

Eurobodalla Shire Council

SUBMISSION TO IPART'S DOMESTIC WASTE MANAGEMENT CHARGES REVIEW

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Introduction

IPART's Draft Report (2021) proposes the adoption of pricing principles and an annual 'benchmark' peg on the Domestic Waste Management (DWM) charge, starting at 1.1% in 2022/23. IPART intends to publish an annual report naming councils whose annual DWM charge increased more than the benchmark peg. The Draft Report supersedes the approach proposed in IPART's 2020 Discussion Paper, that recommended adoption of pricing principles by councils and the establishment of a monitoring, reporting and benchmarking regime.

IPART's pricing principles would be applied via the Council Rating and Revenue Raising Manual to 'rebalance' costs attributed between the DWM charge and general rates, with a one-off variation to councils' general rate base allowed in 2022/23 or 23/24. IPART will monitor 'like for like' councils against their benchmarks and report on outlier councils each year, with outliers triggering a requirement to justify the variation or face a potential regulatory response.

IPART has stated there is not an option for them to take no action and that alternatives to the two proposals above would be extremely unlikely to be considered given the need for another lengthy public consultation.

This submission provides Eurobodalla Shire Council's (ESC) general response to IPART's Draft Report (2021) and specifically address the issues put forward seeking stakeholder comment.

Do you think IPART's proposed annual 'benchmark' waste peg will assist councils in setting their DWM charges?

ESC does not support the IPART waste peg. The high variance of services between councils, combined with geographical variability make it difficult to benchmark what a comparable council should be charging for DWM services. Council waste services are generally unique, this waste peg in turn has the potential to make waste services unsustainable.

Councils should be given the accountability to set fair and justified DWM charges according to their individual DWM expenses and community need. If benchmarks are introduced, this will allow poorly informed residents the opportunity to compare DWM charges across councils and result in misleading views and create unnecessary public backlash. Consuming resources of both IPART and councils alike to administer, report, and explain why DWM charges exceed the waste peg.

The current process allows setting fees and charges via an Operational Plan that allows ratepayer feedback prior to implementation - this system (for the majority) works well. The current process allows DWM charges to be set proportional to the service levels required to undertake effective resource management budgeted to the council's rate base. A benchmark will be complicated, difficult (impossible) to determine, create confusion, and apprehension for ratepayers.

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

Council agrees that the publication of pricing principles by the Office of Local Government (OLG) will provide guidance to councils on how to set DWM charges. This would offer a justification for the setting of DWM charges and negate the need for a separate benchmark waste peg.

The current definitions and guidance on what should be included in the DWM charge are dated and do not reflect modern waste management activities, nor provide for the activities that are likely to be required to enable the transition to a circular economy as per the NSW Government's vision

outlined in the NSW Waste and Sustainable Materials Strategy (WaSM). Updated and clear guidance on what should be included (or excluded) from the DWM charge will provide transparency to residents and consistent allocation of costs. However, the complexities (and their costings) should be kept confidential, and only receive expert consultancy, rather than misaligned information from ratepayer and public interest groups.

Pricing principles will assist councils to inform ratepayers, not just focusing on the daily essential services, but create a holistic view on the whole of life cycle costs of waste services and effective resource management, which would be helpful in providing consistency in setting DWM charges relevant to individual council waste services.

Appendix D, of IPARTS Draft Report (2021) has a worked example for applying pricing principles which includes both a “contracted Out” vs “Day labour” example, also providing commentary on the various “ins and Outs”. The following issues have been highlighted by LGSolutions and have been included for IPART’s consideration.

1. The Pricing Principles purely look at and comment on the cost side of the equation.

The report contains no example relating to revenue. DWM service will invariably have income other than DWM charges (e.g. interest on investments, specific purpose grants) which will invariably reduce the Net Cost of DWM charges and presumably should be offset against the expenses before the DWM charges are set.

It is suggested that the pricing principles need to discuss how other DWM revenue sources (outside of user charges) should be taken into account setting the DWM prices each year.

2. The Day labour (e.g. in house) cost allocation includes an expense item for “Return on assets at 3%”.

Such a cost item might be fine if the general fund has funded all the DWM charge assets in use. Where the DWM fund itself has funded its own assets (and therefore the analogy the DWM customers have funded the assets) then such an expense is in fact not appropriate or applicable but instead is a “double dip”. Furthermore, unless the return on asset is actually “paid to someone, it will just accumulate in the DWM fund for no reason.

It is suggested the Pricing Principles need to make clear when it is appropriate to charge a “Return on assets at 3%” amount.

3. Contingencies

IPART’s Pricing Principles and worked example make no mention of contingencies within the budget to ensure Council’s DWM service can fund expenditure and revenue “shocks” across a single year. It is suggested the Pricing Principles need to include some discussion on what level of expenditure and revenue “shock” contingencies are appropriate (taking into account the DWM funds current balance sheet (e.g. its current cash levels and liabilities)).

4. The word sustainability is missing from IPART’s Pricing Principles

It appears that IPART’s Pricing Principles and the worked example all tend to have a fixed 1 year horizon (being next year). The problem with 1 year fixed horizons (and setting an annual price using that horizon) is that there is no thought about the implications of any known price spikes (that will occur in the future). Instead, the pricing principles look and suggest about setting a price now for today’s expenses only.

The problem with this single “year in, year out” pricing methodology and horizon is that it will invariably lead to DWM charge “shocks” where income needs to increase in a year by larger than normal increases to the cost base of DWM in any year.

It is suggested that prices should be set so that their increases are sustainable over the short to medium term and therefore avoid price shocks and large price jumps.

Accordingly, Council DWM service pricing policies should consider not just the next years expense budget but also the long term financial plan results for the DWM service and should be able to factor into their annual pricing known further expenditure hikes in order to smooth out DWM pricing over the short to medium term.

5. What about Council’s that are running DWM charge deficits at present?

While councils are required to set a DWM income to capture actual DWM costs, budgets being budgets mean that in reality this will result in surpluses or deficits in any one year. As such, it is more likely that councils may be currently running a DWM service deficit cash position.

Another deficit that councils may currently have been unfunded restoration provisions that eventually will require cash backing.

It is suggested that the recommended pricing policies need to discuss how councils factor in a recovery of existing deficit positions (or future deficit position) when determining the waste costs to recover in any one year.

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?

The development and inclusion of additional detailed examples in the OLG Council Rating and Revenue manual, and their usefulness in implementing pricing principles to assist in the process, would depend on the relevance to individual Councils. All Councils provide different levels of services, not just for kerbside collections but other recycling alternatives at the resource recovery facilities. These facilities incur different levels of expenditure for each Council. Therefore, comparing Council rates and charges would be inequitable . Although it would assist in the transparency of the process, the implementation is open to interpretation.

If a detailed price setting principle were included in the OLG manual, this further development would still not make Councils comparable, nor assist adjoining councils to adopt set mirrored DWM charges. External factors affect the councils in different ways (e.g. transport costs and market concentrations) so having a common comparison would not be reasonable as some councils may have sufficient existing fund reserves already, and some may not. This would lead some Councils looking to increase their DWM charges substantially higher than others, for example those with smaller rate bases.

Rebalancing vs peg options:

Preferred approach: Rebalancing

ESC has concerns with adopting either proposal, nonetheless of the two options proposed by IPART (waste peg or rebalancing), ESC considers the rebalancing approach as the preferred option. However, we have the following concerns with this approach including:

- ESC's waste costs may vary significantly from benchmarked costs due to service level, density, demographics, and timing or introduction of services compared to other councils e.g. FOGO.
- The costs of managing illegal dumping are accounted as an ad hoc unscheduled clean-up and combined with clean-up costs. We do not know the true cost of illegal dumping (due to unknown volumes and the ad hoc nature of clean-ups. Additionally, education costs related to illegal dumping are not included.
- Only those education costs related to waste and recycling can be included in DWM charges, which means the portion of costs of an educator's time dedicated to non-waste issues such as environment and sustainability, and education campaigns not directly related to delivering waste services, could not be included in the DWM charge.
- Where activities are re-allocated to sit under general rates, there is strong concern that the relative priority of those activities will diminish when having to compete with other activities in general rates, e.g. education campaigns to reduce illegal dumping or waste minimisation.
- Councils, especially those in regional and rural areas would express concern if there were any risk to employment of waste staff through the rebalancing approach. Surety of employment is critical and necessary for the continued delivery of waste services.

Approach: Waste Peg

As outlined above, ESC does not support a waste peg due to the following concerns:

- It incentivises councils to do as little as possible and to prioritise cost over innovation and delivering best-practice services at a time when we need too, and the community expects the opposite.
- More waste going to landfill when metropolitan and regional landfills are anticipated to reach capacity within the next 15 years.
- Poses a significant barrier to delivery of council targets and the NSW Waste and Sustainable Materials Strategy (WaSM) targets, including the roll-out of new services such as FOGO, which the EPA has mandated by 2030. Research suggests that FOGO may require councils to raise DWM charges upwards of 14%.
- The peg does not allow for the combination of CPI, the recent sudden rise in petrol prices, sudden changes in inflation, the recent increase in the Local Government Award, or planned increases in the DWM charge already included in many council budgets.
- Under the current funding crunch and ambitious waste targets, many councils would inevitably exceed the voluntary peg, putting pressure on IPART to make the voluntary peg a hard peg. Once we have a peg, it will be very hard to get rid of.

- Being named by IPART in an annual report for inevitably raising the DWM charge above the peg or applying for a time-consuming special rate variation to avoid this – just to introduce an EPA-mandated service such as FOGO – risks a community and media backlash. This may also undercut establishing social license for a new service, increase planning time, and create delays in service introduction.
- Some councils have reported that the proposed peg has already created internal pressure to reduce costs while continuing to deliver a high-quality service, thus creating an unsustainable situation.
- Insufficient dollars to cover DWM charges.
- General rates (which may not be available) may be required to part fund DWM charges.

If IPART are concerned about the cost of waste services to the community, they should appeal to the Government for the removal of the waste levy. The levy has no relationship to waste services provision and largely contributes to increasing the Government's bottom line.