

## 8.7. IPART Review of Domestic Waste Management Charge

**AUTHOR:** Bo Karaula, Waste Management Coordinator

**ENDORSED BY:** Rob Emerson, Director Open Space and Environmental Services

### **ATTACHMENTS:**

1. NSC DRAFT Submission on IPARTS Review of DWMC Draft Report [8.7.1 - 4 pages]

### **PURPOSE:**

To inform Council of the Independent Pricing and Regulatory Tribunal's (IPART) Domestic Waste Management Charge (DWMC) Review – Draft Report released for stakeholder consultation and the implications of the draft decisions on Council's residential waste management services. The Report also seeks Council's endorsement for a submission to IPART.

### **EXECUTIVE SUMMARY:**

IPART commenced a review into the Domestic Waste Management Charge (DWMC) releasing a Discussion Paper in August 2020. A Draft Report was released in December 2021 calling for stakeholder submissions. The draft report contains draft decisions that have the potential to have ongoing implications for Council's Residential Waste Management and Resource Recovery Services. Council staff have undertaken a collaboration process with colleagues in the Northern Sydney Region of Councils (NSROC) and other ROC's, to review the Draft Report (December 2021). There are unanimous concerns about the pathway proposed by IPART in relation to the DWMC in NSW.

IPART has proposed the establishment of a state wide benchmark "waste peg", set at 1.1% for 2022-23, with councils exceeding the "waste peg" having to report their justifications to IPART.

The 1.1% would incentivise councils to manage (cut) costs rather than seek to provide innovative resource recovery programs. *This will impact on the ancillary waste minimisation and education programs that Council currently offers that would likely be severely curtailed should IPART's proposal be adopted.*

IPART is also proposing DWM Service Pricing Principles to assist councils set their DWMC. If adopted, the pricing principles will require Council to fund from general revenue a substantial amount of current corporate overheads and other recurrent waste service costs currently funded from the DWMC. Based on current forecast costs for 2021/22, this amount would be in the order of \$2.34 million annually. To compensate, Council would be entitled to a one-off Special Rate Variation (SRV) to general rates revenue. Based on 2021/22 forecasts, this special variation would result in an increase in rates revenue of approximately 4.2%.

*Council currently pays Section 88 landfill levies of \$2.2 million per annum directly to the State Government of which only a small proportion is invested back into waste minimisation programs administered by Local Government.*

A draft submission raising concerns about the likely impact to Council of the IPART DWM Charge Review is provided for Council's consideration and endorsement at **Attachment 1**.

**FINANCIAL IMPLICATIONS:**

The proposed IPART Draft Decisions, if adopted would have a general fund budget impact of around \$2.34M for 2022/23.

**RECOMMENDATION:**

- 1. THAT** Council note the IPART Review of the DWMC report.
- 2. THAT** Council endorse the submission (Attachment A) to IPART *Domestic Waste Management Charge (DWMC) Review – Draft Report* .

## **LINK TO COMMUNITY STRATEGIC PLAN**

The relationship with the Community Strategic Plan is as follows:

### 1. Our Living Environment

1.1 Protected and enhanced natural environment and biodiversity

### 5. Our Civic Leadership

5.4 Council's service delivery is well supported

## **BACKGROUND**

In 2010, IPART were given delegation to regulate the Local Government Act 1993, Section 496 - Domestic Waste Management Charge, by way of setting a DWM charge limit or establishing a waste peg. For the past decade IPART chose not to exercise this delegation noting that the Office of Local Government was auditing council DWMC's. In 2019, the Office of Local Government (OLG) informed IPART it would no longer undertake DWMC audits and as a result IPART decided to commence a DWMC review.

In August 2020, IPART released a Discussion Paper detailing the findings of their review including:

- DWM charges across NSW Councils had large increases over recent years - 4.5% average DWMC increase, compared to 1.9% CPI or 2.1% rate peg average increases over the last 5 years.
- Concerns that DWM charges are increasing at double the rate of inflation and that some councils are over allocating corporate overheads to the DWM.
- Concerns regarding DWM charges varying significantly across councils and between similar councils.

NSROC along with other ROCs provided a submission to IPART on the discussion paper. The submissions also reflected North Sydney Council's views.

The 2020 discussion paper proposed a benchmarking of waste services across similar councils. However, the current draft report recommends a benchmark waste peg to deliver a one size fits all approach, even though the overwhelming responses from councils to the discussion paper sought to explain the complexity of delivering waste services and the differences inherent between councils. NSROC are disappointed and many councils across Sydney felt blindsided by the proposed waste peg.

## **CONSULTATION REQUIREMENTS**

Community engagement is not required.

## **DETAIL**

### **IPART Draft Report**

The IPART Review of Domestic Waste Management Charges Draft Report was released in December 2021 for stakeholders to make submissions on the Draft IPART Decisions. Submissions will be accepted until 29 April 2022.

IPART's Draft Decisions include:

1. Proposal to publish annually a benchmark 'waste peg' to assist councils in setting their domestic waste management charges. The proposed benchmark waste peg for 2022–23 is 1.1%. Councils exceeding the waste peg would be required to provide an explanation.
2. IPART proposes to publish annually a report on the extent to which councils' annual domestic waste management charges increase more than the benchmark waste peg each year.
3. IPART proposes recommending that the Office of Local Government publish pricing principles to guide councils on how they should recover the costs of providing domestic waste management services.

### **The 'Waste Peg'**

While a benchmark waste peg sounds inoffensive, the proposed increase of 1.1% will mean that Councils wishing to offer the same level of services in future will need to exceed it, given that the annual average increase in waste charges over the five year period analysed by IPART was above 4.5%. Those increases reflected the additional costs that Councils faced and the costs have increased even further since that time.

Councils therefore face the prospect of IPART nominating a fixed peg which may oblige them to reduce their waste and resource recovery initiatives.

The annual IPART waste peg percentage (i.e. 1.1%) will be determined through an IPART newly developed Waste Cost Index (WCI). The waste peg will be equal to the annual change in the WCI. In theory a specific waste cost index may be acceptable provided it covers all related cost pressures and has universal acceptance as accurately reflecting changes in costs in providing the service; however, currently it will fall short of matching changes in the DWMC and outsourced waste services contractual obligations. It will not cover service enhancements or any new resource recovery services. The waste peg reflects a range of past costs at a point in time, it does not reflect the reality of future costs for which councils have to plan.

Under many Councils' waste contracts, price variations are pegged to increases in the annual CPI or to a transport price index, both of which are running at an annual rate far more than the 1.1% proposed peg. For Council's contracts, it is currently over 3%.

It is important to note that the concept of a 'waste peg' was not included in IPART's August 2020 Discussion Paper which stated a preference for a non-regulatory approach through

benchmarking and public reporting of DWM charges and services to promote transparency and accountability. The waste peg has only surfaced at a later stage of the review, contained within the Draft Report released December 2021.

There is concern that IPART does not seem to have an appreciation for the cost drivers that individual Councils encounter and how these affect DWM charges. IPART will publish an annual benchmark 'waste peg' report identifying those councils that exceed the 'waste peg' and their explanations. It is highly unlikely that DWM charges will fall under the 1.1%. By publishing benchmarks, IPART risks stoking considerable community misunderstanding and negative backlash.

The following summarises how IPART's proposed 'waste peg', is disconnected from local government realities and could potentially create an unsustainable situation for Council.

- Councils' waste contracts, price variations are pegged to increases in the annual CPI which is running at an annual rate far more than the 1.1% proposed peg. For Council it is over 3%. (with no allowances for POEO Section 88 Waste Levy increases which would further increase this funding requirement).
- It does not include any provisions for increased waste generation rates and the costs to manage this additional waste.
- Poses a barrier to delivery of Council's and State Governments waste diversion and resource recovery targets, including the roll out of new services such as Food Organics (FO), recyclesmart program and niche collections of textiles, soft plastics and, CRC and other problematic waste
- Council is currently responding to the recent NSW Government's mandate for all NSW councils to implement Food Organics (FO) services by 2030 including collections, processing and extensive community engagement and education campaigns. Noting our local community's strong endorsement to improve our diversion of waste from landfill, Council is about to roll out a Food Scraps Trial to potentially transition to a permanent service. A complete roll out of a food scraps collection service on a permanent basis for all residential dwellings will see an approximate increase of the DWM charge of at least 14-16 %.
- Adding this FO increase each year, combined with the above contract cost increases, and other resource recovery initiatives would far exceed the 1.1% 'waste peg'.

## **Price Principles**

The publishing of pricing principles guidelines by the OLG would be of some benefit to councils. It would add to greater consistency and transparency in calculating and reporting DWMC. However, it should be stressed that a cookie-cutter approach would not be reflective of the true cost of providing bespoke waste management services.

In general, providing pricing principles to set the DWMC may be of assistance to councils; however, this should not be a 'big stick exercise'. In setting the DWMC Councils generally only seek to recover costs associated with the provision of waste management services. Costs associated with other council services are not built into the framework of the DWMC.

Council currently utilises the average cost methodology to apportion corporate overheads to the setting of the DWMC. It is the Council's view that the introduction of an incremental pricing method would have little significant benefit in establishing the DWMC; consistency of methodology is of greater benefit.

DWM Services are defined in the Local Government Act 1993 as "**Domestic waste management services** means services comprising the periodic collection of domestic waste from individual parcels of rateable land and services that are associated with those services".

The Office of Local Government, Rates and Revenue Raising Manual, 2007 (Rates Manual) provides further detailed guidance on domestic waste management services and outlines what waste services can be attributed to a DWMC and what should be excluded and recovered via other waste related charges or covered by general rate funds.

The Local Government Act and OLG Rates Manual guidance means that only costs for waste and recycling collections to the property, the management and treatment of the waste removed, education services only related to these specific services and other direct operating expenses associated with those services can be charged to DWM.

Some Councils have been including public litter bin collections, street sweeping services, illegal dumping clean-ups and litter reduction campaigns in DWM charge expenses contrary to the strict definition provided above. It is noted however that in many Councils a high percentage of illegal dumping is dumped household bulky waste which relates directly to managing the waste of domestic properties and therefore providing a nexus for illegal dumping costs being attributed to DWMC.

Most Councils in NSW are charging other waste services (not strict domestic waste management services), including resource recovery programs and initiatives, to their DWM budgets under the "and services that are associated with those services" within the DWM Service definition. These waste services may include community recycling centres, recycle smart programs etc. They also cover initiatives such as workshops on home composting/worm farming, avoiding plastics, clothing swaps etc.

IPART is proposing all councils review and remove the costs of any strictly non-complying "domestic waste management services" from their DWM charge and rebalance these expenses to general rate funds. DWM Services should be redefined to cover activities related to "managing waste generated from domestic properties" to allow councils to maintain efficient and effective waste services sought by their communities.

It is recommended that IPART ensure that any pricing principles adopted reflect the current community aspirations for resource recovery, sustainability, reduced emissions and the circular economy. Under the Domestic Waste Management Charge the allowable services should be those delivered to provide a benefit for domestic residential properties and not just those providing a service directly to the property. Clarity around what activities can properly be delivered with the charge should be provided.

It is recommended that Council provide a submission on the IPART Draft Report opposing the approach which IPART has proposed involving a state wide benchmark waste peg. Pricing principles could then be established that reflect the reality of modern waste management and the delivery of services that are for the benefit of domestic residential properties. These views are shared by the majority of Councils in NSW and supported by waste industry bodies.

**Attachment A****DRAFT SUBMISSION - REVIEW OF DOMESTIC WASTE MANAGEMENT CHARGE - DRAFT REPORT -  
December 2021**

Council	Contact Name
North Sydney Council (NSC)	Bo Karaula Waste Management Coordinator Bo.Karaula@northsydney.nsw.gov.au

Thank you for the opportunity to provide feedback on IPART'S Review of the Domestic Waste Management Charge (DWMC) – Draft Report Draft Decisions.

North Sydney Council (NSC) has undertaken a collaboration process with our colleagues in the Northern Sydney Region of Councils (NSROC) and other ROC's and Councils across Sydney, to review both the original Discussion Paper (August 2020) and the subsequent Draft Report (December 2021).

Our collaboration clearly indicates that there are unanimous serious concerns from local government organisations about the pathway proposed by IPART in relation to the DWMC in NSW.

NSC opposes the approach which IPART has proposed involving a state wide benchmark waste peg and recommends that IPART instead consider an alternative approach more similar to what was envisaged in the *Local Council Domestic Waste Management Charges Discussion Paper* issued in August 2020. Pricing principles could then be established that reflect the reality of modern waste management and the delivery of services that are for the benefit of domestic residential properties. These views are shared by the majority of councils in NSW and supported by waste industry bodies, and we strongly urge you to consider adapting your approach to reflect them.

**Feedback on issues for comment****Do you think our proposed annual 'benchmark' waste peg will assist councils in setting their DWM charges?**

IPART indicated that only two choices are available – a rebalancing and benchmarking, or a peg to DWM charges of 1.1%. Neither option is acceptable.

Rebalancing and benchmarking have many inherent issues, including -

- Redefining domestic waste. For example, illegally dumped waste would not be included in the rebalancing process whilst booked clean-up services would remain within the purview of the DWMC. NSC has a significant illegally dumped waste problem insofar as its residents expect council clean-up material to be collected promptly and any such waste that isn't immediately reported as "dumped". For NSC, separating booked clean



up material from genuinely illegally dumped is extremely difficult. IPART's proposal to remove costs that are for non-complying Local Government Act domestic waste management services from future DWMC increases would lead to a decrease in the provision of such services and an overall mismatch between community aspirations for resource recovery and sustainability and council's ability to afford such programs.

- NSC residents have a high expectation for the provision of waste management services, including the ability to dispose of problem household wastes at CRC's, the speedy response to dumped rubbish reports and the consideration of innovative resource recovery initiatives which lead to a decreased reliance on landfilling. Under the IPART proposal, such programs would necessarily be funded out of Council's general revenue funds. As such, they will be competing against other council projects and could be relegated to a lower priority during budgetary considerations.
- By limiting a council's ability to accumulate provisions withing the DWMC, councils would no longer be able to provide for expected changes for future needs; for example, FO processing or expected bin rollouts for future waste contracts.
- NSC currently extrapolates that percentage of non-DWMC from education expenses. However, it is likely that the IPART requirement might become more stringent. This is a contentious issue as waste management and environment sustainability are intertwined and related education and management expenses may not be readily separable.
- There is a discrepancy in the analysis for the inclusion of corporate overheads. As a percentage of the total DMWC for NSC, corporate overheads represent 15%; IPART suggested that this number for metropolitan councils was 65%.
- Benchmarking has limited value. How can you compare two LGA's with different population and housing demographics, differing levels of access to transfer stations and/ or processing facilities, differing community expectations, differing rate bases, etc. Differential pricing is a widespread commercial practice. It is akin to comparing apples to oranges. By publishing benchmarks, IPART risks stoking considerable community misunderstanding and negative backlash.
- Benchmarking could be a useful comparative tool, allowing councils to question why their cost changes differ from the norm. But it should be limited to an internal review process and not subject to widespread community analysis and condemnation.
- Benchmarking would not provide for commercial contract considerations. When a council tenders for its waste services, it is subject to competitive price pressures at that time from the commercial sector; the council cannot dictate prices. At the time of the tender, a council faces many price pressure points including the lack of competition (or interest) for the services tendered, and domestic and offshore government policies (for example, the impact China Sword had on recycling).

Conversely, a 1.1% waste peg has many more limitations, including –

- 1.1% does not meet inflationary pressures. As is evident, councils, and their commercial waste management partners (collections companies, disposal points operators) face increasing cost pressures (wages, fuel costs, supply chain issues, changes in government policies). A 1.1% peg would not cover recent price pressures.
- In theory a specific waste cost index may be acceptable provided it covers all related cost pressures and has universal acceptance as accurately reflecting changes in costs in providing the service; however, currently it will fall short of matching changes in the DWMC and rising contractual obligations. Under many councils' waste contracts, price variations are pegged to increases in the annual CPI or to a transport price index, both of which are running at an annual rate far more than the 1.1% proposed peg. The CPI is an industry standard for determining price variations as it is regarded as the broadest measure of cost pressures and, generally, realigning changes in the DWMC to reflect contractual price pressure. Additionally, previous increases in the NSW waste levy were aligned to changes in the CPI; will this remain the case?
- The 1.1% peg would lead to significant shortfalls in the DWM fund thus hampering a council's ability to provide additional waste services such as FO or FOGO (as mandated by the NSW EPA), not to mention providing basic waste services. NSC is mandated with providing value for money waste services whilst seeking to maximise resource recovery and minimising waste being landfill. Indeed, recent community consultations have highlighted that its residents expect Council to achieve this mandate. By placing funding constraints on Council, it is difficult to see how NSC could achieve this requirement. This is inconsistent with the State Governments *Waste and Sustainable Materials Strategy 2041*, objectives (such as achieving an 80% average resource recovery rate from all waste streams by 2030 and introducing a FO or FOGO collection/ processing service also by 2030); reduced funding, or the inability to recoup all costs associated with the provision of contracted waste management services, would lead to a serious financial shortfall which, in turn, would equate to a cutback in services. It is estimated that the provision of a FO collection service to NSC's residents would see an increase in the DWMC of at least 14-16%. By limiting the ability of councils to implement new resource recovery measures, commercial operators, who are demand and price driven, will be averse to take the lead; hence, we will be stuck in a landfill loop.
- The 1.1% would incentivise councils to manage (cut) costs rather than seek to provide innovative (expensive) resource recovery programs. To meet community expectations for waste minimisation and resource recovery, councils would need to increase the DWMC by more than the 1.1%. Councils that increase the DWMC by more than the 1.1% peg will be identified and their name published in IPart's annual report. This would lead to a name and shame mentality with potential considerable community backlash.

**Should the Office of Local Government publish pricing principles to guide councils on how they should recover the costs of providing domestic waste management services?**

The publishing of pricing principles guidelines by the OLG would be of some benefit to councils. It would add to greater consistency and transparency in calculating and reporting DWMC. However, it should be stressed that a cookie-cutter approach would not be reflective of the true cost of providing bespoke waste management services.

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

In general, providing pricing principles to set the DWMC may be of assistance to councils; however, this should not be a big stick exercise. In setting the DWMC councils generally only seek to recover costs associated with the provision of waste management services. Costs associated with other council services are not built into the framework of the DWMC.

NSC currently utilises the average cost methodology to apportion corporate overheads to the setting of the DWMC. It is council's view that the introduction of an incremental pricing method would have little significant benefit in establishing the DWMC; consistency of methodology is of greater benefit.