inference. A check of the state-wide average of DWMC recorded in Local Government Reports on the EPA website indicates that it increased by an annual average of 3.4% over the four years to

2018/19. The waste levy increased annually by 4.2% (metropolitan) and 6% (regional) and the rate peg for general rates averaged 2% pa over the same period. NSW councils have certainly not made significant increases to their DWMC since the OLG audits stopped. This raises the questions why there is now a concern to undertake audits, given the cost impacts facing councils' waste budgets listed in the response to Question 1 below, NSROC does not see the need for an additional audit process to be undertaken.

IPART's analysis does not appear to have been based on a clear understanding of the provision of DWM services, nor the transparency which is already in evidence across councils generally and specifically in this region. The survey detail provided in Attachment A of the Discussion Paper does not provide sufficient detail for a true assessment of the sector and its performance in relation to the DWMC. In fact, it would be difficult to undertake a sector wide assessment given there is such diversity in the communities councils serve, their expectations and satisfaction with the current DWMC, and council operations. These differences make it extremely difficult to be able to benchmark 'similar' councils, as proposed in the Discussion Paper.

### The industry is complex

The Discussion Paper does not seem to adequately recognise that the domestic waste service and industry is a complex one and not standard across all local government areas. Complexities are compounded by various factors including State Government targets, policies and regulations, differing levels of service, varied contractual arrangements, market conditions, availability and proximity of infrastructure, varying levels of industrial activity, business activity, tourism and employment visitation, geography and environmental factors, types of dwellings, density and population pressures. It is important that any reforms recommended do not limit the flexibility of councils responding to changing local demands.

### Costs and processes are appropriate now

Our member councils believe their DWMC meets the reasonable cost definition and delivers the agreed service levels of their customers, and is providing a quality service as highlighted in their customer satisfaction/community perception survey results. If there are outlier councils who are not charging reasonable costs as defined in the Local Government Act, this should be a matter to discuss with the specific councils, rather than imposing additional requirements on the entire sector.

Currently the definition of the DWMC is not fit for purpose. This definition was developed many years ago and contemporary waste management practices are much more diverse, and there have been significant changes in policy, targets, regulations and expectations from the community. Practices now include a suite of activities to make real change, including significant education and behaviour change activities. NSROC believes these types of activities should be incorporated into the definition of reasonable costs for the DWMC, given they are diverting waste from the kerbside and meeting State Government requirements and targets.

In addition, with continued changes to international waste sector markets, and responses from the Federal Government with proposed export bans, and the State Government who are yet to release the 20 Year Waste Strategy, consideration must be given to the impacts of these upcoming and continual changes to the market and the services provided. Waste will play a significant role in the future Circular Economy proposed by both the National and State Government. As outlined in NSROC's previous submissions on the 20 Year waste Strategy, we need government leadership and market intervention to assist and co-ordinate waste infrastructure in the Sydney metropolitan area.

The potential variability in the cost of delivering waste services and user pays principles make it inappropriate to set a rate cap or prescriptive pricing on the amount of the DWMC. The costs reflect local parameters and hence the charge should be determined locally. The legislation already protects ratepayers from inappropriate increases and councils have used a conservative approach to build a buffer for future shocks in the reserves they hold. It is difficult to estimate costs or population accurately in advance and council management planning process means that cost estimates may need to be made up to 18 months before the expenditure occurs. As such, a conservative approach is justified. Unspent funds are placed in the reserve and can be used to offset unexpected costs such as storm damage, legislative requirements or contract variations. If funding levels in the reserve are larger than necessary, councils typically fund some domestic waste services from reserves and limit any increases in the DWMC, thus supporting price security which is listed as one of IPART's principles.

There are good reasons why councils are nominated legislatively as monopoly suppliers of domestic waste services and this should be continued. Allowing commercial operators to offer the service directly to residents would lose the current economies of scale and increase costs overall. Waste is an essential service which must be delivered consistently to maintain good public health and hygiene and protect the environment. Without a consistent approach, there would likely be an increase in transport vehicles, differences in bins, variable service standards, and impacts on places and amenity affecting the liveability of our communities. Councils are not typical commercial monopolies and instead take their community service obligations very seriously and make decisions in the public interest including environmental protection, sustainability and cost efficiencies and effectiveness.

### Transparency is supported across all levels of government

NSROC supports the principle of transparency and argues that under current legislation and regulations, councils are already transparent in their development and delivery of the DWMC. To add additional processes with limited value, would not be of benefit to the council nor the community it serves.

Given the focus on transparency in the Discussion Paper, the State Government should also ensure a transparent approach to waste management particularly the hypothecation of the Waste Levy. The National Waste and Recycling Industry Council has estimated in 2019 that only approximately one fifth<sup>1</sup> of the total of \$770,000,000 expected to be collected in 2019/20 will be returned to local government or the waste industry through policy or programs and the remainder will be absorbed into State general revenue. The Government's Waste Less Recycle More Initiative which is funded by the Waste Levy provides grant funding to councils, agencies and industry for waste services offered a total of \$802,000,000 over the eight years to 2021. The NSW EPA provided advice to the NSW Legislative Council's Portfolio Committee No 6 – Planning and Environment "Energy from Waste - Technology" Inquiry that only 13.8% of the waste levy collected in 2016/17 was returned for "Waste and Regulatory Programs" while a further 13.5% was used for "Other Environmental Programs"<sup>2</sup>. The community is entitled to assume that a waste levy whose key objective is to *'drive waste avoidance and resource recovery by providing an economic incentive to reduce waste disposal and stimulate investment and innovation in resource recovery technologies'*<sup>3</sup>. would be predominantly used to further that objective. It would also be a reasonable assumption that the public could easily identify how the levy was spent but that information is not readily available.

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<sup>1</sup> *White Paper – Review of Waste levies in Australia* dated October 2019 prepared by National Waste and Recycling Industry Council, Table 2.1, page 7

<sup>2</sup> Final "Energy from Waste" Technology Report dated 28 March 2018, Table 2, page 12

<sup>3</sup> *Review of the NSW Waste and Environment Levy* dated June 2012 by KPMG for NSW EPA, page 7

NSROC considers that, in the absence of overarching national or harmonised State policies, the failure to develop a competitive waste management industry in metropolitan Sydney is caused by an over reliance on just one policy goal (reduction in landfill) and a single market signal (the Waste Levy) to prompt change. Instead the State government should plan for a coordinated suite of waste facilities and expedite their construction if it is intended to improve liveability, promote better resource usage and reduce unnecessary landfilling. This planning should include market formation for “waste” resources which can be used as inputs into a more circular economy.

### Further engagement would be welcome

NSROC would welcome more detail on the specific requirements to be proposed by IPART to ensure it is effective for this purpose, and will not be so onerous as to increase the cost of administering the process with limited real benefit for the community, noting:

- It is important to ensure that there is value and utility in capturing and publishing any proposed data, given the already extensive reporting requirements on local government.
- Significant detail is not supported as it would place an administrative burden on councils and would need further explanation for ratepayers.
- It is also suggested that the same transparency and rigour be applied to reporting of State income associated with waste.
- The timeframe for implementation by 2022-23 could be too short if significant changes are proposed given that waste contracts can extend for 10 years.

In addition to the above feedback, the Discussion Paper asks a number of questions of stakeholders, these have been listed below with our response for your ease of reference. Our member councils would welcome the opportunity to be engaged in these matters and others raised in the following pages.

### SPECIFIC FEEDBACK TO 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?

**It is not a concern that DWMC appear to be rising faster than the rate peg, the rate peg is irrelevant. There are many cost drivers that councils have limited influence over and that contribute to the rise in the DWMC.**

The rate peg is not a suitable comparison given previous and ongoing feedback from local government that the rate peg is not appropriate and should be removed. Rates revenue is insufficient to fund all community services and infrastructure required for urban areas with increasing or changing populations, nor is it appropriate for existing communities to shoulder the full burden of delivering the infrastructure required to facilitate growth. Rate capping has been in place since 1977, effectively pegging general rates to that required to provide services and maintain infrastructure that existed over forty years ago. The calculated rate capping that has applied since, pegs councils general rate level to that required to maintain historical infrastructure and provides no capacity for general rates to fund new infrastructure or even maintain new infrastructure and provide the increasing level of services required by our communities.

The rate peg has no relevance to the waste industry. Submissions received through a tender process are reflective of the market at that time, and, as noted in the Discussion Paper some sectors of the market

are not very competitive. Therefore, there is no correlation between the rate peg and the DWMC and nor should the DWMC be fettered by a similar peg.

DWMC reflect our councils' reasonable costs in delivering these services to their communities. In this region, kerbside collection, processing and disposal services are outsourced and purchased from external providers rather than delivered in-house. Given the contract value, councils are required to tender for these services, therefore the costs of delivery reflect the market prices available at the time of tendering for each LGA. Councils obtain the best value for money service delivery they can in the circumstances. The market is not constrained by rate pegging and neither are the other associated costs recovered by council in the DWMC.

Domestic waste is a complex service and industry, it has many cost drivers that impact the DWMC including the following, many of which are out of councils control and even influence:

- The Waste Levy (s88 charge) which rose 144% in the ten years to 2019/20 for metropolitan councils and 727% for regional councils.
- Population growth
- Number of and dwelling type
- Resource recovery targets established by the State Government
- Requirements from EPA targets and strategies for waste avoidance and diversion from landfill require different or new services
- Increased expectations for resource recovery from government and community
- Proximity to waste disposal points and processing facilities
- Landfill capacity serving the Sydney metropolitan area
- Lack of markets for recycled materials
- Changes in State Government policy (e.g. removal of general exemption for the application of Mixed Waste Organic Outputs to land, licensing requirements and stockpiling limits)
- Changes in Federal Government policy, e.g. responses to the China Sword policy
- Risks, costs and time frame for potential private investment in waste infrastructure
- Concentration of ownership of waste infrastructure
- Lack of competition for the provision of some services
- The expectations of communities of their domestic waste service.

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

**Variations in services and charges differ because of community preferences and the market conditions.**

In each Local Government Area (LGA), the waste services offered have developed over time on the basis of community preferences and local conditions. There is no common service across councils and even within a council area, a wide range of services may be accommodated. One of the significant challenges NSROC has faced in any attempts to offer waste services at a sub-regional or regional scale, is the difficulty in harmonising the services on offer, as different communities have different expectations based on affordability and preference.

Across our member councils alone there are differing service levels for kerbside domestic waste, including the following, which reflect community and financial preferences:

- Different sized bins
- Different types of bins



- Regularity of collections and response times
- Access for bin collections
- Kerbside clean up process
- Type and level of customer service.

The Discussion Paper does not mention the full range of kerbside collection services that councils and in particular, for this region, does not include the paper only collections (blue lidded bin) offered by four of our eight councils.

The price paid by residents is not significant for domestic waste management given the base level of services offered. A weekly domestic charge of \$7-11 per property is appropriate for the services provided: weekly or fortnightly collection and processing/disposal of at least three different bins (or four in some LGAs) as well as bulky waste clean ups. In comparison, if a resident was to take the waste generated each week to a transfer station in this region, the cost would be a minimum of \$75 or a rate of over \$400 per tonne, with significant environmental costs due to the increased vehicle kilometres travelled.

Community preferences are also reflected in other waste related services delivered by councils to reinforce the kerbside services. Councils support the EPA's program of Household Chemical Cleanouts and in this region there are two council operated Community Recycling Centres. Both services are provided to ensure that residents are offered a way of safely disposing of and recycling problem wastes that would cause safety and environmental problems if placed in kerbside bins. Councils have differing views about the extent that the DWMC can be used to support these services based on their interpretation of s496 and s504 and the dictionary definition of those services in the Local Government Act.

According to the dictionary in the Local Government Act, *domestic waste management services* means services comprising the periodic collection of domestic waste from individual parcels of rateable land and services that are associated with those services. IPART could usefully recommend greater clarity in the interpretation of associated services, especially in the light of changes since 1993 in community attitudes and government policies regarding resource recovery, environmental protection and the circular economy.

In each LGA, the waste services offered have arisen over time on the basis of community preferences and local conditions. There is no common service across councils and even within a council area, a wide range of services may be accommodated. Even in amalgamated councils, it can take many years to harmonise services because of the contractual obligations in place and expectations of residents.

Our member councils regularly undertake customer or community perception surveys with their community and each time waste is included in the survey for feedback. Over the last two years, our councils have achieved scores between 72 - 91%, reflecting their community's satisfaction with the waste services they receive.

Furthermore, each council is required to develop service levels as part of the Integrated Planning and Reporting Framework and undertake extensive community engagement. Local Government has significant requirements and opportunities for the community to understand and comment on their preferences, fees and charges and the focus of the council.

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

**Competition in the waste sector is limited for particular services and there are many barriers impacting market competition, rather than the regulated council procurement processes.**

Market competition depends on the waste services being outsourced, so, for example, waste collections are relatively competitive with a potential pool of five or six contractors. Furthermore, councils which can offer a site for collection vehicle parking and maintenance are likely to increase the pool for the competitive market.

However, the options for both the processing and disposal of residual putrescible waste and the processing of dry recycling are much more limited because of the dearth of suitable landfills serving Sydney, and the lack of both local processing facilities and domestic markets for processed materials. More competition is available for recycling green waste, but potential competitors would need to own or lease suitable sites and infrastructure within a reasonable distance of the LGA to be able to offer a competitive service. Although the Discussion Paper is not specific about which services are seen by IPART as less competitive, Table A.2 lists issues which create barriers for effective procurement, which NSROC supports.

The loss of overseas markets for sorted recycling and the barriers for entry for commercial enterprises into the waste processing and disposal markets both impact potential competition. Establishing a new waste facility is challenging because:

- There are limited areas in metropolitan Sydney where the zoning will allow them.
- Former industrial land in many inner urban areas has been converted to commercial or residential uses.
- Densification has also reduced buffers around industrial land.
- There is likely to be public opposition to the facility, which makes any planning approval less certain.
- Obtaining licensing approvals can also be uncertain and a protracted process.
- Past instances where State policies/practices have changed and retrospectively affected the facility after approval have also increased the prospective business risks.
- The private sector lacks the regulatory certainty that would make business cases for investment more persuasive.
- In NSW, the State Government has provided limited support for new or expanded facilities other than some grant funding which could meet part of the cost.

NSROC considers that there is a market failure in the provision of waste infrastructure and that some form of government intervention will be required to rectify it. Local government alone has limited capacity to influence that market, ensure that a suitable range of waste infrastructure is available, and that viable markets exist for the range of resources produced. The State Government's proposed 20 Year Waste Strategy and the Circular Economy Policy could provide suitable vehicles for those interventions.

A key to competitive pricing, is having appropriate and accessible infrastructure. Given waste is an essential service, metropolitan and district planning should include a clearly enunciated well thought out, engineered waste management system, with a range of facilities servicing the waste generated across the urban area. The many community benefits would include reduced waste transport distances, improved logistics at regional and local scales, health and amenity and reduced costs of service. In a constrained market such as parts of the waste services sector, NSROC would like to see greater

leadership by the State Government in coordinating the delivery of waste infrastructure serving metropolitan Sydney and helping develop domestic markets for resources generated from “waste”.

A more holistic approach is required from the NSW government in metropolitan planning. A balance needs to be struck between competing pressures for denser urban development with narrower streets, people friendly public spaces and the need to service these developments for waste management, but also the fire brigade and removal vans. Without a master planned approach, treating individual development in isolation can increase the range and variety of waste services to be provided which contributes to a less efficient waste system. Even where councils are able to set requirements on new developments to make waste management more efficient, there will remain a legacy of existing properties needing to be serviced less efficiently.

NSROC is looking forward to seeing the upcoming 20 Year Waste Strategy provide a clear policy about waste infrastructure, waste avoidance, resource recovery and market formation to support the establishment of a circular economy in NSW.

Local government procurement processes are regulated and as such councils are limited within that scope. Council staff are appropriately trained or have access to experts where required to develop and lead waste procurement processes, as opposed to what the Discussion Paper suggests. Councils in this region all tender for waste services which is a thorough but cumbersome and time-consuming process. Cost is one of, but not the only criteria in selecting a contractor. Current statutory requirements make it challenging for groups of councils to tender together and even then, the waste volumes and contract term may not be sufficient to really increase market competition nor even guarantee a better unit price.

As NSROC represents metropolitan councils our concerns are reflective of outsourced waste services. However, on a statewide basis many councils in regional and rural areas own and may operate waste facilities which creates real challenges when seeking to benchmark across councils.

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

**Overhead expenses are appropriately ring-fenced and documented.**

NSROC councils all use different models for calculating overhead expenses for their organisation and DWMC services, but all recover the reasonable costs of providing the waste services to their communities. Under the Local Government Act (s496), all councils must “must make and levy an annual charge for the provision of domestic waste management services for each parcel of rateable land for which the service is available.”

Table B.11 in the Discussion Paper states that for the metropolitan councils surveyed, overheads formed 65% of DWM expenses. This figure is considerably higher than that used by any of our councils (4-16.5%) and appears to be based on inaccurate assumptions. It is the claim that councils are including 65% for overheads in the DWM services which is used in the Discussion Paper to justify IPART intervention. This would also naturally raise concerns and given an unreasonable perception of how local government are managing the DWMC in any members of the public reading the Paper. Clarification on this 65% figure is sought.

The Discussion Paper indicates that the overheads included “Contractor and consultancy costs” from the IPART 2019-20 Local Government Cost Index (LGCI) survey. However, the main reason for the survey is to assist in determining the cost items that should be included in the LGCI which in turn is the primary factor in determining the rate peg for council rates. Waste costs are not included in the LGCI and prior to using the survey data for a purpose for which it was not intended, IPART should have checked whether

the waste contract data was realistic and representative. This would have shown that the 65% overhead is inaccurate.

This Paper suggests that an incremental cost methodology be used for overhead costs. Our councils are concerned that it makes overhead costs too difficult to calculate and could result in councils not recovering their reasonable costs for delivering waste services from the DWMC as required by the legislation. This would also mean that they would have to recover those cost from general rate income. Waste management is only one of many services provided by councils and any overhead distribution model used should be efficient and workable. The economic “purity” IPART is seeking in recommending an incremental approach for DWMC overheads is not justified by the complexity of its calculation and application.

Given that it is local government which has that experience with delivering waste management services, NSROC recommends that councils are directly engaged in developing any future model if one is proposed.

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

**NSROC does not see the need for greater oversight from an external body of the DWMC.**

IPART’s regulation is not required and would have the disadvantage of being another separate level of regulation and complexity which is unlikely to create benefits sufficient to justify the costs and time involved (monitoring, benchmarking, audits, reporting etc.). However, NSROC does support further discussions with councils who cannot demonstrate compliance with the Local Government Act.

As previously stated, councils have existing mechanisms in place to support the appropriate development and oversight of DWM charges, including:

- Legislated Integrated Planning and Reporting Framework including the adoption of a Community Strategic Plan, Delivery Programs, Operational Plans and Long Term Financial Plans, all of which are required to be developed through extensive engagement and publicly exhibited for community comment.
- Legislated Audit Risk and Improvement Committees.
- Compliance with the Accounting standards / guidelines and the Local Government Act.
- OLG Rating and revenue raising guidelines.

These existing processes already ensure that the DWMC ‘reflect reasonable and efficient costs and are defensible’, as the Discussion Paper words it.

There are a number of different potential costs in waste management services which would make it difficult to create a prescriptive list that can be recovered through the DWMC. The Paper suggests that the Special Rate Variation (SRV) mechanism could be used to recover costs that could no longer be charged against the DWMC. However, such variations are time consuming, typically have a long lead time and are ultimately determined politically rather than administratively and hence cannot be guaranteed to be successful. Waste contracts involve considerable costs and contract variations, such as force majeure, change of law or contract breaches, can also reach large sums. Should these variations occur mid-contract a SRV would be a very cumbersome and uncertain way of recovering the costs. The cost of either option is met by the ratepayer whether an increase is done through the IP&R Framework or through the SRV process, albeit the SRV process required significantly more resources. There is no need to duplicate a process that requires community consultation in both options.

Waste management is a dynamic service, where changing policies and solutions can come at a cost and the DWMC must be flexible enough to provide for / address contingencies. These potential variations in waste costs over time also explain why NSROC opposes any attempt to limit increases in the DWMC under some form of rate pegging mechanism. Costs are already ring fenced and the reserve is used to equalise the charge over time as well as account for cost increases or necessary capital expenditure etc.

Community expectations in regard to waste are also changing dynamically, but not necessarily uniformly. Councils use their legislated requirement for Integrated Planning and Reporting and other consultation to determine the level of services they provide. It is not considered that IPART needs to regulate the DWMC. Local councils, as elected bodies, are very sensitive to the needs and views of their communities, especially with cost of living pressures in metropolitan Sydney. Any rise in the DWMC would only be proposed after consultation and for good reasons.

If IPART did recommend a range of services which could be recovered by the DWMC, NSROC member councils would be keen to be engaged to assist in its development. It should however include changes in community expectations for waste and resource recovery. The level of waste diversion from landfill agreed with its community, significantly affects the services a council provides and hence the DWMC in that LGA. It need bear no resemblance to the services offered by another otherwise comparable council.

If a solution is required, our member councils have differing views on the proposed solution, including:

- Rather than creating another level of regulation, it is suggested that the OLG Code of Accounting Practice could include a special schedule dealing with the DWMC overheads.
- The DWMC could be audited by the existing Audit, Risk and Improvement Committees or the Auditor General.
- Councils report annually on their delivery program and on all cost attributions from all service types, so additional reporting could be included.

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

See question 5 above.

## 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?

**NSROC does not support additional benchmarking and reporting.**

Accounting for these differences would be difficult and so complex as to be of limited benefit except to experts in the field who don't need it. As stated, even within a small region like NSROC there is considerable variations in the services offered and hence the charges made to recover those costs. Comparisons are difficult because you are not comparing apples with apples.

## 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?

**NSROC does not support additional benchmarking and reporting given the little value over what is already available. NSROC could support pricing principles if our concerns outlined in question 11 are addressed.**

There is limited value in IPART's proposed approach. Councils regularly undertake customer satisfaction surveys which look at services, including waste, and waste services in this region have a positive response, 72-91% satisfaction level as stated earlier. Unlike many council services, waste services are provided for every domestic property and are arguably the best value service a council offers.

The OLG rating guidelines highlight the potential lack of fairness of a rate depending on whether it is viewed from a perspective of the benefit principle or the ability to pay principle. While the DWMC is predominantly a payment for a benefit received, s496 of the Local Government Act requires a council to levy the charge for the availability of the service, not its use.

Furthermore, councils are required to engage with the community on their operational plans, their fees and charges, long term financial plans and strategic plans, all of which provide an opportunity for the community to get involved, understand and comment on the proposed service level and associated DWMC prior to adoption. Additionally, the council election cycle offers an opportunity for any widespread dissatisfaction to be expressed when electing Councillors.

Deciding which councils are sufficiently comparable to benchmark against would be fraught with challenges and hence of limited value to the community. The likely outcomes would be a fruitless exercise for residents and a waste of a council's resources in responding to explain the differences reflected in the differing charges. Residents will not move away from or into an LGA simply on the basis of the DWMC and they cannot choose a different supplier of the services. The existing mechanisms ensure that councils cover the cost of the service provision and can only use funds from the DWMC on waste related services and not to subsidise other income.

It will be very difficult to benchmark councils because of the myriad of differences in the services offered and local impacts on how they are delivered. Some examples of the challenges are highlighted below:

- In the NSROC region, four councils offer a fourth kerbside collection bin for paper and cardboard. The narrow streets of North Sydney and high levels of on-street parking dictate a different style of truck and collection operations than other LGAs. The timing and frequency of bulky goods clean up offered by each of our councils reflects differing local needs, density and development patterns. All these differences are reflected in the DWMC.
- Differences between councils reflects the waste management regime at the time a building development occurred. For example, when the State Government owned waste transfer stations, councils were directed to deliver their waste to specific transfer stations which in northern Sydney were conveniently located. That in turn allowed smaller waste trucks to be used and permitted lower basement ceiling heights in residential flat buildings. However, with the sale of the State Government owned waste assets including transfer stations to commercial interests, a council's access now depends on whether the transfer station suits the collection contractor. However the small trucks must still be used even though they may need to travel three or four times as far to a transfer station. That represents a cost difference that a different council may not face, but more importantly shows the complexities of finding councils which are truly comparable.

- Waste components of councils' Development Control Plans affect the operational characteristics of waste management and increase variations between councils. IPART might consider how best to achieve a more uniform approach for the future as all LGAs in Sydney face increasing densification.

Although at first glance a benchmark might allow council staff some comfort when tendering for services, in practice, a tender price reflects what the market will offer at a point in time. That price has more to do with the anticipated cost of delivering a service such as processing or disposal capacity, or other market forces than it does to any similarity between the councils offering that range of services.

Should a benchmarking tool be developed it is critical that local government is adequately consulted to ensure that the comparative process is fair, reasonable and effective. The timing of any changes should also be consulted with councils. Waste contracts typically run for between seven and ten years, so any proposed changes resulting in a contract variation could result in a significant cost increase for a council and its community.

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

**NSROC does not support either approach, given appropriate existing measures are in place.**

As outlined in previous sections, NSROC believes that councils are appropriately managing the DWMC through existing processes, including the Integrated Planning and Reporting process, the Accounting standards, rating guidelines and risk management practices. Councils are managing community expectations and financial sustainability within the existing market processes to deliver efficient domestic waste services. If there are concerns regarding specific councils this should be addressed individually, not requiring additional systems or processes to be added to councils' already heavily legislated processes.

IPART favours a relatively less prescriptive, more targeted approach that focuses on information and guidance, which, if required, is supported in principle. However, IPART intending to rely on benchmarking to make that decision is not appropriate given the extent of existing monopoly control and the inability to benchmark such services.

The existing arrangements provide good value for residents because councils are not seeking to profit from offering the services as would a commercial monopoly. As mentioned elsewhere, the difficulties in finding comparable services and identifying differences between the LGAs' requirements for services make true benchmarking very problematic, if not impossible.

Opinions differed across our councils on the relative merits of benchmarking versus auditing but there is a consistent view that the current approach is working effectively and that further regulation is not required. Domestic waste services represent good value for money and the cost for residents is much less than comparable commercial costs such as hiring a skip or removing waste.

If however, a recommendation is made for a benchmarking/audit process, there will need to be clear parameters and councils should be engaged in developing those parameters.

## 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?

**NSROC do not see the value in the provision of an online database.**

See earlier responses above about the challenges of comparing councils in regard to waste management and the limited value such information provides. The domestic waste management charge is not a single figure, it reflects the type of dwelling and the choices a resident has made in regard to bin sizes or number of services. Depending on the variation within a council, the comparison may need to be a matrix rather than a single value.

The annual *NSW Local Government Waste and Resource Recovery (LG WARR) Data Report*, (reference 27 in the discussion paper) already includes an appendix listing a value of the DWMC for each council in NSW. Council waste staff would already know of that information and would not need another such database.

NSROC would not recommend providing an online central database for ratepayers because it allows the data to be misinterpreted and is likely to result in councils needing to respond to unnecessary queries resulting from the limitations in the comparability of the benchmarking. Ratepayers will have the information for where they live and can easily access it from other councils if required.

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

**NSROC sees value in having principles, and agrees with some of those proposed by IPART at a high level.**

### 1. DWM charges should reflect a 'user pays' approach

NSROC has concerns at the terminology of "user pays" because it could lead ratepayers to assume they will not pay for the service if they do not put a bin out. That is not the case and the DWMC should not be promoted as if it was. As stated earlier, the Act requires the charge to be levied for the availability of the service irrespective of it being used. If the concept of "user pays" was implemented, it would introduce concepts of payment by weight or volume, rather than by service, and that has additional costs and challenges for bin chips, geo-tagging and weight measurement capability.

NSROC contends that the DWMC should recover the reasonable cost of providing DWM services and has seen no evidence that councils in this region are seeking to recover the costs of councils' other functions and services through the DWMC.

However, it would be reasonable to recover the costs of providing other domestic waste disposal opportunities requested by ratepayers such as Community Recycling Centres or Household Chemical Cleanouts even if these are not directly associated with kerbside collections because the additional services improve the safety and environmental benefits of the kerbside services.

NSROC agrees the incremental cost allocation of direct costs but not the incremental cost of DWM overheads where a reasonable apportionment can be used. It would be very difficult to work out the incremental cost of all overheads and unlikely that the resulting difference would justify the resources needed. Furthermore, the result would still be just one method of apportionment.

It is understood that the term "social programs" in this context refer to pensioner discounts which councils currently can offer on the DWMC based on advice in the OLG guidance manual for rates. While



not strictly a “user pays cost” the discount is valued by recipients and is a matter best left to the individual council for decision. However, social programs would be more normally considered to be the education and cultural engagement needed to achieve behaviour change and improve waste avoidance, resource reuse or recovery and recycling. Using the term purely for pensioner discounts betrays IPART’s lack of real understanding about municipal waste management and risks misinterpretation.

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

Agreed.

As outlined above the definition of reasonable should be reviewed to reflect contemporary practices and a clearer understanding of the sector and services provided.

## **3. DWM charges should reflect efficient costs**

Note 3 in the Discussion Paper states: ‘The concept of reasonable cost in the context of charging for DWM services is in keeping with the principle that all costs, which can be reliably measured and reasonably associated with providing a DWM service, should be included in determining the charge for the service’ (OLG, Council Rating and Revenue Raising Manual p 56). This differs from efficient costs which refer to costs that represent the least cost way of providing services.

There is a risk with efficient costs that it can be difficult to accurately compare the services being proposed in a complex service offering, such as domestic waste services. While cost is always a factor included by councils when tendering for services, it is only one of the criteria used to assess proposals. In this situation, the DWMC should reflect reasonable costs because efficient costs are by no means guaranteed in a situation where there is limited competition in the provision of some waste services. Councils tender to obtain the best rate available but can only take what the market offers.

Furthermore, the s88 Waste Levy does not currently represent an efficient cost. The majority of the Levy is directed to general State revenue and not returned to waste management. As noted earlier, the KPMG *Review of the NSW Waste and Environment Levy* in 2012 stated that according to the Protection of the Environment (Operations) Act 1997, the key objective of the Levy is to “*drive waste avoidance and resource recovery by providing an economic incentive to reduce waste disposal and stimulate investment and innovation in resource recovery technologies*’. The current level of hypothecation has not stimulated sufficient investment in appropriate technology and innovation nor improved NSW’s resource recovery markedly above other states. Nonetheless, councils cannot avoid paying the Levy on waste sent to landfill and are therefore entitled to recover the cost through the DWMC. Even the grant funding supported by the Levy has decreased in recent years despite increases in the amount of Levy collected, leaving councils with less grant income to help offset the costs of offering waste management services for their community.

## **4. DWM charges should be transparent**

Agreed. NSROC considers that DWM charges are already transparent and that ratepayers have ample opportunity to be engaged and seek further information if required.

## **5. DWM charges should seek to ensure price stability**

Agreed. This principle is already followed by councils across NSW and in this region including use of Waste Reserves to absorb the various spikes and shocks in overall costs e.g. storms, pandemic or contract variations.

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

**Greater transparency and clarity on how the s88 levy is spent and the future policy and strategy from the State.**

Greater transparency and increased hypothecation of the s88 Waste Levy would provide additional funding for waste management which could be directed into the strategic implementation of planning and establishing a coordinated network of infrastructure assets or in developing domestic markets for resources recovered from waste.

NSW currently lacks a clear policy and implementation plan for delivering waste management services. This has left the community at the mercy of commercial interests whose priorities do not necessarily reflect those of councils or their communities. It is hoped that the proposed 20 Year Waste Strategy will address that need and help establish the circular economy that is required for a sustainable future.

### **13. 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?**

**NSROC does not consider that such a database would provide any real benefit.**

The majority of the summary information is already available on a register of contracts. For the same reasons that it is difficult to benchmark councils' waste services, it is difficult to compare contracts without seeing the specific details of what was tendered or finally negotiated. Different councils also have different cost structures which makes comparisons difficult.

Commercial providers put in costs to balance their commercial interests which do not necessarily accurately reflect the actual cost of delivering components of the service. The provider's costs may well vary in different LGAs depending on the location of assets, infrastructure and existing resource usage.

## **CONCLUSION**

Our member councils believe they have a reasonable domestic waste management charge which is based on community expectations and their agreed service levels, market response and efficient operations. There is no need for IPART to regulate the charge any further. Even the proposed "light touch" benchmarking would have no significant benefit to justify the additional costs and confusion likely to be caused to ratepayers - given the myriad of differences in the services offered by even ostensibly similar councils.

NSROC contends that there is no reason for IPART to get more involved. There are not significant problems to be addressed and the existing level of oversight and isolation of waste charges ensures the community receives good value for money.

**- ENDS -**