

Inner West Council submission to IPART on the Review of Domestic Waste Management Charges Draft Report December 2021

Submit online by 29 April 2022 – [Review of domestic waste management service charges | IPART \(nsw.gov.au\)](https://www.ipart.nsw.gov.au/review-of-domestic-waste-management-service-charges)

Thank you, for the opportunity to provide feedback on the IPART review of Domestic Waste Management Charges Draft Report.

In addition to this submission, IWC also supports (and contributed to) the SSROC submission as part of the IPART review. When faced with the peg or rebalancing, IWC prefers the rebalancing option, however the arbitrary methodology used in this option is not supported.

Value-for-Money – The draft IPART report recommendations foster lowest-cost decision making for resource recovery rather than encouraging innovation and value for money in line with circular economy outcomes and state and federal strategies and targets.

Strategic alignment – Neither approach fulfils the needs of councils to provide all the services and functions required to minimise landfill and maximise resource recovery from residential properties in accordance with the NSW Waste and Sustainable Materials Strategy 2041 (WaSM) which includes mandates and targets requiring new and improved services including FOGO to all households.

Expand what is included as Domestic Waste: Benchmarking & rebalancing is preferred without a special rate variation to enable councils to focus on maximising resource recovery from domestic waste. Domestic waste should include unbooked clean-up/illegal dumping from households, and non-kerbside services such as community recycling centres (CRCs) and drop-offs for problematic, hazardous, and other materials such as e-waste and textiles generated by households.

Benchmarking: If benchmarking and rebalancing is implemented then benchmarking of waste service costs must reflect varying service levels, densities, and community expectations.

Reporting: Increased reporting requirements and councils needing to apply for variations creates further demands on staff time and resourcing.

Transparency: Inner West Council and other councils already publish fees and charges and submit annual WARR Data returns which are published by NSW Government:

- Integrated Planning & Reporting process [Performance reporting - Inner West Council \(nsw.gov.au\)](#)
- Annual fees and charges [Fees and charges - Inner West Council \(nsw.gov.au\)](#)
- Audits by Office of Local Government or the NSW Audit Office
- Annual NSW Waste and Resource Recovery Data Returns (WARR) [Waste data surveys \(nsw.gov.au\)](#)
- Council services including DWM costs are already included in the Your Council website [Home - Your Council NSW](#)
- OLG is authorised to monitor DWM charges to ensure they meet reasonable costs

IWC Response to IPART Questions

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

No, it will not assist councils in setting their DWM charges.

IWC has a **ten year financial DWM model** aligned to the Local Government Act 1993 and in the associated Council Rating and Revenue Raising Manual. This is calculated on a cost-recovery basis balancing income from DWM charges and actual costs of delivering the current and future services in line with community expectation. This model includes data on properties and services including the costs of contracts, infrastructure, community education, operational requirements, and DWM related overheads. It is also flexible to unexpected changes impacting costs of service delivery (e.g., processing costs, China Sword, natural disasters etc.)

The peg impacts Council’s ability to meet targets, it does not address inconsistencies and the cost calculations are not realistic as SSROC modelling (refer to SSROC IPART submission) identifies.

Meeting targets: IPART’s proposed 1.1% indicative peg for 2022/23 disincentivises councils from expanding and improving waste and resource recovery services inhibiting innovation. With the current NSW municipal solid waste recycling rate at 42% (as at FY2019) and diversion rate at 65% (as at FY2019),¹ reaching the NSW **Government’s 10-year target of 80% diversion** will require a significant departure from business as usual.

National Waste Strategy and WaSM include local government targets and a mandate by the NSW Government **WaSM to introduce a food and garden organics (FOGO) and/or food organics (FO) service** aimed at halving organics to landfill by 2030. SSROC’s FOGO/FO study identified that implementing a FOGO service increases the average cost of waste services by \$3.2 million per SSROC council, leading to an increase in the DWMC of an average 14% to recover FOGO costs.

Inconsistencies & Cost Calculations: The 1.1% peg would not resolve inconsistent cost allocations, the imbalance between councils with higher and lower DWMC,

¹ https://www.dpie.nsw.gov.au/__data/assets/pdf_file/0006/385683/NSW-Waste-and-Sustainable-Materials-Strategy-2041.pdf

rising market-based sector costs, lack of sector investment, limited competition, or other issues IPART raised.

- The **peg increases the gap** between councils with relatively low DWM charges and councils with higher DWM charges, allowing the latter to continue levying high charges and increasing these at a higher annual increment than councils with lower DWM charges.
- The proposed peg is based on **historical data** and does not reflect current costs.
- IPART acknowledges that ‘the **ABS does not have indices specific to waste management services**’ and proposes to use ‘other business’ which is not relevant to the waste and resource recovery sector due to unique external influences and variations.

Councils already deliver DWM Services based on a cost recovery model under the Local Government Act. Timing of contracts greatly impacts processing and collection costs. A range of factors have impacted DWM service costs over the recommended 1.1% rate peg beyond Council control including:

- **Transport costs** – proximity of Council to transfer stations, processing and disposal facilities and fuel prices. Sydney Metro have limited access, reduced competition, and increased price risk.
- **Staff costs** – 2% annual increase in the LG State Award and 0.5% superannuation guarantee levy
- **Contestability** – limited competition for some material streams (e.g., recycling) and lack of competition where there are monopolies/duopolies influences gate rates.
- Annual NSW **Waste levy** increased by 148% on garbage disposed to landfill over the last 10 years, also consumer price index CPI costs have been excluded from IPART’s calculations.
- **China Sword** and export bans (recycling)
- **Amalgamation** and service integration
- **Natural disasters** (not covered in contracts) Floods increasing waste generated and facility access impacts, increasing transport costs
- **NSW Resource Recovery Targets** and mandated FOGO
- New **high density dwellings** and on-site service access
- **Waste Less Recycle More funding** decreased by 43% over the last 8 years and the non-contestable funding ceases in 2022/23.

The IPART draft report offers councils two ways to increase their DWMC to meet cost obligations, including those mandated by the NSW Government (e.g., FOGO).

1. Increase the DWMC, provide an explanation for doing so to IPART, and be named in a public report the following year including the extent the indicative peg was exceeded.
2. Apply for a special variation.

Both options increase work for council staff and expose councils that exceed the indicative DWMC peg to the potential for poor public relations outcomes.

IWC Impact of a 1.1% rate peg – Under its ten-year financial model with a 1.1% peg, Inner West Council would have a shortfall of \$581,000 in providing cost-recovery domestic waste services in 2023-24, with a shortfall of up to over \$4.4 million in 2031-32:

Figure 1 Cost Impact to Inner West Council of a 1.1% DWMC rate peg

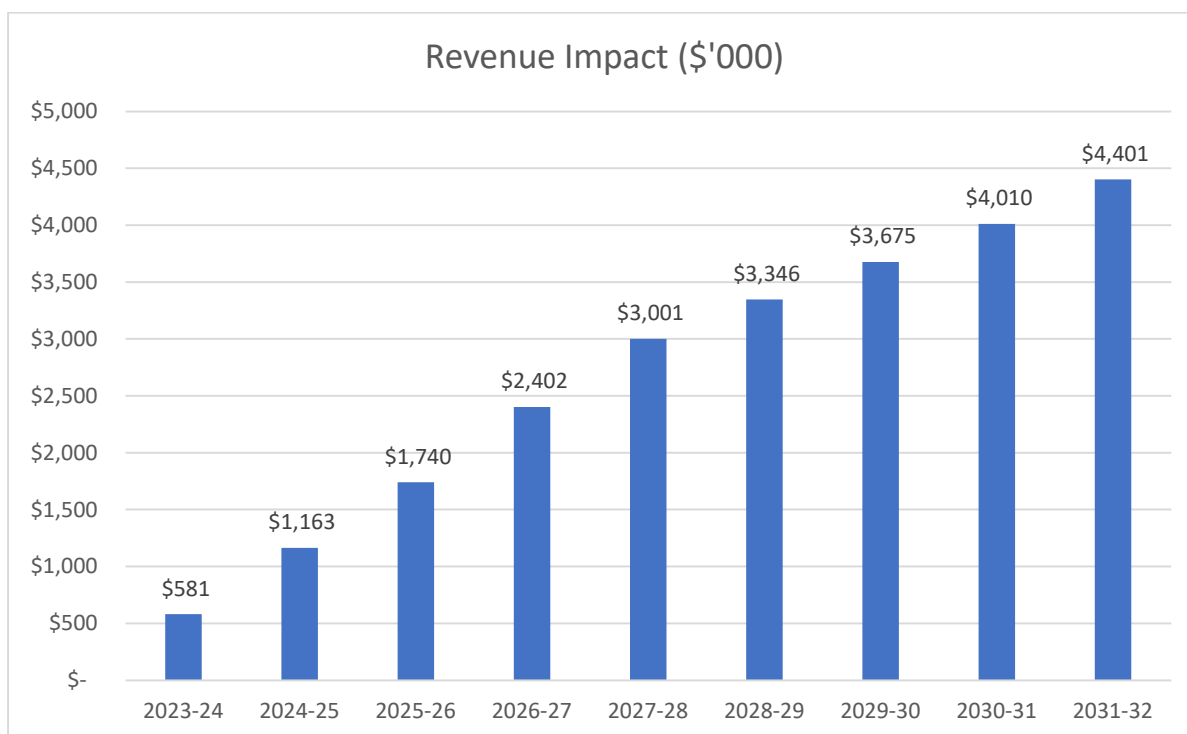


Figure 2 Revenue Impact to Inner West Council of a 1.1% DWMC rate peg

SSROC modelling – SSROC undertook a detailed DWMC methodology, pricing principles, and impact study to identify the short- and long-term impacts of the voluntary peg, IPART principles, and BAU on council revenue raising and rating policy, and the most appropriate pricing principles to facilitate waste and resource recovery services. Three scenarios were modelled:

1. **1.1% rate peg** per annum (assuming no rebalancing).

This would result in the **greatest shortfall** in funding required just to maintain the current level of service

2. **Rebalancing and Benchmarking** (assuming only that portion of waste-related costs for domestic kerbside services, excluding CRCs, drop-off events, illegal dumping, street sweeping, and public place bins).

Most of the shortfall can be shifted to general rates.

3. **SSROC principles** (all services and functions related to minimising waste and maximising resource recovery of all waste generated by domestic premises, including CRCs, drop-off events, and illegal dumping).

This would result in the **least cost shortfall** and align to the NSW Waste and Sustainable Materials objectives and targets and have the **least impact on general rates.**

Full funding shortfall over the 10-year modelled period under each scenario:

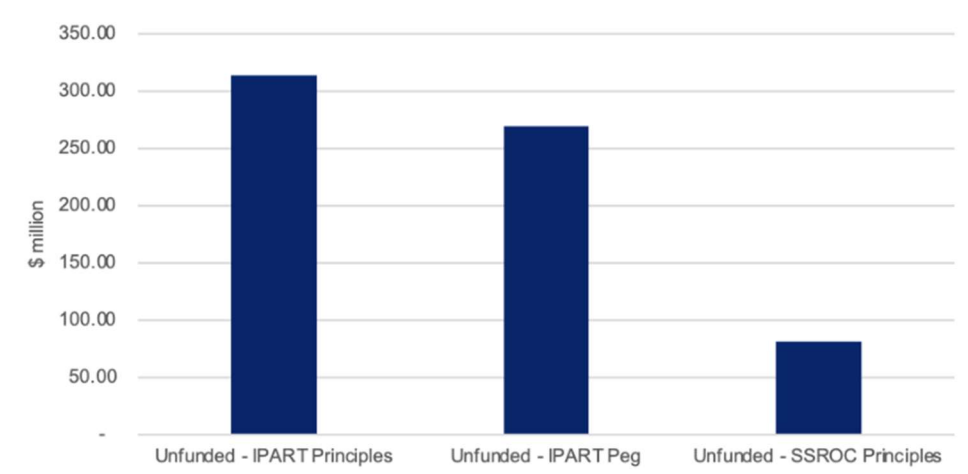


Figure 3 - SSROC modelling - financial impact of proposed options

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

Neither the voluntary peg nor the benchmarking and rebalancing option addresses council's requirements. Councils provide the services and functions required to minimise landfill and maximise resource recovery from waste generated by individual parcels of rateable land, in alignment with WaSM circular economy principles and the Waste Avoidance and Resource Recovery (WARR) Act. Neither option assists with costs associated with these activities.

The definitions of 'domestic waste' and 'domestic waste management services' in the Local Government Act and OLG Manual are outdated and vague and need to reflect the NSW Waste and Sustainable Materials Strategy and moving to a circular economy:

- *Domestic waste means waste on domestic premises of a kind and quantity ordinarily generated on domestic premises and includes waste that may be recycled but does not include sewage.*
- *Domestic waste management service means services comprising the periodic collection of domestic waste from individual parcels of rateable land and services that are associated with those services.*

It is currently not clear which services can be included under the DWMC. Updated and clearer guidance on what should be included (or excluded) from the DWM charge is the simplest and most efficient way to provide transparency to residents as well as consistent allocation of costs.

IPART has indicated that illegal dumping, street sweeping, public place bins, and excessive overheads are not eligible under the DWMC.

IWC DWMC Financial Audit: In August 2018, IWC engaged consultants Centium to undertake a financial audit of its domestic waste management charge and reserve against criteria which included appropriate setting of charges (and cost allocations) as per the LG Act and OLG manual.

Only five recommendations for improvement were noted and were subsequently addressed. The first two of the recommendations (formal definition and overheads calculation methodology) were addressed based on IWC's interpretation, although these should be consistent across the state:

- **Definition of Domestic Waste.** IWC staff would benefit from a formal definition of what constitutes domestic waste when building the cost base used in calculating Domestic Waste Management Charges to be levied on the IWC households.
- **Overheads.** There is a need to formalise a methodology for calculating corporate overheads to be allocated to the Domestic Waste Management Charge cost base and against domestic waste Projects.

IWC recommends that the following wastes generated by households be included in the DWMC to achieve value for money:

- **Waste planning** functions (e.g., waste referrals, site visits and onboarding of new services)
- Waste and Resource Recovery **Strategy and policy** development
- **Waste avoidance** initiatives and education – e.g., home composting, nappies, sanitary, bags, straws, and coffee cups
- **Reuse and repair** initiatives including community reuse opportunities
- **Community Recycling** Centres (CRC), and drop-offs for problematic, hazardous materials, e-waste, textiles, soft plastics, and future product

stewardship scheme materials. Operational and ongoing costs of a CRC, drop off events or collection, recycling, and disposal costs

- Unbooked household clean-up/**illegal dumping**
- Waste and **littering** engagement including Clean-up Australia Day
- Direct **new residential service** costs – Contract development and variations, trials, additional staff to support a new service, bins, and caddies (extra to initial infrastructure provided), upgrades and fit outs to allow for food collection, audits and evaluation, advertising and communications, consultant costs in designing, consulting community and implementation, contamination fees and decontamination costs, and smart technology.

IWC supports SSROCs recommended pricing principles:

- ~ **IPART Pricing Principle 1** – DWM Revenue should equal the efficient incremental cost of providing the DWM service.
Yes – *This is already balanced through IWCs ten year financial model.*
- ~ **IPART Pricing Principle 2** – Councils should publish details of all the DWM services they provide, the size of the bin, the frequency of collection and the individual charge for each service.
Yes – *This is already published in IWC fees and charges. [Inner West Council Fees and Charges 21-22 \(4\).pdf](#)*
- ~ **IPART Pricing Principle 3** – Within a council area, customers that are: a) Imposing similar costs for a particular service should pay the same DWMC; and b) paying the same DWMC for a particular service should get the same level of service.
Yes – *DWMC should be proportionate to enable necessary services catered to community needs and not discriminate against the socioeconomic and/or cultural demographics.*
- × **IPART Pricing Principle 4** – Any capital costs for providing DWM services should be recovered over the life of the asset to minimise price volatility.
No – *IWC recommends recovery of capital costs prior to the expense being incurred to reduce reliance on borrowings and interest on loans.*

IWC recommends maintaining the DWM Reserve to ensure consistency in DWMC, value-for-money and managing risk for:

- Emergencies including climate events like flooding
- Unexpected market-based cost increases (e.g., China Sword, Covid-19)
- Capital expenditures for planned services (FOGO) or waste infrastructure such as Community Recycling Centres or transfer and processing facilities. IPART advised that capital costs for providing DWM services should be recovered once services commenced or facilities are built; and that councils rely on external borrowing, which isn't best value for ratepayers.

Councils recover reasonable capital costs for future services or facilities in long-term financial plans, to avoid annual variations in the DWMC.

Inner West recommends that councils be required to have a strategic plan for reserves rather than having reserves for unknown use. Inner West accounted for all funding within its DWM Reserve.

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?

Yes, detailed examples would be useful to illustrate how each cost, including associated overheads, should be allocated and reported. However, the pricing principles and outdated definitions need to be updated to align with NSW WaSM and WARR Act objectives.

Local Government consultation – If IPART implements a voluntary peg, it is essential that IPART works with councils on the most appropriate indices, basket of items, and weightings to determine the Local Government Cost Index and Waste Cost Index and includes a detailed explanation of how the indicative peg is calculated.

Contestability in providing council services – limited competition in the waste and resource recovery (especially recycling) sector limits councils’ ability to provide necessary and affordable services for their residents as processing costs and innovation are determined by limited suppliers. Councils depend on industry owned and operated transfer stations, material recovery facilities (MRFs), and processing facilities.

The lack of investment in the sector (processing capacity and supply chains), under-hypothecation of the waste levy and lack of strategic planning for waste and resource recovery infrastructure accentuates this issue and is beyond council control. As urban areas expand, waste and resource recovery infrastructure is pushed further from Sydney Metro area increasing collection and transportation costs.

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