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Our ref: KT

Your ref:

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Review of Domestic Waste Management Charges
Independent Pricing and Regulatory Tribunal
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SYDNEY NSW 1240

Dear Tribunal Members

Lismore City Council: Review of Domestic Waste Management Charges

Lismore City Council (LCC) thanks IPART for the opportunity to provide comment on the Review of Domestic Waste Management (DWM) Charges.

There are significant challenges and changes afoot for local government in preparing and transitioning their communities to a new waste paradigm as envisaged by the NSW Government's Waste and Sustainable Materials Strategy 2041 (WaSM). This will require councils to introduce new domestic food and organics collections, amongst a host of other new or enhanced activities, to deliver against the Strategy's objectives and targets.

Add to this the challenges of waste export bans commencing, significant fuel price increases and transport costs, and the lasting impacts of bushfire, flood and pandemic and it is clear this is not the time to further complicate and hamstring councils as they service their communities.

IPART has identified concerns around lack of transparency for residents on pricing, inconsistency of charges across councils for similar services and inconsistent cost allocations between the DWM charge and general rates. Lismore City Council is of the strong view that the solution should therefore focus on supporting councils to address the fundamental source of any concerns rather than introducing further regulatory measures such as a benchmark or peg.

Updated and clearer guidance on what should be included (or excluded) from the DWM charge is the simplest and most efficient way to provide transparency to residents and consistent allocation of costs. 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 WaSM.

The first step should therefore be to update definitions (such as 'domestic waste management service') with the *Local Government Act 1993* and in the associated *Council Rating and Revenue Raising Manual*.

Consistency of costs for similar services across councils will also be supported by the above updates. However, it must be noted that service costs are influenced by factors that are variable and fixed, the latter including proximity of council to markets/ disposal sites and subsequent transport costs. The lack of competition in the waste sector is also a factor over which councils have little control. Support for market development, innovation and increased competition is required, and these sit beyond the realm of IPART.

With regards to transparency for residents, there are existing mechanisms for engaging and reporting to the community on DWM services and charges. These include the Integrated Planning & Reporting process, publishing of council fees and charges, and auditing by the Office of Local Government (OLG) or the NSW Audit Office. Again, the focus should be on ensuring the appropriate use of these mechanisms rather than introducing blunt instruments such as pegs or one-off adjustments.

Effective mechanisms exist

IPART has made the assertion that 'business as usual' when setting future DWM charges is not an option. However, councils already have a toolbox of measures available to them to ensure it meets or exceeds community expectations whilst achieving State and Federal waste targets. Indeed, there are many examples where councils' efficient use of the DWM charge has delivered an increasing range of domestic waste programs – demonstrating innovation, circular economy principles, improved resource recovery and of course improved environmental outcomes. As such to suggest that BAU is an ineffective method of determining the DMW charge is disingenuous.

Some of the measures currently used by councils include:

- The IP&R process which sets up the mechanisms for councils to engage with its community on appropriate DWM costs
- Councils' membership of ROCs, JOs and voluntary waste organisations which allow for joint contract negotiations and create opportunities to limit costs and facilitate consistency in regional waste delivery.

Local government procurement policies set out guidelines for purchasing and tendering to ensure communities receive best value for money. OLG has also foreshadowed a review of the Local Government tendering guidelines in 2022. The new procurement guidelines will provide guidance on how councils can use procurement to further the community goals identified through the integrated planning and reporting process and as a social and economic development tool.

There are existing reporting mechanisms which ensure the transparency of reporting the DMW charge and the details of services which are funded:

- A comparison of council services including DWM costs are already included in the Your Council website <https://www.yourcouncil.nsw.gov.au>.
- Annual Operational Plan public exhibition period and council deliberations.
- Fees and charges made publicly available on individual council websites.
- The OLG has the power to monitor DWM charges to ensure that they reflect reasonable costs.

Factors influencing costs

There also needs to be recognition of the extraordinary factors that will continue to influence the delivery of waste services and councils' ability to meet community expectations. These include:

- The rollout of the WaSM which includes the inclusion of the food and garden organics mandate and changes to contestable/ non-contestable funding.
- The effects of the China Sword policy, the Basel Convention and bans on the export of other waste materials.
- The NSW Government's current review of the resource recovery framework which will likely see definitions of key terms (such as 'waste') altered amongst other changes to the framework. These may result in changed service costs for councils.
- Increasing costs and overheads for councils including fuel and electricity. This is coupled with uncertainty around future increases because of COVID-19, disruption to global supply chains

and compounding local economic pressures and leading to an increasing CPI.

- Increasing staff wages which will increase by 2% in accordance with the LG Award on 1 July 2022.
- The impact of the 0.7% baseline rate peg handed down by IPART for this year which is likely to result in a \$100 million shortfall sector-wide.
- Concern around climate change which will continue to influence community sentiment towards increased resource recovery.
- The need to move toward a circular economy to minimise resource loss whilst driving innovation and opportunity.
- The increasing cost of managing waste resulting from climate change driven natural disasters.
- Existing monopolies within the waste industry which limit councils' capacity to negotiate contract costs.
- Increases in the superannuation guarantee levy which can lead to increasing contract costs.
- Anticipated high costs and extended lead times for the approval and construction of new disposal facilities.

In addition, IPART's approach to the DWM charge reflects a linear waste model and does not reflect the innovation and different way of thinking that is necessary for transitioning to a circular economy. Transitioning to a circular economy underpins the WaSM and is the NSW Government's stated policy direction for better managing our resources and minimising waste. It will potentially require councils to undertake activities beyond what IPART (and the definitions in the Local Government Act and Rating Manual) currently considers 'domestic waste management' to be.

The waste hierarchy sets out the priorities for waste disposal in Australia. It is clear that waste avoidance and reduction are the preferred mechanisms to efficiently manage waste and for councils this will mean increasing community education and programs that are designed to decrease waste generation. Such programs are not currently included in the list of those that could be funded under the DWM charge.

IPART's proposed peg

The proposed peg approach has the following negative implications:

- a) It incentivises councils to do as little as possible and to prioritise cost over innovation and delivering best-practice services.
- b) It poses a significant barrier to delivery of council targets and the WaSM targets, and the services required to achieve those.
- c) The proposed peg of 1.1% may be calculated based upon flawed data. The calculation also uses historical data rather than forward projections to reflect future needs.
- d) It increases risk to the successful roll-out of new services such as food organics and garden organics (FOGO), which the EPA has mandated by 2030.
- e) As the peg uses historical data, it does not reflect the real costs being faced by councils in the coming year. For example, the 1.1% waste peg proposed for 2022-23 does not reflect an increasing CPI currently running at around 4% (and potentially higher), real council award cost increases and the dramatically increased prices of fuel.
- f) 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.
- g) Many councils have consulted their communities as part of its strategic planning and identified a strong community expectation for higher resource recovery and, in many cases, a willingness to pay for additional services.
- h) The peg further entrenches the gap between councils with relatively low DWM charges and councils with relatively high DWM charges, allowing the latter to continue levying high charges

and increasing these at a higher annual increment than councils with lower DWM charges.

- i) As more councils inevitably exceed the voluntary peg, pressure will build on IPART to make the voluntary peg mandatory.
- j) There are concerns around increased reporting which will require resourcing, taking up valuable staff time.

“Rebalancing” approach

Of the two options contemplated by IPART (peg or rebalancing), and notwithstanding IPART’s limited powers under delegation, rebalancing is the “least worst” option. However local government’s concerns with this proposed approach include:

- a) Some council waste costs may vary significantly from benchmarked costs due to service level, density, demographics, and timing of service introductions compared to other councils, etc.
- b) According to IPART’s proposed delineation, the costs of managing illegal dumping would be accounted for as an unbooked clean-up and combined with clean-up costs. However, some councils do not know the cost of illegal dumping on its own as trucks generally do not have scales, it is sometimes combined with clean-ups and is often ad-hoc.
- c) 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.
- d) 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, eg education campaigns to reduce illegal dumping or avoid the generation of waste.
- e) 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 at this time and is necessary for the continued delivery of waste services.

Pricing Principles

Lismore City Council generally supports the concept and intent of pricing principles and would in due course welcome updated, realistic and considered guidance on how it should be applied. This will further improve transparency and increase certainty it is being consistently applied.

It is understood the *Council Rating and Revenue Raising Manual* is slated for update as part of the broader rating reforms, and that would be the appropriate time for IPART to prompt the inclusion and application of pricing principles.

IPART’s draft report asks whether the pricing principles “will assist councils to set DWM charges to achieve best value for ratepayers”. This question assumes that councils are not already seeking to achieve best value for ratepayers – an unfounded and incorrect assumption.

Councils are constantly seeking out the best way to deliver the community’s expected services in the most efficient way, so as to minimise costs to ratepayers. There is no benefit in councils operating inefficiently as it jeopardises its ability to deliver expected community services, and only results in criticism.

Lismore City Council supports IPART’s suggestion of further detailed examples being included in the *Council Rating and Revenue Raising Manual* to assist in implementing the pricing principles. Examples covering WaSM priorities such as FOGO services or additional collections from multi-unit dwellings for textiles (for example) would be useful. Note the examples should serve to demonstrate how the principles are applied, and not necessarily provide the exact formula for all services as these will vary between councils.

Principle 1

“DWM revenue should equal the efficient incremental cost of providing the DWM service”

The intent of this principle is accepted. However, it is the definition of DWM service that requires further detail and consideration. The current definitions and guidance provided by the *Local Government Act* and the *Council Rating and Revenue Raising Manual* are dated and do not reflect modern waste management. As already noted, they do not reflect the Government's current policy direction of converting from a linear waste model to a circular economy.

Given the pace of change in this area it is recommended that once updated, the definitions and guidance on the DWM charge be reviewed every five years to maintain currency and reflect real-world conditions.

Updating the definitions and guidance will provide a more definitive list of what costs should be attributed to the DWM charge vs general rates. It is critical that local government drives formulation of the list as they are most familiar with the day to day activities in this area.

IPART's draft report includes examples of what activities should be included in the DWM charge (pg 23). Lismore City Council recommends the following activities should also be included:

- Illegal dumping clean up costs, particularly where the material predominantly arises from residential sources.
- Broader waste avoidance education, not just disposal and recycling education, of residents (in line with the waste hierarchy such as reusable coffee cup programs).
- Events such as Clean Up Australia Day, Tidy Towns and other littering/ waste community programs.
- Operational and ongoing costs of a household Community Recycling Centre, being a service provided to residents.
- Drop off events for household hazardous waste, chemicals, e-waste and other future product stewardship scheme items eg other electronic waste
- Collection and recycling of materials from residents, including soft plastics, textiles, mattresses, tyres and solar PV panels.

The above list provides broader activities that should be included, however there are several others costs that should be included in the DWM charge, for example, if we look specifically at rolling out an organics collection:

- Contract development and variations
- Trials and pilots
- Additional staff to support a new service
- Replacement bins and caddies (extra to initial infrastructure provided)
- MUD upgrades and fitouts to allow for food collection
- Audits and evaluation
- Advertising and media
- Consultant costs in designing, consulting community and implementation
- Contamination fees and decontamination costs
- Implementation of smart technology such as RFID which is proven to reduce contamination issues.

These would be costs that are directly incurred in providing the service to residents. Without the above, the service would not occur or be less effective.

The above lists are not exhaustive, and the list must also make provision for new services or activities that will be required to implement WaSM/ transition to a circular economy. We also reiterate that the guidance of what is/ is not included in the DWM charge should be updated regularly to ensure it keeps pace with modern approaches to “waste management services”, however they are defined.

The report notes that some direct overheads that are incurred in the direct delivery of the any of the DWM services can be included. We note IPART’s draft report endeavours to demonstrate how overheads would be calculated in Appendix D however some of the assumptions are not practical for councils. It will not always be practical to directly apportion all overheads appropriately, especially in rural and remote councils where waste services are bundled in with other engineering or environmental responsibilities resulting in a potential shortfall for funding of key management staff.

IPART notes that “a separate targeted review would be best placed to consider issues around the equity and efficiency of funding pensioner concessions” (pg 12, Draft Report). Lismore City Council agrees this issue should be considered as part of the review of the Rating Manual and what costs are eligible for inclusion in the DWM charge.

There is some concern around the omission of rural transfer stations being identified as a service that can be funded under the DWM charge. Rural and regional councils frequently operate rural transfer stations in lieu of a domestic kerbside service, as enabling rural residents to dispose of waste and recycling at a centralised location is a far more efficient option. Costs, time and distance coupled with safety issues commonly prevent rural and regional councils from operating a domestic kerbside service outside of city, town or village areas. This is another example of where the definition of ‘modern waste management’ needs to be clarified as historically much of this waste was landfilled on rural properties and councils have worked diligently to minimise this form of land contamination through the provision of accessible waste services.

Finally, cost recovery is a risk to the early adoption of services, there are increasingly instances where councils need to fund research and investigation into new waste service options. These might include changes to waste delivery models and/or the provision of collections covering emerging wastes, such as where councils are investigating how to implement the most effective form of food or food and garden waste collections, possibly including communal collections – noting public place rubbish bins are not included in the current provisions.

Principle 2

Councils should publish details of all the DWM services they provide, the size of the bin, the frequency of the collection and the individual charges for each service

This is supported in principle. However, councils already publish information regarding the waste services they provide and the relevant charges as part of their Fees and Charges information readily available in the Operational Plan and on council websites. This information is usually itemised to outline bin size, frequency of collection, plus charges for additional service components (additional bins, wheel in/out services etc).

The *Your Council* website provides a figure for each council’s per capita environmental expenditure (including waste), with a comparison figure for other councils in the same ‘group’. While this comparison is broader than just ‘waste’ it does provide a point of reference.

There also needs to be recognition that councils have varying capacity to neatly bundle this information on websites or issue detailed 'community friendly' reports. Further increasing the requirements for annual reporting will add burden and detract from service provision in councils that do not have communications/PR staff on hand.

For some councils publishing a 'price per bin' is not straightforward due to the complex mix of services available to meet varying community needs. Many councils are moving away from a 'standard service' in order to drive down bin void space and maximise waste avoidance. For example, a metropolitan council with a high proportion of single/stand-alone dwellings, multi-unit dwellings and a small rural fringe area offers a mix of bin sizes and frequency of collections depending on household size and need. There are certain overheads which would mean that a fortnightly collection will never cost half that of a weekly collection. Furthermore, having a smaller bin does not necessarily reduce collection costs.

Publishing this type of data could cause confusion and concern as costs are not always directly related to bin size and/or collection frequency.

Councils may offer compassionate collections for elderly and/or residents with a disability, such services should be catered for in future domestic waste management services and they are less likely to be cost reflective.

Principle 3

Within a council area, customers that are:

- imposing similar costs for a particular service should pay the same DWM charge
- paying the same DWM charge for a particular service should receive the same level of service.

The intent of this principle is acknowledged and supported – same price for the same service – however the wording does not make sense as customers do not impose costs. We assume that the report is referring to councils imposing similar costs. No two councils are exactly the same and therefore the service cost is likely to vary in some way. Despite the use of the OLG groupings there are still concerns around comparing 'apples' with 'oranges' as OLG groupings differ to Commonwealth council groupings.

It is acknowledged that in regional and rural areas, councils will have the capacity to vary the cost-of-service delivery where the same service is delivered in different communities. These costs will often reflect variations in infrastructure and transportation costs as well as the time taken to service remote communities. These challenges also apply to councils across NSW, no council is the same in its service delivery, access to infrastructure and access to service providers, and therefore costs between councils will always vary.

IPART itself notes the following point under this principle:

- *The service level a council provides is a question for councils to decide after consulting with their ratepayers.*

Whilst councils would consult through the IP&R process around service delivery there are many other factors including WaSM mandates and waste/emissions targets that will directly impact councils' service delivery. In the case of the FOGO mandate, communities may not immediately support the service due to increased cost, but councils will still have an obligation to implement the service. Under this principle if councils provide the service that their community expects it may find itself in the situation where some/many of the expected services are not covered by the DMWC and councils are forced to cover these through general rates.

Principle 4

Any capital costs of providing DWM services should be recovered over the life of the asset to minimise price volatility

The intent of this principle is acknowledged and accepted. Wherever possible the capital costs can be spread over multiple years however there may be circumstances where there is an imperative to introduce the service relatively quickly and in shorter timeframe than the asset's life (eg FOGO rollout and if new landfills were required to manage disaster waste).

Capital costs should continue to be recovered and held in reserve based on forward planning as opposed to relying on borrowings to fund expenditure and recover costs post service implementation, such as in the case of future waste disposal facilities. The interest on financing waste facilities and land acquisition imposes a significant extra financial burden on ratepayers and does not represent the most efficient costs.

There is some concern around the management of waste reserves under the proposed 'peg'. Councils require reserves for many things, the common example being the remediation of landfill. However in the recent floods councils will need to fund the replacement of large quantities of bins over a short timeframe and as such not all expenditure from reserves are long term investments and councils can often have competing needs, all requiring reserves.

In conclusion, Lismore City Council strongly recommends that IPART does not introduce a DWM charge peg or any other benchmark at this time, but instead works with local government and the NSW Government to update the definitions and guidance relating to the DWM charge.

Should you require any further information, please do not hesitate to contact Kevin Trustum, Business Manager Commercial Services on [REDACTED].

Yours faithfully



Peter Jeuken
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