

Domestic waste management charges - Discussion Paper

Submission date: 6 October 2020, 11:28AM

Receipt number: 55

Related form version: 4

Question	Response
Feedback and Submission Form	
Industry	Local Government
Review	Review of domestic waste management service charges
Document Reference	c1e253a1-4210-41d3-97de-3be8f315fce7
1. Are there concerns with the prices councils charge for domestic waste management services? Why/why not?	
2. If there are concerns, how should IPART respond? For example, if IPART was to regulate or provide greater oversight of these charges, what approach would be the most appropriate? Why?	
3. Would an online centralised database of all NSW councils' domestic waste charges allowing councils and ratepayers to compare charges across comparable councils for equivalent services (eg, kerbside collection), and/or a set of principles to guide councils in pricing domestic waste charges, be helpful? Why/why not?	
4. Do you have any other comments on councils' domestic waste management charges?	
5. Which Council do your comments relate to?	Richmond Valley Council
Your submission for this review:	See attached
If you have attachments you would like to include with your submission, please attach them below.	RVC response to IPART Domestic Waste management charges discussion paper.pdf
Your Details	
Are you an individual or organisation?	Organisation
If you would like your submission or your name to remain confidential please indicate below.	Publish - my submission and name can be published (not contact details or email address) on the IPART website
First Name	Vaughan

Last Name	Macdonald
Organisation Name	Richmond Valley Council
Position	General Manager
Email	
IPART's Submission Policy	I have read & accept IPART's Submission Policy



Richmond
Valley
Council

6 October 2020

10 Graham Place Casino NSW 2470
Postal: Locked Bag 10 Casino NSW 2470

t: 02 6660 0300 f: 02 6660 1300

council@richmondvalley.nsw.gov.au
www.richmondvalley.nsw.gov.au

ABN 54 145 907 009

Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket Post Shop
Sydney NSW 1240

Review of domestic waste management charges

Summary

Richmond Valley Council (RVC) is a regional council with a population of 23,400 and an operating area of 3048 km². Council provides domestic waste services to 7500 households, and non-domestic services to 1000 business or other entities. As the majority of Council's waste is sourced from domestic customers, the Domestic Waste Management charge (DWM) is of fundamental importance in delivering quality, sustainable waste management services to our community.

RVC has reviewed the Domestic Waste Management Charges Discussion Paper recently issued by IPART and strongly disagrees with the report's assertion that local councils are over-charging or failing to deliver good value for money to domestic waste customers.

IPART has provided no evidence to support its assertions yet sees fit to publicly malign local government based on ill-founded bucket economics – ie that domestic waste charges are increasing faster than the rate peg and inflation rates, ergo councils must be overcharging or mismanaging.

This demonstrates a clear lack of understanding of the complexities of the waste management industry and the limited role that local government plays in managing and controlling the key cost drivers within that industry.

IPART's own commissioned research makes it clear that local government is a relatively minor player in waste management services – of the more than 21 million tonnes of waste generated in NSW, only 4.25 million tonnes was managed by councils. Additionally, the key cost drivers of waste management, such as complex regulatory requirements, the NSW Waste Levy and the current market concentration of private providers are all well beyond the control of local government.

If IPART wants to ensure that the residents of NSW receive quality, value for money domestic waste services, its attentions might be better focused on those aspects of the service supply chain that are driving increased costs and restricting active competition in the market, rather than seeking to over-regulate the smallest player on the field.

IPART's proposed option of increased benchmarking would be largely ineffective given the inherent difficulties of comparing like for like across the 809,000 km² currently administered by the State's 128 councils. The Office of Local Government currently publishes all council domestic waste charges in its annual Time Series Data and the information is largely meaningless, given the wide variation in council services and local price drivers. RVC is at odds to understand how IPART's benchmarking proposal would prove any more useful than what is currently available.

Love where we live and work



IPART's second option of increased regulation of domestic waste charges would be detrimental to local councils' long-term sustainability, particularly in regional NSW. Regulating domestic waste prices in an environment where the main cost drivers are external to local government will only place more cost pressure on local communities and result in reduced services. Rather than applying ham-fisted price controls, IPART's energies might be better employed working respectfully and collaboratively with the local government sector to gain a detailed understanding of the cost pressures and challenges that all NSW communities face in delivering waste management services.

Our tone is strong on this issue, as we are proactively pursuing opportunities to constrain future costs for our ratepayers. Richmond Valley Council has partnered with the NSW Government and the twelve North Coast Councils, from Tweed to Mid-Coast, in an effort to explore more sustainable solutions based on a stock take of waste generation and management across this region. We take offence to the implication that Councils are somehow profiting from managing domestic waste. Councils don't make profits, we re-invest into our communities for the benefit of current and future generations. Any surpluses go into our waste reserve so that we have funds to build the next landfill cell, which we are about to do, or to close and seal old landfill cells to required standards. All of this comes at significant and increasing costs as environmental regulations tighten every year and gaining approvals is a long, complex and often laborious process.

Comparison to the rate peg is unrealistic

IPART's discussion paper asserts that domestic waste charges are unreasonable because the average residential rate across the local government sector has increased by 16.8% from 2014-15 to 2017-18, while the average DWM charge has increased by 22.9%. This is a wholly nonsensical comparison.

DWM charges are a fee for service – they reflect the actual costs of delivering the service and the level of service received by the customer. Residential rates are a property tax, based largely on property valuations. It is to be expected that these costs will increase at different rates. There is no direct correlation between the amount a resident pays in residential rates and the amount of service they receive from their council. There is a direct correlation between the amount a resident pays in domestic waste charges and the amount of service they receive. Local government has long asserted that the Local Government Cost Index is not a reliable indicator of councils' increasing expenses and the rate peg does not reflect the true cost of providing services to the community. The steady increase in domestic waste charges beyond the rate peg percentage demonstrates this point. Comparing domestic waste management charge increases to the inflation rate is also largely pointless because the main driver of domestic waste management costs – government policy and regulation – has no regard to the inflation rate.

In the period 2010-20, the cumulative inflation rate was 22.71% (based on CPI). In the same period the NSW Waste Levy Regional Regulated Area charge increased by 741%

Clearly councils are unable to absorb these cost increases and, of necessity, they are passed on to the consumer.

Describing councils as monopoly providers is a misnomer

The discussion paper asserts that "local councils are monopoly providers of DWM services" and that IPART has a remit to "protect consumers by limiting the ability of monopolies to exercise market power". Clearly councils have very limited control over the major cost drivers in the market – they are largely on the receiving end of existing monopolies in the private waste management sector, as well as the controlling influence of federal and state government policy and regulation.

It should be noted that there is technically no legislative requirement for a council to deliver domestic waste collection services. In some rural and remote communities, residents make their own arrangements for waste disposal. Councils deliver DMW because the consequences of not providing these services would be catastrophic for their communities. Apart from public health and environmental considerations, consumers would be at the

mercy of private providers, with little or no protection against increasing prices and variable service standards. In this regard councils' so-called 'monopoly' serves as a price regulator and quality control mechanism. Unlike commercial providers, councils are directly accountable to their communities for the services they deliver and the prices they charge. They deliver DWM services as part of their stewardship role under the *Local Government Act 1993* - to ensure the health, environmental and social outcomes that their communities need and deserve.

Government policy setting and regulation is a major cost driver

Over the past 10 years, local government domestic waste management charges have been largely influenced by the policy decisions of higher levels of government at international, federal and state levels. Councils have no control over these policy levers and must absorb the cost and consequences of these decisions.

Key cost drivers have included:

- The NSW Government's decision to introduce the Waste Levy (2009)
- The NSW Government's decision to introduce the Container Deposit Scheme (2017)
- The EPA's decision to ban the use of Mixed Waste Organic Output (MWOO) (2018)
- The Chinese Government's decision to greatly restrict the import of recyclable materials (China Sword policy - 2018)
- The Queensland Government's decision to introduce a waste levy (2019)
- The Australian Government's decision to phase out the export of recyclables that have not been processed into value-added materials from July 2020.

None of these significant cost drivers is addressed in IPART's discussion paper – it is simply assumed that council DWM charges are rising because councils are cross-subsidising other services, are inefficient, or 'lack experience at procurement'. This demonstrates a limited understanding of the local government operating environment and the complexities of the waste management industry.

Impacts of the Waste Levy

When the NSW Waste Levy was introduced in 2009, the Regional Regulated Area charge was \$10 per tonne. It is now \$84.10 per tonne – an increase of 741%. During this period, Richmond Valley Council has paid \$6.45 million in waste levy charges. It has received \$974,000 in waste and recycling grant payments from programs funded via the levy. This is a poor return by any business standard.

The Waste Levy was introduced to encourage greater recycling of materials, rather than disposal to landfill. Had the NSW Government subsequently invested these funds in developing robust recycling industries within NSW for processing and repurposing materials, councils and their communities may have avoided the cost increases we are facing today. Instead, up to 80% of the levy has been consistently syphoned off into general revenue. Some \$777 million is expected to be collected in 2020-21 and councils in regional NSW will see precious little of these funds to support waste management solutions.

Although the levy is designed to target materials that could be recycled, it is currently applied to all materials received at landfill, including those that cannot be recycled. This means that consumers pay an additional \$84.10 per tonne for materials, such as asbestos, that would have gone to landfill anyway, as there is no other option to dispose of them. The result is that illegal dumping of these materials, has increased significantly and councils are left to carry the cost of this clean-up.

The advent of the Waste Levy has also introduced a raft of new reporting and regulatory requirements for councils – all of which must be funded from council resources. For example, if RVC brings a truck-load of road base into its landfill facility to resurface the service roads, this material is subject to the waste levy. Council must then go through the complex and time-consuming process of claiming the waste levy paid on this material back from the NSW Government. There is no specified timeframe for the funds to be returned, no imperative upon the Government to honour the refund and no compensation for the time and resources council must allocate to this endless red tape.

In a bid to reduce costs for residents, some councils in northern NSW have adopted the practice of sending non-recyclable wastes to Queensland for disposal. However, the recent introduction of a waste levy in Queensland has increased costs to the point where it is becoming less viable to transport waste in this manner. The Queensland waste levy is currently \$75 per tonne, with an expected annual increase of \$5 per tonne. This will ultimately result in more non-recyclable waste remaining in NSW, with the need to develop additional waste disposal solutions. In the absence of viable alternative waste technologies, the high costs of developing additional landfill facilities, obtaining state development approval, achieving EPA licensing requirements, operating and ultimately rehabilitating these sites will be passed on directly to NSW consumers – largely via domestic waste management charges.

Impacts of the Container Deposit Scheme

While the Container Deposit Scheme (CDS) introduced by the NSW Government in 2017 had the commendable aim of reducing litter, it has also significantly disrupted waste management arrangements between councils and commercial recycling facilities. Traditionally, residents placed their used drink containers in their household recycling bins, the bins were transported by council to a Materials Recycling Facility (MRF), council paid a gate fee to the MRF to take the materials and they were then sorted and on-sold by the MRF to other processors. The gate fee amount was negotiated on the expectation that the MRF operator could receive a commercial return on the materials. However, with the advent of the Container Deposit Scheme, the Government created an incentive for customers to keep their drink containers and recover the 10c deposit directly from their local Return and Earn station. This diverted this waste from the household recycle bin and reduced the potential for MRFs to gain a financial return. The result was that gate fees increased for local councils. Although the NSW Government anticipated that councils and MRFs would share in the 10c return for the containers (and even provided support for councils to negotiate their share) the reality is that many of these containers never made it to the household recycling bin in the first place. The volume of recyclables was reduced and the commercial value of the materials received was reduced. These losses were passed back to councils in the form of higher fees. Within six months of the CDS being introduced, Council's gate fees for recyclables had increased by 36%. This was further compounded by the introduction of the China Sword policy, which significantly reduced market options for recyclable materials.

Impacts of the MWOO decision

Many councils in NSW – particularly in metropolitan areas – relied on the Mixed Waste Organic Output process to effectively dispose of their waste. Without consultation, the EPA banned this process in 2018, on the basis that it presented public health risks. Virtually overnight, councils who had invested in MWOO processes (on the assumption that they were approved) had to find alternative waste management options. These councils were placed in an untenable position to negotiate effectively with private providers – they had to find alternatives for their waste quickly and pay the price the market demanded. Although RVC was not directly impacted by the MWOO decision, all councils are ultimately impacted in some way when sudden policy changes are imposed on the sector. Ultimately, everyone pays more for their services because there are now more councils competing for access to limited landfill space. These increases are passed on to consumers.

Impacts of pensioner concession policy

The *Local Government Act 1993* requires councils to offer pensioner rebates on general rates and other charges, such as domestic waste management, water and sewerage.

Councils cover a substantial percentage of these costs. For example, this year RVC will provide \$167,000 in pensioner rebates for DWM. It will receive \$90,000 back from the NSW Government and cover the remaining \$77,000 from its own resources. This adds to the cost pressures of providing domestic waste management services, particularly in regional councils, where there is a higher proportion of pension recipients. IPART has suggested that pensioner and hardship subsidies should be funded from general revenue, rather than DWM charges. However, s.575 3(a) of the *Local Government Act 1993* makes it clear that pension rebates are specifically payable on Domestic Waste Management charges and are

therefore a legitimate cost associated with delivering the service. To subsidise these payments from general revenue would be contrary to the intent of s.504 of the Act.

Challenges of long-term planning

Waste management is an inter-generational responsibility and requires effective long-term planning to ensure the best outcomes for communities. However, councils currently face inherent difficulties in planning for and funding long-term waste management solutions because the industry is in a state of flux and the regulatory environment is changing rapidly, with no clear policy direction from federal or state governments. In this environment, councils must continue to deliver services and to plan, as best they can, for long-term solutions for their communities. Some, like RVC, utilize borrowings for major infrastructure investment, to spread the cost of providing these facilities over a longer timeframe. However, continued regulatory changes and additional requirements make it difficult to accurately predict the cost of future investment, particularly in rehabilitation of landfill sites. For example, RVC's projected costs of rehabilitating cells at its existing landfill have recently increased from \$1.2m to \$3.3m due to additional requirements.

Larger commercial providers in the waste industry also face the same challenges and this is reflected in reluctance to invest in new technologies and facilities, or to enter into longer-term contracts with councils. Short-term contracts mean higher prices, which are in turn passed on to consumers.

Council prices are subject to more scrutiny than other providers

While IPART has expressed concern that local council DWM charges are no longer audited by OLG, it should be remembered that councils are the only part of the waste services supply chain that is required by legislation to consult with customers on appropriate pricing structures.

Council DWM charges are set in accordance with the OLG Rating and Revenue Raising Manual and are subject to annual review via public exhibition of the council's Revenue Policy. This ensures that the community has an opportunity to test and challenge whether it is getting value for money, and to provide feedback for the elected council to consider before annual charges are set. The NSW Government does not afford the same level of community consultation when setting the Waste Levy charge. Neither does it provide any level of transparency on how Waste Levy funds are spent. Conversely, councils are required to report annually to their community on their waste management activities and to provide annual data to regulators such as EPA. Councils' financial statements are independently audited, open for public review and scrutinized each year by the Auditor General. If IPART is concerned with ensuring transparency in DWM costs, its energies might be better directed towards promoting more rigorous auditing of NSW Waste Levy expenditures, which are a key driver of these charges.

IPART's pricing principles have limited benefit

RVC is at odds to understand the logic behind IPART's proposed pricing principles. It would appear that, in IPART's view of the world, council operations are neatly compartmentalized into unspecified 'core business functions', 'service functions' and 'social programs'. This demonstrates a lack of understanding of the wholly integrated nature of local government service provision. So-called 'core business functions' only exist to support a council's service delivery and regulatory functions – the two are intrinsically linked and co-dependent, particularly in regional and rural councils where lower staff numbers mean a higher level of integration and shared tasking.

So called 'social programs' (presumably this is a reference to community waste education programs) are also an integral part of business management and cost control. One of the recurrent cost drivers of domestic waste services is cross-contamination of waste streams – ie people putting the wrong rubbish in their red, yellow or green bins. There are three ways to combat this problem and reduce the additional costs that come with sorting out the contaminated waste: Invest in an army of 'bin police' to physically check the bins (which is cost prohibitive); invest in 'smart bin' technologies that monitor the bin contents by telemetry (also cost prohibitive), or educate people not to put the wrong stuff in their garbage (the cheapest option with the best chance of providing long-term behavior

change). Education and awareness is an integral part of providing a cost-effective domestic waste management service. It should not be regarded as a 'nice-to-have add-on' that is funded via general rates.

According to IPART's discussion paper, the underpinning assumption of incremental charging is that councils should only allow for overhead costs that 'would disappear' if they stopped providing DWM services – i.e. that council has to employ someone to do the payroll and process the invoices anyway, regardless of whether it collects domestic waste, so it can't account for those costs in the DWM charge, unless it can prove a direct correlation. This leaves councils with two choices: Either ignore that (very real) component of 'core functions' that currently supports waste management services (in contravention of s.504) or drill down into the minutia of exactly how much of the junior accounts clerk's time is actually dedicated to waste management services or exactly how many biros the assistant coordinator of waste really uses from the stationery cupboard each month.

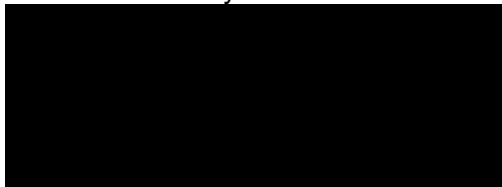
To suggest that this is an appropriate use of community resources and would make any material difference to the DWM charge simply beggars belief. To put things into perspective, RVC's current operating expenses for domestic waste management are \$6.98 million per year – corporate overheads account for \$386,000 of that amount. Rigorously combing through the \$386,000 won't make the remaining \$6.594m magically disappear. Clearly there are other, more significant cost drivers than corporate overheads contributing to the DWM charge, and most of these drivers are outside of councils' direct control. The OLG Rating and Revenue Manual provides guidance on how to adequately account for corporate overheads in determining DWM charges. Councils have been referring to this manual for the past 10 years and IPART has presented no evidence to suggest that they are departing from its guidance. RVC can see no value in adopting IPART's suggested pricing principles.

While Richmond Valley Council acknowledges IPART's good intentions in trying to ensure that domestic waste customers get value for money, its proposed methodology and the solutions offered in the discussion paper are misdirected. If IPART wants to make a tangible difference to escalating domestic waste management costs, its attentions might be better focused on the major cost drivers within the waste industry – all of which are beyond the control and remit of local government.

A significantly higher level of re-investment of waste levy funds by the NSW Government to support Councils to be innovative and identify and develop new solutions, would be a recommendation IPART needs to seriously consider.

Thank you for the opportunity to contribute to your review process.

Yours sincerely



Vaughan Macdonald
General Manager