

Final Submission on IPART's Local Council Domestic Waste Management Charges Discussion Paper

October 2020

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Opening

Local Government NSW (LGNSW) is the peak body for local government in NSW, representing NSW general purpose councils and related entities. LGNSW facilitates the development of an effective community-based system of local government in the State.

LGNSW welcomes the opportunity to consult on IPART's *Local Council Domestic Waste Management Charges* (DWMC) discussion paper as a start of a dialogue and appreciates that IPART is looking to work with councils on better outcomes, rather than limit what services and rates of resource recovery councils provide.

While the discussion paper covers issues concerning the DWMC at a high level, LGNSW finds the paper does not reflect the complexity and diversity in the provision and pricing of domestic waste services across NSW. We expect that this complexity has become more evident to IPART as it engages with councils on the discussion paper.

Importantly, the discussion paper does not factor in NSW Government policies that add to the DWMC. Waste levy charges (s88) are a large proportion of the DWMC and grew more rapidly than other components, substantially outstripping the rate peg or inflation. The amount of levy collected from councils has increased substantially – in 2012/13 it was \$483 million, in 2018 it was \$770 million and the forecast for 2022/23 is just over \$800 million. According to a NSW Parliamentary Inquiry in March 2018, about 13 percent of the waste levy was reinvested in waste and regulatory programs, while a further 13 percent went to environmental programs. LGNSW modelling suggests that less than 18 percent of total waste levy revenue is returned to local government. LGNSW has a long-standing policy position for hypothecation of the s88 waste levy for the purposes for which it was intended - to promote recycling and resource recovery.

Other NSW Government policies the discussion paper has not factored in include:

- The NSW Waste and Resource Recovery Strategy targets (for example, increasing waste diversion from landfill to 75%) that EPA has encouraged councils to adopt in their waste strategies, which have resulted in increased DWM charges. These targets are likely only to be achieved through new or alternate treatment technologies and processing options at increased cost.
- Climate change targets such as the NSW Net Zero Plan target (net zero emissions by 2050).
- Regulatory changes such as:
 - Council/Material Recovery Facility Refund Sharing Agreements under the container deposit scheme
 - the mixed waste organic output (MWOO) land application ban that is affecting 28 metropolitan councils, including many large councils such as Blacktown and Parramatta, as contractors seek to pass on cost implications
 - COAG's decision to ban the export of waste

Any decision on the DWMC for 2022-23 and beyond should consider the impacts of the waste export ban, the NSW 20 year Waste Strategy (20YWS) as well as the impacts of COVID on waste generation and resource recovery.

IPART's approach should not result in a race to the bottom. Rural councils have seen the largest increase in the DWMC and some have resorted to landfilling recycling to keep costs

reasonable. Non-contestable grants provided by the EPA (Recycling Relief Fund) have provided some limited relief. The DWMC has been under external cost pressure in metropolitan Sydney since the NSW Government sold the 11 waste facilities of Waste Services NSW.

The submission makes comments on each of the thirteen items raised in the discussion paper.

Summary of Recommendations

Recommendation 1: IPART recognises the waste levy is a major cost driver of the DWMC, and there are many other factors influencing the DWMC which are outside council control.

Recommendation 2: IPART acknowledges that service charges are affected by (i) variability in service levels which reflect community expectations and preferences, and (ii) contract cost variations, and notes LGNSW view that the latter has a far greater influence on service charges.

Recommendation 3: IPART recommends the NSW Government support increased competition by:

- providing clear and stable policy leadership and strategic planning to identify and protect infrastructure sites.
- identifying new funding models and/or greater reinvestment of the waste levy to procure and fund waste projects
- developing mechanisms to simplify and de-risk collective tendering by councils.

Recommendation 4: IPART has a process to ensure that overhead allocation is consistent for all services within the council, rather than applying incremental costs and improve guidelines to encourage consistency across councils.

Recommendation 5: IPART undertake a staged light-handed regulatory approach by first adopting better principles / guidance on the implementation of the DWMC, and then reassess performance of these measures before considering further regulatory approaches.

Recommendation 6: A staged light-handed approach as per recommendation 5 is strongly preferred, however if a benchmarking approach was to be adopted local government must be consulted to ensure all variables are adequately considered (including variation in the waste levy across NSW) and the approach does not result in administrative burden to councils.

Recommendation 7: If IPART does pursue a public centralised database of DWMCs then substantial context and multiple indicators must be provided to enable meaningful comparison.

Recommendation 8: IPART's proposed pricing principles provide a good starting point for consultation with councils but require further work to reflect issues including:

- community expectations and willingness to pay for resource recovery
- existing policies, guidelines and targets
- clarity in terminology and application of principles
- intergenerational equity
- disaster waste contingencies

Recommendation 9: IPART form a working group to undertake a deeper analysis of the issues raised and feedback received through this consultation, and to progress the development of stronger guidelines and other resources and tools as identified.

Recommendation 10: IPART be informed by the 20YWS targets prior to determining an appropriate approach for regulating the DWMC.

Purpose

IPART is seeking comments on the discussion paper *Local Council Domestic Waste Management Charges* by 20 October 2020. The paper outlines IPART's preliminary views and asks for feedback on whether stakeholders consider that there are issues with the prices charged for DWM services and if so how IPART should respond.

Background

IPART is currently reviewing DWMCs levied by councils as preliminary analysis has indicated that these may not be delivering good value for ratepayers and there may be challenges for councils in purchasing and pricing DWM services.

In the past IPART has decided not to regulate changes to DWMCs but is now considering whether this approach remains appropriate. At this stage IPART considers caution is needed and prescriptive regulation may not be appropriate. IPART has indicated there may be other ways to improve transparency and share best practice guidance to help local councils and ratepayers get good quality services at cost-reflective prices.

IPART has decided not to set a limit on annual domestic waste management charges made by councils for 2021-22, and the 2021-2022 arrangements are not part of the current review of domestic waste management charges.

Response

1. *Is it a concern that DWM charges appear to be rising faster than the rate peg? Are there particular cost-drivers that may be contributing to this?*

The cost drivers on the DWMC are very different from rates which is a tax based on the value of the land with the rate peg determined by the Local Government Cost Index. LGNSW believes that on the whole, DWMCs reflect the true reasonable costs of providing the services and have little in common with rates. In our experience councils are diligent in limiting charges to cost recovery while struggling with the external pressures impacting the charge that are outside councils' control. At an average price of \$7.80 per week per household, the service is viewed as good value for the households of NSW. Councils search for a balance between impact on ratepayers from any beneficial waste outcomes (e.g. higher recycling rates) and keeping costs reasonable, particularly in councils whose socio-economic status is challenging.

DWM is one of the major services that councils provide and there are few complaints about the cost and delivery of the service indicating that ratepayers consider the charges to be reasonable. DWMC pricing is complex with most cost drivers outside councils' control and little scope for councils to influence the market beyond tendering in what IPART acknowledges is a

highly concentrated and less than perfectly competitive market. Drivers and barriers may include:

- Section 88 waste levy that increased 14.2% from 2014-15 to 2017-18 and 18.8% to 2018, far in excess of the rate peg or inflation.
- Increases in contract prices due to:
 - Fall in commodity prices (Table 1), particularly for mixed paper and plastics. Under some contracts, councils were paid for their recycling materials but now pay for these. Commodity prices impact councils' contracts differently depending on, for example, contract clauses, timing and length.
 - Reduced access to international markets caused by the announcement of the waste export ban, which has decreased commodity (recyclate) prices thus increasing the DWMC.
 - Enforcement of previously lax contamination clauses in response to tightening contamination regimes in overseas markets.
 - Changes to packaging materials with increased use of soft plastics and composite materials contaminating recycling.

Table 1 Change in the price of key recyclables following September 2017 when China reconfirmed National Sword to the WTO (Source: MRA Consulting)

Material	Price over previous decade (\$/t)	Post Sept 2017 (\$/t)	% of all household recycling
Mixed paper	\$200-250	\$80	50%
Mixed plastic	\$350 (\$400-450 for PET and HDPE)	\$50	6%
Glass ¹⁵	\$72	-\$60	35-40%

- Increases in the level of service and resource recovery sought by communities, for example introduction of food and garden organics (FOGO) and MWOO solutions and diverting clean-up waste from landfill, that increase costs.
- Infrastructure capacity constraints for disposal and processing and lack of NSW Government planning to address these constraints (particularly given the pace of new development in metropolitan Sydney).
- Changes of law, regulations and policy, such as the MWOO decision and chain of responsibility laws.
- Reduced non-contestable EPA grant funding increasing council costs.
- Lower compaction rates reducing how many lifts per run are possible.
- More advanced and costly processing solutions (to meet increased standards)
- Waste reserves to protect ratepayers from charge spikes in the current changing environment
- Impacts from fires, floods and COVID-19

Cost-pressures on the DWMC are expected to increase further with:

- A likely decision to mandate FOGO collections in metropolitan Sydney under the 20YWS that will result in higher gate fees (due to high levels of contamination forecast, which in turn requires disposal to landfill) in early years of implementation, and high transport costs to developing markets.

- The waste export ban is likely to increase recycling costs for mixed paper and plastics that dominate kerbside recycling due to the lack of domestic processing and end markets.

Transport costs increasing in the future due to inadequate planning for transfer stations, processing facilities and landfills. The waste levy, a major cost driver on the DWMC, does not reflect reasonable or efficient cost to the DWMC and is not hypothecated for the legislated purpose for which it is intended – to promote recycling and resource recovery.

Recommendation 1: IPART recognises the waste levy is a major cost driver of the DWMC, and there are many other factors influencing the DWMC which are outside council control.

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

Variations in services and charges reflect a complex range of decision points, including resource recovery and meeting community expectations and preferences. The community is consulted about the level of DWM service they wish to receive and are willing to pay for and can comment on service prices annually. The community's satisfaction with the service measured regularly (annual or biannual) is generally high.

LGNSW considers the variations in services and charges reflect differing service levels and community expectations and preferences across councils. Variations in services and charges reflect a range of kerbside systems (including some premerger systems yet to be amalgamated in merged councils) that communities have wanted and are willing to pay for:

- Bin types and combinations
 - residual (red bin) without organics diversion
 - residual (red bin) with organics diversion
 - recycling (yellow comingled bin)
 - recycling (yellow bin) with recycling (blue- paper and cardboard bin)
 - garden organics (green bin)
 - food and garden organics (green bin)
 - food organics (burgundy bin)

EPA grant conditions have directed combinations over time.

- Bin sizes with predominate sizes from 55l to 240l, with a range from crates to 1100l bins and split bins and a range of user-pays options for additional bins or increased/decreased sized bins
- Bin maintenance and age
- Variable:
 - timing of collection (bi-weekly, weekly, fortnightly, monthly or on call)
 - recycling accepted
 - contamination levels
- Clean-up services, either booked, scheduled or tip docket
- Rates of kerbside illegal dumping
- Additional recycling services, for example after disasters or Christmas
- Other charges such as: private collection services accessing kerbside clean ups; bin replacement and administrative charges
- Levels of resource recovery agreed by the community through waste strategies

- Future infrastructure planning and legacy remediation costs to moderate spikes in the DWMC.

Variations in services and charges also reflect differing contract arrangements and market conditions. While LGNSW does not have any insight into contract arrangements, factors to be considered include:

- Variable offerings built into the contract by providers as added incentives such as emptying public litter and recycling bins
- Variable levels of: MRF, processing and landfill capacities; technology/modernisation; and distance and access to markets for recycled content
- Higher costs of disposing unmarketable recyclables due to diminishing markets (for example recycled crushed glass)
- Outsourced or inhouse provision of services and operation of customer service, education, contamination management, bin supply and maintenance, collection, recycling, processing, and disposal
- Council or contractor ownership of bins, recycled material post kerbside, transfer stations, MRFs, organic processing and landfills
- Distance/time travelled to transfer stations, MRFs, processors, landfills and markets
- Ownership, cost (small costs more), age, efficiency and carbon impacts of collection trucks
- Variations in: compaction rates; width of roads and ease of access and egress; traffic congestion and route optimisation; demographics and cultural background; density and type of residential dwellings; geographic, climatic and settlement patterns
- Market conditions at time of tender, contract length and contract maturity profile
- Rise and fall of global and domestic markets for recycling material and organics
- Contamination penalties and rates (statistics show rates increases in lower socio - economic areas)
- Disaster waste contingencies and management (for example free tipping of green waste for fire reduction risk and clean up services after natural disasters)
- Variable levels of regulatory uncertainty costed into contract prices by tenderers to manage perceived risk (given EPA's sudden revocation of the MWOO Order and Exemption)

Recommendation 2: IPART acknowledges that service charges are affected by (i) variability in service levels which reflect community expectations and preferences, and (ii) contract cost variations, and notes LGNSW view that the latter has a far greater influence on service charges.

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

The cost and operation of waste and resource recovery facilities is the single most expensive component contributing to the DWMC. As IPART has identified there is a lack of competition in the market for outsourced DWM services. Most councils outsource their services through a competitive tender process with often no effective competition for recycling processing or landfill disposal (particularly for putrescible waste), although there is some competition in the collections and organic processing markets. There is a trend towards consolidation and vertical integration including the control of end markets.

Waste capacity at existing infrastructure, particularly in metropolitan Sydney, appears to be constrained, increasing costs. There are signs of emerging players in the advanced waste treatment market such as energy from waste.

The EPA identified significant shortfalls of disposal and processing infrastructure in metropolitan Sydney in its commissioned *Waste and Resource Recovery Infrastructure Strategy draft report 2017-2021* in 2017.

While LGNSW is not involved in any procurement of waste services, councils have told us that barriers to effective competition and procurement include:

- Lack of transparency in setting contract prices; lack of council level data on per tonne charges from processors and landfills; and insufficient data on end markets
- Long term contracts (up to 15-20 years) due to costly infrastructure and differing positioning of councils in their contract cycles, making alignment for joint procurement challenging
- Difficulty harmonising services across councils or regions due to contractual obligations
- Instability in recycling processing and markets caused by the waste export ban
- Council risk aversion with contract risk allocation balanced towards contractors (reducing risk exposure of ratepayers) resulting in higher tender prices and an over-representation of larger companies able to self-fund infrastructure
- High capital costs of infrastructure and land coupled with lack of access/ownership of transfer stations and limited available sites for new entrants
- Varying procurement capabilities and practices within councils and limited financial capacity to fund significant infrastructure
- Time taken and processes involved in applying for and obtaining ACCC exemptions.
- Complexity of Public-Private Partnerships (PPPs) for smaller scale waste infrastructure
- Limitations of the Local Government Procurement Guidelines and prescriptive nature of the Local Government Act that do not facilitate councils working together
- Lack of state and regional level planning, particularly in metropolitan Sydney, for the protection of existing and provision of new infrastructure

Competition might increase if groups of councils were to build or partner with industry through PPPs or joint ventures, however this is a complex and risky process for councils and would require substantial funding from the waste levy. New funding models and legislation that better facilitates joint procurement may allow for the efficient delivery of affordable and sustainable waste services, the delivery of new waste infrastructure and the development of a more competitive market in the longer term but this is unlikely in the short term due to regulatory uncertainty and the impacts of the waste export ban.

Coordinated approaches either through bordering councils or regional organisations can be successfully used for joint tendering, evidenced by the procurement of Alternative Waste Treatment (AWT) services by councils for greater resource recovery. However, it has proven risky for industry and councils to invest without clear and stable policy leadership and strategic planning by the NSW Government.

Mechanisms to simplify and de-risk collective tendering by councils, including reinvestment of the waste levy, should be considered by the NSW Government. Strategic planning to identify, protect and provide access to appropriate sites with effective transport networks to encourage waste projects, as well as ancillary services such as transfer stations, is also required.

Recommendation 3: IPART recommends the NSW Government support increased competition by:

- providing clear and stable policy leadership and strategic planning to identify and protect infrastructure sites.
- identifying new funding models and/or greater reinvestment of the waste levy to procure and fund waste projects
- developing mechanisms to simplify and de-risk collective tendering by councils.

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

The IPART discussion surrounding this point is based on the premise the DWM is not a core function of councils. LGNSW does not accept this proposition. DWM is as much a core function as local roads, footpaths, stormwater drainage and the provision and maintenance of parks and sporting fields. Furthermore, it is a legislated responsibility. Hence the adage, roads rates and rubbish. Overheads should be allocated in the same way for all core activities of councils. The fact that DWM has a dedicated charge to fund the service is not really relevant.

LGNSW is of the view that overhead expenses for DWM services are appropriately ring fenced from general residential rates as provided for under the Local Government Act 1993 and there are a number of checks and balances in place to assure this.

The overhead expense methodology used by IPART in the LGCI survey of 52% of councils such as “Employee benefits and on-costs”, “Contractor and consultancy costs”, “Remuneration of auditors and legal fees”, “Operating leases” and “Electricity” has led to an over-representation of overheads in the DWM (average 59%).

Guidelines on what constitutes reasonable cost could be strengthened for further transparency – for example what can be included in corporate overheads and administrative services costs. There also may be scope for more transparent public reporting within the existing mechanisms councils use.

As community values move further to waste avoidance, reuse and the circular economy, the opportunity to fund these types of activities in line with the NSW circular economy policy should also be considered.

It is viewed by some councils that incremental costs methodology is difficult to calculate and that an average cost basis factored across different areas of councils is less difficult.

Recommendation 4: IPART has a process to ensure that overhead allocation is consistent for all services within the council, rather than applying incremental costs and improve guidelines to encourage consistency across councils.

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

Local government recognises the need for some form of regulatory oversight to ensure compliance.

Councils would generally favour a return to the DWMC oversight/audit processes formerly conducted by the OLG. This achieved the objective in ensuring DWMCs reflected reasonable costs across councils, while avoiding excessive regulatory burdens and costs. If this is no

longer an option and IPART is to continue to have regulatory responsibility, LGNSW favours continuation of a light touch regulatory approach. There does not seem to be sufficient justification for the introduction of onerous regulatory and reporting requirements or heavy-handed intervention.

The 2019 NSW Government's Guide to Better Regulation aims to assist agencies develop regulation that is reasonable and responsive to the economic, social and environmental needs of NSW. Three of the principles are particularly relevant to this review:

- Principle 1: The need for government action should be established. Government action should only occur where it is in the public interest, that is, where the benefits outweigh the costs.
- Principle 4: Government action should be effective and proportional.
- Principle 6: The simplification, repeal, reform, modernisation or consolidation of existing regulation should be considered.

IPART has previously been satisfied that the DWMC was likely to be both reasonable and efficient. Increased costs identified by IPART are also reasonable given the changes to the market outside of councils' control. Councils are already subject to extensive regulatory oversight and have regulatory processes, such as the rules of tendering and financial and operating reporting requirements under the NSW Local Government Act, independent annual financial audit by the Auditor General, to ensure accountability and transparency across all council functions.

A light-handed approach could involve:

- Establishment of agreed pricing principles
- Development of clearer guidelines on what constitutes reasonable cost and how these costs are calculated in consultation with councils
- Clear definition of what can and can't be included in DWM costs (for example waste avoidance and reuse activities). This is becoming increasingly clouded as waste services and practices evolve and we transition to a circular economy
- Principles and guidance on the purpose of the DWMC restricted reserve policy, what is included, how it is used and the appropriate level of reserve could also be considered.
- Intervention by exception (for example outliers in pricing, irregular price movements or high levels of complaint).

Excessive regulation is likely to restrict the flexibility of councils to meet the different needs of communities.

Recommendation 5: IPART undertake a staged light-handed regulatory approach by first adopting better principles / guidance on the implementation of the DWMC, and then reassess performance of these measures before considering further regulatory approaches.

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

As noted above, LGNSW favours light-handed regulation. However, the following ideas could be explored in more detail:

- Councils publish the s88 waste levy component of the DWMC as a separate line item in rates notices comparing this to amount of the levy returned to council through grants.

- Other services that make the collection of kerbside waste safer and less hazardous (such as community recycling centres and chemical cleanout events) be funded by the DWMC.
- Better align the *Local Government Act* and the *Waste and Resource Recovery Act* so both Acts support similar approaches and outcomes.
- Create a standardised waste component in Development Control Plans to achieve a more uniform approach to waste operations.
- Develop guidelines and practical advice and tools to use when procuring waste management and recycling services including tools for managing contracts effectively for councils and joint organisations.
- Provide reliable, up to date and consistent data on waste streams and infrastructure capacity to better promote industry transparency and good policy and investment decisions by NSW and local government as well as industry.

7. If a reporting and benchmarking approach was adopted, how could differences in services and service levels, as well as drivers of different levels of efficient cost, be accounted for?

LGNSW is supportive-in-principle of benchmarking as a tool across 'like' services. However, while using benchmarking based on pricing principles is less intrusive than audits, in general the results are likely to be misleading and misinterpreted due to the complexities involved.

Efficient cost may not be an appropriate measure for benchmarking a charge directed to the delivery of a reasonable cost service, including environmental outcomes driven by NSW Government policy in partnership with community expectations. If efficient cost is used, the efficient cost of the s88 waste levy component of the DWMC should also be considered, given the majority of the levy is directed to consolidated revenue and not used for its legislated purpose - to promote recycling and resource recovery.

Benchmarking could lead to a race to the bottom and be a driver to reduce costs at the expense of reliability, safety and environmental sustainability. Outlier councils can already be identified and queried by the OLG or IPART through the publicly available EPA Local Government WARR data, financial statements and various components of the Integrated Performance and Reporting framework.

If a reporting and benchmarking approach is adopted by IPART across 'like' councils, it will be critical that councils are adequately consulted on the significant amounts of data/indicators that would be required to account for the variations across councils to ensure that data is comparable.

It would be difficult and costly to establish a benchmark that was comparable across even 'like' councils. LGNSW considers the costs of establishing and maintaining a benchmark that is comparable would outweigh the benefits.

Recommendation 6: A staged light-handed approach as per recommendation 5 is strongly preferred by councils, however if a benchmarking approach was to be adopted local government must be consulted to ensure all variables are adequately considered (including variation in waste levy across NSW) and the approach does not result in administrative burden to councils.

8. *Is there merit in IPART's proposed approach to developing a reporting, monitoring and benchmarking approach and pricing principles for setting DWM charges? Is it likely to be an effective approach? Why/why not?*

Refer above. While LGNSW supports benchmarking as a tool in principle, we do not believe meaningful benchmarks can be established because of the high levels of complexity and variability.

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

A light-handed regulatory approach with intervention by exception is preferable to an extensive annual reasonable cost audit process of all councils. While the DWM operations of councils are already subject to council annual financial audits, those audits do not assess the "reasonable costs" of DWM operations. If the financial audit is extended to cover reasonable costs, it would impose an unnecessary regulatory and reporting burden and involve higher costs.

10. *Are there any issues that should be considered with regards to developing an online centralised database for all NSW councils' DWM charges to allow councils and ratepayers to benchmark council performance against their peers?*

The difference between councils DWMCs is highly linked to factors beyond councils control rather than council performance against their peers. Public benchmark reporting taken out of context of these factors is likely to be confusing and open to misinterpretation. The data is already freely accessible on councils' websites (along with councils' community strategic plans and waste and resource recovery strategies) to ratepayers who wish to make such a comparison.

If IPART still views a public centralised database as useful, then substantial context and multiple baskets of indicators, for example customer satisfaction, carbon impact of service delivery, resource recovery rates and current market conditions would be required to make the data meaningful. Detail is also required regarding public access, methodology for grouping like councils, maintenance and cost to councils of such a database if IPART is intending to still pursue this.

LGNSW welcomes any action to bring accountability and transparency to the full costs and benefits of waste and resource recovery outcomes and believes that councils are already achieving this.

As highlighted, there are many factors that affect the DWM charges across councils, therefore making it difficult to generate appropriate benchmarks that are reasonably comparative. Hence an online centralised database for all NSW councils' DWM charges may result in information being misinterpreted. Unless the person using the database has an in-depth knowledge of the comparison council's service provision then there may be inconsistencies in their analysis. Poorly generated benchmarks may lead to inefficient and/or less than effective decision making by councils in relation to the provision of waste services.

Recommendation 7: If IPART does pursue a public centralised database of DWMCs then substantial context and multiple indicators must be provided to enable meaningful comparison.

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

LGNSW supports the development of pricing principles in consultation with councils. The five principles proposed by IPART while simplistic, provide a good starting point for consultation but are not automatically accepted.

The principles currently do not reflect the community's willingness to pay for resource recovery, the need for remediation of legacy waste facilities to today's standards, and financial planning for future operational needs.

Councils currently recover the costs of providing DWM services. The term 'user pays' suggests only paying for services that are used. As with roads and other essential services, waste services are provided regardless of whether they are fully utilised or not by the resident. This term could confuse ratepayers who may expect to be refunded if they do not use their standard service or only half fill their bins and may disincentivise lower socio-economic ratepayers from taking up service offerings resulting in increased illegal dumping. Without weight-based charging it is not possible to take a 'user pays' approach, however, there are 'user pays' elements outside of the standard service such as for additional bins, clean-ups and increased bin capacity with pricing reflecting NSW waste avoidance and resource recovery policies.

Further, a simplistic user pays principle also ignores beneficial externalities. Domestic waste management services provide environmental, health and amenity benefits to the community as a whole.

Applying incremental cost allocations for direct costs is reasonable, but not for overheads as this would exclude the application of costs proportionally across DWM, for example, of printing, postage and debt management (where rates are not billed with the DWMC e.g. for non-rateable community housing providers) and be labour intensive.

The position that pensioner rebates, as 'social programs', should be funded by general rates directly conflicts with the current guidelines and is out of step with existing rules. LGNSW acknowledges the economic principle behind this proposal, however it is a long established practice and the removal of the domestic waste rebate for pensioners will cause unwarranted confusion and distress to elderly rate payers. Pensioners are used to receiving rebates and or discounts on council rates, the DWM charge and all other essential services such as electricity, gas, water and public transport. Given the entrenched expectations it would be very difficult to explain the removal of the DWM rebate.

Furthermore, there will be a justified expectation that the pensioner rate rebate would need to be increased to offset the removal of the DWM rebate. This will require councils to apply for Special Rate Variations (SRVs) to increase rates sufficiently to cover the cost rearrangement. This adds an unnecessary complexity.

LGNSW opposes this proposal on these grounds alone.

Beyond this, there is a broader policy issue concerning pensioner rebates that needs to be addressed before disrupting pensioner rate and domestic waste rebates. LGNSW has long advocated that pensioner rate rebates should be fully funded by the State and Federal Governments as they are a welfare payment and local government does not have the taxation base to support welfare payments. The only taxation measure available to local government is rates, furthermore there is an equity issue, as the concentration of pensioners does not fall evenly across the state, with concentrations often being highest in lower socio-economic areas. Welfare needs to be funded from the broader taxation bases of State and Federal

Governments. State Governments fully fund pensioner rate rebates in most other states. If this policy was corrected there would not be a need to include the cost of the rebates in DWMCs.

LGNSW considers the DWMC to be transparent and ratepayers have many avenues to seek further information.

DWMCs should balance efficient costs with safe, reliable and environmentally sustainable services. The term 'value of services' that includes an appropriate balance between quality and cost of service that meets the expectations of ratepayers could be considered. If efficient service is used, then the efficiency of the s88 waste levy should also be included as it is a major contributor to the DWMC.

Recommendation 8: IPART's proposed pricing principles provide a good starting point for consultation with councils but require further work to reflect issues including:

- community expectations and willingness to pay for resource recovery
- existing policies, guidelines and targets
- clarity in terminology and application of principles
- intergenerational equity
- disaster waste contingencies

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

As discussed above the principles should recognise higher order environmental outcomes and be in line with the community's willingness to pay, expectations and preferences.

Intergenerational equity and costs should also be included, for example sending waste to landfill may be the cheapest price for ratepayers now but are expensive for the broader community and future generations. Principles reflective of NSW and national waste and resource recovery targets could also be considered as well as principles for disaster waste contingencies.

13. Could a centralised database and display of key elements of all successful DWM service contracts (eg, name of tenderer, service provided and contract amount) assist councils in procuring efficient services? If not, why not?

The *Government Information (Public Access) Act 2009* already requires that contract information is made publicly available through a contract register, increasing transparency.

A centralised database for comparison purposes would be of limited benefit without specific details of the final pricing structure and details of contract variations as the originally tendered price is likely not to reflect current costs to councils.

There may be some benefit in a simple centralised database showing contract commencement and expiry dates, as well as anticipated tender advertising dates. This could possibly increase the potential for competition by staggering the procurement cycle across councils so as not to flood the market.

Other issues

This submission has highlighted the complex nature of DWMCs and the need to collaboratively work with local government in moving forward, for example through preparation of guidance on allocation of overhead costs and what is / is not to be included in DWMC. To ensure the

guidance is appropriate and usable by councils we would recommend a working group be established.

The 20YWS due in mid-2021 aims to provide a long-term strategic focus to build resilient services and markets for waste resources. Actions undertaken by IPART should be informed by this strategy that will affect the DWMC and services.

Recommendation 9: IPART form a working group to undertake a deeper analysis of the issues raised and feedback received through this consultation, and to progress the development of stronger guidelines and other resources and tools as identified.

Recommendation 10: IPART be informed by the 20YWS targets prior to determining an appropriate approach for regulating the DWMC.

Conclusion

The discussion paper is a useful start to discuss the issues around the prices charged for DWM services. Councils will need to strategically align themselves to the 20YWS and actions undertaken by IPART should be informed by this strategy. Any regulation of the DWMC should not restrict the flexibility required to meet the differing needs and expectations of communities.

There is a clear view by councils that a staged approach to providing greater consistency in services and charges is preferred, starting with the adoption of better principles / guidance on the implementation of the DWMC. The performance of these measures should be reassessed before considering adopting benchmarks or more complex regulatory measures. We would also reiterate the need to consult and collaborate with councils in designing regulatory measures to ensure they capture the variability across the sector and do not unduly result in administrative burden on councils.

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