

# Bathurst Regional Council

## Submission to IPART regarding Domestic Waste Management Charge Reforms

### Executive Summary

There are considerable challenges and changes required for Bathurst Regional Council in encouraging our community to a new waste paradigm as envisaged by the NSW Government's Waste and Sustainable Materials Strategy 2041 (WaSM). This will require Council to commission new plans and studies and to introduce a host of other new or enhanced activities, to deliver against the WaSM's objectives and targets.

Council has also been affected by the challenges of waste export bans commencing, significant fuel price increases and transport costs, and the lasting impacts of floods and the pandemic and it is not the time to further complicate Council's operations as we service our community.

IPART has identified concerns around lack of transparency for residents on pricing, inconsistency of charges across councils for similar services and inconsistent cost allocations between the Domestic Waste Management (DWM) charge and general rates. The solution should therefore focus on supporting councils to address the fundamental source of any concerns rather than introducing further regulatory measures such as a benchmark or peg.

Updated and clearer guidance on what should be included (or excluded) from the DWM charge is the simplest and most efficient way to provide transparency to residents and consistent allocation of costs. The current definitions and guidance on what should be included in the DWM charge are dated and do not reflect modern waste management activities, nor provide for the activities that are likely to be required to enable the transition to a circular economy as per the NSW Government's vision outlined in the WaSM.

The first step should therefore be to update definitions (such as 'domestic waste management service') with the *Local Government Act 1993* and in the associated *Council Rating and Revenue Raising Manual*.

Consistency of costs for similar services across councils will also be supported by the above updates. However, it must be noted that service costs are influenced by factors that are variable and fixed, the latter including proximity of council to markets / disposal sites and subsequent transport costs; and population density variations between council areas negate the adoption of a benchmark across councils. The lack of competition in the waste sector is also a factor over which councils have no control.

With regards to transparency for residents, there are existing mechanisms for engaging and reporting to the community on DWM services and charges, outlined below. These include the Integrated Planning & Reporting (IP&R) process, publishing of council fees and charges, and auditing by the NSW Auditor General. Again, the focus should be on ensuring the appropriate use of these mechanisms rather than introducing blunt instruments such as pegs or one-off adjustments.

In conclusion, Bathurst Regional Council strongly recommends that IPART does not introduce a DWM charge peg or any other benchmark at this time, but instead engages with local councils and the NSW Government to update the definitions and guidance relating to the DWM charge.

## Effective mechanisms exist

IPART has made the assertion that 'business as usual' when setting future DWM charges is not an option. However, councils already have a toolbox of measures available to them to ensure that they meet or exceed community expectations whilst achieving State and Federal waste targets.

Indeed, there are many examples where councils' efficient use of the DWM charge has delivered an increasing range of domestic waste programs – demonstrating innovation, circular economy principles, improved resource recovery and of course improved environmental outcomes. As such to suggest that 'business as usual' is an ineffective method of determining the DMW charge is disingenuous.

Some of the measures currently used by Council include:

- The IP&R process which establishes the mechanisms for councils to engage with their community on appropriate DWM costs
- Membership of Central NSW JO and Netwaste which have allowed for joint contract negotiations and created opportunities to limit costs and facilitate consistency in regional waste delivery, introducing Green Waste Bins in addition to the Recycling service.

If IPART were to introduce a peg, these types of services would not be able to be contemplated as the peg would not allow any type of innovation to be considered.

There are existing reporting mechanisms which ensure the transparency of reporting the DMW charge and the details of services which are funded:

- A comparison of council services including DWM costs are already included in the Your Council website <https://www.yourcouncil.nsw.gov.au>.
- Annual Operational Plan public exhibition period and council deliberations.
- Fees and charges made publicly available on individual council websites.
- The OLG has the power to monitor DWM charges to ensure that they reflect reasonable costs.

## Factors influencing costs

There also needs to be recognition of the extraordinary factors that will continue to influence the delivery of waste services and Council's ability to meet community expectations. These include:

- The rollout of the Waste and Sustainable Materials Strategy (WaSM) which includes the inclusion of the food and garden organics mandate and changes to contestable / non-contestable funding.
- The effects of the China Sword policy, the Basel Convention and bans on the export of other waste materials.
- The NSW Government's current review of the NSW resource recovery framework which will likely see definitions of key terms (such as 'waste') altered amongst other changes to the framework. These may result in changed service costs for Council.
- Increasing costs and overheads for Council including fuel and electricity. This is coupled with uncertainty around future increases due to the COVID-19 pandemic, disruption to global supply chains and compounding local economic pressures and leading to an increasing CPI.

- Increasing staff wages which will increase by 2% in accordance with the LG Award on 1 July 2022.
- The impact of the 0.7% baseline rate peg handed down by IPART for this year which is likely to result in a \$100 million shortfall sector-wide.
- Concern around climate change which will continue to influence community sentiment towards increased resource recovery.
- The need to move toward a circular economy to minimise resource loss whilst driving innovation and opportunity.
- Existing monopolies within the waste industry which limit Council's capacity to negotiate competitive contract costs.
- Increases in the superannuation guarantee levy which can lead to increasing contract costs.
- Anticipated high costs and extended lead times for the approval and construction of new disposal facilities.

In addition, IPART's proposed approach to the DWM charge reflects a linear waste model and does not reflect the innovation and different way of thinking that is necessary for transitioning to a circular economy. Transitioning to a circular economy underpins the WaSM and is the NSW Government's stated policy direction for better managing our resources and minimising waste. It will potentially require councils to undertake activities beyond what IPART (and the definitions in the Local Government Act and Rating Manual) currently considers 'domestic waste management' to be.

The waste hierarchy sets out the priorities for waste disposal in Australia. It is clear that waste avoidance and reduction are the preferred mechanisms to efficiently manage waste and for councils this will mean increasing community education and programs that are designed to decrease waste generation. Such programmes are not currently included in the list of those that could be funded under the DWM charge.



## Analysis of IPART's proposed peg

IPART's proposed 'Peg' approach involves:

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

The proposed peg approach has the following negative implications:

- a) It incentivises councils to do as little as possible and to prioritise cost over innovation and delivering best-practice services.
- b) It poses a significant barrier to delivery of council targets and the WaSM targets, and the services required to achieve those.
- c) The proposed peg of 1.1% may be calculated based upon flawed data. The calculation also uses historical data rather than forward projections to reflect future needs.
- d) It increases risk to the successful roll-out of new services such as food organics and garden organics (FOGO), which the EPA has mandated by 2030. SSROC's 2021 regional FOGO/FO feasibility study indicates that introducing FOGO will cost on average \$15.54 million per council in year 1, or an 8% increase in the cost of providing red-lidded and green-lidded bin services. The EPA's Organics Collection Grant program offers on average \$0.76 million per council if the total \$65 million available is divided equally between all councils that have not yet adopted FOGO. Therefore, introducing FOGO will require councils without a sufficient waste reserve to raise DWM charges well above 1.1%.
- e) As the peg uses historical data, it does not reflect the real costs being faced by councils in the coming year. For example, the 1.1% waste peg proposed for 2022-23 does not reflect an increasing CPI currently running at around 5%, real council award costs increases of 2% for next year and the dramatically increased prices of fuel. Being named by IPART in an annual report for inevitably raising the DWM charge above the peg or applying for a time-consuming special rate variation to avoid this – just to introduce an EPA-mandated service such as FOGO – risks a community and media backlash. This may also undercut establishing social license for a new service, increase planning time and create delays in service introduction.
- f) The peg further entrenches the gap between councils with relatively low DWM charges and councils with relatively high DWM charges, allowing the latter to continue levying high charges and increasing these at a higher annual increment than councils with lower DWM charges.
- g) As more councils inevitably exceed the voluntary peg, pressure will build on IPART to make the voluntary peg mandatory.

- h) There are concerns around increased reporting which will require resourcing, taking up valuable staff time and therefore adding to the DWM cost of service.

### **Analysis of the “Rebalancing” approach**

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

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

Under this approach, councils would have a 2-year grace period to rebalance the DWM charge with general rates based on clear pricing principles. The general rates base peg would be applied to the new level of general rates after rebalancing. Total council revenue would thus be unaffected as this would merely shift some costs from one ledger to another. IPART would only regulate, by exception, those councils that exceed the average DWM charge after rebalancing by about 15%. Shifting costs from one ledger to another does not allow for pricing signals to reflect the true cost of waste services, in the water industry ensuring that users pay for what they receive has helped to positively influence how the community values resources.

Of the two options contemplated by IPART (peg or rebalancing), rebalancing is the “least worst” option. However, Council’s concerns with this proposed approach include:

- a) Some Council waste costs may vary significantly from benchmarked costs due to service level, density, demographics, and timing of service introductions compared to other councils, etc.
- b) According to IPART’s proposed delineation, the costs of managing illegal dumping would be accounted for as an unbooked clean-up and combined with clean-up costs. However, Council does not know the cost of illegal dumping, as trucks generally do not have scales, and the waste is sometimes combined with other clean-ups and is often ad-hoc.
- c) Only those education costs related to waste and recycling can be included in DWM charges, which means the portion of costs of an educator’s time dedicated to non-waste issues such as environment and sustainability, and education campaigns not directly related to delivering waste services, could not be included in the DWM charge.
- d) Where activities are re-allocated to sit under general rates, there is strong concern that the relative priority of those activities will diminish when having to compete with other activities in general rates, eg education campaigns to reduce illegal dumping or avoid the generation of waste, or funding contributions towards Regional Illegal Dumping Squads.
- e) Council, especially being in a regional area would express concern if there were any risk to employment of waste staff through the rebalancing approach. Surety of employment is critical at this time and is necessary for the continued delivery of waste services.

## Pricing Principles

Council generally supports the concept and intent of pricing principles and would welcome updated, realistic and considered guidance on how they should be applied. This will further improve transparency and increase certainty that they are being consistently applied.

It is understood that the *Council Rating and Revenue Raising Manual* is slated for update as part of the broader Rating reforms, and that would be the appropriate time for IPART to prompt the inclusion and application of pricing principles.

IPART's draft report asks whether the pricing principles "will assist councils to set DWM charges to achieve best value for ratepayers". Council is constantly seeking out the best way to deliver the community's expected services in the most efficient way, so as to minimise costs to ratepayers. There is no benefit in Council operating inefficiently as it jeopardises its ability to deliver expected community services, and only results in criticism.

Council supports IPART's suggestion of further detailed examples being included in the *Council Rating and Revenue Raising Manual* to assist in implementing the pricing principles. Examples covering WaSM priorities such as FOGO services or additional collections from multi-unit dwellings for textiles (for example) would be useful. Note that the examples should serve to demonstrate how the principles are applied, and not necessarily provide the exact formula for all services as these will vary between councils.

### Principle 1

"DWM revenue should equal the efficient incremental cost of providing the DWM service"

The intent of this principle is accepted, however it is the definition of DWM service that requires further detail and consideration. The current definitions and guidance provided by the *Local Government Act* and the *Council Rating and Revenue Raising Manual* are dated and do not reflect modern waste management. As already noted, they do not reflect the Government's current policy direction of converting from a linear waste model to a circular economy.

Given the pace of change in this area it is recommended that once updated, the definitions and guidance on the DWM charge be reviewed, at least, every 5 years to maintain currency and reflect real-world conditions.

Updating the definitions and guidance will provide a more definitive list of what costs should be attributed to the DWM charge vs general rates. It is critical that local government drives formulation of the list as they are most familiar with the day to day activities in this area.

IPART's draft report includes examples of what activities should be included in the DWM charge (pg 23). Council recommends the following activities should also be included:

- Illegal dumping clean up costs, particularly where the material predominantly arises from residential sources. For example, councils report that 100% of illegal dumping in some eastern Sydney councils is household waste.
- Broader waste avoidance education, not just disposal and recycling education, of residents (in line with the waste hierarchy such as reusable coffee cup programs).
- Events such as Clean Up Australia Day, Tidy Towns and other littering/waste community programs.
- Operational and ongoing costs of a Community Recycling Centre, being a service provided to residents.
- Drop off events for hazardous waste, chemicals, e-waste and other future product stewardship scheme items eg other electronic waste

- Collection and recycling of materials from residents, including soft plastics, textiles, mattresses, tyres and solar PV panels.

The above list provides broader activities that should be included, however there are several others costs that should be included in the DWM charge, for example, looking specifically at rolling out an organics collection:

- Contract development and variations
- Trials and pilots
- Additional staff to support a new service
- Replacement bins and caddies (extra to initial infrastructure provided)
- MUD upgrades and fitouts to allow for food collection
- Audits and evaluation
- Advertising and media
- Consultant costs in designing, consulting community and implementation
- Contamination fees and decontamination costs
- Implementation of smart technology such as RFID which is proven to reduce contamination issues

These would be costs that are directly incurred in providing the service to residents. Without the above, the service would not occur or be less effective.

The above lists are not exhaustive, and the list must also make provision for new services or activities that will be required to implement WaSM and transition to a circular economy.

The report notes that some direct overheads that are incurred in the direct delivery of the any of the DWM services can be included. Council notes IPART's draft report endeavours to demonstrate how overheads would be calculated in Appendix D however some of the assumptions are not practical for councils. It will not always be practical to directly apportion all overheads appropriately, especially in regional, rural and remote councils where waste services are bundled in with other engineering or environmental responsibilities resulting in a potential shortfall for funding of key management staff.

IPART notes that "a separate targeted review would be best placed to consider issues around the equity and efficiency of funding pensioner concessions" (pg 12, Draft Report). Council agrees this issue should be considered as part of the review of the Rating Manual and what costs are eligible for inclusion in the DWM charge.

There is some concern around the omission of rural transfer stations being identified as a service that can be funded under the DWM charge. Council operates rural transfer stations in lieu of a domestic kerbside service, as enabling rural residents to dispose of waste and recycling at a centralised location is a far more efficient option. Costs, time and distance coupled with safety issues prevents Council from operating a domestic kerbside service outside of the Bathurst City area. This is another example of where the definition of 'modern waste management' needs to be clarified as historically much of this waste was landfilled on rural properties and Council has worked diligently to minimise this form of land contamination through the provision of accessible waste services.

Finally, cost recovery is a risk to the early adoption of services, there are increasingly instances where Council needs to fund research and investigation into new waste service options. These might include changes to waste delivery models and/or the provision of collections covering emerging wastes, such as where councils are investigating how to implement the most effective form of food or food and garden waste collections, possibly including communal collections – noting that public place rubbish bins are not included in the current provisions.

Bathurst Regional Council is investigating the use of electric vehicles for Domestic Waste Collection but would not be able to contemplate the initial outlay for those vehicles without available funding that would dry up under a peg scheme.

## Principle 2

Councils should publish details of all the DWM services they provide, the size of the bin, the frequency of the collection and the individual charges for each service

This is supported in principle, however Council already publishes information regarding the waste services provided and the relevant charges as part of their Fees and Charges information readily available in the Operational Plan and on Council's website. This information is usually itemised to outline bin size, frequency of collection, plus charges for additional service components (additional bins, etc).

The Your Council website provides a figure for each council's per capita environmental expenditure (including waste), with a comparison figure for other councils in the same 'group'. While this comparison is broader than just 'waste' it does provide a point of reference.

There also needs to be recognition that councils have varying capacity to neatly bundle this information on websites or issue detailed 'community friendly' reports. Further increasing the requirements for annual reporting will add burden and detract from service provision in councils that do not have communications/PR staff on hand.

For some councils publishing a 'price per bin' is not straightforward due to the complex mix of services available to meet varying community needs. Many councils are moving away from a 'standard service' in order to drive down bin void space and maximise waste avoidance. For example, a metropolitan council with a high proportion of single/stand-alone dwellings, multi-unit dwellings and a small rural fringe area offers a mix of bin sizes and frequency of collections depending on household size and need. There are certain overheads which would mean that a fortnightly collection will never cost half that of a weekly collection. Furthermore, having a smaller bin does not necessarily reduce collection costs. Publishing this type of data could cause confusion and concern as costs are not always directly related to bin size and/or collection frequency.

## Principle 3

Within a council area, customers that are:

- imposing similar costs for a particular service should pay the same DWM charge
- paying the same DWM charge for a particular service should receive the same level of service.

The intent of this principle is acknowledged and supported – same price for the same service – however the wording does not make sense as customers do not impose costs. We assume that the report is referring to councils imposing similar costs

No two councils are exactly the same and therefore the service cost is likely to vary in some way. Despite the use of the OLG groupings there are still concerns around comparing 'apples' with 'oranges' as OLG groupings differ to Commonwealth council groupings.

For example, even if the land area and population of two councils is the same, their different distances to market can cause variation in the service cost. Even where the metrics of a service look to be very similar, Council A may be charged less than Council B by the same service provider for their own business reasons eg they discount the contract with Council A as a 'first



mover' to entice others to come on board, while offsetting costs against other contracts. Or it could be a tactic by the service provider to undercut and further monopolise services in a region. These business decisions are out of the control of councils, and the impacts of this are further heightened when we consider the very small number of service providers in the market.

It is acknowledged that in regional and rural areas, councils will have the capacity to vary the cost-of-service delivery where the same service is delivered in different communities. These costs will often reflect variations in infrastructure and transportation costs as well as the time taken to service remote communities. These challenges also apply to councils across NSW, no council is the same in its service delivery, access to infrastructure and access to service providers, and therefore costs between councils will always vary.

IPART itself notes the following point under this principle:

- *The service level a council provides is a question for councils to decide after consulting with their ratepayers.*

Whilst councils would consult through the IP&R process around service delivery there are many other factors including WaSM mandates and waste/emissions targets that will directly impact councils' service delivery. In the case of the FOGO mandate, communities may not immediately support the service due to increased cost, but councils will still have an obligation to implement the service. Under this principle if councils provide the service that their community expects it may find itself in the situation where some/many of the expected services are not covered by the DWM charge and councils are forced to cover these through general rates.

#### Principle 4

*Any capital costs of providing DWM services should be recovered over the life of the asset to minimise price volatility*

The intent of this principle is acknowledged and accepted. Wherever possible the capital costs can be spread over multiple years however there may be circumstances where there is an imperative to introduce the service relatively quickly and in shorter timeframe than the asset's life (eg FOGO rollout and if new landfills were required to manage disaster waste).

Capital costs should continue to be recovered and held in reserve based on forward planning as opposed to relying on borrowings to fund expenditure and recover costs post service implementation, such as in the case of future waste disposal facilities. The interest on financing waste facilities and land acquisition imposes a significant extra financial burden on ratepayers and does not represent the most efficient costs.

There is some concern around the management of waste reserves under the proposed 'peg'. Councils require reserves for many things, the common example being the remediation of landfill. However in the recent floods (as an example) councils will need to fund the replacement of large quantities of bins over a short timeframe and, as such, not all expenditure from reserves are long term investments and councils can often have competing needs, all requiring reserves.