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DRAFT SUBMISSION

# IPART Draft Report - Review of Domestic Waste Management Charges

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# OPENING

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

LGNSW welcomes the opportunity to make a submission on the Draft Report - Review of Domestic Waste Management Charges (Draft Report) as this is a matter of significance to all NSW councils as well as a range of other stakeholders within the local government sector.

LGNSW has consulted with a wide range of councils and other stakeholders to help inform the content of this submission. Please note that this is a draft submission until it is endorsed by the LGNSW Board. We will advise at that time if there are any substantive changes to this submission.

# BACKGROUND

In May 2020, IPART initiated a review of the local government Domestic Waste Management (DWM) Charge after being informed that the Office of Local Government (OLG) had ceased auditing the reasonable cost basis of these charges in 2016-17. After surveying councils on DWM expenses and services for the 2017-18 and 2018-19 financial years as part of the 2019-20 Local Government Cost Index (LGCI), IPART found that DWM charges had risen significantly in recent years and that they vary significantly across councils and between similar councils as defined by OLG groupings. IPART has therefore proposed an approach to reduce variation in DWM charges.

## WHAT HAS IPART RECOMMENDED?

IPART's [Draft Report](#) (2021) states that in order to protect ratepayers and to assist councils in setting DWM charges IPART proposes to:

1. Release an annual 'benchmark' waste peg.
2. Publish an annual report that highlights councils whose DWM charges have increased by more than the benchmark waste peg and include the councils' explanations for the increases.
3. Recommend OLG provide guidance to councils through pricing principles in their Council Rating and Revenue Raising Manual on how to set charges to reflect reasonable costs.

The Draft Report superseded the approach proposed in IPART's 2020 [Discussion Paper](#), which recommended adoption of pricing principles by councils and instead of a proposed DWM peg recommended setting 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 would 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 potential regulatory response.

Following discussions with IPART the local government sector understands that ‘doing nothing’ or maintaining ‘business as usual’ (BAU) is not an option, and that local government needs to indicate a preference for the proposal in the Draft Report or propose an alternative approach. Consultation with councils has determined that utilising the existing mechanisms for setting DWM charges is potentially an option and that if this is not likely to be considered by IPART then councils have a strong preference to not adopt the proposed peg and accompanying measures.

## LGNSW POLICY PLATFORM

LGNSW’s Policy Platform consolidates the voices of councils across NSW, reflecting the collective positions of local government on issues of importance and guiding LGNSW in its advocacy on behalf of the local government sector. The following provisions of the [Policy Platform](#) are relevant to this review of DWM charges.

- A) Local government is a partner in the economic stewardship of NSW and responsible for the provision of a wide range of essential infrastructure and services. However, the financial sustainability of councils has been undermined by rate pegging for over 40 years, which has resulted in the under-provision of community infrastructure and services and the deferral of infrastructure maintenance and renewal expenditure resulting in significant infrastructure backlog.

**LGNSW advocates for:**

- Greater autonomy in determining fees and charges.

- B) Councils provide waste, recycling and resource recovery services to the community, provide and operate recycling and disposal infrastructure and work tirelessly to reduce the amount of waste ending up in landfill by educating residents, businesses and schools about waste avoidance and recycling. Councils continue to face significant challenges from increasing waste generation and lack of markets for Australian recycled content.

All levels of government, as well as business and the community need to work together as we move to a more circular economy where materials and products remain within the economy for longer and waste is reduced.

**LGNSW advocates for:**

- Clear policy direction with regulatory certainty, achievable targets and implementation and funding pathways for delivery through e.g. the NSW Waste Strategy, National Waste Policy, COAG targets.

# RESPONSE

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 many councils to introduce new or enhanced waste services to deliver against the Strategy's objectives and targets.

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

IPART has identified concerns around a 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. LGNSW 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 benchmarking or a 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 outdated and do not reflect modern waste management activities, nor provide for the future waste services which are likely to be required in line with 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') in 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 both variable and fixed, the latter including proximity of councils to markets and waste infrastructure 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.

LGNSW also considers that some of IPART's Draft Report recommendations go beyond IPART's remit. For example, the Minister's delegation under the Local Government Act does not provide for councils to report to IPART on their waste charges or other activities. We note IPART has acknowledged this in its Draft Report through the statement "Our delegated powers cannot respond to many of the issues raised. We can only set an annual limit on the extent to which councils' DWM charges may be varied" (pp18).

With regards to transparency for residents, there are existing mechanisms for engaging and reporting to the community on DWM charges and waste services which are outlined in the section below. These include the Integrated Planning & Reporting (IP&R) process as well as the publication of council fees and charges, and auditing by the Office of Local Government 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 a peg or one-off adjustments.



**Recommendation 1:** LGNSW strongly recommends that IPART not introduce a DWM charge peg or any other benchmark given the significant threat this would pose to delivery of the NSW Government's waste strategy, and because a peg in and of itself does little to address IPART's concerns around consistency and transparency.



**Recommendation 2:** LGNSW recommends that IPART and the Office of Local Government work with local government to update the definitions and guidance relating to the DWM charge in light of current reforms to the Rating Manual and the Resource Recovery framework.

## RATIONALE FOR POSITION

In 2010 the Minister for Local Government delegated to IPART the function of determining the rate peg and minimum rates, approving special rate variations, and the function of varying annual domestic waste management charges. LGNSW understands that IPART's powers with respect to varying the DWM charge are limited by the constraints of the delegation from the Minister of Local Government under s507(2) of the Local Government Act. The delegation currently only allows for IPART to set an annual limit on the extent to which councils' DWM charges may be varied. IPART acknowledges this constraint within the Draft Report.

As such LGNSW is of the view that IPART's remit is limited to the implementation of a 'peg' and could in fact, not mandate councils to undertake any additional reporting as proposed within the Draft Report. Imposing a reporting condition would be introducing a regulatory measure into a fund-raising mechanism. Any requirement for reporting would require a regulatory change.

The Minister for Local Government has not requested this current review of the DWM charge, and IPART identifies in the Draft Report that it commenced the review in response to notification in 2019 that OLG had ceased conducting audits of the reasonable cost basis of DWM charges in 2016–17. Therefore, IPART deemed it necessary to investigate the level of DWM charges across NSW and asked councils to report on their DWM expenses and services for the 2017–18 and 2018–19 financial years as part of the 2019–20 Local Government Cost Index (LGCI) survey to inform this process.

LGNSW calls upon IPART to acknowledge the significant challenges facing local government and the existing avenues for community transparency (including IP&R reporting) and suspend the proposed reforms. We support a focus from IPART to identify and work with councils that are not complying with the Pricing Principles and to leave compliant councils to continue delivering quality services that meet the needs and service preferences of individual communities.

## EFFECTIVE MECHANISMS EXIST

IPART has made the assertion that BAU when setting future DWM charges is not an option. However, councils already have a toolbox of measures available to them to ensure that they meet or exceed 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 successfully by councils include:

- The Integrated Planning & Reporting (IP&R) process which sets up the mechanisms for councils to engage with their community on appropriate DWM costs. Through this process local communities have full visibility across all waste fees and charges and can provide detailed feedback for councils' consideration. This mechanism also supports the need for councils to have flexibility when determining service standards and associated costs. The IP&R process also requires councils' financial statements to be independently audited ensuring probity and transparency.
- All NSW councils are networked via membership of Regional Organisation of Councils (ROC), Joint Organisations (JO) and voluntary waste organisations which not only facilitate joint contract negotiations, but these networks also create opportunities to limit costs and facilitate consistency in regional waste delivery. Such networks enable councils to compare services with neighbouring councils often resulting in additional efficiencies.

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 IP&R process and as a social and economic development tool.

Revisiting the definition of 'best value' could further improve procurement outcomes however this is considered a separate matter.

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 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 but are not limited to:

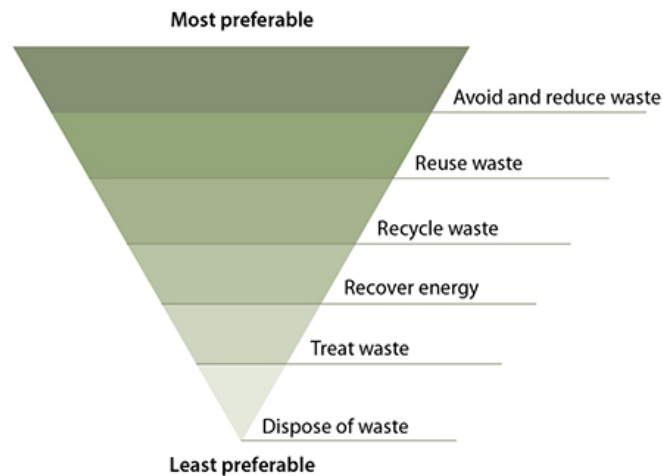
- The rollout of the Waste and Sustainable Materials Strategy (WaSM) which includes the inclusion of a mandated food and garden organics collection service for all NSW councils by 2030 alongside substantial changes to the funding model for future projects.
- The lasting effects of the China Sword policy, the Basel Convention and current/future bans on the export of other waste materials.

- The NSW Government's current review of the NSW resource recovery framework which will likely see definitions of key terms (such as 'waste') altered amongst other changes to the framework. There is concern that this review could 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.
- Increasing staff wages which will increase by 2% in accordance with the Local Government Award on 1 July 2022. In addition, the 0.5% superannuation increase taking effect from 1 July will also add to councils' overheads.
- The impact of the 0.7% baseline rate peg handed down by IPART for this year which is likely to result in a significant shortfall sector-wide over the next financial year – estimated at up to \$100 million before an Additional Special Variation process was made available to councils.
- Increasing concern around climate change impacts which continue to influence community sentiment towards sound environmental management including waste and resource recovery.
- Circular economy policy direction to minimise resource loss whilst driving innovation and opportunity.
- The increasing cost of managing waste resulting from climate change driven natural disasters.
- The role and influence of existing monopolies within the waste industry which limit councils' capacity to negotiate contract costs, despite endeavours to undertake joint procurement.
- 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 are included as part of 'domestic waste management'.

The waste hierarchy sets out the priorities for waste disposal in Australia and demonstrates the preferred methods of waste disposal. It is a commonly utilised tool to enable the prioritisation of waste services. Waste avoidance and reduction are the preferred mechanisms to efficiently manage waste and for councils this means increasing the community education and programs that are designed to drive down waste generation. Such programmes are not currently included in the list of those that could be funded under the DWM charge which is a cause for concern for many councils.

Figure: The Waste Hierarchy



Source: <https://www.epa.nsw.gov.au/your-environment/recycling-and-reuse/warr-strategy/the-waste-hierarchy> (accessed 26 April 2022)

## PROPOSED DOMESTIC WASTE PEG

In its Draft Report IPART proposed undertaking the following actions to protect ratepayers and to assist councils in setting DWM charges:

1. Release an annual ‘benchmark’ waste peg.
2. Publish an annual report that highlights councils whose DWM charges have increased by more than the benchmark waste peg and include the councils’ explanations for the increases.
3. Recommend OLG provide guidance to councils through pricing principles in their Council Rating and Revenue Raising Manual on how to set charges to reflect reasonable costs.

LGNSW understands the proposed peg approach to involve:

- Publishing annually a DWM charge peg (1.1% for 2022-23) that gives guidance on how much the reasonable costs of providing DWM services have changed over the previous year.
- The peg to be calculated based on a Waste Cost Index (WCI) considering a basket of 26 items taken from DWM expenditures in 2017-18 and 2018-19, IPART’s Local Government Cost Index (LGCI) which determines the weight of each expenditure item to the total value of the basket, and ABS price indexes to measure changes in wage costs, producer and consumer indexes.
- Publishing an annual report on councils that have increased their DWM charges beyond the annual peg, and those councils’ justifications for doing so.
- The Office of Local Government (OLG) publishing pricing principles in their *Council Rating and Revenue Raising Manual* on how to set DWM charges to ensure they reflect the costs of providing the service and best value for ratepayers.

LGNSW and the local government sector have significant concerns about this approach and what it will mean for local councils in the future. The primary, overarching concern being that the non-binding 'benchmark' peg for 2022-23 may become a fixed or hard peg in future as there has been no guarantee that this will not occur. The proposed peg approach has the following negative implications:

- a) It will incentivise councils to restrict domestic waste services to minimum requirements 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 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. We note that the peg of 1.1% is not based on an agreed Waste Cost Index, furthermore, there has been no consultation on the development of an index.
- 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. The South Sydney Region of Councils (SSROC) 2021 regional Food Organics, Garden Organics (FOGO/FO) feasibility study indicates that introducing FOGO will cost on average \$15.54 million per council in year 1, or an 8% increase in the cost of providing red-lidded and green-lidded bin services. The EPA's Organics Collection Grant program offers on average \$0.76 million per council if we assume the total \$65 million available is divided equally between all councils that have not yet adopted FOGO. Therefore, introducing FOGO will require councils without a sufficient waste reserve to raise DWM charges well above 1.1%.
- 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 at around 4%.

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. Many councils have consulted their communities as part of their strategic planning and identified a strong community expectation for higher resource recovery and, in many cases, a willingness to pay for additional services.

- a) 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 relatively higher charges and increasing these at a higher annual increment than councils with lower DWM charges.
- b) As more councils inevitably exceed the voluntary peg, pressure will build on IPART to make the voluntary peg mandatory.
- c) There are concerns around increased reporting which will require resourcing, taking up valuable staff time.

## CASE STUDIES

There are unique challenges facing councils that are likely to be different across metropolitan, regional or rural council areas. Whilst many of the challenges being faced across the local government sector are common to all councils it is equally clear that depending on the model of waste service provision in place, that councils will be impacted by factors such as rising wage and transport costs to varying degrees.

Without oversimplifying the challenges, a metropolitan council may face significant difficulties in acquiring land for waste facilities, managing waste transportation on busy urban roads, be faced with rising contract costs and increasing community expectations to deliver resource recovery outcomes. In a regional area the greatest challenges a council can face may come from covering wage costs to retain employment and delivering waste services to remote villages. In remote areas small rate bases will often dictate the level of service provision which can be delivered.

The LGNSW position is that the proposed domestic waste peg is not considered suitable for all councils, however the reasons why this is the case may differ between councils. The following brief case studies seek to highlight the diversity of waste services across urban and regional communities.

### Case Study – Regional Councils

Regional councils across NSW will typically deliver waste services to communities comprising an urban centre, a rural fringe, villages and rural outlying areas. However not all residents will contribute to the DWM charges and this alone creates additional challenges for such councils under the proposed peg approach.

Many regional councils were early adopters of food and garden organic collections and will deliver a kerbside collection service which covers weekly waste, weekly food and garden organics and a fortnightly recycling collection. Waste services are commonly delivered through a combination of council staff and contractors.

Council staff can be employed in waste collection roles as well as to deliver administrative and community education functions in addition to providing management support. Council staff also undertake litter management functions, illegal dumping campaigns, service rural transfer stations, manage public place waste and undertake/support waste avoidance and reduction programs covering e-waste, soft plastics and hazardous wastes.

In terms of council staff wages, in the 2022/23 financial year alone costs are expected to increase by 2% under the Local Government Award, staff on KPI performance programs could receive a further 2.5% wage increase, and councils must also fund the 0.5% superannuation increase. These increases already exceed the proposed 1.1% peg rate, without considering any additional on-costs due to rising costs of fuel and electricity.

Regional populations increasingly expect more from council, in part due to ‘tree-change’ population movements where communities begin to expect that services will match those available in large urban centres. Community concern around climate change on the back of recent droughts, floods and bushfires also influences expectations. However, the COVID-19 pandemic and economic impacts of drought and other natural disasters have affected councils' income and may place limitations on the desire to increase general rates. These factors are likely to combine over the coming financial year and beyond to place increased pressure on council budgets and potentially negatively impact the range of services that councils can provide, putting downward pressure on service standards.

At the same time regional councils face the limitations of contractor availability to manage kerbside collections and offer other services such as e-waste collections. Costs are increasing as co-mingled kerbside recycling is transported to Sydney for processing and councils often do not have the large waste volumes required to negotiate favourable variations.

Regional councils typically will need reserves to cover remediation of existing landfill sites, reserves for future landfills and potentially additional rural transfer stations. Reserves could and recently have been impacted by the need to manage an increase in disaster waste at short notice or to co-fund a grant application covering critical waste infrastructure.

The range of complexities faced by regional councils when delivering waste services have been summarised below:

- The size of rate base from which councils can levy DWM charges against the area which they must deliver waste services.
- Landfill charges and fee structures – these can differ widely outside the levy paying area and are often attuned to communities' capacity to pay and illegal dumping challenges.
- Contracted kerbside services and processing charges including transportation costs.
- The length and terms of waste contracts which are typically long, and rural and regional councils are often obliged to enter joint contracts to maximise waste volumes to engage a contractor.
- The need to introduce new services or new and upgraded waste facilities because of regulatory changes and new legislation.
- The purchase of new or large fleet items, and the time to budget for them.
- Council population, size, and the service activities it provides.
- Geographical location, remoteness, and socio economics.
- Suitable fund reserves and future works.

Regional councils are committed to implementing or delivering the necessary core waste services whilst also delivering fit for purpose localised services. This commitment to delivering high quality waste services coupled with the many factors influencing council's capacity to deliver these services highlights why the proposed peg is not considered a suitable option for regional councils.

## Case Study – Metropolitan Councils

Metropolitan councils are likely to have a different set of factors impacting their capacity to deliver waste services whilst also managing some of the challenges which are consistent across all NSW councils. Rising waste contract costs are going to have a significant impact on many councils as will the costs of commencing new services, primarily food or food and garden waste collections as per the WaSM mandate.

A snapshot of costs from the 2019/20 financial year, detailed below, are indicative of several councils and highlight the significant cost pressures on metropolitan councils.

These cost increases are projected based upon a 'business as usual' model and don't factor in any significant changes to services such as the mandated FOGO services. Such increases are likely linked to a reliance on contracted services and the issues often due to a heavy reliance on contracted labour and services.

- Actual costs for waste services increased on average 5.76% per year over the last three years.
- Council real costs increased from 3.22% (lowest) to 8.01% (highest) across a number of councils, all far exceeding the proposed peg.
- Contract and tipping costs make up on average 83% of some Sydney metropolitan councils' waste services costs, compared to 78% noted in the IPART report. Waste Processing and disposal costs (tipping) alone increased between 8% and 10% across councils and resulted in an average 3.29% increase in budget costs.
- Contract costs alone have seen a contributing price increase of 1.84% over the previous two financial years.
- Council level data shows significant fluctuations year on year in expenditure on capital, plant and materials, demonstrating the difficulty restraining spending under a cap for significant and one-off plant and infrastructure purchases.

In addition to these costs many metropolitan councils will need to roll out a new food and/or garden waste collection by 2030 in line with the WaSM mandate. This will come at a substantial cost and many of the necessary expenditure items will not be covered by the DWM charge under the proposed peg. Costs such as trials, community education and compostable caddy liners which are essential to the successful commencement of a food waste service may not be eligible costs and as such will form part of the increased costs to council.

Finally, councils located within the levy paying area are already concerned about the loss of Better Waste Funding under the WaSM strategy. This funding has covered the cost of staff and program delivery for many councils across littering and illegal dumping projects over an extended period. Councils have become reliant on this external funding to deliver these important projects, projects which have no opportunity for cost recovery through other means. This coupled with the decrease in non-contestable funding across all WaSM priority areas will have a real and lasting impact on even the most well-resourced metropolitan councils.

In one example a NSW Council that introduced a third organics bin and had outlaid \$7 million in capital expenditure to build the infrastructure necessary to process the contents of the organic collection had to increase its DWM charge by \$90 per service per annum to cover the additional associated costs.

In addition to the increased costs associated with the commencement of new services, there are other concerns resulting from the impacts of the proposed peg which include the necessity to invest further council time and resources in debating increased costs in a public forum. In metropolitan communities, highly mobilised and engaged community members can fuel public debate about councils' fees and charges which in turn takes already stretched resources away from delivering waste services to communities.

## THE REBALANCING APPROACH

In August 2020 IPART released the DWM charge review Discussion Paper, which proposed:

- Benchmarking waste-related costs across councils;
- OLG to publish pricing principles in their *Council Rating and Revenue Raising Manual* on how to set DWM charges to ensure they reflect the costs of providing the service and best value for ratepayers;
- Councils to rebalance DWM income and expenses with general rates in line with the pricing principles with the aim of shifting overheads not consistent with the pricing principles to general rates; and
- Councils undertake annual reporting via a simple and streamlined spreadsheet.

It is the position of LGNSW that there is no net benefit to ratepayers from the rebalancing approach. Under this approach, councils would have a 2-year grace period to rebalance the DWM charge with general rates based on clear pricing principles. The general rates base peg would be applied to the new level of general rates after rebalancing. Total council revenue would thus be unaffected as this would merely shift some costs from one journal to another. IPART indicated it would only regulate by exception those councils that exceed the average DWM charge after rebalancing by about 15%. Shifting costs from one ledger to another does not allow for pricing signals to reflect the true cost of waste services, in the water industry ensuring that users pay for what they receive has helped to positively influence how the community values resources.

Of the two options contemplated by IPART (proposed 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, but are not limited to:

- 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. This broader engagement and education is often critical to fostering the necessary understanding and behaviour change to achieve waste avoidance, reduction and recovery targets.
- 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, e.g. education campaigns to reduce illegal dumping or avoid the generation of waste, or funding contributions towards Regional Illegal Dumping Squads.

- 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 now more than ever and is necessary for the continued delivery of waste services.
- f) IPART does not have the authority to set policy or require the reporting by councils that this option would require to be effective. That these proposals are outside of IPART's remit should be considered alongside the implications of the rebalancing option.

## PRICING PRINCIPLES

Local government generally supports the concept and intent of pricing principles and would in due course welcome updated, realistic and considered guidance on how they should be applied. This will further improve transparency and increase certainty that they are being consistently applied. However key stakeholders should be driving the review of the pricing principles, incorporating a future focus.

It is understood that 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, to maximise the return to ratepayers. There is no benefit in councils operating inefficiently as it jeopardises their ability to deliver expected community services, and only results in criticism.

Local government 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 and other emerging priority waste streams would be useful. Note that 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 5 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. In addition to those activities, local government recommends the following activities should also be included:

- Illegal dumping clean-up costs, particularly where the material predominantly arises from residential sources. For example, councils report that 100% of illegal dumping in some eastern Sydney councils is household waste.
- Broader waste avoidance education, not just focussing on disposal and recycling education, but rather projects in line with the waste hierarchy (such as reusable coffee cup program).
- Events such as Clean Up Australia Day, Tidy Towns and other littering/waste community programs.
- Operational and ongoing costs of a Community Recycling Centre, being a service provided to residents and valued by the community. Noting that for councils to cease operation of such services once established can lead to community frustration.
- Drop off events for hazardous waste, chemicals, e-waste and other future product stewardship scheme items e.g. 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 other costs that should be included in the DWM charge. If we look specifically at an example where a council will commence an organics collection, the following additional costs are also relevant:

- Contract development and variations
- Trials and pilots
- Additional staff to support a new service
- Replacement bins and caddies (extra to initial infrastructure provided)
- Multi-unit dwelling (MUD) upgrades and fit outs 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 and 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’. LGNSW concurs 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 that public place rubbish bins are not included in the current provisions.



**Recommendation 3:** Principle 1 is accepted, however the priority is to update the definitions and guidance on ‘domestic waste management’ with local government being central to this process as it is most familiar with the day to day activities in this area.



**Recommendation 4:** The definitions and guidance on the DWM charge be reviewed every 5 years to maintain currency and reflect real-world conditions.

## 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.



**Recommendation 5:** Principle 2 is supported in principle, however the mechanisms for this reporting already exist and many councils already publish this information. LGNSW does not support the implementation of any process that duplicates reporting or would provide complex information that is prone to community misinterpretation without relevant context.

## 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. LGNSW understands there has also been comparison of rural fringe councils where one is in the levy paying area and the other outside the levy paying area.

For example, even if the land area and population of two councils is the same their different distances to market can cause variation in the service cost. Even where the metrics of a service look to be very similar, Council A may be charged less than Council B by the same service provider for their own business reasons e.g. they discount the contract with Council A as a ‘first mover’ to entice others to come on board, while offsetting costs against other contracts. Or it could be a tactic by the service provider to undercut and further monopolise services in a region. These business decisions are out of the control of councils, and the impacts of this are further heightened when we consider the very small number of service providers in the market.

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.



**Recommendation 6:** Principle 3 is supported in principle, however there are many factors that affect service costs / offerings, meaning they often cannot – and should not – be directly compared.

## 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 (e.g. 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 as well as risk on ratepayers and does not represent the most efficient method of financing future works.

There is a level of concern around the management of waste reserves under the proposed peg. Councils require reserves for many things, the common example being the remediation of landfills and the construction of new infrastructure. However, as a result of recent natural disasters, including extensive flooding across the Northern Rivers region councils will need to fund the replacement of large quantities of kerbside bins and other infrastructure such as public place 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 access to reserves.



**Recommendation 7:** Principle 4 is acknowledged and the intent to minimise price volatility is supported. To that end there may be circumstances where capital costs are best raised in advance and held in reserve (e.g. over a longer term than the asset) or may need to be recovered over a shorter term.

## CONCLUSION

In conclusion, LGNSW calls upon IPART to reflect upon the complex factors affecting councils' capacity to deliver waste services at this time of substantial change. This includes issues ranging from difficulties engaging qualified staff, to budgetary shortfalls due to the continuing pandemic, to pervading market forces and increasing community expectations.

The wide range of - at times competing - waste priorities contained in both State and Commonwealth strategies had set the 'goalposts' for the period until at least 2030. It is evident that any substantial change to the DWM charge and the methodology by which councils can set fees and charges would significantly limit the ability to deliver an increasing range of waste services.

In order to protect councils' autonomy and enable them to deliver the services expected of them, LGNSW supports a focus from IPART to identify and work with councils that are not complying with the Pricing Principles and to leave compliant councils to continue delivering quality services that meet the needs and service preferences of individual communities.

This submission has been developed based upon consultation and research with key stakeholders and reflects the views and concerns of LGNSW. We note that councils may share some but not all views contained within the submission and therefore invite IPART to carefully consider each submission received from councils and stakeholders to ensure that the views of the local government sector are reflected in any decision-making process.

Thank you again for the opportunity to comment on the Draft Report - Review of Domestic Waste Management Charges. If you would like further information on LGNSW's position, please contact Susy Cenedese, Strategy Manager Environment on [REDACTED] or via email at [REDACTED]

## Summary of recommendations

1



LGNSW strongly recommends that IPART not introduce a DWM charge peg or any other benchmark given the significant threat this would pose to delivery of the NSW Government's waste strategy, and because a peg in and of itself does little to address IPART's concerns around consistency and transparency.

2



LGNSW recommends that IPART and the Office of Local Government work with local government to update the definitions and guidance relating to the DWM charge in light of current reforms to the Rating Manual and the Resource Recovery framework.

3



Principle 1 is accepted, however the priority is to update the definitions and guidance on 'domestic waste management' with local government being central to this process as it is most familiar with the day to day activities in this area

4



The definitions and guidance on the DWM charge be reviewed every 5 years to maintain currency and reflect real-world conditions.

5



Principle 2 is supported in principle, however the mechanisms for this reporting already exist and many councils already publish this information. LGNSW does not support the implementation of any process that duplicates reporting or would provide complex information that is prone to community misinterpretation without relevant context.

6



Principle 3 is supported in principle, however there are many factors that affect service costs / offerings, meaning they often cannot – and should not - be directly compared.

7



Principle 4 is acknowledged and the intent to minimise price volatility is supported. To that end there may be circumstances where capital costs are best raised in advance and held in reserve (eg over a longer term than the asset) or may need to be recovered over a shorter term.