





### IPART's Draft Decisions:

1. IPART proposes to publish annually a 'benchmark' waste peg to assist councils in setting their domestic waste management charges. We would publish the benchmark waste peg at the same time we publish the rate peg to assist councils setting charges from 1 July each year.
2. IPART proposes to publish annually a report on the extent to which councils' annual domestic waste management charges increase more than the benchmark waste each year.
3. IPART proposes recommending that the Office of Local Government publish pricing principles to guide councils on how they should recover the costs of providing domestic waste management services. Our proposed pricing principles are in section 3.3.1.

The following consolidates the Key Submission Points from Hawkesbury City Council in response to the three specific questions in the IPART Draft Report:

#### Key Submission Points:

- ***Do you think our proposed annual 'benchmark' waste peg will assist councils in setting their DWM charges?***
  - The proposed annual 'benchmark' will be counterproductive and misleading to the public because the method of calculation of the Waste peg currently proposed is both inconsistent with the method currently used by IPART in calculation of the Rate Peg, and the proposed calculation method is logically flawed.
  - IPART's previous consultations have identified that domestic waste is a very active area of policy reform in which councils are required to meet specific targets under the NSW Government's Waste Strategy. These policies impose changes to the service levels that councils are obliged to provide. This also extends to changes in national waste and recycling policy which materially impact the scope and nature of waste services that NSW councils are required to provide and fund from the DMW charges raised.
  - It would effectively 'name and shame' councils who are merely passing on to ratepayers the unavoidable changes in market prices of inputs, on the basis of factors entirely outside of their control. Naming and shaming councils on such an arbitrary basis can only result in confusion and misleading of rate payers.
  - Council considers that a Waste peg provides no real benefit to rate payers beyond what could be achieved through reintroduction of an independent "reasonable cost" audit of DMW charges.
- ***Do you think the pricing principles will assist councils to set DWM charges to achieve best value for ratepayers?***
  - ***DWM revenue should equal the efficient incremental cost of providing the DWM service.***
    - It is not appropriate to limit DWM revenue to the *incremental cost* of providing the DWM service.
  - ***Councils should publish details of all the DWM services they provide, the size of the bin, the frequency of the collection and the individual charges for each service***





- We support this Pricing Principle, with the some clarifications.
- **Within a council area, customers that are:**
  - **imposing similar costs for a particular service should pay the same DWM charge**
  - **paying the same DWM charge for a particular service should get the same level of service**
    - Council is concerned that this Pricing Principle may result in councils being unable to offer discounts or rebates, such as to pensioners or for prompt payment of fees and charges.
- **Any capital costs of providing DWM services should be recovered over the life of the asset to minimise price volatility**
  - This Pricing Principle is problematic in that it is excessively narrow and prescriptive thus preventing councils from price smoothing to minimise price volatility, which is the explicit goal of the Principle.
- **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?**
  - We support and encourage the Office of Local Government's providing further detailed examples to include in the Council Rating and Revenue Raising Manual.

### Council's Response to IPART's Key Questions

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

The proposed annual 'benchmark' will be counterproductive and misleading to the public because the method of calculation of the Waste peg currently proposed is both inconsistent with the method currently used by IPART in calculation of the Rate Peg, and the proposed calculation method is logically flawed.

**Firstly**, the proposed method of calculation of the Waste peg is inconsistent with IPART's current adopted practice for calculation of the Rate peg. Specifically, IPART's calculation methodology for the Rate Peg comprises two components:

- A price indexation component (Rate peg before population factor) which calculates the weighted average change in price of the applicable basket of goods that constitute council operating expenditure;
- A factor that accounts for the increase in the service levels that each council is obliged to deliver. In relation to the Rate peg (which applies to aggregate level of rates levied) the increase in service level is assumed to be directly proportional to the increase in population. In relation to the Waste peg, the increased service demanded (within the waste levy) relates to demands for changes in service levels from both State government and communities.

By contrast, the method of calculation proposed for the Waste peg includes only the first of these components. It disregards the significant changes in the waste service levels that councils are obliged to deliver to comply with community expectations and State policies. These 'ignored' changes include additional scope such as providing FOGO / green bin collection and processing, increasing environmental standards for sorting, waste treatment and disposal, etc.



IPART's previous consultations have identified that domestic waste is a very active area of policy reform in which councils are required to meet specific targets under the NSW Government's Waste Strategy. These policies impose changes to the service levels that councils are obliged to provide (Section 2.5.1 of Consultation Document). This also extends to changes in national waste and recycling policy and even changes in policies of other nations (such as China's National Sword policy), which materially impact the scope and nature of waste services that NSW councils are required to provide and fund from the DMW charges raised.

Far from being '... outside the scope of this review ...' (Section 2.4 of Consultation Document), these issues are specifically relevant to the scope of the review in the terms that IPART have defined it – "We can only set an annual limit on the extent to which councils' DWM charges may be varied." (Section 2.5 of Consultation Document). In order to be consistent with IPART's existing adopted practice for the Rate peg, if a Waste peg were to be calculated for the purpose of indicating to the public whether changes in DMW pricing are fair and equitable, it must include not only the indexation of the prices of providing services, but also the change to the service level provided by councils within the domestic waste services charge.

**Secondly**, the proposed method of calculation is logically flawed because it is currently proposed to use the "... cost items [that] represent the costs for purchases made by an average council to undertake its typical waste-related activities" (Section 3.1, Consultation Document, emphasis added). However, it is proposed that all "... councils whose DWM charges have increased by more than the benchmark waste peg ..." (Section 3, Consultation Document) will be 'named and shamed'.

This methodology effectively misrepresents the average cost impact from the distribution of councils as a metric that represent the equitable increase in revenue.

As identified in IPART's previous consultations, councils are subject to a wide range of factors that influence their cost base with considerable variance between councils in terms of the basket of goods and services that comprise their individual waste services. This includes issues such as:

- geographical variation, resulting in differential exposure to changes in transport and trucking cost;
- demographic and socioeconomic variation, resulting in variation between councils in relation to the quality, quantity and nature of waste and recycling services demanded by their communities;
- date of contract renewal / tendering of major waste collection, processing or disposal services, which often results in a step-change (a match-to-market-effect) in the year of re-tendering of contracts.
- differences in legacy costs, including action needed to address infrastructure capacity constraints and/or legacy rehabilitation issues, which may even have been inherited from previous councils or even previous merged entities.

Where an individual council sits in the spectrum of exposure to price movement in any one year is no more under that Council's control than the changes in prices applicable in the market generally. Despite having no control of their position in the spectrum of exposure to market price changes, even if all councils merely incur and pass on 'at cost' the price changes calculated by the ABS (Section 3.1 of Consultation Document) the proposed methodology necessarily results in a minimum of 50% of councils being 'named and shamed' (as 50% must fall above the average council).

This would effectively 'name and shame' councils who are merely passing on to ratepayers the unavoidable changes in market prices of inputs, on the basis of factors entirely outside of their control – the relative composition of the basket of goods and services that make up their own waste services business compared to the average council. Naming and shaming councils on such an arbitrary basis can only result in confusion and misleading of rate payers.

When we add to that the issues sighted above (that the proposed Waste peg calculation ignores the changes to service levels demanded within the waste sector), the proposed Waste peg will





likely result in greater than 50% of Councils (and by extension, the majority of rate payers) being misled regarding the equitable basis for price changes related to their domestic waste services.

In order to avoid misleading rate payers, we believe that the recommendations in relation to the rate peg should at a minimum be amended as follows:

- any Waste peg should not be published unless the adopted method of calculation is amended such that the Waste peg provides a reasonable indication of the fair increase in waste charges for that individual Council with consideration of both changes in prices and changes in service levels the Council is required to provide. Publishing a Waste peg that misleads the public should be avoided.
- any Waste peg should include a calculation of the change in service levels that councils are required to provide in order to meet all of their mandatory obligations, including impact of NSW State government policies and addressing legacy issues in accordance with applicable regulations and standards. It may be appropriate in some instances to include only the net additional cost to councils, after deduction of changes in State funding provided to meet these additional obligations.
- any Waste peg should be calculated not on the average council but instead on the 80<sup>th</sup> percentile or 90<sup>th</sup> percentile of councils' cost exposure to market price changes.
- any publication of councils exceeding the Waste peg ('name and shame') should be limited to those councils that are not able to justify to IPART's satisfaction the reasons for their increases in DMW charges. There is no public benefit in highlighting to the public those Councils that fall in the upper portion of the spectrum of price impacts due to demographic, geographic or socio-economic drivers beyond their control.

However, we consider that a Waste peg provides no real benefit to rate payers beyond what could be achieved through reintroduction of an independent "reasonable cost" audit of DMW charges. If the goal is to ensure fair pricing of Domestic Waste charges, we believe this can best be achieved through OLG reinstating audit of DMW charges to assure compliance with Pricing Principles.

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

We provide the following comments in relation to the proposed four pricing principles:

- **DWM revenue should equal the efficient incremental cost of providing the DWM service.**

It is not appropriate to limit DWM revenue to the *incremental cost* of providing the DWM service. Any business that recovers only its *incremental cost* (marginal cost) will fail to fund its fixed costs of operation. This is clearly an inadequate and unsustainable basis for funding operations.

Furthermore, while Domestic Waste Charges are not governed by the [National Competition Policy](#) (NCP), nonetheless, this policy provides a useful reference point in terms of the sound pricing methodologies that should be adopted for cost recovery by Council owned entities.

Clause 3.(1) of the NCP states that:

*"The objective of competitive neutrality policy is the elimination of resource allocation distortions arising out of the public ownership of entities engaged in significant business activities: Government businesses should not enjoy any net competitive advantage simply as a result of their public sector ownership."*



In order to achieve this outcome, the NCP establishes that:

*“... where an agency ... undertakes significant business activities as part of a broader range of functions ... the prices charged for goods and services will ... reflect the **full cost attribution** for these activities” (emphasis added).*

If a Council Domestic Waste service were in competition with a private provider of similar services, a consumer or competitor could feasibly bring an action under the NCP against the Council if that Council recovered only the *incremental cost* of providing domestic waste services, rather than the *full cost attribution*.

IPARTs proposed definition therefore potentially conflicts with National Competition Policy and may even require that councils adopt pricing practices that are in conflict with the National Competition Policy, to which NSW is a party.

We strongly recommend that this pricing principle be amended to read “DWM revenue should equal the efficient full cost price of providing the DWM service.”

- **Councils should publish details of all the DWM services they provide, the size of the bin, the frequency of the collection and the individual charges for each service**

We support this Pricing Principle, with the following clarifications:

- o Councils should publish, for each service they offer, the size of the bin, the frequency of the collection and the individual charges for each service
  - o Councils should not be obligated to publish ‘details’ that extend to the analysis of the full cost attribution for services provided. This would entail publishing commercially confidential information.
- **Within a council area, customers that are:**
    - imposing similar costs for a particular service should pay the same DWM charge
    - paying the same DWM charge for a particular service should get the same level of service

We are concerned that this Pricing Principle may result in councils being unable to offer discounts or rebates, such as to pensioners or for prompt payment of fees and charges. The Pricing Principle should be amended to specifically permit councils to offer such equitable discounts and rebates.

- **Any capital costs of providing DWM services should be recovered over the life of the asset to minimise price volatility**

This Pricing Principle is problematic in that it is excessively narrow and prescriptive thus preventing councils from price smoothing to minimise price volatility, which is the explicit goal of the Principle.

For instance:

- o Councils are required to upgrade legacy landfill sites to comply with current environmental standards, even where the landfill was constructed in accordance with standards and practices applicable at the time of their original construction. Equitable charging for such post-hoc remediation is best achieved through application of the principle of “beneficiary pays”.





The beneficiaries of environmental remediation works are not limited to the ratepayers resident in the LGA during the economic life of the capital assets that comprise the remediation works. Rather, the whole community benefits from councils meeting mandatory environmental standards, including past and future generations. Councils should therefore not be limited to recovering capital costs only during the economic life of capital assets.

- Capital works have broader implications than merely the direct depreciation cost they generate. For instance, the availability of a capital asset (such as a landfill) may result in substantial operational savings (such as local waste processing rather than haulage of bulk waste to a more remote landfill destination together with external dumping fees).

In such a case, price smoothing to minimize price volatility in the interests of intergenerational equity would be best achieved though the council accumulating a waste haulage reserve during the economic life of the landfill, which could then be used to offset the future increase in operating costs that will be incurred when the landfill capacity is exhausted.

In order to price smooth in the interests of intergenerational equity councils should be free to recover cost for both capital and operating costs on the basis of the equitable principle of "beneficiary pays".

**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?**

We support and encourage the Office of Local Government's providing further detailed examples to include in the Council Rating and Revenue Raising Manual.

Such examples should consider, expand upon and provide examples of calculations that address the issues we have raised in relation to Pricing Principles above.

Due to the previous absence of clear standards that demarcate those services that should be funded from DMW charges versus General Rates a range of practices currently exist.

Introduction of new, clearer principles that clarify this demarcation (ie. provide a definition of what constitutes DMW) will necessarily result in a one-off rebalancing of DMW versus General Rates charges. If this rebalancing results in a reduction in DMW charges, any affected councils should be permitted to instigate a balancing adjustment to General Rates in addition to the applicable Rate peg in the year of adjustment.

Thank you for the opportunity to provide a submission. Council would welcome ongoing communication and discussion with IPART regarding its Review of Domestic Waste Management Services Charges.

Should you have any enquiries in relation to this matter please contact me on [REDACTED]

Yours faithfully

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**Linda Perrine** | Director City Planning | Hawkesbury City Council

☎ (02) [REDACTED]