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Independent Pricing and Regulatory Tribunal
PO Box K35
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6 May 2022

To Whom it May Concern,

Subject: Submission: Draft Report - Review of domestic waste management charges- 13 December 2021

The Hunter Joint Organisation (JO) welcomes the opportunity to provide a submission in response to IPART's Draft Report – Review of Domestic Waste Management Charges (13 December 2021). The Hunter JO has worked in collaboration with its ten Member Councils, Central Coast Council, and with a wide range of other government and non-government bodies for more than a decade in relation to local government focused waste and resource recovery matters. We look forward to continuing to build capacity and drive innovation in partnership with the NSW Environment Protection Authority (EPA), Councils of the Hunter Central Coast Waste Region and with other national, state, regional and local stakeholders as this space continues to innovate and evolve in the face of dynamic and rapidly changing policy, commercial and environmental settings.

The Hunter Joint Organisation

The Hunter Joint Organisation is a statutory local government entity established by the NSW Government, through the *NSW Local Government Act 1993*, to support councils work together for better rural and regional outcomes, and to enhance the way local and state governments work together to plan and deliver important regional infrastructure and investment.

Member Councils of the Hunter JO include:

- Cessnock City Council
- Muswellbrook Shire Council
- Dungog Shire Council
- City of Newcastle
- Lake Macquarie City Council
- Port Stephens Council
- Maitland City Council
- Singleton Council
- MidCoast Council
- Upper Hunter Shire Council

Additionally, the Hunter JO also works collaboratively with Central Coast Council to deliver the Hunter and Central Coast Regional Waste and Resource Recovery Strategy.

The core statutory functions established for the Hunter JO are:

1. **Strategic planning and priority setting** – to establish strategic regional priorities for the Joint Organisation area and to establish strategies and plans for delivering those priorities
2. **Intergovernmental collaboration** - to identify and take up opportunities for inter-governmental cooperation on matters relating to the Joint Organisation area.



3. **Shared leadership and advocacy** - to provide regional leadership for the Joint Organisation area and to be an advocate for strategic regional priorities.

In the context of this submission, the Hunter JO plays several roles in leading and coordinating delivery of the place-based regional waste programs identified within the Hunter - Central Coast Regional Waste and Resource Recovery Strategy, including:

- Leading change, through evidence-based research, information, programs and advocacy,
- Facilitating collaborative and cost-effective research, planning and management initiatives to enhance the local and regional environment
- Building the capacity of Councils to continue to design, deliver and embed innovation and sustainability into their business operations and strategic plans.

Our submission summarises quantitative and qualitative feedback from our Member Councils consolidated through comprehensive consultations. Consequently, this submission should be weighted by IPART as consensus feedback from 11 councils – not just one organisation. Together, the Hunter - Central Coast voluntary waste group covers a population of over 1.1 million people, and manages approximately 15% of all NSW household waste, highlighting the central role that these councils play in waste management and resource recovery in NSW.

At an overall level the consensus positions and key recommendations identified by Member Councils include:

1. Councils do not accept the underlying premise upon which implementation of the IPART review has been initiated;
2. Councils hold serious concerns that both the voluntary rate peg or a rebalancing exercise could direct Councils to act contrary to existing legislation, and therefore call for a review of the definitions of 'waste' and 'domestic waste management services' in the Local Government Act 1993, alongside updates to the Office of Local Government's Rating and Revenue Raising Manual, to cover all services and functions necessary for minimising landfill and maximising resource recovery from domestic waste;
3. The cost of Domestic Waste Management (DWM) service provision varies greatly across geographical and historical contexts, population densities, transport infrastructure and other circumstantial differences. Given the highly contextual nature of these costs, and their interdependencies, Councils are best placed to determine value for money for ratepayers. As such, the setting of DWM charges should be determined by councils in consultation with their communities to reflect their place-based characteristics;
4. That the proposed voluntary DWM rate peg be abandoned in favour of improved pricing guidelines, reporting tools, and auditing processes (where warranted) that support councils to set DWM charges in line with their community needs and expectations.
5. That Councils be guided in the setting of DWM charges through the alignment across instruments and frameworks, clear guidelines, as well as a capacity building and education programs that support Councils to educate consumers on how DWM charges are set, and explain local differentiation, in order to promote accountability to, and communication with their communities;



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6. That as the least worst option presented to date, Councils favour benchmarking, clear and consistent pricing principles, an opportunity to rebalance DWM charges with general rates, over a minimum 2-year transition period, based on updated and expanded definitions of 'waste' and 'domestic waste management services' that include all activities involved in the minimisation of, source separation, collection, recovery, processing and disposal of all forms of domestically generated waste.

Further context to these positions and recommendations is included in the following detailed submission.

To discuss this submission further, please do not hesitate to contact Eloise Lobsey, Regional Policy and Programs Coordinator on 0448 160 800 or eloisel@hunterjo.com.au.

Regards,

Joe James

CEO, Hunter Joint Organisation



Submission by the Hunter Joint Organisation in response to the Draft Report - Review of Domestic Waste Management Charges (13 December 2021)

Overall Responses to Draft Report

In responding to IPART's Draft Report – Review of Domestic Waste Management Charges – 13 December 2021 (Draft Report), the Hunter JO notes the intent of IPART to assess consistency and value for money for ratepayers in relation to the domestic waste management (DWM) charges.

It is the position of the Hunter JO Member Councils that much of the holistic approach needed to adequately assess the contextual factors influencing the setting of DWMC in NSW sits outside of IPART's delegation, such as the definitions contained within the *Local Government Act 1993 (LG Act)* and in the associated Council Rating and Revenue Manual, as well as other frameworks and instruments. This highlights a fundamental flaw with the recommendations contained in the draft report, as they cannot adequately take account of the nuance and complexities Councils face in the setting of their DWMC, and therefore are destined to create unintended consequences that if implemented as proposed will undermine IPART's original objective.

The HJO and the council's it represents welcome and are comfortable with greater transparency and consistency in the allocation of costs for DWM charges, however, object in principle to the premise of the Draft Report on the basis that, at this point in time, no problem has been adequately defined that justifies the recommendations arising from the IPART review. The transparency and value for money objectives of IPART should instead be realised by supporting councils to address the fundamental source of IPART's concerns, rather than introducing further regulatory measures such as a benchmark or peg.

Within this context, in addition to responding to the specific consultation questions posed by the Draft Report, the Hunter JO Member Councils have identified the following in-principle concerns regarding the underlying premise for initiating the review:

1. [Local Government's role in transitioning to circular economy outcomes](#)

Local government's role in the collection and aggregation of recyclables, as well as its central role in residual waste collection and disposal means it has a crucial role to play now, and into the future, in enabling and preparing their local communities for the transition to a more circular and resilient waste paradigm. The importance of local government leadership in this transition is acknowledged and mandated through the *NSW Waste and Sustainable Material Strategy 2041*, alongside other State and National policies and strategies.

In addition to the essential waste and resource recovery services they provide, Councils work consistently and diligently to reduce the amount of waste ending up in landfill by educating residents, businesses and schools about waste avoidance and recycling. Councils continue to face significant challenges from ever changing consumer behaviours, changes to legislative and policy settings, increasing waste generation rates, contract monopolies and lack of markets for Australian recycled content, which mean constant evolving and adapting their services to maintain safe and effective services.



All levels of government, as well as business and the community need to work collectively as we move to a more circular economy where materials and products remain within the economy for longer and waste is reduced. Local government will need the support of all its partners, critically the State Government, in order to plan and deliver the services innovation required (and mandated through State Government policy) to be fit-for-future. This will require nimble planning and innovation at a local level, to identify and work with local industry to support the establishment of new localised markets for the materials collated and processed by councils. Critical to this will be the updating of the regulatory environment for resource recovery (such as the Resource Recovery Framework currently under review), as well as the legal definitions of 'waste management services' (in the LG Act), alongside broader economic settings that push and pull the sector into circularity.

Given the rapid sector evolution underway, and the significant change yet to come, it is considered that the State Government should investigate ways to enable local government in this very challenging yet exciting time, rather than introduce blunt and unrealistic regulatory instruments that unduly impact and restrict Council's abilities to effectively adapt and innovate in response to ongoing change impacting delivery of their statutory functions.

2. Reduction in Local Government's autonomy and disempowerment of their communities

The Hunter JO is concerned that the recommendations contained within the Draft Report, combined with other financial interventions such as general rates capping, significantly erodes the autonomy of Council's to design services in line with their community expectations.

Extensive transparency with, and accountability to, ratepayers already exist within Council processes. Council's undertake extensive and robust planning and consultation processes with their communities when developing their Community Strategic Plans and subsidiary strategies and plans, as required of them by the NSW Government via the Integrated Planning and Reporting Framework. Through these processes a community is consulted about the level of domestic waste management service they wish to receive and are willing to pay for and can comment on the service prices annually. Furthermore, the community's satisfaction with the service is measured regularly (annual or biannual).

The centralisation of decision making via pegs and other regulatory interventions effectively centralise decision making, and stifles Council's autonomy and ability to undertake effective long term strategic planning. Community resilience depends on the ability to self-determine and adapt to the contemporary and sometimes highly localised challenges facing communities, for example disaster planning and recovery.

The cost of DWM service provision differs greatly across geographical and historical contexts, population densities, transport infrastructure and other circumstantial differences (such as operational facilities, fleet, day labour etc). Given the highly contextual nature of these costs, and their interdependencies, it is considered that Councils, through the extensive consultation they already undertake with their local communities, are best placed to determine value for money for ratepayers.



3. IPARTs proposals appear anti-competitive

Councils operate within what could be described as a semi-commercial setting operating waste and resource recovery facilities and services, however, they retain the statutory function to deliver DWM services to their communities. The introduction of a voluntary DWM peg would in effect limit the capacity of Councils to compete within an increasingly competitive commercial environment, given that the rate peg applies only to local government. As a result Councils will be increasingly vulnerable to commercial fluctuations and privatisation pressures, which given the serious concerns with the proposed peg calculation methodology (described in response to the consultation questions below), will substantially restrict the ability for long-term recovery of costs arising from the planning and delivery of DWM services.

It is therefore the position of Member Councils that the proposed voluntary DWM peg be abandoned in favour of improved pricing guidelines, reporting tools, and auditing processes (where warranted) that support councils to set DWM charges in line with their community needs and expectations.

Consensus Positions and Recommendations of Hunter JO Member Councils in Response to the Draft Report

The key positions and recommendations of the Hunter JO and its member Councils in response to the draft paper are that Member Councils:

1. Formally endorse Local Government NSW's Position Statement in response to the draft Report
2. Oppose the introduction of a voluntary DWM rate peg;
3. Do not accept the premise underpinning the IPART review;
4. Maintain that the setting of DWM charges should be set by councils in consultation with their communities to reflect their historical and place-based characteristics;
5. Recommend Councils be guided in the setting of DWM charges through the alignment across instruments and frameworks, clear guidelines, as well as a capacity building and education programs that support Councils to educate consumers on how DWM charges are set, and explain local differentiation, in order to promote accountability to, and communication with their communities;
6. Have serious concerns that both the voluntary peg rate peg or a rebalancing exercise could direct Councils to act contrary to existing legislation, and therefore call for a review of the definitions of 'waste' and 'domestic waste management services' in the Local Government Act 1993, alongside updates to the Office of Local Government's Rating and Revenue Raising Manual, to cover all services and functions necessary for minimising landfill and maximising resource recovery from domestic waste;
7. As the least worst option presented to date, favour benchmarking, clear and consistent pricing principles, an opportunity to rebalance DWM charges with general rates, over a minimum 2-year transition period, based on updated and expanded definitions of 'waste' and 'domestic waste management services' that include all activities involved in the minimisation of, source separation, collection, recovery, processing and disposal of all forms of domestically generated waste.



Response to Specific Consultation Questions included in Draft IPART Report

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

No. The proposed voluntary DWM peg will hinder Council's efforts in the task of setting effective and best value for ratepayers DWM charges as they will interfere with their ability to recover the actual costs of service delivery, and when combined with the proposed pricing principles will prevent council's ability to forward plan financially. Consequently, councils will no longer be able to respond to policy mandates effectively and design services to meet community expectations because they are unduly financially constrained.

Notwithstanding the aforementioned concerns and objections to the introduction of a voluntary DWM peg in principle, the Hunter JO has serious concerns with the mechanics of the voluntary DWM peg calculation put forward in the Draft Report. These concerns are summarised as:

- [DWM are set based on actual and expected costs, not general indices](#)

Hunter JO councils largely set their DWMC based on the actual and expected incremental costs of providing waste management services, based on community expectations, to parcels of rateable land, including the costs of contracts, infrastructure, community education, operational requirements, and related overheads etcetera. In contrast, it is considered that the proposed rate peg method is based on dated data and a basket of lagging, tangentially-related indicators with limited relevance to councils' specific needs and service levels.

The most significant source of confusion and inconsistency is not what these costs are but which services and functions can be included in the DWMC and how these are provided for in the definitions of 'domestic waste' and 'domestic waste management services' in the Local Government Act and OLG Manual.

- [A voluntary DWM peg will stifle councils ability to participate and enable the industry transformation required for a circular economy](#)

For the reasons articulated in our letter above, the Hunter JO Member Councils are seriously concerned about the immediate and long-term implications of a voluntary DWM peg on council's ability to take up their critical role in the enablement of circular economy outcomes. The rapid transformation required by the sector (and by State and Federal government targets and mandates) will mean that councils will need flexible revenue-raising mechanisms to meet increasing costs, service transformation to meet NSW Government mandates, and the participation in a growing and rapidly changing marketplace.

Some of the critical role's councils will play in this transition could and should include (but are not limited to):

- Driving circular markets for materials through government procurement/purchasing power;
- Enabling source separation, collection, aggregation and processing of materials for highest and best use (e.g. reuse, recycling, or energy extraction of materials through the DWM services and operation of resource recovery and waste facilities);



- Show leadership through piloting, evaluating and adopting circular economy solutions through council operations;
- Enable community to shift consumption behaviours and to participate in the circular economy through both knowledge and opportunity (e.g. education programs, drop off points);

Local government's leadership role in the circular economy transition should be enabled by the harmonisation of all relevant State Government relevant policy and regulatory settings, in order to be properly realised. The proposed rate peg is not consistent with achieving that objective.

- **The Waste Cost Index (WCI) calculation methodology is flawed and sets councils up to fail**
In setting an expectation of 1.1% (for 2022/23) for the DWM peg, IPART has failed to consider the contemporary real world financial environment that will be faced by councils in that year, and by doing so will be setting up councils to fail not only in that initial year but on a year-on-year basis. Some immediate and considerable flaws with this approach are as follows:

1. *The data is old and unrepresentative of council's operating environment*

Calculating the peg based on 2017-18 and 2018-19 data for the setting of a 2022/23 peg has both immediate and obvious flaws, which notably includes the anomaly between projected and actual inflation rates. The proposed 1.1% peg considerably differs from the current 5.1% CPI rate (March 2022).

2. *Lag factor*

As a backwards looking instrument, the WCI does not take into account current and forecasted CPI and fails to reflect rapidly changing market conditions with significantly fluctuating inflation, fuel prices, and global supply chain disruptions.

DWM costs fluctuate considerably due to external cost drivers, consumption trends and environmental factors – such as drought, high-yield years, and increasingly frequent and intense (and in many cases unprecedented) natural disaster events. Since the data analysis period, council's DWM services have been subjected to (but not limited to):

- Major global and local market adjustments for recyclables;
- Market contraction and contract monopolies;
- Bushfire disasters;
- COVID-19 pandemic changes to consumption behaviours – increased volumes in the domestic stream and stream composition changes;
- COVID-19 pandemic impacts on staffing and associated operational costs;
- Rising fuel costs;
- Flooding disasters;
- Day labour cost increases.

In their February 2022 report, the Reserve Bank of Australia (RBA) reported a 3.5% seasonally adjusted annualised rise in CPI, which as identified above, has now risen further to 5.1% for the March quarter.

Furthermore, in the Hunter JO voluntary waste group, councils DWM charge increased by an average of 4.4%, as shown in the table below:



Table 1: Percentage increase in previous years DWM charge by Council

FY	Central Coast	Cessnock	Dungog	Lake Macquarie	Maitland	Muswellbrook	Newcastle	Port Stephens	Singleton	Upper Hunter
2016-17	N/A	6.3%	11.8%	5%	10.6%	2.8%	0%	-5.9%	18.9%	23.4%
2017-18	-7%	0%	4.0%	4.8%	4.4%	8%	0%	3.5%	-8.7%	5.9%
2018-19	2.3%	2.8%	9.8%	0.2%	2.6%	0%	2.3%	0.7%	4.8%	23.8%
2019-20	2.4%	5.9%	0%	1.1%	2.5%	2.6%	0%	2.2%	0%	16.1%
2020-21	2.0%	1.9%	2.9%	2.5%	3.6%	5.5%	7.6%	5.6%	2.5%	1.5%
5 yr average	1.6%	3.4%	5.7%	2.72%	4.7%	3.8%	2%	1.2%	3.5%	14.1%
Regional 5 yr average	4.4% increase									

It should be noted that in the Hunter and Central Coast region, only one council has implemented the state-mandated kerbside FOGO service, and therefore the other 9 councils are well into the planning of significant DWM services changes to be implemented in the coming years.

Councils must consider a combination of financial factors to forecast changes in the DWMC in budget planning, so the fact that the indicative 1.1% peg has deviated so significantly from what has actually been experienced highlights how inappropriate it is to guide DWMC settings and that now is not the optimal time to make major changes to council revenue-raising mechanisms given the rapidly changing market dynamics, as well as the risks it would pose in future should it continue to underestimate the scale of council waste service costs.

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

The Hunter JO and its Member Councils do not accept the premise of this question as it assumes that councils are not already seeking to achieve best value for ratepayers – an assertion that is yet to be founded by this review, and one which we assert is incorrect.

Councils are constantly seeking out the best way to deliver the community’s expected services in the most efficient way, to maximise the return to ratepayers. If there are some anomalies or outliers (i.e some Councils are failing to deliver best value), those councils should be the focus of IPARTs efforts rather than the introduction of blunt and restrictive instruments that will interfere with the proper planning of the majority of councils that are successfully delivering quality services in line with their community's expectations. Where IPART finds sufficient evidence that value for money is not being delivered, they should work with those councils to bring them into alignment with best practice.

The Hunter JO generally supports the concept and intent of pricing principles and would in due course welcome updated, realistic and considered guidance on how they should be applied to aid transparency and consistency across councils. It is critical that these pricing principles be developed in consultation with councils, and updated regularly, to ensure their intent is realised without detrimental unintended outcomes (as exists with their current drafting).



- **Principle 1: DWM revenue should equal the efficient incremental cost of providing the DWM service**

The intent of this principle is accepted, however, it relies on a definition that is no longer fit-for-purpose, as it does not reflect modern waste and resource recovery practices.

The definition as it stands does not reflect the Government's current policy direction of converting from a linear waste model to a circular economy, and therefore creates a fundamental inconsistency in the regulatory environment that councils operate their DWM services within. Given the pace of change in this area it is recommended that once updated, the definitions and guidance on the DWM charge be reviewed 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 versus general rates charge. 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. In addition to those activities, the Hunter JO 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 focussing on disposal and recycling education, but rather projects that align with the priorities of the waste hierarchy (i.e. avoiding the generation of waste in the first instance), 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 and valued by the community.
- Drop off events for hazardous waste, chemicals, e-waste and other future product stewardship scheme items (e.g. 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 other costs that should be included in the DWM charge. If we look specifically at an example where a council will commence an organics collection, the following additional costs are also relevant for the period of service roll out/early implementation:

- Contract development and variations
- Trials and pilots
- Additional staff to support a new service
- Replacement bins and caddies (extra to initial infrastructure provided)
- Multi-unit dwelling (MUD) upgrades and fit outs 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 lists are not exhaustive, but rather demonstrate the value of retaining flexibility for Councils to set DWM charges based on contextual and circumstantial factors.

- **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 principle is accepted in principle, however councils already publish information regarding the waste services they provide via multiple channels and mechanisms including:

- *Councils Fees and Charges:*
Published by councils via their Operational Plan and on council websites. This information is usually itemised to outline bin size, frequency of collection, plus charges for additional service components (additional bins, wheel in/out services etc).
- *NSW EPA's WARR survey reporting:*
Councils in NSW already report with extensive granularity on the waste services provided to their communities through the annual WARR return. This includes the annual DWMC, numbers and types of properties receiving services, and all additional resource recovery services.
- *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 to assist with benchmarking.

Rather than duplicating existing processes and burdening councils, this information could be readily extracted by IPART to populate the centralised database without requiring any additional reporting input from Councils. If any gaps exist, IPART could work with those existing processes to enable data capture and consistency.

- **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 general intent of this principle is understood, however, the concerns with this principle lie in the high variability in contextual factors that influence DWM costs, and therefore the difficulty in finding genuinely comparable organisations and services given this complexity.

For example, 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.

- **Principle 4: Any capital costs of providing DWM services should be recovered over the life of the asset to minimise price volatility**

This principle is problematic, and if implemented would have unintended consequences that conflict with IPART's objectives to deliver 'best value for ratepayers'.



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The Hunter JO strongly advocates for councils to retain their ability to utilise the waste reserve to provision for reasonable future obligations, including climate events and other emergencies, rapid market-based cost increases, capital expenditures for planned services such as FOGO or planned waste-related infrastructure such as CRCs, and other reasonable market risks.

IPART has advised that capital costs for providing DWM services should only be recovered once those services have commenced or facilities have been built; and that, should a council build a waste-related facility or roll out a DWM service that the council must rely on external borrowing, whether from the main council reserve or from an outside financial institution. While this may be one financial avenue at council's disposal, it may not represent best value for ratepayers. Councils are best placed to choose the most appropriate financial measures based on their context and financial situation.

The Hunter JO advocates for councils to be able to recover reasonable capital costs for future services or facilities included in their long-term financial plan. This not only serves to stabilise variations in the DWMC by ensuring councils have a flexible and transparent capital cost raising mechanism, but it also decreases the net total of DWMC charged to residents over time by avoiding passing on loan interest to ratepayers.

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

Once the pricing principles and the underlying definitions have been modernised and clarified to align with the objectives of the WaSM and WARR Act, detailed working examples would be useful to illustrate how each cost, including associated overheads, should be allocated and reported.

Should IPART ultimately decide on implementing a voluntary peg, it is essential that IPART consults councils on the most appropriate indices, basket of items, and weightings to determine the Local Government Cost Index and Waste Cost Index, and includes a detailed explanation of how the indicative peg is calculated.