



29 April 2022

Tribunal for the Review of Domestic Waste Management Charges
Submitted online at: ipart.nsw.gov.au

Dear Ms Donnelly

**Independent Pricing and Regulatory Tribunal of NSW (IPART)
Draft Report – Review of Domestic Waste Management Charges**

The Southern Sydney Regional Organisation of Councils Inc (SSROC) is an association of eleven local councils in the area south of Sydney Harbour, covering central, inner west, eastern and southern Sydney. SSROC provides a forum for the exchange of ideas between our member councils, and an interface between governments, other councils and key bodies on issues of common interest. Together, our member councils cover a population of over 1.8 million, or one third of the population of Sydney.

Thank you for the opportunity to make a submission on the draft report. After discussions with IPART, SSROC understands councils are asked to state their preference for either accepting the proposal in the draft report, or putting forward an alternative. Further, it is understood that councils' current approach to setting Domestic Waste Management (DWM) Charges will not be an option.

SSROC has consulted extensively with member councils, and with the peak body for local government in NSW, Local Government NSW (LGNSW). SSROC and member councils support clear, efficient and transparent DWM changes and pricing principles. However, SSROC is strongly opposed to the approach in the draft report. The analysis that has been used to reach this position is attached.

SSROC fully supports the position of LGNSW in its submission on this matter. In meeting the deadline for this submission it has not been possible for it to be endorsed at a formal meeting of SSROC Delegates. I will contact you should there be any need to change it.

Yours sincerely

A handwritten signature in black ink that reads 'H Sloan'.

Helen Sloan
Chief Executive Officer
Southern Sydney Regional Organisation of Councils

Attachment: SSROC's Analysis of IPART's Review of Domestic Waste Management Charges Draft Report



Attachment to SSROC Submission to the Review of Domestic Waste Management
Charges Draft report IPART Tribunal

Analysis of the Independent Pricing and Regulatory Tribunal of NSW's (IPART) Review of Domestic Waste Management Charges Draft Report

29 April 2022

Southern Sydney Regional Organisation of Councils Incorporated
(SSROC)

ABN 54 485 603 535

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1 Introduction

The Southern Sydney Regional Organisation of Councils, Inc (SSROC) welcomes the opportunity to provide feedback on IPART's review of the domestic waste management charge (DWMC) draft report.

SSROC is an association of 11 Sydney councils, including Bayside, Burwood, Canada Bay, Canterbury Bankstown, City of Sydney, Georges River, Inner West, Randwick, Sutherland, Waverley and Woollahra Councils. Together, our member councils cover a population of over 1.8 million people, or one-third of Sydney's population, and manage over 20% of all NSW household waste, highlighting the central role that these councils play in waste management and resource recovery in NSW.

This analysis summarises quantitative and qualitative feedback from our 11 member councils consolidated through comprehensive consultations.

2 SSROC's Position¹

While SSROC and its member councils support clear, efficient, and transparent DWMC and pricing principles, we strongly oppose any measure that inhibits councils' ability to deliver the range of high-quality domestic waste management services expected by the community, mandated by the NSW Government, and that are necessary to meet public health needs and waste and resource recovery targets. Rising costs due to factors out of councils' control – including limited competition in the waste sector, COVID-19, COAG export bans, inflation, and climate disasters, to name a few – require a sufficiently flexible revenue raising mechanism and clear pricing principles that can accommodate newly mandated service obligations such as Food Organics and Garden Organics (FOGO) collections and significant year-to-year variability in the market.

Consequently, SSROC's positions on the decisions in the draft report are as follows:

1. SSROC categorically opposes the approach proposed in IPART's draft report in December 2021 (clarified pricing principles and a voluntary indicative peg of 1.1% in 2022/23; hereinafter, 'voluntary peg'). The voluntary peg would not assist councils in setting their DWM charges. The timing of any major adjustment to council revenue-raising mechanisms is inappropriate and extremely challenging given rising market-based costs, the NSW Government's transition to a circular economy, including a mandated FOGO service by 2030, and the increasing incidence of natural disasters.
2. SSROC also continues to oppose the approach proposed in IPART's discussion paper in August 2020 (benchmarking of waste service costs, clarified pricing principles, rebalancing relevant cost allocations from the DWMC to general rates, a streamlined reporting mechanism, and regulating only by exception; hereinafter 'benchmarking and rebalancing'). Based on the definitions of 'domestic waste' and 'domestic waste management services' in the Local Government Act and the Office of Local Government's (OLG) *Council Rating and Revenue Raising Manual* (hereinafter, 'OLG Manual'), neither the voluntary peg nor benchmarking and rebalancing fully addresses

¹ Please note that this submission does not represent the positions of Bayside Council and, where indicated in the footnotes, the City of Sydney.

the needs of councils to provide all the services and functions required to minimise landfill and maximise resource recovery from waste generated by individual parcels of rateable land.

3. If forced to choose between benchmarking and rebalancing and the voluntary peg, benchmarking and rebalancing² would be less unfavourable as a last resort on the conditions that:
 - a) it was done through a fast-track process similar to a Crown Land adjustment;
 - b) it did not involve a special variation; and
 - c) the pricing principles published in the OLG Manual clearly specified the inclusion of all domestic waste management services and functions necessary for minimising landfill and maximising resource recovery from domestic waste. This would have to include non-kerbside services such as community recycling centres (CRCs) and drop-off events for problematic, hazardous waste, and other materials such as e-waste and textiles that are not readily or cost-effectively manageable through kerbside services.

4. SSROC acknowledges that updated pricing principles play an important role in providing clarity and consistency with regard to which domestic waste management services can be incorporated in the DWMC, it is SSROC's understanding that the OLG Manual is not legally binding. Therefore, we call for IPART to work with relevant authorities such as OLG and the NSW Minister for Local Government to ensure that the definitions in the Local Government Act are modernised to be fit for purpose and aligned with the objectives of the:
 - a. NSW Waste and Sustainable Materials Strategy 2041 (WaSM), which aims to transition NSW to a circular economy, and
 - b. Waste Avoidance and Resource Recovery (WARR) Act, which prioritises material efficiency and resource management based on the waste hierarchy according to the highest order of use.

5. SSROC supports clear, efficient, and transparent DWMC charges and pricing principles, based on the expanded coverage of services under the definitions as outlined above. In addition, we propose that charges for services to manage some particular streams of waste with a delineable link to rateable parcels of land, or that portion of these streams with a delineable link to rateable parcels of land be calculated on a proportional basis. (This would include CRCs and drop-off events for problematic, hazardous waste, other materials such as e-waste and textiles, and potentially illegal dumping.) This would be similar to an availability charge to ensure that councils can raise sufficient funds to cover the base costs to make these services available to all residents even if not all residents necessarily use them. Note that even charges for primary kerbside services are already somewhat proportional as the presentation rate changes every week and some residents generate more or less waste than others, contributing a different proportion of a council's total weight-based waste levy and landfill gate fee.

6. SSROC strongly advocates for allowing councils to use waste reserves to provision for reasonable future obligations, including climate events and other emergencies, rapid market-based cost increases, capital expenditures for

² The City of Sydney is not supportive of rebalancing.

planned services such as FOGO or planned waste-related infrastructure such as CRCs, and other reasonable market risks.

7. Should IPART decide to proceed with benchmarking and rebalancing, benchmarking of waste service costs would have to reflect varying service levels, densities, and community expectations between councils. Councils would also have to be consulted regarding how benchmarked waste service costs should be published to efficiently manage internal and external stakeholder expectations.

3 Issues for Stakeholder Comment

3.1 A Peg Would Not Assist

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

SSROC opposes the voluntary peg and does not believe that it would assist councils in setting their DWM charges. The timing of any major adjustment to council revenue-raising mechanisms is inappropriate and extremely challenging given rising market-based costs of providing waste management services and the NSW Government's transition to a circular economy, including a mandated FOGO service by 2030, and the increasing incidence of natural disasters. A peg – voluntary or otherwise – would over time deny councils a sufficiently flexible revenue-raising mechanism to cover rising waste and resource management costs and to respond to NSW Government policy mandates, and lead to significant funding shortfalls in delivering essential services. In addition, a peg would not solve inconsistent cost allocations, the imbalance between councils with higher and lower DWMC, rising market-driven sector costs, lack of sector investment, limited competition, or other issues IPART has raised.

Councils set the DWMC based on actual and expected costs, not general indices

SSROC councils largely set their DWMC based on the actual and expected incremental costs of providing waste management services, based on community expectations, to parcels of rateable land, including the costs of contracts, infrastructure, community education, operational requirements, and related overheads, etc. DWMC cannot be driven by outdated data or a selection of lagging, tangentially-related indicators with limited relevance to councils' specific needs and service levels, as they would never match the costs of the service.

As discussed below, the most significant source of confusion and inconsistency is not what these costs are but which services and functions can be included in the DWMC and how these are provided for in the definitions of 'domestic waste' and 'domestic waste management services' in the Local Government Act and OLG Manual.

A voluntary peg would deny councils a sufficiently flexible revenue-raising mechanism to meet increasing costs, fulfill NSW Government mandates, and provision for growing market and climate risks

NSW is beginning the most significant transition to a more circular economic model in its history. Precipitated by the announcement of the China Sword policy and subsequent Coalition of Australian Government (COAG) ban on the export of Australian-generated recyclable materials, both the National Waste Strategy and WaSM have set ambitious targets which local governments are required to work towards. Most significantly, through the WaSM, local governments are mandated by the NSW Government to introduce a food and garden organics (FOGO) and/or food organics (FO) service with the aim of halving organics to landfill by 2030.

At the same time, waste management and resource recovery costs in metropolitan Sydney have risen significantly over the last decade, even while funding from the waste levy has fallen. Funding from the waste levy through the Waste Less Recycle More program is the most significant source of funding for council resource recovery programs. NSW waste levy has increased by 148% over the last 10 years, while Waste Less Recycle More funding has decreased by 43% over the last 8 years. From next financial year, virtually all non-contestable funding previously available to levy-paying councils for resource recovery programs through the Better Waste and Recycling Fund will disappear as the NSW Government shifts to a project-based contestable funding model.

Meanwhile, NSW councils are under increasing financial pressure from rising market-driven costs due to limited competition in the sector, heightened community awareness and expectations for improved resource recovery outcomes, rising inflation and petrol costs, reduced revenue, higher costs associated with managing COVID-19, and increasing costs and risks associated with climate disasters and disruptions to the waste management supply chain. Some councils currently renewing or entering into new recycling collection and processing contracts have reported a 250% increasing in recycling costs. This is in addition to the 200% increase in the years following the announcement of the China Sword policy.

The current NSW municipal solid waste recycling rate is 42% (as at FY2019) and diversion rate is 65% (as at FY2019):³ reaching the NSW Government's 10-year target of 80% diversion will require a significant departure from business as usual. Sydney putrescible landfills are due to be full by 2036 at the current trajectory (not including massive volumes of waste generated during increasingly frequent climate disasters) and non-putrescible landfills due to be full by 2028. So alternative technologies for waste will play a critical role, as will innovations for recovering soft plastics, textiles, illegally dumped materials, and bulky waste, which the market currently offers few reliable, cost-effective, and scalable options for. While it is hoped that pricing for alternative technology solutions will compete with the cost of landfill, this is far from assured and presents a major cost risk. Soft plastics, textiles, illegally dumped materials, and bulky waste will all require increased investment in education, market solutions, and managing associated risks.

3.2 Inappropriate Waste Cost Index (WCI) Calculation Methodology

IPART's proposed 1.1% indicative peg for 2022/23 disincentivises councils from expanding and improving waste and resource recovery services, further entrenching a business-as-usual approach and discouraging new innovation and technology at a critical juncture.

³ https://www.dpie.nsw.gov.au/__data/assets/pdf_file/0006/385683/NSW-Waste-and-Sustainable-Materials-Strategy-2041.pdf

SSROC opposes the methodology by which IPART proposes to calculate the WCI and indicative peg on the following grounds:

- As a lagging indicator, it does not take into account current and forecasted CPI or other waste-specific costs, failing to reflect rapidly changing market conditions with significantly fluctuating inflation, fuel prices, and global supply chain disruptions.
- “Costs or purchases made by an average council to undertake its typical waste-related activities”⁴ does not reflect the uniquely challenging cost drivers faced by metropolitan councils, many of which lack access to necessary transfer stations and other infrastructure due to density limitations, must contend with higher prices due to limited competition, and navigate through the risk of service disruptions due to waste management supply chain logistics being concentrated in the hands of a few companies and transport links.
- IPART acknowledges that “the ABS does not have indices specific to waste management services”⁵ so proposes to use the index that it applies to ‘other business services’ in the LGCI. “Other business services” is too vague and ill-defined to be used as an indicator for waste management services, which are subject to too many systemic, macroeconomic, and microeconomic variables to be represented by an unrelated class of miscellaneous business services.

WCI calculations based on past data and lagging indicators does not take into account:

- the consumer price index (CPI);
- 2% local government award increases effective from July 2021 and July 2022;⁶
- 0.5% annual increase to the superannuation guarantee which is legislated to take place annually from 2020-21 to 2025-26 until the superannuation guarantee percentage reaches 12%⁷;
- recent changes in contract rise and fall; and
- an over 20% rise in waste disposal costs following disruptions to the waste management supply chain due to the recent flooding.⁸

In their February 2022 report, the Reserve Bank of Australia (RBA) reported a 3.5% seasonally adjusted annualised rise in CPI. The RBA notes:

*“Measures of underlying inflation remove the effect of irregular or temporary price changes in the CPI. These measures indicate that underlying inflation rose by around 1 per cent in the quarter and 2.6 per cent over the year...this was one of the strongest quarterly outcomes in decades and represents a material increase in underlying inflation relative to recent years.”*⁹

⁴ IPART Draft Report p.17.

⁵ IPART Draft Report p.17.

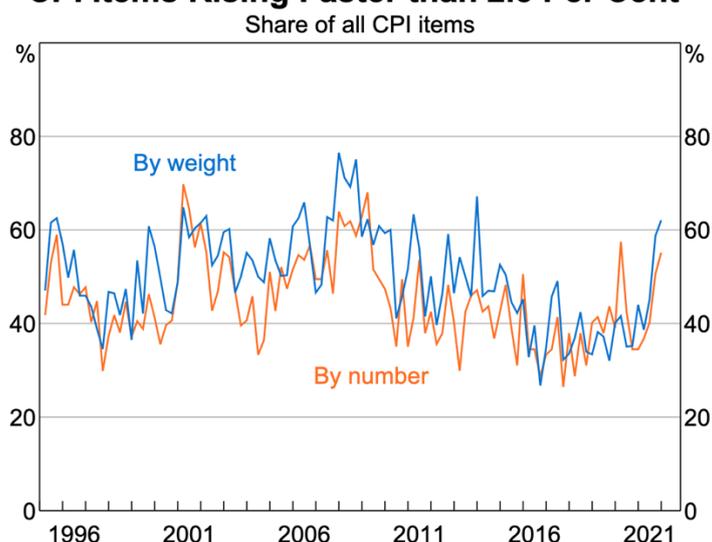
⁶ https://www.lgnsw.org.au/Public/Public/News/Articles/2020-mediareleases/0702_2020_LG_award_economically_responsible.aspx

⁷ <https://www.ato.gov.au/rates/key-superannuation-rates-andthresholds/?anchor=Superguaranteepercentage>

⁸ As reported by a major SSROC council.

⁹ <https://www.rba.gov.au/publications/smp/2022/feb/inflation.html#:~:text=The%20headline%20Consumer%20Price%20Index,time%20of%20the%20November%20Statement%20.>

CPI Items Rising Faster than 2.5 Per Cent*



* Based on seasonally adjusted data; CPI items with annualised quarterly growth greater than 2.5 per cent.

Sources: ABS; RBA

Councils must consider a combination of these factors when forecasting changes in DWMC revenue and expenditures, yet the indicative 1.1% peg vastly underestimates the impact of these factors on waste service costs and is completely inadequate to guide DWMC settings. SSROC councils have also highlighted that, given the rapidly changing market dynamics, making major changes to council revenue-raising mechanisms at this time creates a significant risk that councils will not be able to raise enough revenue to cover waste service costs, that costs will be underestimated, and that it may lead to unrealistic expectations about the acceptable cost of delivering necessary services.

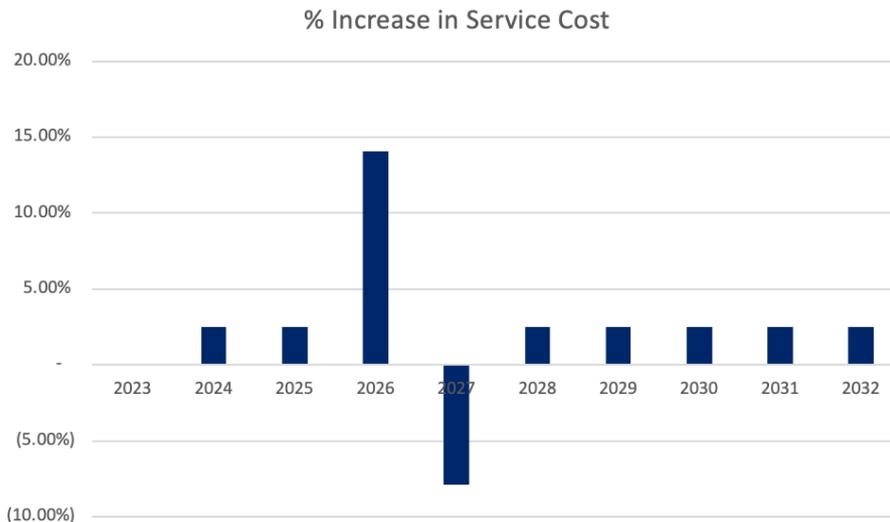
The Western Sydney Regional Organisation of Councils (WSROC) commissioned an unpublished analysis to examine the last 3 years of cost codes (capital, contracts, corporate overheads, materials, plant, tipping, and wages) of 4 WSROC councils aligned with the 26 cost index items in the IPART WCI. The analysis showed that the annual increase in the WSROC WCI was 5.76%, or 28% higher than the 4.5% indicated in IPART's draft report. Even excluding corporate overheads, the WSROC WCI was 5.21%, or 16% higher than indicated by IPART. This may also indicate that costs are rising faster for metropolitan councils than regional and rural councils at least in part due to systemic cost drivers (see section 3.8 below), further highlighting the inappropriateness of IPART's proposed WCI methodology to reflect the realities faced by Sydney councils.

3.3 WaSM Versus the Peg: FOGO

SSROC's detailed FOGO/FO feasibility study conducted over the last 14 months has identified that implementing a FOGO service will increase the average cost of waste services by \$3.2 million per SSROC council and a mixed FOGO for Single Unit Dwellings (SUDs) and FO for Multi-Unit Dwellings (MUDs) service by \$4.5 million per council. Not including the waste reserve or amortisation of capital expenditure for implementing the service, councils would potentially need to raise their DWMC on average by about 14% to fully recover FOGO-related costs. Another major metropolitan council outside the SSROC region has estimated that FOGO implementation will cost at least \$7 million. Under the same assumptions and all other

factors being equal, this would drive up the DWMC by 22-30%. The EPA's contestable Organics Collection Grant program makes available \$65 million, and if distributed equally among councils that have not yet adopted FOGO, would offer only \$760,000 per council, leaving a very large funding gap.

Figure 1: % average increase in service cost and DWMC to implement FOGO*



*We have assumed implementation in 2026 for modelling purposes only.

The IPART draft report suggests two ways for councils to increase their DWMC to meet cost obligations, including for services mandated by the NSW Government: either increase the DWMC, provide an explanation for doing so to IPART, and be named in a public report the following year including the extent to which each council exceeded the indicative peg. Or apply for a special variation, which is a time-consuming task. Both of these options expose councils that exceed the indicative DWMC peg to a potential public and political backlash, and may undermine social licence for FOGO services, as a result of fulfilling an EPA mandate.

Given the increases in CPI, the local government award, superannuation, contract rise and fall, and climate-related service costs, the costs of introducing EPA-mandated services such as FOGO, and any other innovations, technologies, or service improvements, it is virtually guaranteed that councils will need to increase their DWMC to recover costs if they are to avoid reducing their service offering. SSROC is gravely concerned that as more councils do this it will inevitably increase pressure on IPART to make the voluntary peg a hard peg.

3.4 DWMC, General Rates and Financial Modelling

SSROC has undertaken a detailed study of the DWMC methodology, pricing principles, and financial modelling 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. As part of this, SSROC modelled the recoverable and unfunded portions of total waste service cost under 3 scenarios:

1. DWMC pegged at 1.1% per annum (assuming no rebalancing).
2. DWMC revenue and cost allocations compliant with IPART principles (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).

- DWMC revenue and cost allocations compliant with 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). SSROC pricing principles will be discussed in further detail below.

This modelling indicates that, should the DWMC be pegged at 1.1%, the total shortfall in funding required just to maintain the current level of service would exceed \$260 million for 11 councils over 10 years (Figure 6). Meanwhile, modelling of the funding shortfall under the current IPART principles would exceed \$300 million for 11 councils over 10 years (Figure 6). The difference in total cost of services and the recoverable amount under each set of principles in Figures 2 and 3 would need to be covered by general rates or eliminated from councils' service offering. The below modelling assumes councils do not use the waste reserve to fund FOGO implementation, capex is not absorbed in contract costs, and FOGO costs are not amortised.

Figure 2: Amount recoverable under each scenario (excluding FOGO)

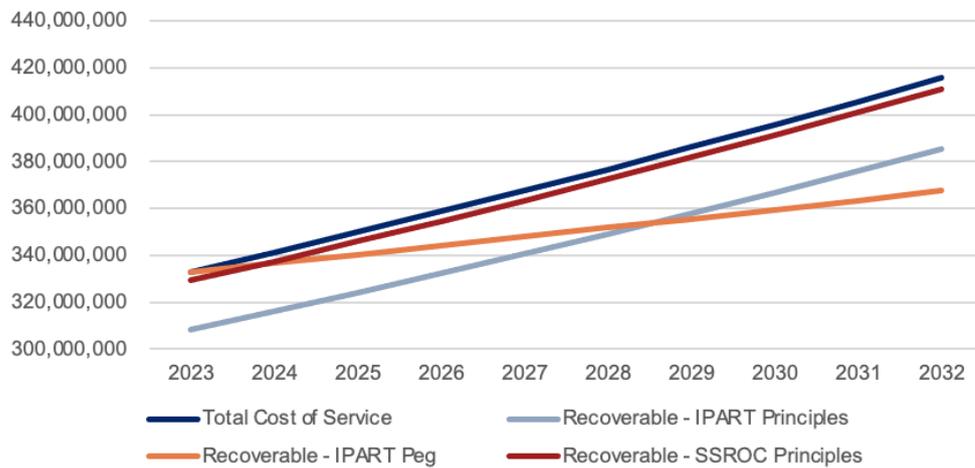


Figure 3: Amount recoverable under each scenario (including FOGO)

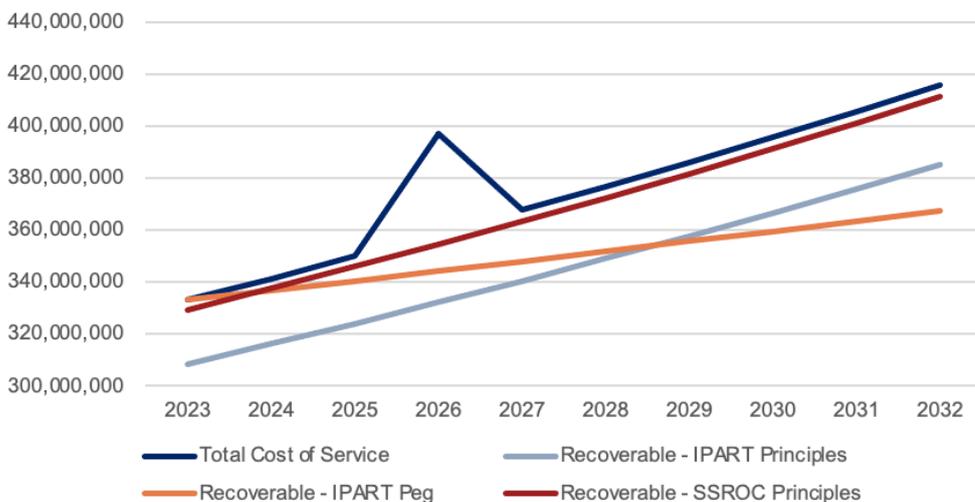


Figure 4: Amount unfunded under each scenario (excluding FOGO)

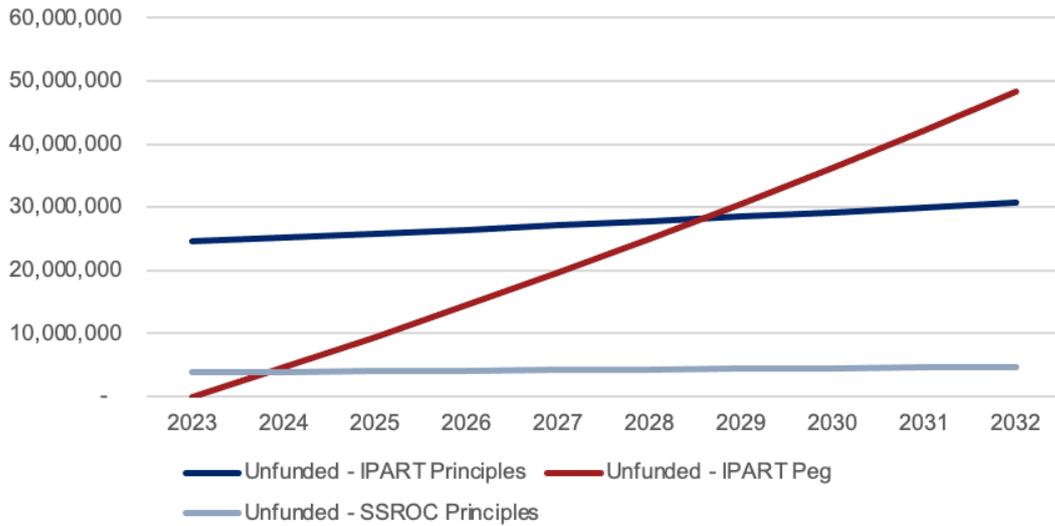


Figure 5: Amount unfunded under each scenario (including FOGO)

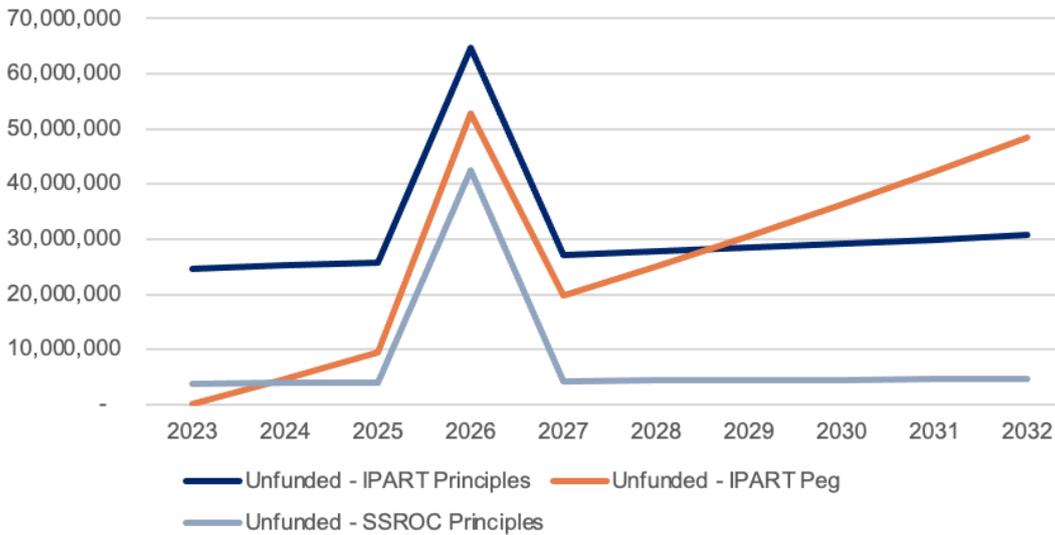


Figure 6: Full funding shortfall over the 10-year modelled period under each scenario

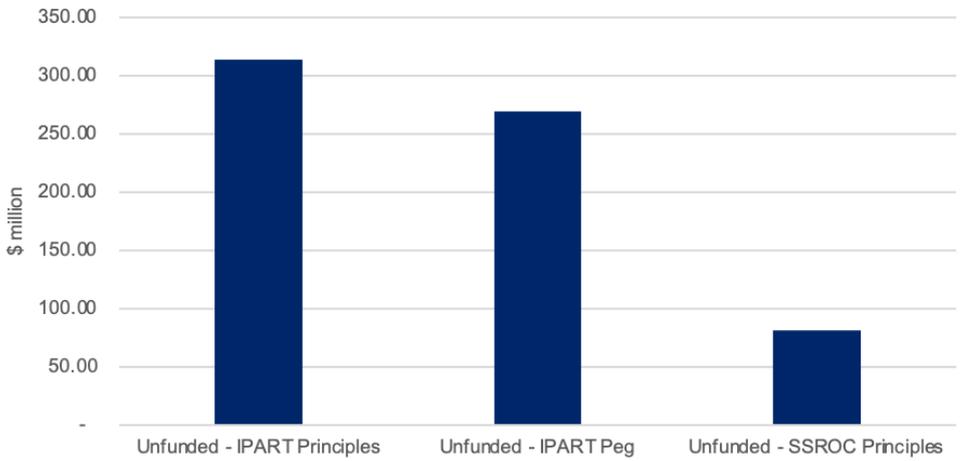


Figure 7: Impact on general rates under 6 scenarios

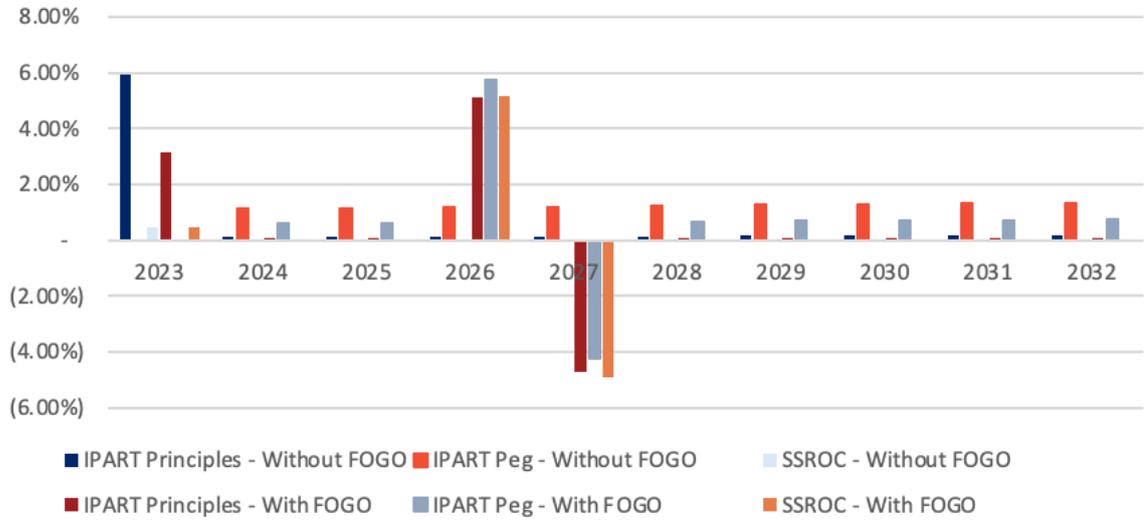
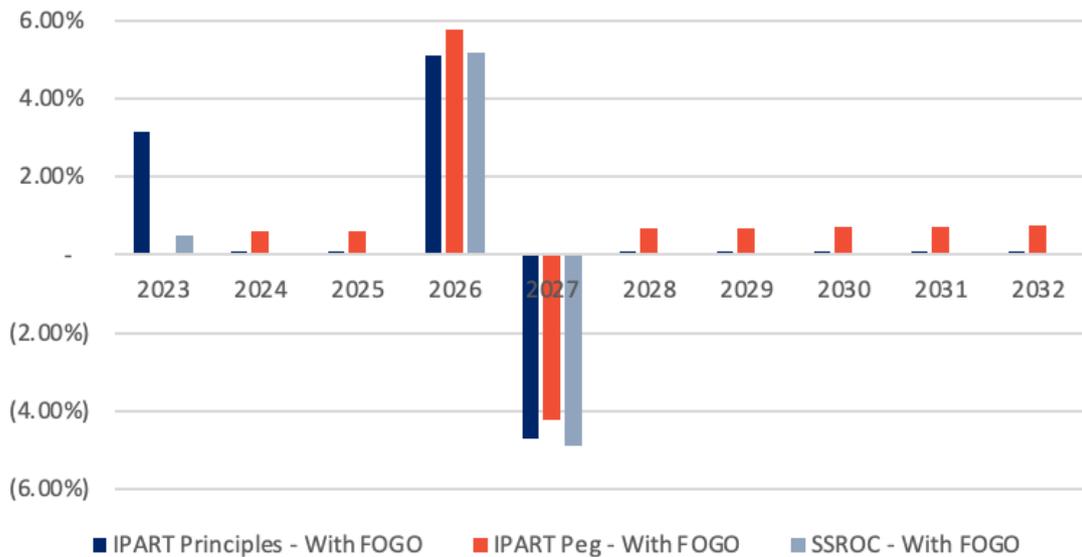


Figure 8: Potential impact on the DWMC*



The above modelling consistently shows that the total funding shortfall would be the most manageable under SSROC pricing principles, lead to better circular economy outcomes, and have a smaller impact on general rates. While the total unfunded amount over 10 years would be greater under IPART principles than under the peg, total council revenue would be less adversely impacted under benchmarking and rebalancing as most of the unfunded amount could be shifted to general rates. However, the draft report mentions no such cost-shifting mechanism other than a special DWMC variation and a special rate variation, highlighting that the proposed peg is the worst of all available options and would severely hamper councils' efforts to meet community expectations, deliver WaSM targets, and prepare for future extreme climate events and unforeseen disasters.

For this reason and for the less inflexible option of benchmarking and rebalancing, if forced to state a preference, SSROC finds the benchmarking and rebalancing option less detrimental, but on the conditions that:

- It would be done through a fast-track process similar to a Crown Land adjustment.
- It would not involve a special variation.
- All domestic waste management services and functions necessary for minimising landfill and maximising resource recovery from domestic waste are included.

However, neither approach fully addresses the needs of councils to provide all the services and functions required to minimise landfill and maximise resource recovery from waste generated by individual parcels of rateable land, especially until the underlying definitions of ‘domestic waste’ and ‘domestic waste management services’ in the Local Government Act and OLG Manual are modernised to align with WaSM circular economy principles and the WARR Act.

SSROC and LGNSW hosted a webinar entitled *WaSM vs the Peg: the dilemma for NSW councils* on 22 March 2022, attended by over 220 stakeholders from metropolitan, regional and rural councils, ROCs/JOs, industry, peak bodies, IPART, EPA, and OLG. While the vast majority of councils oppose both options, a survey during the webinar indicated that, if forced to choose, 98% of the 116 council stakeholders who took part in the survey thought benchmarking and rebalancing preferable to the voluntary peg.

Table 1: Councils’ preferred approach if given a choice between only these two approaches.

	Benchmarking & rebalancing	Voluntary peg
All councils	98% (116)	2% (2)
Metropolitan	98% (57)	2% (1)
Regional	100% (47)	0% (0)
Rural	92% (12)	8% (1)

3.5 Pricing Principles and Definitions

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

Based on the definitions of ‘domestic waste’ and ‘domestic waste management services’ in the Local Government Act and the OLG Manual, neither the voluntary peg nor the benchmarking and rebalancing fully address the needs of councils to provide all 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.

Pricing principles and definitions in the Local Government Act and OLG Manual must be modernised and clarified

SSROC acknowledges that updated pricing principles play an important role in providing clarity and consistency with regard to which domestic waste management services can be incorporated in the DWMC, and strongly advocates:

- 1) That the pricing principles be modernised to include all 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 WARR Act.
- 2) As it is SSROC's understanding that the OLG Manual is not legally binding, that IPART work with relevant authorities such as OLG, the NSW Minister for Local Government, and the NSW EPA to ensure that these definitions in the Local Government Act are modernised. The definitions should include all the services and functions required to minimise landfill and maximise resource recovery from waste generated by individual parcels of rateable land. They should include non-kerbside services such as planning functions, strategy development, reuse and repair initiatives, education, CRCs and drop-off events for problematic and hazardous wastes, as well as other materials such as e-waste, textiles, and soft plastics. (These other materials are not readily or cost-effectively manageable through kerbside services.) All need to be clearly stipulated in the pricing principles and are aligned with the objectives of the WaSM and the WARR Act. These reflect the NSW government's policy of prioritising material efficiency and resource management based on the highest-order principles of a circular economy and the waste hierarchy.

The definitions of 'domestic waste' and 'domestic waste management services' in the Local Government Act and OLG Manual are:

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.

Based on these definitions, it is not clear which services can be included under the DWMC. While IPART has indicated that illegal dumping, street sweeping, public place bins, and indirect overheads are not eligible under the DWMC, the current definitions do not clearly support this interpretation. Rather, the definitions indicate that the aim of the legislation is to manage waste and recycling generated by parcels of rateable land, but are silent on the application of highest-order principles of the waste hierarchy and circular economy as outlined in the WaSM. Such principles include reducing, reusing, repurposing, and repairing, etc before resorting to recycling and disposal.

Neither do the definitions indicate the eligibility of programs designed to reduce waste and divert materials from the waste stream, including education, strategy development, planning, CRCs, and drop-off events, etc.

Socially, economically, and environmentally, these essential services are too important to the community and society for such vague and ambiguous definitions. It is clearly unacceptable that councils need to seek legal advice on interpreting such important legislation that affects almost everyone living in NSW.

An insufficiently flexible revenue-raising mechanism would also jeopardise councils' ability not only to deliver on WaSM targets but also to comply with the WARR Act. This highlights the importance of aligning definitions and objectives between the Local Government Act, WARR Act, and WasM.

The objects of the WARR Act are:

3 Objects of Act

The objects of this Act are as follows—

- (a) to encourage the most efficient use of resources and to reduce environmental harm in accordance with the principles of ecologically sustainable development,
- (b) to ensure resource management options are considered against a hierarchy in the following order—
 - (i) avoidance and reduction of waste,
 - (ii) re-use of waste,
 - (iii) recycling, processing or reprocessing waste,
 - (iv) recovery of energy,
 - (v) disposal,
- (c) to provide for the continual reduction in waste generation,
- (d) to minimise the consumption of natural resources and the final disposal of waste by encouraging the avoidance of waste and the reuse and recycling of waste,
- (e) to ensure that industry shares with the community the responsibility for reducing and dealing with waste,
- (f) to ensure the efficient funding of waste and resource management planning, programs and service delivery,
- (g) to achieve integrated waste and resource management planning, programs and service delivery on a State-wide basis,
- (h) to assist in the achievement of the objectives of the *Protection of the Environment Operations Act 1997*.

Importantly, the WARR Act gives the EPA power to request councils to report on non-compliance with the WaSM:

14 Power to request councils to report on waste strategy compliance

- (1) The EPA may request a local council to provide the reasons for any specified non-compliance by the local council with the objectives of the current waste strategy.
- (2) Such a request must be in writing and must specify the date by which the local council is requested to provide the reasons to the EPA.

SSROC supports this in principle, and the underlying definitions may not stop councils from fundamentally complying with the WaSM, but they are insufficient to empower councils to pursue ambitious programs towards these targets. They could ultimately jeopardise councils' ability to comply, depending on the extent to which the EPA interprets 'meeting targets' as 'compliance'.

3.6 SSROC Pricing Principles

SSROC has explored the development and application of more modernised and expansive pricing principles and their underlying definitions to align with and prioritise circular economy principles.

IPART Pricing Principles	SSROC Pricing Principles
<p><u>Pricing Principle 1</u> DWM Revenue should equal the efficient incremental cost of providing the DWM service</p>	<p>The DWMC will recover all costs associated with the delivery of services and/or functions that relate to material generated from a domestic source. Where applicable, these costs will be proportionate.</p>
<p><u>Pricing Principle 2</u> 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.</p>	<p>SSROC councils publish service provision, bin sizes and collection frequency, but are unable to disaggregate costs to an individual service basis.</p>

<p><u>Pricing Principle 3</u> Within a council area, customers that are:</p> <ul style="list-style-type: none"> • Imposing similar costs for a particular service should pay the same DWMC; and • paying the same DWMC for a particular service should get the same level of service 	<p>SSROC councils ensure compliance with this principle in relation to the provision of DWM services to SUDs. SSROC member councils will continue to offer bespoke services to MUDs. DWMC should be proportionate to enable necessary services catered to community needs and not discriminate against the socioeconomic and/or cultural demographics that often live in MUDs.</p>
<p><u>Pricing Principle 4</u> Any capital costs for providing DWM services should be recovered over the life of the asset to minimise price volatility.</p>	<p>SSROC member councils will continue to recover capital costs prior to the expense being incurred to reduce reliance on borrowings.</p>

3.6.1 Pricing Principle 1: Modernise Inclusions on a Proportionate Cost Basis

SSROC supports clear, efficient, and transparent DWMC charges and pricing principles, based on the expanded coverage of services under the definitions as proposed above. However, charges for services to manage particular streams of waste with a delineable link to rateable parcels of land, or that portion of these streams with a delineable link to rateable parcels of land be calculated on a proportionate basis. These services would include CRCs and drop-off events for problematic, hazardous, and other materials such as e-waste, textiles, soft plastics and potentially illegal dumping.

This would be similar to an availability charge to ensure that councils can raise sufficient funds to cover the baseline costs to make these services available to all residents even if not all residents necessarily use or need them. It should be noted that even charges for primary kerbside services are already somewhat proportionate as the presentation rate changes every week and some residents generate more or less waste than others, contributing a different proportion of a council's total weight-based waste levy and landfill gate fee.

This approach would also ensure councils can continue to provide and charge for services tailored differently to SUDs and MUDs. Examples of such adaptations include those required by physical accessibility (some MUDs have maximum height allowances and limited space for turning docks, requiring specialised and more expensive waste collection trucks) and culture accessibility (i.e., CALD communities may require additional multilingual engagement and educational materials, which incur additional costs). It is SSROC's view that charging residents of MUDs, who tend to represent different socioeconomic and/or cultural demographics from SUDs, a different rate to cater for the higher costs of accommodating more complex accessibility for waste services, is discriminatory.

3.6.2 Pricing Principle 2: Publish Service Provisions

SSROC councils support the publication of waste service provisions, bin sizes, and collection frequency, etc, but not all councils are unable to disaggregate total costs to an individual service cost basis. This presents a significant barrier in attempting to benchmark individual waste service costs and, if councils were forced to

disaggregate costs, would in many cases require a significant restructuring of their accounting methodology.

Councils have also noted that publishing individual service costs could encourage ratepayers to opt out of certain essential services to avoid paying these costs, which could leave some households without essential waste or recycling services, increase loss of resources for households that opt out of a recycling bin, increase contamination for households that opt out of a general waste bin, or lead households to dispose of their waste in public bins or neighbours' bins.

3.6.3 Pricing Principle 4: Waste Reserve and Best Value for Ratepayers

SSROC strongly advocates for allowing councils to utilise the waste reserve to provision for reasonable future obligations, including climate events and other emergencies, rapid market-based cost increases, capital expenditures for planned services such as FOGO or planned waste-related infrastructure such as CRCs, and other reasonable market risks.

While SSROC acknowledges that the DWMC is intended as a fee-for-service that can only be charged to residents with access to those services, it is unreasonable to expect councils to operate by incurring debt to respond to climate events and other emergencies, unexpected surges in market-driven cost increases such as rise and fall or export bans, or temporary and unexpected changes in waste volumes due to increased rain or COVID-19 – when councils should reasonably provision for these risks in advance.

IPART has advised that capital costs for providing DWM services should only be recovered once those services have commenced or facilities have been built; and that, should a council build a waste-related facility or roll out a DWM service that the council must rely on external borrowing, whether from the main council reserve or from an outside financial institution. While this may be the convention for commercial operators in a profit-making environment, it does not necessarily represent best value for ratepayers.

SSROC advocates for councils to be able to recover reasonable capital costs for future services or facilities included in their long-term financial plan. This not only serves to stabilise variations in the DWMC by ensuring councils have a flexible and transparent mechanism for raising investment capital, but it also decreases the net total DWMC charged to residents over time by avoiding passing on loan interest to ratepayers.

One example that clearly demonstrates this is a recent land acquisition for future waste infrastructure by one metropolitan Sydney council.

Acquisition value	\$27 million
Loan period	25 years
Realistic interest rate	5%
Monthly repayment	\$157,840
Total cost	\$47,351,790
Interest	\$20,351,790
Households	65,000
Household interest per annum (interest/households/loan period)	\$12.52 per household/year

- This would result in an increase or a special rate variation of +\$29.14 per household to cover principal and interest repayments.
- Reducing the loan to 10 years would increase the DWMC by \$52.86 per household but would significantly reduce the interest repayment commitment to \$7,365,230 over the life of the loan, leaving ratepayers nearly \$13 million better off on a net basis.

3.6.4 Best Value for Ratepayers and Community Needs

Pricing principles only provide legal clarity on what can be included in the DWMC; they do not assist councils in determining what services to provide.

Community feedback is one of the most critical factors in determining best value for ratepayers, driving councils' commitment to new and improved services to achieve better outcomes each year. All councils are required to consult their communities when developing or updating community strategic plans to ensure that councils activities properly reflect community needs and priorities. SSROC council community surveys undertaken over the last 2-3 years consistently indicate 80-90% support for resource-efficient outcomes, including increasing recycling and reducing landfill. Other consistently prominent issues include reducing single-use plastic, education initiative focusing on reduction and reuse, reducing and capturing food waste, MUDs, bulky waste, and illegal dumping. SSROC notes that the pricing principles do not specifically provide for most of these.

To exemplify the high level of community interest in sustainability outcomes, the City of Sydney received over 5,000 responses to their most recent community-wide survey, 86% of whom indicates a preference for recycling over landfill. In contrast to this, it is clear that IPART's draft report has not demonstrated a similar level of concern about domestic waste with only 33 previous ratepayer submissions.

3.7 Examples in the Rating and Revenue Raising Manual

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?*

Once the pricing principles and the underlying definitions have been modernised and clarified to align with the objectives of the WaSM and WARR Act, detailed working examples would be useful to illustrate how each cost, including associated overheads, should be allocated and reported.

Should a voluntary peg be implemented, it would be critical that the WCI be improved. IPART would need council participation in identifying the most appropriate indices, basket of items, and weightings to determine the Local Government Cost Index and WCI, and include a detailed explanation of how the indicative peg is calculated.

3.8 Systemic Cost Drivers

As discussed above, waste management and resource recovery costs in the metropolitan Sydney region have risen significantly over the last decade, even while funding from the waste levy has fallen. One of the most significant issues is limited competition in the waste and resource recovery sector, which undercuts councils' ability to provide necessary and affordable services for their residents. The current

lack of competition in this sector, especially for recycling services, presents a critical challenge for councils as they are almost entirely reliant on the small number of suppliers that can offer sufficient scale and access to transfer stations, material recovery facilities (MRFs), and processing facilities.

SSROC agrees with IPART's conclusions in its discussion paper about a range of systemic issues driving up costs in the metropolitan Sydney region, including a lack of investment in the waste sector, inadequate hypothecation of the waste levy, limited competition, insufficient infrastructure particularly in metropolitan Sydney, and a lack of strategic planning in the Sydney region by the NSW Government until very recently. Notably, all these factors are outside councils' control. SSROC is also interested in the potential for a separate statutory authority for resource recovery.

SSROC offers the following considerations to further elucidate the increasingly difficult situation councils face in the waste industry, which are major DWMC cost drivers:

- The near-monopoly on recycling services in metropolitan Sydney, and reduced competition, eliminate any efficiencies or price counterbalance to be gained by councils through a competitive procurement process. It could even cause councils to cease procurement processes altogether, as procurement is costly and unlikely to be justified if benefits driven by effective competition will not be forthcoming.
- The near-monopoly on essential waste services directly impacts councils by increasing prices, reducing council leverage in procurements and contracts, and undercutting councils' ability to enforce contract departures. A lack of competition has contributed to an initial 200% increase in recycling costs. Councils recently renewing or entering new recycling contracts are reporting another 250% increase in prices.
- The virtual monopoly on end markets increases upward price pressure on council recycling services by reducing the value of kerbside collected materials processed by MRFs through price manipulation. The financial viability of MRFs is closely linked to the value of end markets for processed materials, so these increased costs are passed down to councils and residents.
- Limited competition undermines regional resilience through centralised control of services and infrastructure; reduced innovation; threatens jobs and reduces employment opportunities through centralisation.

3.9 Loss of Waste Infrastructure

Since the sale of the state-owned corporation WSN Environmental Solutions in 2010, the majority of waste infrastructure in the Greater Sydney area is now owned and operated by the private sector.

Waste in Greater Sydney is rarely managed within the local government area where it is generated, and most SSROC councils do not own or operate any waste and recycling transfer or processing facilities. Councils are wholly reliant on the commercial sector to provide these services.

Sydney is currently in a period of unprecedented development and growth and the availability of accessible and suitable sites for transfer and management of waste is diminishing as land surrounding existing landfills and waste treatment facilities is encroached upon by commercial and residential developments. Some sites currently occupied by transfer stations are in locations that could be valuable for development

purposes. If those sites were sold and cease to operate as transfer stations, in a monopoly there would be no commercial imperative for the supplier to offer an alternative transfer facility. Councils would be forced to transport waste over longer distances to a receival facility, increasing traffic congestion and raising their own collection service costs or their own fleet operating costs rise as a result. Those would ultimately be passed through to residents in domestic waste management charges.

3.10 Impacts of a virtual monopoly in recycling services

Prices are effectively set by a single supplier, leading to increased costs for councils. Following China Sword, the cost of recycling services has more than doubled for SSROC councils. Prior to China Sword, many councils did not pay gate fees, or even received a rebate for recyclable materials. Since 2018, recycling gate fees have nearly doubled for recyclable materials processed through the network of transfer stations and MRFs in metropolitan Sydney. With little recourse and no leverage to negotiate gate fees, dictate the terms of the contract, or even go to market for other suppliers due to lack of competition and competitor proximity issues (to transfer stations or MRFs), a virtual monopoly has put tremendous pressure on councils to continue delivering an essential service for the community without significant price hikes.

With no other viable suppliers in the market with sufficient scale and proximity, councils thus have no choice but to accept the prices and conditions that the service provider sets.

While one council has been able to absorb the increased cost of recycling thus far, most other councils have had no alternative but to raise the DWMC. At the same time the waste levy continues to rise. This also coincides with a fall in rates revenue due to the impact of COVID-19. SSROC agrees with IPART's findings in its discussion paper that underinvestment of waste levy revenue by the NSW Government, even while the waste levy has more than doubled in 10 years, is stifling competition in the waste sector.

3.11 Limited or No Viable Choice of Suppliers

Any cost efficiencies or service quality improvements that might have been gained through a competitive open market tender process are not available for some councils due to the lack of major suppliers of recycling services in metropolitan Sydney with sufficient capacity and proximity to necessary infrastructure.

The lack of competition in the market has already forced some councils to invoke Section 55(3)(i) of the Local Government Act to not tender and enter directly into negotiations with the dominant supplier to provide recycling services. This section of the Local Government Act can be invoked when, due to "extenuating circumstances, remoteness of locality or the unavailability of competitive or reliable tenderers, a council decides by resolution (which states the reasons for the decision) that a satisfactory result would not be achieved by inviting tenders."

This has significant implications as it demonstrates that major segments of the waste sector are uncompetitive, pushing up prices and suppressing innovation.

3.12 Consolidated Supply Chain Control

The concentration of recycling primary processing capacity and secondary processing markets under one supplier, particularly for paper and glass, has increased price pressure for recycling services and compromised supply chain resilience with respect to the few remaining competitors. While the rise in recycling prices in recent years is also attributable to China Sword and COAG bans on the export of unprocessed recyclable materials, a lack of competition undercuts any potential counterbalance to prices and stifles innovation towards circular economy outcomes.

In a recent unpublished report commissioned by the NSW Department of Planning, Industry and Environment (DPIE), Arcadis describes recycling services in the Greater Sydney region in the following way:

“Recycling processing capacity within Greater Sydney has been provided by 3 MRFs across only 3 operators, which has led to issues of market power that has impacted competition. This is exacerbated by MRF operators extending ownership into segments of the secondary processing market to provide greater control over the supply chain, in particular for glass and paper. These issues have put upward pressure on contracted MRF gate fees and increased exposure to end market price sensitivities for recycled commodities.”

4 Conclusion

SSROC and its member councils support clear, efficient, and transparent DWMC and pricing principles, but we strongly oppose any measure that inhibits councils’ ability to deliver the range of high-quality domestic waste management services expected by the community, mandated by the NSW Government, and that are necessary to meet waste and resource recovery targets. The proposals in the draft report would be harmful to NSW councils and would not solve the issues of DWMC variation between councils that triggered this review. They would also impede progress towards the circular economy outcomes that society needs.