

Response to the IPART Review of Domestic Waste Management Charges



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RESPONSE TO THE REVIEW OF DOMESTIC WASTE MANAGEMENT CHARGES

This submission is lodged on behalf of the Riverina Joint Organisation and the Riverina Eastern Regional Organisation of Councils (REROC). REROC has been working on a regional basis in waste management, resource recovery and now the circular economy for almost 25 years, for the last 20 years the REROC Waste Forum has been one of the 8 Voluntary Regional Waste Groups (VRWG) operating in NSW that are partially funded by the EPA.

The Members of the REROC Waste Forum are the councils of Bland, Coolamon, Cootamundra-Gundagai, Greater Hume, Junee, Lockhart, Temora and Wagga Wagga. It is with this extensive experience in the management of waste and resource recovery that we make the comments below in relation to IPART's Review of Domestic Waste Management Charges.

We agree with IPART's summary that "domestic waste management is a key responsibility for council with social, public health, environmental and economic significance."¹ Given this excellent summation of the importance of domestic waste management we are bewildered by the fact that the balance of the Draft Report appears to give no weight to these factors when determining the cost of the delivering the services that councils provide. How much are positive public health outcomes worth, what are the environmental costs associated with illegal dumping and what are the benefits of introducing new businesses that deliver on circular economy outcomes? These issues are not considered however they are integral to the provision of the service.

The surprisingly narrow focus of the Draft Report greatly concerns our Members and by rights should greatly concern the NSW State Government. The Government has given significant undertakings through the Waste and Sustainable Materials Strategy 2041 ("WASM") in relation to what the future of waste management and resource recovery will look like in NSW.

Central to the success of those undertakings is the role that local government will play in driving that agenda, yet the Draft Report does not acknowledge the costs that will be incurred as a result of that role. It would seem that IPART has decided that the State will provide 100% of the funding for those outcomes, even though the EPA has indicated it will expect co-funding of initiatives. We are unsure how that co-funding will be provided when according to IPART's view residents and ratepayers will make no direct contribution to new initiatives in the areas. This is despite the fact that they will benefit directly from the social, public health, environmental and economic benefits that will be delivered.

¹ IPART, Draft Report, Review of Domestic Waste Management Charges, Dec 2021, pg. 1.

We believe IPART's failure to consider waste management and resource recovery within the context of the Government's broader agenda for the waste sector places that agenda at risk. IPART's apparent inability to think beyond the basic mathematics needed to calculate how much it costs for a bin lift will ensure the death of innovation in the sector.

We are also very concerned with IPART's assertion that 28% of council revenue is derived from the DWM Charge. IPART is fully aware that the revenue generated from the DWMC is ring-fenced for use on domestic waste management, it is not part of the whole of council revenue and it is completely misleading to describe it in this context.

Our Members are totally opposed to any arrangement that would result in IPART creating an average cost to determine the amount that councils should charge for DWM. IPART's recent determination of a 0.7% rate peg which failed to consider the Award-mandated 2.0% wage increase, rising fuel, electricity and construction costs is a good example of how IPART can get these calculations completely wrong. IPART's admission in a letter to Riverina JO that it used ABS indices that were over 2 years old to determine the last rate peg and that it did not consider externalities such as the skills shortage provides our members with no confidence in IPART's ability to properly consider the complexity and diversity of domestic waste management across NSW.

We are further concerned that the proposed commitment to averaging to create a single benchmark will discriminate against remote, rural and regional councils, where populations are thin, transport costs are high and consequently service delivery is more difficult. We can already see this in the determination of the current rate peg, where remote, rural and regional councils bear the brunt of the Rural Fire Service component of the ESL, however IPART chooses to average this cost out rather than attribute it to the councils that pay it. The burden of the RFS component of the ESL is spread across all councils to the detriment of those that actually pay it.

A single benchmark rate is completely inappropriate and does not reflect the context of the delivery for remote, rural and regional areas. If IPART had any understanding of how waste management works in remote, rural and regional locations it would not have suggested a single benchmark rate as an option in the Draft Paper.

We find offensive IPART's assertion that to "protect ratepayers" a benchmark will be published each year. Councils serve their ratepayers and are held accountable by them for the services they provide. The notion that ratepayers need "protecting" is a fiction of the highest order. Given that only 33 submissions were received from ratepayers to the last Discussion Paper (5 of those relating to one council and access to free tip days) we would suggest that indicates that the 3,059,599 households² in NSW that benefit from council-managed waste services are happy with the services they receive. We are struggling to understand what the driver is for this Review when no-one is complaining about the services they receive and the costs associated with them.

While our councils are not part of the Waste Levy which we understand generated \$775 million in revenue for the State Government, we note that this adds additional costs to the DWM. We believe

² ABS, 2016 Census, <https://www.abs.gov.au/census/find-census-data/quickstats/2016/1>

that most ratepayers do not understand that they are paying a tax to the State Government on their domestic waste. While IPART is quick to point out that the DMW Charge has increased beyond the CPI and the rate peg over the last 2 years we would point out that the Waste Levy has increased by 148% over the last 10 years while the State's waste funding has decreased by about 40% of the last 8 years.

We note that IPART has stated that issues such as the Waste Levy is "outside the scope of this review", however given that the Levy is the largest single driver of price increases and by extension responses for example illegal dumping in the Levy areas, we would argue that it should be included in the Review

Further, IPART asserts that this Review is in response to the issues that it has identified however we remain unclear as to what those issues are other than that the cost of domestic waste has increased by 4.5%, which would be around \$20.00 annually for most households. These increases are hardly material and we argue have not kept pace with rising wage costs experienced by councils.

Nevertheless, we would support a collaborative approach to developing Pricing Principles that appropriately reflect the current and future needs for waste management and resource recovery and local government's role in delivering the WASM. In addition, the pricing principles must represent the differing operational environments for remote, rural and regional communities as well as metropolitan locations. Pricing Principles that are dominated by the operating environments that exist in Newcastle, Sydney and Wollongong would, we believe, be ineffective and frustrating in non-metro areas.

We provide the following comments in relation to the questions that IPART has raised the Draft Paper.

1. Publication of an Annual Benchmark

We do not believe that IPART can calculate a single average benchmark that covers all councils. The suggested approach of developing something like the Local Government Cost Index ("LGCI") is unlikely to work because of the vast differences in service delivery and the associated costs.

We note that the comparison Table on page 10 of the Draft Report lists prices but only provides details on the number of "red bin" services. There is no mention of green waste services, recycling services or FOGO, each of which adds to the operating costs of domestic waste management. This analysis appears to confirm our fears that IPART is focused on a simplistic approach to calculating the benchmark rather than properly addressing the complexity and diversity of service provision.

For instance, some of our Member Councils have a full FOGO collection and kerbside recycling while others only offer a red bin service. In order to offer recycling councils are required to pay for the transport costs to get the waste to a sorting facility. Some of our councils must transport FOGO hundreds of kilometres for processing and some are

processing the material locally and using it locally. How will IPART accommodate such differences when determining a one-size-fits-all benchmark?

Again, in our Region, despite the Federal Government introducing a Producer Responsibility Scheme for ewaste most of our LGAs do not have access to Scheme-funded collections. Consequently, to provide this service to ratepayers, councils must pay for the collection and transport of the waste for processing. In metro areas this is not an issue, with high density populations Liable Parties to the Scheme can meet their collections targets incurring minimal costs. How will IPART account for the differences in service delivery and access to services for those households?

Again, as stated above we do not believe that the LGCI is an appropriate mechanism for calculating a benchmark. The approach relies on averaging, out-of-date ABS data and cannot accommodate externalities that are unique to particular Local Government Areas. How will the LGCI accommodate falling prices for recyclables, the lack of competition in the domestic market for recyclables and how this will impact on waste collection contracts that come up for renewal. Waste contracts are long term and renew at different times, many councils have experienced significant price increases because of China Sword, the Export Ban and the CDS, where this occurs how does IPART accommodate those increases in the averaging approach used by the LGCI?

In addition, the LGCI does not currently account for the expansion of existing services or the addition of new services. How will IPART's LGCI approach accommodate the State-mandated introduction of FOGO collections for councils and the infrastructure that is required to support it including additional infrastructure at landfills for collection and processing.

We are alarmed that IPART's approach does not include the cost of dealing with illegal dumping. IPART has suggested that dealing with illegal dumping should come from General Rates revenue. However, in reviewing the LGCI for General Rates we cannot see where IPART factors in dealing with illegal dumping or public place waste management.

In relation to the proposal to create a Waste Cost Indicator ("WCI") we make the following comments:

- We do not believe that the basket of goods approach will work because of the complexity and diversity of waste operations.
- It is completely inappropriate to use the 2019 LGCI survey information to determine each cost item. The 2019 Survey does not capture any of the impacts of China Sword, the Export Ban or CDS. It does not capture costs associated with implementing the mandated FOGO collection or the ban on single use plastics. 2019 information is dated and not relevant to what councils need in 2023.
- As IPART well knows, there is a Local Government State Award that mandates wage increases for councils. The proposal to use the ABS Price Index for wages sets the WCI up for complete failure. The single biggest expense councils have is wages and

for IPART to ignore the real cost of wage increases undermines the entire process. Councils consider that IPART's current approach with regard to wage increases in calculating the LGCI is a complete inappropriate. We do not support the use of the same approach in calculating the WCI.

- The suggestion that price measures will take into account improvements in labour productivity completely ignores the current skills shortages issues councils are experiencing. The shortages have reached such critical levels that councils are now paying between 25-30% over their salary system wages in order to attract workers.
- We note that IPART has suggested that when calculating the WCI "for the Waste levy and "other" expenditure" they propose using the CPI. As the Waste Levy has increased by 148% over the last 10 years, we cannot help but wonder why IPART has formed an opinion that the CPI is an appropriate index.
- In remote, rural and regional areas one of the biggest cost drivers for waste is freight transport. Some councils must transport their waste hundreds of kilometres to access regional landfill or regional processing facilities. Our Member Councils are currently reporting an increase in freight costs of up to 30%. How will IPART incorporate these costs in the proposed WCI?

Further we note that IPART has commented there is an "absence of comparable data on cost drivers". We would expect an extensive consultation to identify the appropriate cost drivers, not just a survey of councils but a genuine engagement that builds IPART's understanding of the challenges of delivering effective domestic waste management services particularly in remote, rural and regional locations.

We note IPART's comment (page 26) that:

The variation in DWM charges between councils in part may reflect differences in service levels but is likely to also reflect differences in council specific costs and cost allocations.

Our Members believe that the variation is due to both variables, the difference in service levels and the differences in council specific costs. There are so many variables in relation to service delivery and council specific costs that we again do not believe that they can be adequately captured in a single waste peg that is based on averaging costs.

In response to IPART's specific question on the issue, we do not think that the proposed annual benchmark waste peg will assist councils in setting their DWM Charges. Again, we believe a single waste peg based on averaging service delivery costs from Sydney to Broken Hill will be of no value at all.

2. Publication of where council's DWM Charge exceeds the benchmark

Given that only 33 ratepayers of the 8,172,500 people who live in NSW, commented on the Discussion Paper, we are wondering who the audience is for the proposed publication. The

idea seems to be a “name and shame” approach to the DWM Charge, with a goal of providing information that can be used to kick councils around.

If the ratepayers are unhappy with the DWM charges, they get the opportunity to comment on them when councils place their proposed fees and charges on public exhibition each year. We do not understand what the underlying value of this proposal is.

3. Publication of Pricing Principles

We would support the publication of Pricing Principles provided they are developed in genuine collaboration with local government and properly reflected the complexity and diversity of service provision in the area.

4. Would it be helpful to provide worked examples for inclusion in the OLG’s Revenue Raising Manual

We believe that IPART should start creating worked examples immediately. The process would encourage IPART to better understand the challenges councils face in keeping the costs down. It is not until IPART starts ground-truthing its calculations that it will understand that creating a single benchmark rate or DWM Charges is unrealistic.

We strongly suggest that IPART work with JOs and ROCs to develop the worked examples to ensure that they reflect real world scenarios.

Conclusion

This is a solution desperately searching for a problem. We cannot see any valid reasons for the creation of a waste peg, particularly given that the average increase for a household has been 4.5% over the last 5 years, or around \$20.00 per household.

In addition, given that the Discussion Paper drew just 33 ratepayer responses from the over 3,000,000 NSW households that receive a domestic waste service we strongly believe this indicates that ratepayers are not expressing any desire for IPART to “protect them” from increases in the DWM Charge.

We do not believe that the creation of a single benchmark waste peg will provide any benefit to councils because it cannot possibly accommodate the complexity and diversity of domestic waste management service delivery across 128 Local Government Areas.

Further we believe that the introduction of the waste peg could severely undermine the successful delivery of the NSW WASM because the State Government is relying on Local Government to be a pro-active partner in its implementation.

We do agree that Pricing Principles may assist councils to make their own decisions in relation to pricing domestic waste services but only where those Principles reflect the on-ground reality of service delivery in remote, rural and regional areas.

We would welcome the opportunity to discuss the issues we have raised further.