

28 April 2022

Independent Pricing and Regulatory Tribunal

Our Ref: 2022/025304

Submit via online submission form

Dear Sir / Madam

Review of Domestic Waste Management Charges

Northern Beaches Council welcomes the opportunity to provide feedback on IPART's 'Review of Domestic Waste Management Charges – Draft Report' (our reference 2022/025310).

To provide context to our responses in this submission to the 'List of issues for stakeholder comment', Council would first like to make the following observations about domestic waste services provided by Council and associated funding.

Increased NSW Government expectations of domestic waste management services

There has been a substantial shift in NSW Government and local community expectations of domestic waste management services to be delivered by Council since commencement of the domestic waste management service provisions in the *Local Government Act 1993* (LG Act).

This shift is clearly reflected in Australian and NSW Government policy.

For example, the NSW Waste and Sustainable Materials Strategy 2041 (WaSM Strategy) stipulates that:

'New South Wales is committed to playing its part in making the transition to a circular economy over the next 20 years...in contrast to the traditional linear economy, which has a "take, make, dispose" model of production, a circular economy aims to eliminate waste and reduce the continual use of new resources'

The WaSM Strategy also includes the following specific initiatives which directly rely on local government action:

Initiative	Target Date
Separate collection of food and garden organics from all NSW households	2030
Halve the amount of organic waste sent to landfill	2030

Initiative	Target Date
Reduce total waste generated by 10% per person	2030
80% average recovery rate from all waste streams	2030
Local government will play a critical role in managing impacts of illegal dumping	Ongoing

Whilst these policy settings in the WaSM Strategy are referred to in IPART's Draft Report, they do not appear to have been incorporated into the proposed Waste Cost Index or the Pricing Principles.

To be clear, the targets and new programs set out in the WaSM Strategy require a *fundamental* change in the way domestic waste will need to be managed by local government, the entity primarily responsible for collection of domestic waste. This will involve moving from delivering a traditional 'collection and disposal' service model to a 'circular resource management' model.

This will come at a significant cost, as it requires structural changes in waste and resource management and behaviour change by residents and the waste industry.

For example, to maintain the quality of used materials so that they can be reused or recycled for a legitimate end market, Council will need to separately collect different waste types, including food organics and other waste commonly disposed of in the red bin (such as soft plastics and textiles). Extensive associated education and infrastructure is required to be provided by Council and their waste contractors to collect the material and create a quality end product for the market.

Northern Beaches Council, like many other councils, does not currently separately collect food organics and 'problem wastes' such as soft plastics as part of its domestic waste service. We are currently researching total costs of implementing these additional services. We note industry currently estimate at least a 7 to 10% increase in costs for Councils to transition to FOGO (food and garden organics bin) collection and processing alone, which then has ongoing recurring costs.

Increased community expectations of domestic waste management services

In addition, local communities are increasingly engaged in waste management issues, with the expectation that Council delivers on initiatives and education programs to reduce the volume, impact and pollution of waste generated by the community, and maximises recycling of waste collected.

In the Northern Beaches community, due to our proximity to large stretches of coastline and bushland, there are additional community expectations to protect our environment from adverse impacts of waste. In this respect, the domestic waste collection service is repeatedly rated by the community as one of the most important services provided by Council in our Community Satisfaction Surveys.

Reduced available funding for local waste management and transition to a circular economy

At the same time as these fundamental shifts are being required of local councils to transition their communities to a circular economy, funding allocated by the NSW Government to assist with this transition may be reduced. For example:

- **Better Waste and Recycling Fund:** Under the NSW Government's *Waste less, recycle more* initiative, Northern Beaches Council has received dedicated annual funding from the EPA (over \$250,000 per year) to fund projects to improve recycling, engage communities, reduce waste generation, tackle littering and illegal dumping.

This funding will cease at the end of this financial year. Council is not aware of any proposal to replace it with another dedicated funding program.

- **Local Government General Revenue Rate Peg:** IPART has also recently announced the annual rate peg for each Council, ranging from 0.7% to 5%. For our Council, the rate peg for 2022/23 will be approximately 0.7%, which is well below the expected level of inflation and income we had expected.

Potential adverse impacts of insufficient funding for local government

Should funding available to local councils be insufficient to enable local councils to provide components of existing or new essential domestic waste management services to the community, or a 'benchmark peg' is publicised which is set too low and leads to community resistance to Council raising the DWMC above the peg, the following may occur:

- **NSW Government unable to fulfil commitments in WaSM Strategy:** local councils which need to significantly upgrade their service to meet Government targets may not be able to fund or obtain community support for new collection services like the mandatory food collection, illegal dumping collections and circular economy education programs.

This will compromise the NSW Government's ability to meet its deliverables and targets in the WaSM Strategy and corresponding national policies (including the National Waste Policy). It will also lead to less recycling and more waste going to landfill.

- **Poor streetscape and environmental outcomes:** If Council has insufficient funding (including from domestic waste management charge) to manage illegal dumping of domestic waste, this could lead to extensive piles of illegally dumped bulky goods across local streetscapes and resulting environmental pollution and other issues.
- **Increased generation of domestic waste:** If Council is not able to fund education to its residents on methods to reduce the generation of domestic waste through the domestic waste management charge or otherwise, this will likely lead to an increase in the generation of waste and perversely increased waste management costs for Council, with limited means to recover costs from residents.

It is therefore crucial that IPART ensures that the above implications and impacts are avoided in its final policy settings. Close engagement with other NSW Government departments is needed, including the NSW EPA, DPIE and OLG. This will help ensure that the settings do not undermine clear NSW Government policy settings, including to improve waste management and enable the transition to a circular economy.

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

Council supports more rigour in the comparison of services across councils.

Benchmarking can assist for transparency for the market, provided it has appropriate settings. It can work if the benchmarking methodology and criteria for councils is developed in consultation with councils to ensure we are comparing 'apples with apples', and/or accounting for key differences in councils noting no two councils are the same. Importantly, the benchmarking needs to take into consideration the context of the services provided, including:

- the treatment or processing of the waste
- the degree of complexity in delivering the service (eg geographical issues like access issues for island communities, mountain roads, narrow inner city streets, etc)
- distance to waste disposal facility
- the number of services provided
- demographic factors

The following suggestions are provided for IPART's consideration:

1. **Waste peg -v- index** - Within the draft report IPART refers to both a 'Benchmark Waste Peg' and 'Waste Cost Index'(WCI) – the index should not be called a peg as it does not 'peg' income.

It is important that councils maintain the ability to set a Waste Charge that recovers their costs of providing these services. Northern Beaches Council maintains a 10 year financial model for its Domestic Waste service to ensure future commitments are built into pricing (eg the replacement of bins) and sufficient reserve funds are held as a contingency for events like storms and floods and new mandatory services. The model supports sustainable pricing and aims to avoid price shocks and large price jumps over the 10 years.

There is also not a case of 'one size fits all'. Councils are diverse in terms of rate base and geographic and demographic factors and many councils and ROCs have highlighted external factors impacting DWM cost drivers.

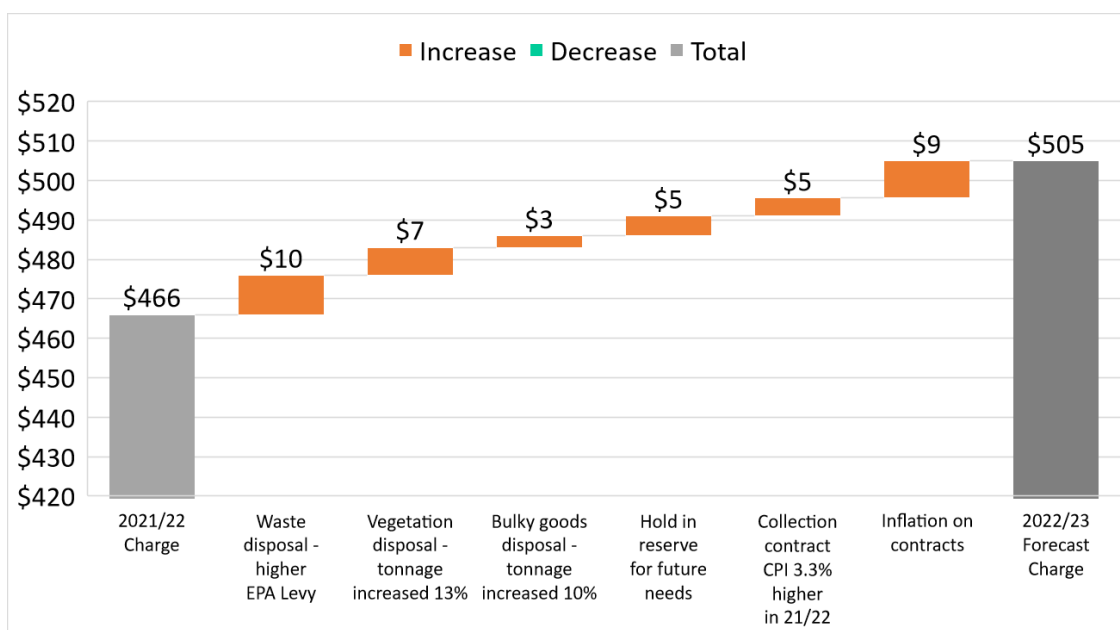
As stated in the Draft Report, two thirds of councils oppose IPART regulating charges in any form. Council is concerned that once a benchmark 'waste peg' or index is communicated to the community, there will be an expectation by the community that Council will not exceed that amount, and some demands for it to be regulated. Hence, the importance again of ensuring any index is set at an

appropriate rate to ensure the variables we have mentioned above are included in calculating the index.

2. **Volume fluctuations** - The WCI does not account for changes in the volume of waste collected nor increases in population growth (which directly generates more waste), so it would be inappropriate to ‘peg’ the charge by the WCI as it only provides a general indication of the change in the unit cost with no reference to the volume of waste.

Waste processing and disposal is the largest cost component for Northern Beaches Council’s waste service, representing 53% of the cost of the service (\$28m / \$53m). Volumes of waste can fluctuate from year to year due to events such as high rainfall or storms or through residents spending more time at home due to the COVID-19 pandemic. \$10 of the recommended increase in the 2022/23 Northern Beaches Council waste charge is driven by increased waste volumes – on its own this is a 2.1% increase on the 2021/22 charge. Table 1 indicates the primary drivers for the proposed increase:

Table 1 Northern Beaches Council – 2021/22 to 2022/23 Domestic Waste Charge – cost drivers



3. **WCI weightings and cost components** - The proposed WCI cost components and their weightings do not reflect the costs for our Council. Consideration should be given to different weightings for councils with day labour waste services and councils contracting out the collection. The weighting for the cost component ‘contracts’ (appendix B) needs to be much higher for councils with contracted out services. The drivers should be simplified and workshopped with the industry and councils.

Northern Beaches Council contract costs are closer to 80% of the total cost of providing the services. Examples of where components of contract costs can significantly vary to the WCI include:

- Fuel - The WCI weight assigned to fuel is 0.5%, however fuel can be a much larger component of contract costs in our experience, often 10 to 20 times this percentage. Further, using an actual increase from two years ago for such a volatile index may result in a material over or underestimate of the WCI. We subscribe to index forecasting tools to support the modelling of costs for the following year for this volatile index.
- Employee benefits and oncosts - this cost is measured by the ABS Wage Price Index for the NSW Public Sector, which doesn't reflect either Council staff costs nor waste industry staff costs, which are both driven by their own awards / EBAs. Contractor's EBAs are a significant component and in the year ended 30 June 2021 the index was significantly different to the 1.2% in the draft WCI.
- Retendering – the market pressures at the time of retendering, even for the exact same service, can impact significantly on the component contract costs of the service eg collection or disposal or provision of bins.

Crucially, the draft WCI does not factor in the provision of any new collection services (see our commentary in our introductory section). Costs for new collection services need to be included as a component in domestic waste management costs to help NSW achieve its deliverables under the WaSM factor. We would be happy to work with IPART on appropriate calculations to build sufficient reserves for these new services.

4. **Annual feedback** - We would encourage the IPART to liaise with the industry annually prior to releasing the index to understand the issues impacting the service at that point in time.

For example, changes in the EPA Levy, regulatory changes affecting reuse of materials, substantial market fluctuations for end products and mandatory implementation of a separate food waste collection.

5. **Context within Annual Benchmarking Report** – To ensure transparency and the full picture is provided to residents, the publication of benchmarking information should include factors such as the standard waste charge (not just the percentage increase), the services offered and the number of households serviced. It should also include environmental factors such as the annual recovery rate from waste streams, along with explanations from councils regarding increases and the basis for their fee.
6. **Timing** – Northern Beaches Council does not support the index commencing as a benchmark in 2022/23 as councils have already commenced the annual budget process for 2022/23.

In addition, IPART states in the Draft Report that it aims to ‘refine our benchmark waste peg for 2023-24 by obtaining more detailed information on the costs of providing waste services by surveying Councils’. This refinement and surveying needs to occur before implementing any benchmark peg, to ensure that any initial benchmark peg is robust, to gain confidence of ratepayers and councils in the benchmarking system.

We also note that the Draft Report states IPART’s objectives in providing a ‘benchmark waste peg’ that ‘reflects the average annual change in costs in providing DWM services’. If the formula for calculating the ‘benchmark’ does not consider the above issues, then it is not really providing an average and will be misleading to the public.

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

Response:

While we appreciate greater clarity and consistency pricing principles would provide, the proposed principles are not consistent with our current full cost recovery pricing method for Council services. Further we have concerns with the direct costs that may no longer be considered part of the cost of the domestic waste service.

The following suggestions and comments are provided for IPART’s consideration:

1. **Pricing policy conflict** - The proposed principles for the domestic waste charge would conflict with our full cost recovery methodology within our [Pricing Policy](#) for all Council fees. This was guided by the [Department of Local Government’s ‘Pricing & Costing for Council Businesses: A Guide to Competitive Neutrality’](#) which states (page 27):

“domestic waste management charges... the allocation of overheads and other indirect costs should be included as part of the reasonable cost of the service”.

2. **Incremental pricing** – The waste service is the largest operation undertaken by Council, in terms of contract values, volumes of services undertaken daily, customers and customer requests. It is an essential local government service.

Corporate decisions to operate the business always consider the impact in the context of the waste service. Systems such as the Salesforce customer request system were selected in the context of this scale and form part of the IT overhead, with a calculated percentage being recovered from the waste charge. While this would not be considered an incremental cost under the proposed model, the scale (and cost) of the solution may have been lower without the waste service.

Incremental costing would not recognise the true cost of the waste service and provide a roadblock in developing support for the service. It would dilute transparency, consistency, and equity in our approach to the setting of fees for services delivered by Council.

3. **Restrictions may impede core domestic waste programs and services** - We have concerns with the direct costs that may no longer be considered eligible to be funded under the Domestic Waste Management Charges (DWMC).

For example:

- *Cleaning up Illegal dumping:* The Draft Report provides that the costs of cleaning up illegal dumping should not be collected through the DWMC. However, the vast majority of illegally dumped waste material collected by Northern Beaches Council is domestic waste (such as furniture, furnishings and mattresses) placed on the kerbside or in public places.

We would suggest that the Pricing Principles be amended so that collection and disposal of illegally dumped domestic waste remains eligible to be recovered under the domestic waste management charge. The amount eligible to be recovered should be a stated % of overall illegal dumping collection and disposal costs. We would be happy to work with IPART on an appropriate formula.

- *Waste Education:* The Draft Report contains a narrow definition of eligible waste education costs which can be recovered under the DWMC. Education in support of the domestic waste service needs to address the avoidance and minimisation of the generation of waste in households. This education is directly related to the amount of waste which is disposed in the collections system. Education which reduces the overall volumes disposed of will maintain downward pressure on the DWMC whilst supporting the targets in the NSW Government's WaSM Strategy.
- *Eligible Services:* In the Draft Report's description of principles One and Two, it indicates only costs of bin based services (red, yellow, blue, green), FOGO and bulky goods services can be funded by the DWMC.

This appears to prohibit different separation and collection service models, including collection of separate waste items such as soft plastics outside of the bin system or at a drop off location (eg Community Recycling Centres), or food organics collections, which have already been adopted by numerous Councils. This could undermine the transition to a circular economy and the ability for NSW to meet resource recovery targets

Council should also not be restricted in the way it collects or separates different waste types, and should be able to make decisions depending on the preferred and available processing and market options. The definition of domestic waste services in the LG Act also does not limit domestic waste collection to those options.

- *Bulky goods tip vouchers:* It is unclear why tip vouchers for bulk collections have been singled out as an eligible cost under the DWMC as a domestic waste service, whilst other tip vouchers have not; including for separate waste types that could be recycled, such as vegetation.

In theory, Council could seek a Special Rate Variation if it wanted to provide some of these services (if they are not eligible under DWMC). In Council's experience, however, it is also extremely difficult to explain to local communities why a Special Rate Variation is needed for a waste service when the DWMC already exists.

4. **Principle Three** – Councils with diverse topography and demographics within their LGA need to provide domestic waste services in different ways. For example, services to island communities which require water access, suburban single houses, inner city high rise apartments, or narrow constricted mountain road access.

Councils are able to aggregate the varying costs associated with providing waste services to these different situations to arrive at a standard DWMC under section 496 of the LG Act to apply to all parcels of residential land within the LGA for substantially the same service. This pricing principle appears to prevent that. Preventing aggregation of costs to determine the overall reasonable cost of providing the service and setting a standard DWMC could make the setting and administration of the charges overly complex and unnecessary.

5. **Principle Four** – Some costs of management and monitoring of old landfill sites after their end of life should also be included, such as gas monitoring especially where sports fields are on old sites. These are costs associated with the provision of domestic waste collection services.
6. **Protection of flexibility in service offering** – The pricing principles need to have regard for the differences between communities and their expectations of Council's waste service and willingness/ability to pay for different levels of service and processing/circular economy principles/ability to return collected material to the productive economy. Some communities may be willing to pay more for a higher-level outcome and the pricing principles should not hinder that.
7. **Mechanism to 'rebalance' funding source following alignment to principles** - Consideration should be given to a mechanism to allow councils to re-balance, through an increase in general revenue (rates), the cost of providing services to align with any changes required through the process of re-setting the 'reasonable cost' of providing Domestic Waste services.

From the information in the Draft Report and assuming pensioner rebates are also no longer part of the reasonable cost of the waste service, we estimate a 1.22% increase in general rates revenue would be required to offset the \$22 decrease in the waste charge.

Question 3: Would it be helpful to councils if further detailed examples were developed to include in the Office of Local Government's Council Rating and Revenue Raising Manual to assist in implementing the pricing principles?

Response:

Yes, this should be developed in consultation with the industry to provide clarity in the application of the principles and address current conflicts between documents.

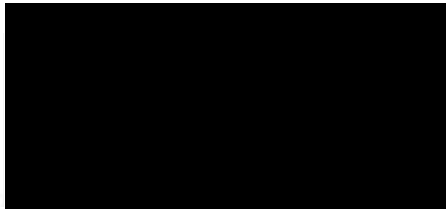
For example, tip vouchers are referred to in the IPART draft report but resident access to tip sites is excluded in the OLG's Manual.

In some cases, the manual is clear, e.g. the exclusion of wear and tear on roads is excluded and also the cleaning of public places. We recommend expanding the examples so it is clear what is and isn't acceptable to support consistency across councils.

It may also be an opportune time to revisit the definition of 'domestic waste management service' and 'domestic waste management charge' in the LG Act to ensure it accurately reflects the current expectations by the NSW Government and local communities of the services to be delivered by local councils for efficient domestic waste management and enable a transition to the circular economy.

We would welcome the opportunity to continue to work with both the IPART and OLG on the review of the Domestic Waste Management Charge.

Should you require any further information or assistance in this matter, please contact Mr Andrew Ward-Harvey, Executive Manager Waste and Cleansing on [REDACTED]



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