



# **SUPPLEMENTARY BUSINESS PAPER**

**(Late Item Memo – Item 8)**

## **GENERAL MEETING**

**Wednesday 13 April 2022  
at 6:30PM**



## **TABLE OF CONTENTS**

### **SUPPLEMENTARY ITEMS**

Item 8	LM4/22 IPART Domestic Waste Managment Charge Review .....	1
--------	---	---

**ITEM 8**      **CE6/22 - IPART Domestic Waste Management Charge Review**

*Additional information with "NO CHANGE" to Recommendation*

Since the finalisation of Director's Report No. CE6/22, Council staff have finalised the draft Council submission pertaining to IPARTs' proposal to regulate NSW councils' Domestic Waste Management Charges.

The draft submission, shown at Attachment 1. is now provided and supports Director's Report No. CE6/22. There is no change to the recommendation printed in the business paper.

**RECOMMENDATION**


THAT Council:

1. Note that IPART propose to regulate NSW councils' Domestic Waste Management Charges where individual councils exceed the "waste peg" and IPART do not accept a council's justification for the DWMC increase.
2. Note the significant ongoing adverse impacts the IPART draft decisions are likely to have on Council's domestic waste management services and other waste services.
3. Note the budget impact of cost shifting approximately \$2.3M for transferring corporate overheads and other waste services to the general fund budget under an SRV.
4. Endorse the submission to IPART provided at Attachment 1 to Director's Report No. CE6/22, raising concerns about their Draft Decisions including the proposed introduction of a "waste peg" and incremental cost methodology for corporate overheads.
5. Provide a copy of its IPART submission to the NSW Government, local Members of Parliament, the Treasurer, Minister for Local Government and other relevant stakeholders.
6. Call on the NSW Government and Minister for Local Government to undertake a review of the Local Government Act 1993 - Section 496 and OLG Rates and Revenue Raising Manual, 2007 to modernise the scope of DWM Services to include contemporary waste services in consultation with local government.

CHRIS HORSEY  
Manager - Waste Management  
Community and Environment Division

STEPHEN FEDOROW  
Director - Community and Environment  
Community and Environment Division

**Attachments:**

1.   Hornsby Shire Council Submission - IPART Review of Domestic Waste Management Charges

File Reference: F2013/00751  
Document Number: D08386192

**HORNSBY SHIRE COUNCIL SUBMISSION - REVIEW OF DOMESTIC WASTE MANAGEMENT CHARGE - DRAFT REPORT - December 2021**

Council	Contact Name
Hornsby Shire Council	Christopher Horsey Manager, Waste Management <a href="mailto:chorsey@hornsby.nsw.gov.au">chorsey@hornsby.nsw.gov.au</a>

## Summary

Thank you for the opportunity to provide feedback on IPART'S Review of the Domestic Waste Management Charge (DWMC) – Draft Report Draft Decisions.

Hornsby Shire Council (HSC) holds concerns about the pathway proposed by IPART in relation to the DWMC in NSW.

Our concerns are briefly summarised below and more comprehensively against each of your questions posed in the Draft Report in this submission.

**Hornsby Shire Council requests IPART to:**

- Return to its original benchmarking and public reporting approach proposed in the Discussion Paper.
- Council suggests this original benchmarking and public reporting approach can be strengthened through the IP&R Framework - Delivery Program and Operational Plan - by public reporting on DWM charges, the services residents receive for the respective DWM charge, clearly showing annual DWM charge dollar and percentage increases, reporting on IPART's Weighted Average DWM Price percentage increase, and detailing the reasons why DWM charges may have increased.
- That IPART note Council's strong objection to the proposed benchmark waste peg approach based on:
  - The waste peg being untenable and dysfunctional for local government.
  - The waste peg approach compromising councils legal and contractual obligations to fund outsourced essential waste service contract cost increases which Council has little to no control to reduce or prevent.
  - The waste peg will likely stifle resource recovery progress towards both Federal and State targets and slow circular economy progress. It will also likely become a barrier to the implementation of the Government mandated Food Organics Garden Organics (FOGO) service introduction as proposed by the NSW Environment Protection Authority (EPA) in the NSW Waste and Sustainable Materials Strategy 2020 (WaSM).
  - The waste peg is likely to result in most councils reducing important Waste Strategy community behavioural change, engagement and education initiatives over time, if these programs are required to be funded from and compete with Council General Fund broader priorities (particularly given pressures from the General Rate Peg). These programs support the implementation of the NSW Government's Waste Hierarchy and address household behaviours that address waste generation rates that are rising well above GDP rates.
  - The Waste Cost Index (WCI) used to determine the annual waste peg is based on data from LGCI Survey which does not adequately allow the capture and reporting of detailed or accurate waste cost information from councils. As such waste peg and other data results are likely to be misrepresentative and in disparity to council DWM Service cost structures.
  - The Waste Cost Index (WCI) methodology used to calculate contract cost increases, which represent over 80% in Council's DWM budget, uses ABS Indices that are not commensurate with contractually binding rise and fall

1

Hornsby Shire Council Submission – IPART DWM Charge Review

- mechanisms in Council waste contracts. As such, the waste peg will not reflect the actual DWM Service costs Council budgets for.
- The waste peg will create an unfair and unreasonable public expectation and negative sentiments that councils should be holding DWM charges in line with waste peg when this is not possible.
  - IPART state they will use information on why councils may need to exceed the waste peg over the coming years to determine if further regulation is required by way of a binding waste peg. Council notes that the broad reasons why local government DWM service costs have been increasing above inflation have already been provided to IPART through Discussion Paper Submissions and these have been summarised by IPART in the Draft Report. Council has concerns that IPART appears not to be building an adequate appreciation of these reasons as detailed by local government.
  - If IPART do proceed with the benchmark waste peg (which Council objects to) – it is requested IPART hold on the implementation of the benchmark waste peg until NSW Government and OLG can:
    - undertake a review of the Local Government Act – Section 496 DWM Services definition and guidelines to broaden its scope to include contemporary DWM Services “to the benefit of the property”, rather than simply “to the property”. DWM Services must be redefined to cover activities related to “managing waste generated from domestic properties” to allow councils to maintain efficient and effective waste services to their communities. Councils should be permitted to consult with their communities to determine domestic waste management services that are subject to Council resolutions to fall under a redefined DWM Service scope.
    - undertake a review of the Local Government Rates and Revenue Raising Manual, 2007 to broaden its scope and guideline examples to include contemporary DWM Services “to the benefit of the property”, rather than simply “to the property”. DWM Services must be redefined to cover activities related to “managing waste generated from domestic properties” to allow councils to maintain efficient and effective waste services to their communities. Councils should be permitted to consult with their communities to determine domestic waste management services that are subject to Council resolutions to fall under a redefined DWM Service scope.
    - develop a detailed and specific DWM Service reporting section in the LGCI Survey (similar to sewer and water categories) in consultation with local government, to facilitate representative and accurate waste cost data gathering, reporting and input to the WCI.
  - Council calls on the NSW Government and Minister of Local Government to initiate a review of the Local Government Act – Section 496 DWM Services to broaden its scope to include contemporary DWM Services “to the benefit of the property”, rather than simply “to the property”. DWM Services must be redefined to cover activities related to “managing waste generated from domestic properties” to allow councils to maintain efficient and effective waste services to their communities. Councils should be permitted to consult with their communities to determine domestic waste management services that are subject to Council resolutions to fall under a redefined DWM Service scope.
  - Council suggests that it is important that IPART gain a better understanding and appreciation of the DWM service cost drivers and their complexity, and the highly variable impacts these have on each individual council’s DWM cost structures and charges across NSW – that results in variable DWM charges (\$300-\$700) across councils. IPART claims (page 2 Draft Report) – not to have sufficient evidence to explain why the costs of providing DWM services have varied – councils have attempted explain this to IPART in previous submissions – a detailed worked example of Council 2022-23 cost drivers has been provided in this Submission to provide further, more detailed information and insight to assist.



- Provide further information on what IPART will consider as reasonable justifications for councils increasing above the annual benchmark waste peg, if the waste peg is to proceed.
- Allow councils to utilise an average cost methodology for determining corporate overheads to be attributed to DWM charge rather than the proposed incremental cost methodology. Council uses and apportions corporate overheads to all functional areas of Council under the average cost methodology and using the incremental cost method for the DWM service function will mean other areas of Council such as libraries, community services, parks etc will need to unfairly carry this cost shift.

**1. Do you think our proposed annual 'benchmark' waste peg will assist councils in setting their DWM charges?**

### A New Proposed Waste Peg

Hornsby Shire Council notes that the IPART Draft Report has now introduced a new proposed non-binding "benchmark" waste peg that was not outlined in IPART's August 2020 Discussion Paper. The newly proposed "benchmark" waste peg approach differs significantly from IPART's original proposed benchmarking of services and costs approach for public reporting to provide greater DWM charge transparency, as detailed in the original Discussion Paper.

IPART's proposal to introduce a benchmark 'waste peg' is of substantial concern to Council.

While IPART may be seeking to address increasing living costs and protect rate payers from being overcharged for DWM services, imposing a waste peg on councils will significantly impede councils' ability to:

- to meet contractual payment obligations.
- provide contemporary and progressive resource recovery based waste services to their communities.
- to replace or create new waste infrastructure and to manage waste assets such as historical landfills in an environmentally responsible manner or replace bin assets when needed.

### How the Waste Peg Will Work

Council notes IPART's intention to establish a "benchmark" waste peg, based on the average annual change in costs of providing DWM services across all NSW councils, to assist guide councils and rate payers on the reasonable costs of DWM services. The waste peg will be set utilising annual data obtained from the LGCI Survey to construct a Waste Cost Index (WCI) (basket of 26 DWM cost items) with the benchmark waste peg equal to the annual change in the WCI.

Any councils exceeding the annual waste peg, measured by council's calculating their change in the weighted average DWM price, will need to submit as yet unspecified documentation to IPART justifying why their DWM charge for that year has exceeded the waste peg. If IPART does not accept a council's justification for exceeding the benchmark waste peg, IPART may regulate individual council's charges or implement a binding waste peg.

IPART have not to date, provided any formal guidance on what may or may not be considered acceptable justifications for DWM charge cost increases above the benchmark waste peg or how it will conduct such assessments.

IPART will use information on why councils may need to exceed the waste peg over the coming years to determine if further regulation is required by way of a binding waste peg.

## Waste Peg and Data Consistency and Reliability

It is difficult to understand how IPART have determined “a DWM charge average increase of 4.5% pa for NSW councils over the last 5 years from OLG 2013-14 to -2018-2019 DWM data” (page 7 Draft Report), yet propose to set ‘a 1.1% DWM charge benchmark waste peg for 2022-23 based on the average annual change in costs of providing DWM service’ (page 4&17 Draft Report).

It is difficult to see the relevance in methodology of a WCI basket of waste service components relating to real world waste expenses faced by individual councils, particularly where there is such a significant variation in individual council cost drivers.

A careful review of the LGCI Survey October 2021 shows that this survey does not provide suitable nor adequate waste cost data to properly allow councils to report on DWM service cost structures. Furthermore, the cost structure of DWM Operating Costs at Appendix B-6 Table B10 on page 39 of IPART’s Discussion Paper does not provide proper scope for councils to report on DWM service cost structures.

Council requests that IPART consider whether the LGCI Survey captures adequate waste expenses data to provide a meaningful or reliable basis to determine forward facing waste cost increases as proposed under the WCI methodology.

Additionally, it is also noted that the LGCI Survey uses mixed terminology such as domestic waste management, solid waste management, solid waste management including street sweeping, which is cause for confusion on reporting on DWM costs. As noted by IPART the LGCI Survey only had 52% of councils respond to the 2019-20 LGCI survey and it is clear that if this reporting is to form the basis of such a critical data set, response rates need to be significantly higher if not mandatory.

IPART’s claims in the Discussion Paper (page 10) - “For councils responding to the LGCI survey, overhead expenses (on average) represent about 59% of DWM costs” is hard to fathom, as for Hornsby Council corporate overheads only represent 4% of DWM cost structure. For most Councils domestic waste services (inclusive of collections, processing and disposal) represent the largest outsourced contracts that councils manage. In this regard it is hard to see how 59% of these costs could be categorised as overhead expenses. Hornsby Shire Council has concerns that many other aspects of the survey and the reported results may not be accurately reporting DWM cost structures and variations year to year and therefore may not be best suited to inform reasonable future waste cost increases and by extension a benchmark waste peg.

Council is concerned that using a questionable data set to inform future waste pegs, which would then be publicly reported, are likely to be highly damaging to the reputation of local government and unnecessarily erode community trust.

Council suggests that the current LGCI Survey does not provide an acceptable level of reliable waste cost data to calculate a WCI that then determines the annual waste peg as has been proposed. IPART state they will use the same index they apply to “other business services” to the substantial contract costs of most councils (88% for HSC). These contracts have complex rise and fall mechanisms that dictate legally binding payment requirements and utilising irrelevant indices will distort differences between council actual costs and IPART’s waste peg calculations. Utilising CPI only to adjust waste levy costs when the NSW Government increases the waste levy by a significantly larger step increase under a “waste to landfill pricing disincentive policy approach”, will mean councils are faced with a shortfall between the CPI increased amount verses the actual waste levy increase.

IPART’s proposed waste peg approach - which appears to be trying to facilitate councils holding DWM charge increases to a CPI or inflation type approach, based on a basket of waste cost items that do not have any direct relationship to each council’s individual cost structures for the coming year – would be highly problematic for local government.



## The Waste Peg - Eroding Waste Cost Structures

Any disparity between cost increase methodologies would ultimately result in the degrading of councils DWM cost structures, as IPART limited cost increases are likely to fail to match councils actual expenses.

The rate peg approach has significantly eroded councils' capabilities under the general rate peg and councils should collectively reject any such proposals of IPART related to DWM services as they are an essential service provided by councils and an important contributor to our community's environmental sustainability.

Council is concerned that IPART's proposed approach does not adequately recognise the complexities and cost drivers councils are managing to provide essential waste services. IPART appears to consider DWM charges should be consistent between councils, that all councils face the same cost pressures, and that there should be reasonably simple explanations for the broad ranging charges and service that can be applied across all councils – Council is concerned that this does not represent the realities of local government DWM.

If IPART chooses to proceed with the introduction of a benchmark waste peg, Council submits that IPART should not proceed until it can reliably source waste cost data that affords councils the opportunity to properly report on their true waste costs.

Council further suggests that IPART should work with OLG to develop a fit for purpose waste cost survey to ensure accurate and representative DWM cost data can be obtained. Similar detailed sheets exist for water and sewer in the LGCI Survey.

Further to the above concerns, imposing a benchmark waste peg as a measure to demonstrate to the public and councils, how much the reasonable costs of providing DWM services have changed over the previous year does not acknowledge the actual operating environments of individual councils where they may have just tendered a new contract with improved waste services, may be preparing to implement a major waste initiative such as FOGO services transition, has a five year major capital program to build a new landfill cell or rehabilitate an old historical landfill or similar.

Council submits that a waste peg would not properly recognise and accommodate these local government waste service realities.

## Complex Waste Services Cost Drivers

Council is concerned that IPART may not appreciate DWM service complex cost drivers and the highly variable impacts these have on each individual council across NSW. IPART's proposed waste peg, be it non-binding or otherwise, would hinder councils ability to provide contemporary, value for money waste services to our communities.

It is suggested that whilst IPART has acknowledged the variations in DWM charges between councils and the many complex cost drivers on DWM services, IPART may not sufficiently understand or appreciate how councils determine their reasonable cost structures and then set their DWM charges to raise the required revenues to fund waste services to the community.

In a time of significant instability, policy change and structural adjustment in the waste sector, the last thing councils need is to have perceived or actual restrictions placed on their ability to raise reasonable cost DWM revenues. There are many cost drivers that councils have limited ability to influence, and this means councils, particularly in the Sydney metropolitan area, have become "price takers" from the private waste sector. It is these cost drivers that have been resulting in escalating DWM charges above inflation rates. Council contends that there needs to be an important focus on how these cost drivers can fundamentally be addressed by NSW state and local governments. Targeting the cost drivers is the critical action needed to reign in escalating DWM expenses that lead to DWM charge increases. Restricting a council's ability to raise DWM revenues does not address these cost drivers, instead it jeopardises a council's ability to fund essential waste services

while dealing with an operating environment of escalating costs.

Council does not believe the “benchmark” waste peg will guide individual councils on how much the reasonable cost of providing the DWM services should change year to year, as each individual council determines the actual and real costs of providing DWM services sought by their communities to formulate their specific DWM charge.

Where councils may attempt to set DWM charges in line with any proposed waste peg, they will be eroding their required cost structures, draining waste reserves set aside for other critical functions or delaying gradualisation increases resulting in future shock increases to residents to do so. Over the long term, councils may be faced with decisions to cut services or service levels to meet waste peg driven revenue budgets.

The DWM charge will continue to be impacted by the direct cost drivers that councils have little to no control over, in providing these services despite the waste peg. IPART has acknowledged some, but not all, of the significant cost drivers on council waste services and also that the DWM varies greatly between councils, as does the services each individual council provides and the unique situations each council may face in terms of market conditions, impacts from procurement timing, economies of scale, LGA characteristics and so forth.

Councils are also actively responding to Federal and State policy drivers to progressively increase resource recovery rates to 80% for domestic waste. Additional resource recovery services come at significantly increasing costs to councils which often require staged increases in DWM charges.

Restricting DWM charges will in effect stall council and community resource recovery and circular economy initiatives and progress. Council is concerned that a waste peg would impeded councils ability to respond to Federal and State government waste policy positions.

A broader set of more complex contributors are affecting individual council waste services cost structures, including but not limited to:

- varying waste services between councils.
- varying service level to DWM charge structures (direct charging to DWMC verses user pays and combinations of, as permitted under OLG Rates and Revenue Raising Manual, 2007).
- many councils having multiple DWMC's for differing service levels and comparing a median DWMC failing to recognise actual differences in these services.
- market conditions and timing of Tenders significantly influencing contract costs.
- Tender and Contract Conditions influencing resulting contract costs – examples include:
  - risk assignment for bin repairs and replacements.
  - numerous specifications such as:
    - missed service rectification requirements
    - bin deployment timeframes and how these costs are attributed within contracts
    - duration of the Contract Term to amortise fleet purchases or other waste assets/plant owned by contractors
    - second and third sweeps for scheduled bulky collection areas or response timeframes and DWMC or user pays charges for booked on call bulky collection services
    - requirements to collect oversize bulky piles, how bulky waste recyclables are recovered e.g., single streamed or requiring multiple collection vehicles for metals, mattresses, e-waste etc response times
    - who provides the collection depot, is it council owned land or must the contractor find and fund.
- IPART must appreciate the complex cost drivers at play for local government of which councils have limited to no control over and or the right for councils to make

strategic waste services decisions, be it for the types of waste services and service levels it provides to their communities or contractual and legal matters within Tender and Contract Agreements – all affecting DWM costs.

### An Unworkable Waste Peg

Council is concerned that the 2022-23 proposed 1.1% non-binding waste peg is unrealistic and fails to adequately accommodate essential waste services contract cost increases that are legally binding on Council. All waste service contracts have rise and fall conditions and other contractual service fee increases.

The following 2022-23 Hornsby Shire Council example demonstrates how IPART's proposed waste peg, be it non-binding or otherwise, is disconnected from local government realities:

- 1.1% waste peg represents additional DWMC revenues of only \$310,000.
- Waste Collection Contract estimated annualised rise and fall is approximately \$515,000 for 2022-23 (noting Council concern of rapidly rising fuel prices in 2022-23 that will likely further increase this estimate).
- Acceptance of Recyclables Contract rates are increasing under a scheduled contractor phase up post China Sword/National Waste Export Ban requiring an additional \$242,000 in 2022-23 (with similar increases in 2023-24 and 2024-25).
- Green Waste Processing Contract rise and fall is estimated to require \$58,000 additional funds in 2022-23 (noting Council is currently Tendering services and may get a step increase in rates well above this R&F level).
- Waste Disposal Services Contract rise and fall is estimated at \$245,000 (with no allowances for POEO Section 88 Waste Levy increases which would further increase this funding requirement).
- Based on the above estimated domestic waste service contract cost increases of approximately \$1,060,000 (or a 4.40% increase in contract expenses) in 2022-23, it is clear a 1.1% waste peg only deriving \$310,000 of additional revenue would not come close to servicing legally binding contractual expenses. Such a situation for Council would not be tenable.
- It is noted that the above example does not include any provisions for increased waste generation levels within the community and the costs to manage this additional waste on Council. The significance of waste generation rates as a cost driver can be seen from the following. Council's waste to landfill increased by 2,322 tonnes between 2019-20 and 2020-21 at an additional cost of \$545,670 to the waste budget; and Council's green waste for composting increased by 1148 tonnes between 2019-20 and 2020-21 at an additional cost of \$145,000 to the waste budget. Again, on waste generation rates alone, IPART's 1.1% or \$310,000 in increased revenues fails to meet Council's legal contractual obligations of \$690,000 for managing the reasonable cost of our community's waste.
- Council is currently planning its response to the NSW Government's mandate for councils to implement Food Organics Garden Organics (FOGO) services by 2030. At a pre-tender stage, Council estimates that FOGO would cost an additional \$7M pa from commencement. Subject to updating its Waste Matters Strategy (planned for 2022/23) Council is looking to implement FOGO well prior to 2030 (likely to be in the next 3-4 years) and under a reasonable gradualisation approach to avoid a shock DWM charge increase. Council has proposed a DWM charge increase of \$2.33M pa planned over the next three years. Adding such an increase each year, combined with the above contract cost increases, will far exceed the 1.1% waste peg and place Council in a position as an outlier for a 3 year period. It is noted the FOGO \$7m estimate excludes any costs associated with the need for a council or contractor owned and operated primary processing (decontamination and shredding), bulking and transfer facility which could be substantial.



- Having councils report on normal waste service cost increases, as if they are above the “reasonable cost” of providing the service, will create significant unnecessary negative public perceptions and sentiments against council in the course of delivering our ordinary waste services to the community.
- It is difficult to see how a waste peg would serve to add value, if it does not adequately recognise the waste service costs individual councils must accommodate in an ordinary year, let alone in a period where resource recovery initiatives are being pursued in line with government policy.

Given the variability between individual councils’ waste service cost structures, Council feels that seeking to apply a one-size fits all waste peg is not a fair or reasonable approach. Naming and shaming councils that exceed an unrealistic waste peg, is likely to be counterproductive to sound community relations and maintaining public trust in council service delivery.

### General Waste Peg Concerns

Hornsby Shire Council has significant concerns regarding IPART’s proposed non-binding “benchmark” waste peg approach as follows:

- A DWM benchmark waste peg is problematic as it:
  - Assumes all councils are at the same point in developing and managing their waste services, whereas different councils are on different base level funding points and will take major steps requiring significant additional funds at different times to each other.
  - Assumes all councils are faced with the same cost pressures and structures, whereas this varies significantly between councils for a broad range of complex reasons which cannot be distilled into a single, one size fits all mechanism to control costs.
  - Ignores Federal and State waste policy settings requiring councils to directly take responsibility for progressing their community’s resource recovery outcomes in the face of increasing waste generation rates that have significantly outstripped Gross Domestic Product growth rates over the last two decades. That is, the increasing level of waste our communities are generating, is growing at a faster rate than our economy is growing at.
  - Ignores major costs associated with waste infrastructure development and unforeseen costs for waste asset care and maintenance that cannot be accommodated under a flat low annual DWM charge increase such as the 1.1% proposed by IPART.
  - Proposes utilising the “other business services” index it applies in the LGCI to adjust weighted contract cost increases within the WCI basket. Council has concerns regarding this approach and disagrees that it will provide a representative outcome matching the contractual rise and fall mechanisms that Council is legally required to adjust contract costs by. Given that outsourced contract costs represent around 88% of Council’s 2022-23 DWM budget or approximately \$24M contract costs from a \$27M DWM budget, such a distortion will likely lead to a view Council’s DWM contract cost annual increases are above established benchmarks, when they are normal and represent modern contract rise and fall mechanisms for the waste sector.
- IPART has only received 33 submissions from ratepayers, which is a very low rate of resident representation and demonstrates that most residents do not have concerns that their DWMC are not representing value for money services. This suggestion is further supported by very low to nil resident representations or complaints when council DWMC are publicly advertised each year and the reasons for fees and charge increases are already provided in a transparent manner. Further, when Council consulted extensively with the Hornsby community in developing its Waste

Matters Strategy, our community strongly indicated that they were prepared to pay more for improved resource recovery outcomes.

- DWM services cost increases are not linked to inflation and are driven by numerous complex factors such as contract and operational costs, contract variations, increasing service levels and service improvements, increasing resource recovery levels, increases in waste generation rates, increasing environmental standards for waste facilities, rapidly changing regulatory landscapes, market instability, lack of market competition, etc.
- The average annual change in costs of providing DWM services across all NSW councils, will not be representative of the actual and real costs imposed on individual councils in providing their DWM services.
- The benchmark waste peg is a “one size fits all” approach that will create public perceptions and expectations that councils should be able to hold DWM charges to the waste peg despite any reasonable cost pressures.
- Where IPART has grouped like-for-like councils based on geography, size and other limited factors, it is noted that while these factors have some bearing on waste costs, focusing on these alone however may provide a misrepresentative comparison. This is evident by IPART’s noted wide variation in DWM chargers within like-for-like councils.

### Council’s Alternative Suggestions to a Waste Peg

Council submits that IPART should not proceed with implementing the proposed non-binding benchmark waste peg due to the broad range of issues as raised above. Council requests that IPART should instead return to its original benchmarking and public reporting approach outlined in the Discussion Paper.

If a waste peg is pursued, it is recommended that IPART focus on the LGCI Survey to create specific Domestic Waste Management reporting data, similar to the separate spreadsheet tabs for sewer and water functions already in existence. This survey could be expanded to capture the broad range of specific and actual cost drivers that are resulting in DWM increases and the variations in DWM charges between councils. Local government would welcome the opportunity to be consulted on developing an improved LGCI survey for DWM costs and revenue raising, which could also cover restricted asset reserve reporting.

Councils currently have DWM charge reporting requirements under the LG Act 1993 and the IP&R framework and it is suggested that providing detailed guidelines on specific reporting requirements for publishing in council Annual Delivery Program, Operational Plan and Annual Reports is a more appropriate means to ensure transparency and community understanding of DWM costs and any reasons for DWM charge increases are fully documented and readily available to the community.

Hornsby Shire Council’s Domestic Waste Management Charge section for the 2022-23 Delivery Program is at **Attachment A** as an example. Similar to POEO Act - Environmental Protection Licence - environmental monitoring data public reporting requirements, councils could also be required to report on DWM charges and service costs on their website in a readily accessible and identifiable manner.

Lastly what is really required to assist local government reign in rapidly escalating DWM service costs are actions around state government assistance for waste infrastructure planning, acquisition and development.

- A state-based waste infrastructure plan is required.
- The NSW Government needs to assist to identify and secure waste precincts and hubs in Sydney Metro, where strategic waste facilities can be established on a regional basis.
- The current market failures in the waste sector and competition issues need to be



addressed at a combined State and Local Government level.

- New essential waste facilities for transfer/bulking stations, FOGO processing, MRFs, landfill and EfW must be established to avoid the looming waste infrastructure crisis.
- Council joint procurement actions need to ensure economies of scale and cost savings are prudently pursued. However, stakeholders must not rely on joint procurements alone to solve the current waste infrastructure crisis.
- The Federal and State Government's need to introduce packaging levies or taxes and regulations to ensure manufactures and supply chains carry their fair share of responsibility and cost that is too often "dumped" on local government to absorb. Packaging in the supply chain needs to be aligned with onshore processing and remanufacturing capabilities.

**2. Do you think the pricing principles will assist councils to set DWM charges to achieve best value for ratepayers?**

**Pricing Principle 1 – DWM revenue should equal the efficient incremental cost of providing the DWM service**

**Part A - Incremental cost methodology not accepted**

Council strongly disagrees with IPART's proposed use of the incremental cost methodology to apportion corporate overhead costs and the for the bulk of existing corporate overheads charged to DWM to be recharged to general revenue via an SRV. Having the majority of NSW councils undertake this approach is an unnecessary waste of time and resources.

Council submits that the average cost methodology is used instead of incremental cost methodology for the apportionment of corporate overhead costs. Average cost methodology is used to apportion costs across all of Council's functions, of which DWM is one part. The use of incremental cost methodology for DWM would result in overheads being apportioned to DWM differently to the rest of Council which is not warranted.

Average cost methodology is utilised for several reasons:

- Many of Council's external funding bodies allow overhead costs to be apportioned on an average basis and budgets funded from Council's internal reserves are also apportioned this way. The use of a consistent methodology across all of Council means the same metrics are used to apportion corporate costs across all parts of the organisation, which is considered fair.
- All corporate overhead costs have an element of variability. With reference to Box 3.2 of IPART's Discussion Paper it is noted that the IT Manager's salary would have been set based on the size of responsibilities when the role was recruited including DWM, which is often a significant part of Council's operations and systems. Further, if Council were to cease DWM services, followed by other significant functions of Council there would become a point at which the IT Manager's salary would be reviewed and reduced, highlighting that there is a variable cost element to all corporate overheads that should be appropriately apportioned across Council operations using consistent methodology that results in a fair outcome for each section of Council.
- Each function of Council benefits from efficiencies from sharing costs on an average basis. For example, the management of DWM requires complex financial systems and is a significant part of Council's annual budget. This system is provided to DWM at a discount because DWM benefits from the economies of scale achieved from using one system for all of Council's operations. If DWM was run on a separate financial system, the cost would be significantly higher than the apportionment of costs attributable to DWM on an average basis and it is fair that an average

10

allocation is costed to DWM. An apportionment of costs would not be possible on an incremental basis as Council has signed long term contracts with IT providers that comprise fixed annual payments. These annual payments would not reduce if DWM operations ceased. However, contractual amounts were agreed to after being tendered based on providing services for all of Council, including DWM.

4% of the total DWM expenditure budget in Council's 2021/22 Annual Budget relates to corporate overheads that have been apportioned on an average basis. This equates to 15% of total Council corporate overhead costs. This is considered fair and reasonable and has been calculated using the same metrics and using a consistent methodology as for all other parts of Council.

In support of IPART's recommendations around transparency, Council would support a reporting process that requires the nature and amount of corporate overheads that have been recharged to DWM to be disclosed, as well as the metric used to apportion the overhead and the percentage of the total Council overhead that has been apportioned. DWM principles could also include the requirement for a suitable metric to be used for apportionment, and that the same metric should be used consistently across all of Council's operations. Council's Delivery Program and Operational Plan already has a dedicated DWM charge reporting section where corporate overheads are reported. This information can easily have further details added to cover a breakdown of individual components to the total corporate charges and explain the average cost methodology.

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

### Pricing Principle 1 – DWM revenue should equal the efficient incremental cost of providing the DWM service

#### **Part B - The services councils can fund through DWM charge**

IPART has noted the Local Government Act 1993 (LG Act), definition of Domestic Waste Management being:

***“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”.

The Office of Local Government, Rates and Revenue Raising Manual, 2007 (OLG Rates Manual) provides further detailed guidance on domestic waste management services and outlines what waste services can be attributed to a 496 DWMC and what should be excluded and recovered via other waste related charges or covered by general rate funds.

In short, the LG Act and OLG Rates Manual guidance means that only costs for waste and recycling collections to the property, the management and treatment of the waste removed, education services related to these specific services and other direct operating expenses associated with those services can be charged to DWM.

Under the LG Act DWM Services definition which includes *“and services that are associated with those services”* some councils have been including a broader range of non-DWM service costs covering public litter bin collections, street sweeping services, illegal dumping clean-ups and litter reduction campaigns in DWM charge expenses. It is noted in many councils a very high percentage of illegal dumping is early presentation or dumped household bulky waste which relates directly to managing the waste of domestic properties

and there is validity in its inclusion in DWM services. Most councils in NSW are charging Waste Strategy programs and initiatives to their DWM budgets under the interpretation of “services that are associated with those services” covering behavioural change and education initiatives related to how households generate and manage their waste.

IPART is proposing all Council’s review and remove the costs of any non-complying “domestic waste management services” from their DWM charge and rebalance these expenses to general rate funds.

With the rapid evolution and transition of waste management services from a collect and disposal based approach, to a resource recovery and circular economy approach, Council submits that the above domestic waste management services LG Act definition and OLG Rate Manual guidance on DWM charges does not properly reflect the contemporary waste management services councils are required and expected to provide to their residents.

### Modernisation of “Domestic Waste Management Service” Scope

Community expectations for waste services have changed, and Council submits that the Local Government Act – Section 496 DWM Services should be reviewed to broaden its scope to include contemporary DWM Services “to the benefit of the property”, rather than simply “to the property”. DWM Services must be redefined to cover activities related to “managing waste generated from domestic properties” to allow councils to maintain efficient and effective waste services to their communities. Councils should be permitted to consult with their communities to determine domestic waste management services that are subject to Council resolutions to fall under a redefined DWM Service scope.

Council would like to see a review of the Local Government Act 1993 to broaden the scope of the services permitted to be covered under the Section 496 DWM charge to better cover waste services constituent communities expect councils to deliver to residents.

Contemporary domestic waste management services provided to residents, are no longer simply limited to “collection-based services to each individual rateable parcel of land” – a definition and concept that is now dated.

Residents must take responsibility for the waste they generate and for some waste streams or items this means waste services are not restricted to collections from the property only, residents are required to self-transport waste to certain drop-off locations or periodic events. Councils are also the key organisations responsible to drive positive behavioural change programs related to waste management, resource recovery and creating a circular economy.

Examples of contemporary waste services currently not permitted to be covered under DWM charges include:

- Community Recycling Centres for problem waste and recyclables
- Periodic drop-off collection events for items such as e-waste, bulky green waste, household chemicals
- other important waste events and behavioural change programs detailed in a council Waste Strategy’s including repair cafés, clothing swaps, home composting/worm farming workshops and the like. These programs support the implementation of the legislated Waste Hierarchy to influence direct household behaviours as a fundamental part of managing household waste generation.

Councils are now making a broader range of domestic waste management services available for their LGA residents. Councils undertake extensive community consultations while developing their Waste Strategy which is typically adopted by a Council via resolution after public exhibition and submissions have been carefully considered. DWM services that have been endorsed by Council resolution should be permitted to be funded through the DWM charge.

It is reasonable that the costs associated with providing these broader scope Council approved domestic waste services are permitted to be covered under the Section 496 DWM



charge within the LG Act and OLG Rates Manual.

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

Councils would welcome the opportunity to participate in consultation and engagement processes for such a review, to assist shape a newly crafted definition for domestic waste management services reflecting contemporary waste services to resident.

Where councils are providing general waste services for their communities to dispose of waste generated from the domestic property/premises, these non-periodic collection services, should be permitted to be classified as a DWM service. At a point in time the DWM service was for garbage collections only. As waste services evolved to respond to the sustainability agenda and community expectations, this was broadened to include recycling services to the property for packaging waste (yellow bin) and garden waste (green bin) and now councils are moving on FOGO. It is now timely to allow for the next evolution of domestic waste management services via a review of the LG Act Section 496 review and OLG Rates Manual guidelines.

**Pricing Principle 2 – Councils should publish details of all DWM services they provide, the size of the bin, the frequency of the collections, and the individual charges for each service**

Council has no issues in publishing the details of DWM services, including bin size and collection frequencies, and the corresponding DWM charge for the various property types. Council has already published a Domestic Waste Management Standard Waste Service Levels for Each Dwelling Type on our website. Incorporating the relevant DWM charge would not be a problem.

However, Council notes that there are nuances within the DWM services related to differing dwelling types and or site-specific factors that can affect on the ground services at a property level. For example, some unit and apartment complexes are given 240 litre MGBs, whereas others may have 660 or 1100 litre MGBs, purely due to onsite spatial constraints or in response to installed onsite infrastructure such as bin chutes and different types of bin carousels. This flexibility is essential for operational reasons. In most cases, the relevant waste stream bin litres provided to each DWM dwelling type, to the corresponding DWM charge is maintained. Where there are instances of service level inconsistencies due to site specific factors, it is not practical for councils to apply variable DWM charges and the property may simply receive a modified service level.

**Pricing Principle 3 – Within a council area, customers that are:**

- a) Imposing similar costs for a particular service should pay the same DWM charge
- b) Paying the same DWM charge for a particular service should get the same level of service

In general Council supports the above pricing principles, which are about equity and fairness.

There are however instances or distinctions that can be made based on imposed cost of services provision that exist, including the provision of significantly more costly on-river or island waste services. It is not uncommon for councils to carry such cost pressures between

property types for the greater good of a community rather than trying to create separate DWM charges covering actual cost structures for each discernible cost impost difference between service users across a council area.

A specific example of concern for Hornsby Shire Council is for approximately 220 single dwelling households on Dangar Island all receiving the same service level as mainland properties and paying the same DWM charge. If council were to apply the actual known DWM service costs for Dangar Island properties, their DWM charge would need to be increased from \$457pa to \$1,250pa. It is unclear if IPART's above pricing principle would engender such an approach?

It is also important to note that Council does not calculate DWM service costs from first principles to determine specific DWM charges. That is, a council is not likely to utilise the actual bin size/type lift rate times annual collection frequencies for each waste type under its collection contract, then estimate weight of waste for each waste stream removed per property per annum, times recycling/disposal facility gate rates, plus an education and overhead margin - to determine DWM charges from first principles. Rather councils will determine their DWM expenses budgets and required revenues, to determine its DWM charges.

Where there are major difference between service levels - for example unit complexes may only get two green bins for the entire complex, not one per individual unit as houses get, as the complex does not generate much green waste. In this scenario a council may establish a lower DWM charge corresponding to the acknowledged lower level of service. DWM charges are determined at a more global level, not by calculating actual specified costs per dwelling type which is not a pragmatic approach.

There are other waste service scenarios councils are faced with due to site-specific or other factors that warrant flexible and adaptable responses to vary waste services provided to a property where a council does not then adjust the DWM charge. An example might be where a unit complex may not have been constructed with suitable areas to store or present bulky waste and such a Body Corporate elect not to allow residents to deposit bulky waste within the complex, even though a council may provide and charge for a bulky collection service to this dwelling type.

#### Pricing Principle 4 – Any capital costs of providing DWM services should be recovered over the life of the asset to minimise price volatility

Council supports the above PP4, with the caveat that for some historical waste assets such as landfills, revenues may not have been collected in the past to fully account for modern environmental standards or unforeseen remediation projects that can impact on DWM charges and the need to generate surplus revenues for waste reserves to fund essential works.

#### **3. Would it be helpful to councils if further detailed examples were developed to include in the Office of Local Government's Council Rating and Revenue Raising Manual to assist in implementing the pricing principles?**

The current OLG Rates Manual has sufficient examples to provide local government with the required level of guidance on DWM services.

What is needed is to modernise the scope of domestic waste management services definition as has been covered above.



## Attachment A - Hornsby Shire Council's Domestic Waste Management Charge Section for the 2022-23 Delivery Program

### The Domestic Waste Management Charge

The Domestic Waste Management Charge (DWMC) is an annual charge levied for the availability and actual provision of waste management services provided to all domestic premises under Sections 496 and 504 of the Local Government Act 1993. All domestic properties are charged the DWMC "Availability Charge" that covers costs associated with making services potentially available to all domestic premises. The annual DWMC "Services Charge" is levied on domestic properties receiving domestic waste management services.

Council operates a Waste Management Restricted Reserve (WMRR) to manage waste budget cost pressures and unforeseen budget impacts, contract variation costs, funding for one-off non-recurrent projects, waste asset replacements, managing historical landfills and to assist minimise any budgetary shocks from costs associated with providing domestic waste management services or improving resource recovery outcomes. Council is prohibited from funding domestic waste management services from its ordinary rates and is required to fund these services from the DWMC and the WMRR.

Domestic Waste Management Services include:

- Domestic kerbside garbage, recycling and green waste collection services (excluding user pays services)
- Domestic bulky waste collection services (excluding user pays services)
- Waste, recyclables, organics and bulky waste acceptance, processing, recycling and disposal services
- Customer services including Waste Hotline, face to face counter and online support services
- Community engagement, education and communication services associated with the provision of domestic services
- Waste compliance activities associated with the provision of domestic services including development control activities, managing bulky collections and illegal dumping management
- Waste management strategic planning, procurement and contract management activities, administrative support services of the Waste Management Branch and associated council corporate overheads.

### Domestic Waste Management Charge Calculation

The DWMC reflects the reasonable costs of providing waste management and associated services to domestic premises. The DWMC is calculated to cover the costs of providing domestic waste management services and to maintain a Waste Management Restricted Reserve in accordance with Council's Restricted Asset Account – Waste Reserve Policy.

Domestic Waste Management costs for 2022/23 include:

SERVICE DESCRIPTION	2022/23
Collection Services	\$11,640,050
Disposal Services	\$10,147,700
Green Waste Processing	\$2,600,000

Recyclables Acceptance	\$690,024
Waste Services Direct Operating Costs	\$4,028,142
Council Corporate Overheads	\$1,057,538
<b>TOTAL</b>	<b>\$30,163,454</b>

<b>INCOME for 2020/21</b>	<b>Number of users</b>	<b>Availability of service charge</b>	<b>Annual service charge</b>	<b>TOTAL \$ per serviced property pa</b>	<b>\$ and % Increase from 2021-22</b>	<b>Service charge revenue</b>	<b>TOTAL</b>
<b>Type of service</b>							
Single Unit Dwelling / up to 5-storey Multi Unit Dwelling (SUD)	48,414	\$106	\$530	\$636	\$91.50 16.8%	-\$30,791,304	
High Rise Multi Unit Dwelling (MUD – 6-storeys and above)	4,088	\$106	\$425	\$531	\$83.50 18.7%	-\$2,170,728	
Vacant land availability	748	\$106			\$18.50 21.1%	-79,288	
Additional user pay bin services						-\$1,240,759	
Sub-Total							\$34,282,049
Pensioner Rebate							\$480,000
<b>TOTAL</b>							<b>\$33,802,079</b>

The resulting surplus income of \$3,638,625 will be transferred to the Waste Reserve to fund:

- Historical landfill environmental management and remediation works of \$1,250,000
- FOGO transition gradualisation (increase 1 of 3) of \$2,388,625 or 34% of the estimated \$7Mpa

#### Domestic Waste Management Charge Increase Justification

Council has increased the availability charge and the domestic waste management service charge to recover revenue for the reasonable cost associated with:

- Increased waste service contract costs for collections, recycling processing, green waste composting and landfill disposal because of contract rise and fall conditions and scheduled price rate increases

- Increased waste generation rates for green waste and waste to landfill resulting in increased costs
- Increased costs for environmental management and remediation of historical landfills within the Shire
- Preparing for estimated \$7M pa Food Organics and Garden Organics (FOGO) collection and processing services in 2024-25 or 2025-26 (\*Subject to Waste Strategy review and adoption by Council) through staged gradualisation increases to avoid a shock step increase when transitioning to the new service.

If you have any questions, please call Council's Waste Manager on 9847 4816.

# ATTACHMENT 1 - ITEM 8