

Item 8.

Food Organics Collection Service Cost Benefit Analysis

File No: X124209.003

Summary

The City will provide a food organics (FO) collection service to all households by 2030 in line with the NSW Government's FOGO (food organics and garden organics) recycling mandate. The City is aiming to provide all City of Sydney households with a separate food organic waste recycling bin between mid-2028 and mid-2029. The FO collection services that support the limited scale opt-in service are insourced and delivered by Council staff in the City Cleansing Operations team.

In March 2025, Council noted that suitable service collection, processing methods and service levels for the full rollout of the FO service would be reported back to Council for consideration. This report is for Council to determine the preferred service delivery option for the City's FO collection service.

The City commissioned Morrison Low Advisory to conduct an independent review and cost benefit analysis of 2 collection service options for the full rollout of the FO service to compare and assess potential costs, benefits, and risks. The 2 options that were analysed were:

- (a) *Scenario 1: Insourced service delivery*
Maintain the current council operated FO collection service until June 2028, roll out the service to all households by June 2029, and continue full service from July 2029.
- (b) *Scenario 2 – Outsourced service delivery*
Outsource the rollout of the FO service to all households as early as July 2028 and continue to provide the collection service from that date (including bin and caddy delivery and bin repair and replacement).

The cost benefit analysis identified key risks for financial modelling and procurement of FO collection services at present due to a limited evidence base as the domestic FO collection market is immature with very limited data and pricing available from other councils or industry. There was a limited market response to the study with only two industry collection operators willing to provide indicative pricing and there was a significant disparity between the pricing provided for an outsourced FO service. There is also a high level of uncertainty around service demand as resident participation in the FO collection service is not mandatory making participation and tonnage levels difficult to predict.

The cost benefit analysis recommends that an insourced FO collection service is best placed to manage these key risks. The main reasons are that an insourced service has the ability to redeploy resources in response to service interruptions or demand fluctuations, and can scale resources incrementally to support service growth, minimising the risk of underutilised capacity and unnecessary costs, especially in the early stages of service delivery. Also, it was found that the City could feasibly upscale the service to a fully insourced model that is likely to be similar in cost to an outsourced service. This is based on the assumption that the market is not yet mature, so providers would have to cost more risk and uncertainty into their pricing than would be the case for direct service provision by the City.

The cost benefit analysis advised that to have confidence in market pricing for an outsourced FO collection service, the City can consider running a formal procurement process in the future, once a more comprehensive understanding of the service model is gained from the insourced service delivery model, and should the market mature.

Recommendation

It is resolved that Council:

- (A) note the Food Organics Cost Benefit Analysis Review prepared by Morrison Low Advisory as shown at Confidential Attachment B to the subject report is confidential as it contains confidential commercial information;
- (B) note the Food Organics Cost Benefit Analysis Review prepared by Morrison Low Advisory:
 - (i) assessed 2 service delivery scenarios for food organics collection from residents:
 - (a) Scenario 1 - insourced service delivery: continue the current service until June 2028, roll out the service to all households by June 2029, and continue full service from July 2029 by insourced staff; and
 - (b) Scenario 2 - outsourced service delivery: outsource the rollout from as early as July 2028 so that the service is available to all households by 1 July 2029 and continue full service from that date; and
 - (ii) identified key risks for financial modelling and procurement of food organics collection services at present:
 - (a) limited evidence base - the domestic food organics collection market is immature with very limited data and pricing available from other councils or industry;
 - (b) high service demand uncertainty - resident participation in the food organics service is not mandatory therefore post-rollout volumes are difficult to predict; and

- (c) limited market response - eight industry collection operators were contacted and only two provided pricing. There was a significant disparity between the indicative pricing provided for an outsourced service;
- (C) note the financial implications of the service delivery scenarios for food organics collection assessed in the Food Organics Cost Benefit Analysis Review at Confidential Attachment A to the subject report;
- (D) endorse the implementation of Scenario 1: Insourcing; and
- (E) note that a review of the food organics collection service delivery model including a cost benefit analysis will be undertaken after the first 5 years of full service operations and reported back to Council.

Attachments

- Attachment A.** Financial Implications - Food Organics Collection Service Cost Benefit Analysis (Confidential)
- Attachment B.** Morrison Low Advisory Cost Benefit Analysis Report - Food Organics Collection Service (Confidential)

Background

1. The City of Sydney has been running a residential food organics (FO) collection and recycling service since 2019. The service began as a trial and is operating now as a limited scale opt-in service. It is currently available to more than 24,000 City households (about 20% of total households) in over 325 multi-unit dwellings (MUDs) and more than 1,300 single-unit dwellings (SUDs).
2. FO collection services are currently insourced and delivered by staff in the City Cleansing Operations team. This team also delivers supporting services including bin, caddy and caddy liner bag delivery, and bin repairs and replacements. Service operations are based at the City's Alexandra Canal Depot.
3. On 2 March 2025, the Protection of the Environment Legislation Amendment (FOGO Recycling) Act 2025 came into effect. The legislation requires local councils to provide food and garden organics (FOGO) collection services (either in a combined bin or separate bins) to all residential properties by 1 July 2030.
4. On 17 March 2025, Council noted that City staff had determined that a separate FO service was a better option than a combined FOGO service for households in the City of Sydney Local Government Area (LGA) and endorsed implementation of a FO service to all City households by 2030 to meet the requirements of the NSW FOGO legislation.
5. Council also noted that suitable service collection, processing methods and service levels for the full rollout of the FO service would be reported back to Council for consideration. This report recommends the preferred collection method for a FO service, for Council consideration.

Cost Benefit Analysis

6. To report back to Council on FO service collection methods, the City commissioned Morrison Low Advisory to conduct an independent review and cost benefit analysis of 2 collection service options for the full rollout of the FO service to compare and assess potential costs, benefits, and risks.
7. The 2 FO collection service delivery scenarios that were analysed were:
 - (a) *Scenario 1 – Insourced service delivery*

Maintain the current Council operated FO collection service until June 2028, roll out the service to all households by June 2029, and continue full service from July 2029.

(b) *Scenario 2 – Outsourced service delivery*

Outsource the rollout from as early as July 2028 so that the service is available to all households by 1 July 2029 and continue full service from that date.

8. The cost benefit analysis is to assist the City to consider the best option for the FO service, while minimising operational risks and financial impacts, and to ensure that the collection service is:
- (a) Appropriate – that is, the service will meet current community needs and wants and can be adapted to meet future needs and wants.
 - (b) Effective – that is, council delivers targeted, better quality services in new ways.
 - (c) Efficient – that is, council improves resource use (people, materials, equipment, infrastructure) and redirects savings to finance new or improved services.
 - (d) Affordable – that is, the community is able to afford the current and any proposed future service levels.
9. The options analysis work has included:
- Understanding the requirements for the City and other external providers to provide a FO collection service.
 - Detailed financial modelling of collection service costs for the current and future service delivery needs, including operational and capital costs (for example, trucks and bins).
 - Identification of non-financial benefits and costs associated with the service options.
 - Identification of risks and potential mitigation measures associated with the service options.

Limitations

10. There were key limitations to the cost benefit analysis:

(a) *Limited evidence base*

Domestic FO collection is a relatively new service, so the evidence base for service costs, resource requirements, uptake and participation, contamination levels, and market capacity is very limited. Most other councils combine, or plan to combine, FO and garden organics for a FOGO collection service.

(b) *High service demand uncertainty*

Whilst it is mandatory for the City to provide the FO service to residential properties, resident participation is not mandatory meaning post-rollout volumes are difficult to predict.

(c)

(c) *Limited market response*

There was a poor market response to requests for indicative pricing for an outsourced service. Eight industry collection operators, that represent most of the established operators in metropolitan Sydney, were contacted and only 2 provided pricing. From the responses that were provided from industry operators, there was a significant disparity between indicative pricing for an outsourced service.

11. These limitations and uncertainty mean that the required cost inputs used in the financial model (for example, FTE, vehicles, overheads, and so on.) will almost certainly change as the service evolves. It also means that it is very difficult at this stage to run a robust and informed procurement process to outsource the service. As a result of the limitations, the 2 scenarios were simplified for the analysis by excluding various variables including depot requirements, the conflict in the Middle East's impact on the supply of fuel, and the location of the future processing facility for food organics.
12. Although it was sought as part of the cost benefit analysis, industry responses did not provide a price for the removal of contamination in an outsourced FO collection service.

Differences in Service Models

13. Morrison Low Advisory identified the following qualitative differences between the service delivery models used by an insourced service delivery (Scenario 1) and an outsourced service delivery (Scenario 2).
 - (a) Operational model - The City already has experience with Scenario 1: Insourcing through the current insourced FO collection service.
 - (b) Workforce impacts - The impact on the City's workforce for Scenario 1: Insourcing will be relatively small at around 32 additional FTE collection staff depending on service demand and efficiency. This represents a 0.015% increase in the total City workforce of 2,066 staff.
 - (c) Service synergies and efficiencies - Under Scenario 1: Insourcing, the City should have more flexibility to respond to and manage fluctuating service demand and customer service requests compared to a contracted arrangement. In the future, as the service matures and demand stabilises, contractors may be better placed to manage ongoing service innovation and efficiency.
 - (d) Shocks and resilience - Scenario 1: Insourcing is equally capable of being responsive and resilient to shocks such as industrial action, pandemics, catastrophic weather events, or major civil unrest due to the City's cleansing workforce.
 - (e) Service rollout - Scenario 1: Insourcing could be more flexibly rolled out from a geographical perspective. The City could also pace the rollout to align with vehicle acquisition, staff recruitment processes, and other City needs.

14. The Cost Benefit Analysis recommends that Council is best placed to respond to and manage current service risks and uncertainty through an insourced service (Scenario 1). Under an insourced model Council would have the ability to redeploy resources in response to service interruptions or demand fluctuations, and can scale resources incrementally to support service growth, minimising the risk of underutilised capacity and unnecessary costs, especially in the early stages of service delivery.
15. The Cost Benefit Analysis also recommends that once Council has rolled out the insourced service and gained a solid understanding of the service model and demand at full scale, it considers going to the market in the future to test whether an outsourced collection model can provide better overall outcomes for ratepayers.

Key Implications

Strategic Alignment - Sustainable Sydney 2030-2050 Continuing the Vision

16. Sustainable Sydney 2030-2050 Continuing the Vision renews the communities' vision for the sustainable development of the city to 2050. It includes 10 strategic directions to guide the future of the city, as well as 10 targets against which to measure progress. This report is aligned with the following strategic directions and objectives:
 - (a) Direction 1 - Responsible governance and stewardship - the FO collection service is a mandatory service that will support waste reduction and environmental protection. The service analysis identifies options to provide a quality FO service that is appropriate, efficient, effective and affordable.
 - (b) Direction 2 - A leading environmental performer - a FO collection service supports the City's commitment to being a leading environmental performer by enabling effective waste management, resource recovery, and waste diversion from landfill. The FO service will directly contribute to achieving the following City environmental targets:
 - 90% resource recovery of residential waste by 2035.
 - Minimum of 40% source-separated recycling for residential waste by 2035.
 - By 2035 we will achieve net zero emissions in the City of Sydney local area.

Organisational Impact

17. Scenario 1: Insourcing would have the greatest organisational impact, requiring up to an additional 32 collection staff and 10 additional collection trucks to enable City Cleansing to deliver an insourced collection service to more than 120,000 households.

18. The table below indicates the estimated resources required and the staged resourcing approach as the service is rolled out to households incrementally over 12 months under Scenario 1: Insourcing (note the table includes the existing 5 collection staff and 3 collection vehicles used to provide the current FO service):

	Jun-28	Jul-28	Oct-28	Apr-29	Jun-29
Households with service:	24,500	48,500	72,500	96,500	120,500
Estimated monthly tonnes:	50	190	305	425	540
Total bins required:	2,100	7,575	13,050	18,525	24,000
Total trucks:	3	5	8	10	13
Total collection staff	5	12	20	28	37

19. In parallel with the cost benefit analysis, City staff analysed the depot requirements for Scenario 1: Insourcing and determined that, by implementing operational efficiencies across the City's 3 operational depots (Ultimo, Alexandria and Woolloomooloo), rationalising current fleet (i.e., moving to smaller and requiring less vehicles where possible) and with the new Bay Street depot development, there will be adequate space available to accommodate the additional FTEs and vehicles required to deliver an insourced FO collection service. The modelling indicates that impact on corporate services will be minimal, but this would need to be monitored based on the level of uncertainty.
20. Scenario 2 would have less organisational impact compared to Scenario 1: Insourcing. An additional 2 staff would be required to manage the delivery of an outsourced FO collection service. The existing 5 collection staff and 3 vehicles would no longer be required for the service under Scenario 2.

Risks

21. Scenario 1: Insourcing is within the City's risk appetite which states:
- (a) The City has a responsibility to ensure that it has resources in the short, medium and long term to provide the levels of service that are affordable and considered appropriate by the community.
 - (b) We maintain a cautious appetite to financial risks, aiming to minimise the likelihood and impact of significant financial losses. We prioritise the protection of our financial resources and our long-term financial sustainability. We strive to ensure our financial decisions are well informed, based on sound financial analysis and aligned with our strategic objectives.
 - (c) We have minimal appetite for more than temporary disruption to our critical service functions, such as waste services and childcare services.

Social / Cultural / Community

22. Social outcomes are supported by fostering a circular economy and reducing costs associated with waste mismanagement through minimising contamination and delivering efficient waste collection services.
23. Scenario 1: Insourcing is better placed to understand and cater to the community's needs due to previous experience delivering the FO service since 2019. The innovation and efficiency driven by insourced service knowledge and ability to scale to service demand was identified in the cost benefit analysis as a significant qualitative benefit.

Environmental

24. The FO service will directly contribute to achieving the following City environmental targets:
 - 90% resource recovery of residential waste by 2035.
 - Minimum of 40% source-separated recycling for residential waste by 2035.
 - By 2035 we will achieve net zero emissions in the City of Sydney local area.
25. Contamination of the FO bin can significantly lower recovery rates and impact environmental outcomes of a FO service. Scenario 1: Insourcing will allow the City to have closer management and quicker rectification of contamination issues. Cleansing teams currently inspect and remove contamination during service delivery leading to very low contamination rates in the current FO service. This approach will be continued in an insourced service delivery model.

Economic

26. An insourced service has the ability to redeploy resources in response to service interruptions or demand fluctuations and can scale resources incrementally to support service growth, minimising the risk of underutilised capacity and unnecessary costs, especially in the early stages of service delivery.
27. The cost benefit analysis demonstrates that the City could feasibly upscale the service to a fully insourced model that is likely to be similar in cost to an outsourced service.
28. The cost benefit analysis identified that a benefit of Scenario 2 is that contractors may offer financial incentives to increase staff retention and have access to a larger recruitment pool.
29. The cost benefit analysis advised that to have confidence in market pricing for an outsourced FO collection service, Council can consider running a formal procurement process in the future, once a more comprehensive understanding of the service model is gained from the insourced service delivery model, should the market mature. The study also noted that since the market is not yet mature, contractors may cost more risk and uncertainty into their pricing, if the service went to tender now.

Financial Implications

30. Residential properties are charged an annual domestic waste charge by the City to cover the cost of providing domestic waste and recycling services. This includes the FO collection service.
31. Under the Local Government Act 1993 (NSW), domestic waste services must operate on a full cost recovery basis. For 2025/26, estimated income is \$71.0 million, including the accumulation of a reserve to support infrastructure or projects that can deliver waste reduction, reuse, recycling and landfill diversion targets and objectives as outlined in the City's Community Strategic Plan or the Waste Reduction and Circular Materials Strategy 2026-2035, adopted in February 2026.

Domestic Waste Charge Impact Analysis

32. Based on the Net Present Value (NPV) analysis prepared by Morrison Low Advisory, City staff conducted a percentage and actual financial impact assessment for each scenario based on the present domestic waste charges. NPV helps compare different service delivery models by converting future operating costs, capital investments, and benefits into today's dollar terms.
33. The assessment indicated that there is likely to be a negligible difference in the impact to the domestic waste charge for both scenarios. The following is for illustrative purposes only to compare the two scenarios based on the current domestic waste charge. It is not indicative of the final impact that the implementation of a FO service will have on the domestic waste charge.
 - (a) Scenario 1: Insourcing would result in a 9.3% increase in the domestic waste charge (on average) compared to 2025/26, which translates to an annual increase of approximately \$6.6M per year and a weighted average increase of approximately \$51 to a household's annual domestic waste charge.
 - (b) Scenario 2 would result in a 9.0% increase in the domestic waste charge (on average) compared to 2025/26, which translates to an annual increase of approximately \$6.4M per year and a weighted average increase of approximately \$49 to a household's annual domestic waste charge.
 - (c) The weighted average increase relates to the average impact on the City's most common fees for around 78% of households under the domestic waste management charge.
34. City staff will investigate how the City's domestic waste reserve could be used to offset the capital costs associated with rollout of the FO collection service (e.g., purchase of collection vehicles or bins).
35. For Scenario 1: Insourcing, the City would have to invest in additional plant, fleet and equipment to deliver the FO collection service to all households.
36. Given the current immaturity of the FO collection service market and limited evidence base for service resourcing requirements, as well as the high uncertainty around service demand post rollout, costs are likely to change as the service and the industry evolves. Therefore, other operational and qualitative factors need to be considered when determining the preferred FO collection service model.

37. Provisional budgets for collections under either scenario is included in the draft Long Term Financial Plan, along with a provisional and commensurate increase in the domestic waste charge. It is anticipated that budgets will be adjusted in future iterations of the Long Term Financial Plan.
38. In addition to the collection decision, the future decision on processing type will also have cost impacts for the service that will be determined in 2027.

Relevant Legislation

39. The Protection of the Environment Legislation Amendment (FOGO Recycling) Act 2025 requires all councils to provide FOGO collection services to all residential properties by 1 July 2030.
40. Local Government Act 1993 - Sections 10A and 10B provide that a council may close to the public so much of its meeting as comprises the discussion of information that would, if disclosed, confer a commercial advantage on a person with whom the council is conducting (or proposes to conduct) business.
41. Attachments A and B contain confidential commercial information which, if disclosed, would:
 - (a) confer a commercial advantage on a person with whom Council is conducting (or proposes to conduct) business; and
 - (b) prejudice the commercial position of the person who supplied it.
42. Discussion of the matter in an open meeting would, on balance, be contrary to the public interest because it would compromise Council's ability to negotiate fairly and commercially to achieve the best outcome for its ratepayers. Further, disclosure of information provided as part of this analysis, and the assessment of that information, would prejudice the commercial position of the market operators that supplied it.

Critical Dates / Time Frames

43. Key dates for this service are:
 - (a) September 2026 - Council decision is required on the recommended FO collection option by this date to allow sufficient time to plan the delivery of the service to all households by July 2029.
 - (b) Mid 2027 - Council decision required on the recommended food organics processing option for this service.
 - (c) July 2028 - The planned start date to roll out the FO service to all households by the recommended collection type.
 - (d) July 2029 - The anticipated date the service roll-out will be completed to all households and delivery of the full service will continue.

44. Under the NSW FOGO legislation, the City is required to provide a FO or FOGO bin to all households who have a red-lid bin collection service by 1 July 2030.

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