

Domestic waste management charges - Discussion Paper

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Question	Response
Feedback and Submission Form	
Industry	Local Government
Review	Review of domestic waste management service charges
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<p>1. Are there concerns with the prices councils charge for domestic waste management services? Why/why not?</p>	<p>Cleanaway Waste Management Limited is Australia's leading total waste management, industrial and environmental services company. We have supported Australian local government for over 40 years, delivering solutions that offer extraordinary benefits not only for our customers, but also for the communities with which we operate in. Cleanaway has approximately 6,000 staff and a fleet of over 4,500 specialist waste collection vehicles across more than 260 locations around Australia. We are Australia's largest waste, recycling, industrial and liquids service provider with a substantial network of state-of-the-art facilities, transfer stations, engineered landfills, liquid treatment plants and refineries.</p> <p>Cleanaway provides services to over 100 Council collection contracts nationally. We operate landfill and recycling processing facilities across Australia and hold many contracts with Local Governments in New South Wales, Victoria, Western Australia and Queensland. Cleanaway provides waste collection services to 19 Councils in NSW and regularly participates in competitive tenders for waste collection contracts.</p> <p>Cleanaway does not have concerns with the prices Councils charge for domestic waste management services. From our perspective, where services are contracted to third parties, Councils in general receive excellent value for</p>

money whilst transferring the risk of operations to the waste contractor.

An explanation for our position is provided as follows:

DEDICATED FLEETS:

Fleets for Municipal contracts are typically dedicated vehicles particularly within the metropolitan Councils. Whilst vehicle sharing may occur in some smaller regional Councils, this is the exception rather than the norm.

COMPETITIVE PROCUREMENT:

The market is highly competitive with many Council RFT processes having at a minimum four contractors tendering. The exception to this would be for contracts with exceptionally short lead times to mobilise the contract where second-hand vehicles are unavailable or where the commercial risk arising from the terms of the contract (which need to be accepted as part of a conforming offer) are excessive.

The margins on domestic waste contracts is typically far below that of average commercial contracts. Unlike commercial contracts, there is no benefit gained to the contractor through efficiencies in the fleet, where increasing the number of commercial collections along a route increases the number of lifts per kilometre travelled and therefore the profitability.

Domestic collection routes are typically at maximum efficiency, with properties being serviced consecutively. This means that Councils and residents are the primary beneficiaries, through highly competitive and low margins for collection services. The benefit of a municipal contract for contractors is the length and consistency of returns for a the contracted period (usually 7-10 years). Operational benefits such as sharing of depots between municipal services and commercial services can also be achieved.

CONTRACTED RISE AND FALL RATES:

Fees agreed to in the contract are generally linked to a rise and fall component throughout the contract term.

The Rise and Fall components can vary between Council contracts however a typical

example would include:

1. Wages, Workers Compensation Insurance, Payroll Tax and Superannuation Guarantee Levy;
2. Fuels and Oils;
3. Tyres, Vehicle Registration and Insurance and other materials; and,
4. Costs and Profit Return

In each of these, the tendered rates would be linked to an index and the percentage factor for the contract would also be provided. Note that this would allow the price charged by the contractor to fall in a given quarter, as has occurred on multiple occasions including in 2020.

As the number of dwellings rise (or fall), the fees charged to Council will increase (or decrease) proportionately. Therefore, it is unlikely that any increases in the Domestic Waste Management Charge above this level would be attributable to the contractor on a year-to-year basis within the same contract.

CHALLENGES PROVIDING VALUE FOR MONEY:

Waste Management Contractors can have some challenges in providing the best value for money offer, which can impact on the price charged for domestic waste management services. These include:

1. the lack of quality data from many Councils when issuing tenders, and;
2. the short procurement timeframes (such as time allocated to respond, time before contract commencement).

Contractors rely heavily on Councils providing detailed and accurate data relating to the proposed services so that we can build a comprehensive productivity model. Ultimately contractors rely on this data to determine the cost of the providing the service. Poor quality data requires contractors to make many assumptions which can increase the cost of the final contract either in terms of cost or resourcing.

Some Councils have extremely short procurement timeframes – either the time allocated to respond to tenders, or the time

from tender award to contract commencement, or both. This can have significant impacts on the competitiveness of the tender process, on the quality of a tender submission and on the innovation that can be offered. The effect of these short time frames is reflected in the reduced number of tenderers capable of submitting a quality response or in resourcing the contract itself.

WASTE AND RECYCLING PROCESSING:

Whilst Cleanaway has a more limited role in the NSW waste and recycling processing segment for Municipal contracts, we do have more extensive participation in other markets such as Victoria and Western Australia. The changes to the recycling market over the last couple of years since the China Sword policy and its run-on effects caused the slump in the recycling commodities price have also impacted on how some Councils tender. Seeking to remove risk from fluctuating commodity prices, some Councils have included the cost of processing at a fixed rate over the contract term. It is difficult to predict pricing over a year and impossible over a 10-year contract period. This will cause any price to be provided to Council to either factor in a lot of additional cost to cover the risk, or cause the contractor to accept the risk despite the unknowns. This second approach has caused significant problems throughout Australia with a number of recycling processors either closing and cancelling contracts or forcing re-negotiations.

For a contractor, long term contracts can be beneficial in creating a stable source of material and provides certainty for the return on investment required for capital intensive projects. Ideally there could be a mechanism to allow for disposal fees to be adjusted in response to high market fluctuations, though we accept that this could pose additional challenges in managing stable increases in the domestic waste management charge.

IPART's assertion that prices should remain fixed to CPI are not consistent to the market forces that are currently at play within the waste management market. Indeed, some of the commodity indexes used show that the

	<p>global industry is in a high state of flux with significant investment being brought back on shore to Australia. A CPI approach would do nothing to improve resource recovery outcomes.</p>
<p>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?</p>	<p>Cleanaway does not have concerns regarding this.</p>
<p>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?</p>	<p>Cleanaway has around 100 Council contracts over Australia. Even within a single market such as Sydney, it is not possible or useful for Cleanaway as a company to compare the cost of collection services between Councils. A number of factors would affect any attempt to compare the final price:</p> <ul style="list-style-type: none"> - Garbage Bin Collection variables including number of bins per property / service charge; Size of each bin; collection frequency; waste streams. - Number of hard waste collections provided by Council per annum, are the collections performed in scheduled zones or as on-call service booked by residents or a hybrid of the two? How much waste is permitted to be presented, What separation, if any occurs at the point of collection (e.g. metals, mattresses, bulky garden organics and general bulky waste collected separately) - Travel costs including distance between collection area, disposal facility and/or contractors depot; toll roads; traffic conditions - Types of vehicles required for servicing bins – side lift or rear lift or a combination? Are on-site collections required by any MUDs? If so, is a smaller truck size required? - Population density - What other services are included in the contract? E.g. customer service centre; litter bin collection; contamination/education officers; website portal or other technology requirements <p>Even if certain costs are excluded, Cleanaway does not believe that a comparison is practicable or would provide any actual value to ratepayers given the number of caveats which would need to be attached to each analysis.</p>
<p>4. Do you have any other comments on councils' domestic waste management</p>	<p>Great care needs to be taken when outlining the response by IPART. The basis for the</p>

charges?

approach needs to be clear in the desired outcome. A pure short-term cost focus could lead to less sustainable outcomes as increasing the recycling rates and outcomes for waste material requires investment and in the short-term higher costs i.e. adding another bin for FOGO or similar.

As demonstrated above, the operational costs of delivering a domestic waste service by a contractor already undergoes a competitive process. Given that only rise and fall adjustments are usually applied to per service costs over the life of the contract, further consideration could be given to:

- Are the average increases in prices due to price increases between contracts, annual increases in operational costs and/or annual increases attributed to non-operational expenses (and assigned for Council managed services)?
- Are any of the increases in costs between contracts attributed to improvements in service quality? for example, introducing separate hard waste collections for metals, mattresses, bulky garden organics as well as the traditional general waste collections.
- In what instances are Councils “price-takers?” for example, Sydney has very limited options for recycling processors
- What support do Councils receive for preparing tenders and implementing contracts of this scale? The EPA model waste contract has provided some guidance for Council’s wishing to tender, however there remain gaps in knowledge and consideration for non-contractor related costs arising from contract implementation. Furthermore, the timelines are usually very short for both processes which can result in either poorer quality or higher costs.
- The expectations of the community within any Council are often high regarding the quality of the waste management service. This is not unusual since it is the service with which residents have the most regular and visible contact. Given that Councils often

	<p>perform surveys, is there support for higher waste management fees in order to provide higher quality or more environmentally sustainable services?</p> <p>- If restrictions are implemented for the DWMC increases, Cleanaway believes that this should be applied to year-on-year increases within the contract, with the potential for additional increases to be approved to respond to market forces beyond the control of Council or the contractor.</p>
5. Which Council do your comments relate to?	No specific Council
Your submission for this review:	Cleanaway has no addition items for submission.
If you have attachments you would like to include with your submission, please attach them below.	
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	David
Last Name	Clancy
Organisation Name	Cleanaway Waste Management Limited
Position	General Manager, Solid Waste Services, NSW/ACT
Email	
IPART's Submission Policy	I have read & accept IPART's Submission Policy