THE HILLS SHIRE COUNCIL
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27 April 2022

Independent Pricing and Regulatory Tribunal
PO Box K35
HAYMARKET POST SHOP NSW 1240

Dear Sir / Madam,

SUBMISSION - REVIEW OF DOMESTIC WASTE MANAGEMENT CHARGES

Thank you for the opportunity to provide comments on IPART's Draft Report concerning the Review of Domestic Waste Management Charges.

Please find attached submission from The Hills Shire Council. This submission has been prepared at the officer level and has not been endorsed by the elected Council.

If you have any questions in relation to this matter, please contact Ava Cheung on [redacted], Acting Manager – Assets, Rates and Payroll.

Yours faithfully

[redacted]

Chandi Saba
CHIEF FINANCIAL OFFICER

Attachment 1 – THSC Submission

ATTACHMENT 1

STAKEHOLDER QUESTIONS – IPART DRAFT REPORT

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

The Hills Shire Council (THSC) does not consider that the annual 'benchmark' waste peg will assist councils in setting their domestic waste management (DWM) charges. The proposed 'benchmark' waste peg adopts a similar methodology to the one used to calculate the change in the Local Government Cost Index (LGCI). The retrospective nature of LGCI already resulted in the 2022-23 rate peg being substantially below both the current and forecast CPI levels. This is creating anticipated shortfalls in councils' budgets and IPART has indicated that a review of the LGCI is needed. Given the pending review, it is strongly opposed that this methodology be implemented in DWM charges.

Aside from the pending review, as noted in the Draft Report, "the ABS does not have indices specific to waste management services, so for 'contracts' [IPART] propose to use the index that [they] apply to 'other business services' in the LGCI. For the Waste Levy and 'other' expenditure [IPART] propose to use CPI." Apart from Roads and Parks maintenance, DWM contracts account for the third highest cost in THSC and this would be the case for many NSW councils. It is concerning that the proposed methodology suggests applying a general contract CPI on DWM contracts given the high materiality to councils. It is also incomprehensible as to why the Draft Report would, on one hand, recommend a specific approach on 'direct incremental cost' prohibiting reasonable allocation of most overhead costs to DWM, yet on another hand recommend a pegging approach based a general CPI.

In addition to the high materiality of DWM contracts, as highlighted in the Draft Report DWM has a concentrated market with a small number of suppliers which have long term contracts with councils. The annual 'rise and fall' of DWM contracts is often tied to a range of factors beyond CPI. For our Disposal and Processing Contracts, contract costs are affected by increases to the waste levy and changes in the volume of waste collected. Waste volumes are impacted by population growth, extreme weather events, Covid-19 and policy changes like China National Sword, Return and Earn and the Waste Export Bans. These impacts all directly influence waste generation at a household level and therefore total waste volumes councils collect and need to pay disposal fees for. The table below shows how our waste volumes have changed since the start of our current DWM contracts. As evident in the table, volumes have increased significantly since the Covid-19 global pandemic.

	FY 17/18	**FY 18/19**	**FY 19/20**	**FY 20/21**	**Estimate FY 21/22**
Tipping (t)	76,136	73,807	76,903	85,054	90,719
% Increase	N/A	-3.1%*	4.2%	6.7%	10.6%

Combined tonnages collected from red lidded garbage bins, yellow lidded recycling bins, green lidded garden organics bins and on-call bulky hard waste collections. * The reduced volume in FY 18/19 is from losing DWM services to the City of Parramatta on 1 October 2017 as part of NSW council amalgamations.

For our Waste Collection Contract, several extra factors are considered in addition to CPI changes such as: Wages, Payroll Tax and Superannuation Guarantee Levy, Workers Compensation Insurance; Fuels and Lubricants, Tyres, Vehicle Registration, Depreciation, Insurance, and other materials; and Costs and Profit Return. It should be noted that policy changes also affect the Contract like the NSW Government's recent Food Organics and Garden Organics mandate. The mandate will incur significant additional costs to implement. Recent modelling commissioned by the Southern Sydney Regional Organisation of Councils (SSROC) projects that implementing the new mandate will lead to an 8% increase on the business as usual costs of its member councils in year one. The LGCI is inadequate and not reflective of annual changes in DWM contract costs.

Furthermore, dwelling mix also plays an important part in DWM costs. As THSC transitions from more houses to more apartments with denser living and narrower roads like laneways, collection vehicle sizes need to reduce in certain areas. Laneways can be found across all our new release areas that were planned under the NSW Government's North West Priority Growth Area Program. While an example of new denser living can be seen as a direct result of The North West Rail Link and its associated housing strategies. Both are externally driven changes which will in turn increase costs due to the need for smaller trucks with smaller payloads to access basement collection points and negotiate narrower roads safely. In addition, there are requirements for more fleet and staff to operate the smaller vehicles due to reduced payloads and as bins need to be manually emptied by drivers.

Lastly, the Draft Report proposed publication of a 'benchmark' waste peg and a comparison of councils' DWM charges. However, as no two councils are alike, having a benchmark may create confusion and angst amongst stakeholders. It will not be easy for stakeholders to understand different DWM cost drivers across councils, such as service level, dwelling mix, demographic, community expectation, population growth rate, contract terms, road type etc. Publication of benchmark and comparison may result in increased enquiries and/or complaints. The requirement for councils to explain charges that increased more than the benchmark waste peg will also create additional costs, especially so if the waste peg is set on LGCI which is not reflective of cost drivers in the first place. The increased administrative costs may need to be funded out of general rates under the proposed methodology. Even if these costs can be included in DWM, these increases will likely not be captured in the proposed pegging methodology which is based on CPI increases.

DWM contracts are complex in nature, material by value, sensitive to market and legislative changes and costs fluctuate as community behaviour, expectations and living environment changes. Even at the time of writing this submission, Council is engaged in cross-contract negotiations due to the recent acquisition of one of our waste contractors by another waste provider. As part of the acquisition approval process through the Australian Competition and Consumer Commission, key waste facilities where we currently take our waste for disposal were sold to third parties. This has had major impacts on our current contracts including service delivery. Further to this, we were also in negotiations with our recycling processor due to change of law implications on our contract due to legislation changes. All of these examples were triggered by external factors with the outcomes subject to potential negative impacts with greater unanticipated costs and losses associated. Funding gaps arising from DWM Waste pegging will limit councils' ability to deliver or maintain expected level of DWM services.

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

Pricing principles will only assist councils to set DWM charges to achieve best value for ratepayers if they are reflective of the full cost of providing DWM services. As noted in our previous submission, THSC does not support the incremental cost approach as it fails to capture the full cost of delivering DWM services.

Under the proposed incremental cost approach, a big portion of overhead costs relevant to providing DWM services are excluded on the basis that 'councils will be unlikely to remove overhead staff if the DWM function left Council.' However, the reality is that, if the DWM function were to leave Council and become a standalone business, it will certainly have overhead costs to support its function. A standalone DWM business must be supported by Human Resources, Information Systems, Financial and other services such as Rating Services, Property ownership information, Accounting, Payroll, Procurement, Accounts Payable/Receivable, Customer Service, Records Management etc. There will also be regular Senior Management and Councillor task groups to consider critical matters relating to current and future waste management e.g., providing strategic direction and appropriate responses to market and legislative changes, and to provide executive oversight and input on contract negotiation and execution to ensure that value for money is achieved.

Understanding the full cost of waste management is important as it helps councils make better decisions, improve the efficiency of services, and better plan for the future. It can help identify opportunities for streamlining services, eliminating inefficiencies, and facilitating cost-saving efforts through informed planning and decision-making. This would also ensure long term financial sustainability.

By excluding relevant overhead costs, the proposed pricing principles are understating councils' full cost of providing DWM services. This is not in the best interest of DWM rate payers because when a councils' pricing comes under pressure and expenditure becomes unfunded, the council will be forced to cut services to breakeven its 'over-optimistic' budget.

Lastly the Draft Report proposed that 'where councils find that implementing [pricing principles] leads to a reduction in DWM revenue as functions and/or allocated costs are shifted to general rates, then councils can apply for a special rate variation to address any revenue shortfall. Either way stakeholders are paying for it whether under the banner of DWM or General Rates as these overhead costs are still incurred." Special variation is not also accessible to councils due to the requirements of financial hardship, arduous process, and other political considerations. It would be more practical if the rebalancing approach proposed by SSROC is adopted, whereby "councils would have a 2-year grace period to rebalance the DWM charge with general rates based on clear pricing principles and total council revenue would thus be unaffected as this would merely shift some costs from one journal to another".

Furthermore, implementing Pricing Principle One will unlikely achieve best value for ratepayers as it ignores common good and best operational outcomes. Specifically, it is understood that Principal One reaffirms an interpretation in the Rating and Revenue Raising Manual that public place rubbish bins should be excluded from the DWM charge. In addition, that street sweeping, and illegal dumping are to be separated too. Regardless of how the interpretation is viewed, implementing it would not necessary mean achieving the best value for money for ratepayers. For example, it may be more cost effective for councils with isolated or rural areas to collect public place bins in these areas with DWM trucks when they are routinely in area for the periodic collection of waste from households. Waste volumes would be immaterial and be of a similar composition to domestic waste. Should the pricing principle be enforced, it would likely be counterintuitive and increase costs to ratepayers as councils would need to allocate dedicated resources to specially attend isolated and rural areas to collect public place bins.

As such, THSC does not believe the pricing principles will assist councils to set DWM charges to achieve best value for ratepayers as they do not reflect the full cost of delivering the DWM service and that unfunded expenditure can only be recovered via a special variation hence leading to a negative impact to service level. If these pricing principles are enforced, THSC supports the rebalancing approach proposed by SSROC.

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 helpful for councils' understanding of the proposed methodology and implementing the pricing principles. It should include all relevant overhead costs as mentioned above.