Council Solutions Application A91520

Public Submission by:
Waste and Recycling Association of South Australia (WRASA)

March 21, 2016

Objective: Net Public Benefit for the Constituent Councils and the Ratepaying Public

Our research into the Council Solutions proposal is directed at delivering each individual Council and their ratepayers maximum "benefit" in the short, medium and long term. The information and evidence we have collected shows that the Council Solutions proposal should be rejected.

Executive Summary

The Application will create an overwhelming net public detriment including job loss in a region that is providing the best service in Australia at the best price with the best environmental outcomes.		Market share will be 37% growing to 60% and beyond.
Economies of scale for waste contracts are **optimal at 30-50,000 households**. Brisbane, at 436,000 is 15-20% more expensive than Adelaide Councils.	The **unprecedented capital costs** will see multimillion dollar bank guarantees and only 1 or 2 tenderers.	This Application is beyond the services provided by the other 14 ACCC waste applications. Its **market power will be 269% higher.**
Council Solutions are a "young" organisation (2 years) with **no experience in waste services** or waste tenders or contracts.	Joint facility tendering should involve clusters of Councils with adjoining boundaries. The Council Solutions Councils have **just 6.65% of common boundaries.**	The Application has no evidence supporting economies of scale or public benefit. In fact, the **evidence supports public detriment.**
The risk profile of the tender proposed is extremely high which will result in **higher prices and less competition for the public.**	South Australian waste industry association memebers are unanimous that this monopolistic **Application should be rejected.**	The inappropriate term, high risk and high capital **will stop Adelaide from developing its lead role** in waste diversion nationally.

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Interested Parties are Unanimous

- The Council Solutions Application was communicated to a small number of waste industry participants only, therefore the initial response to the Application was low.
- Over the past several weeks, waste companies have been alerted to the Council Solutions proposal to command a dominant market share and or control.
- Stakeholders have been enthusiastic to voice their concerns for reduced competition and decreases in service levels to the public with a company possessing a long term contract dominating the market
- The response has been unanimous with detailed submissions provided from business and government rejecting the unprecedented scale of the tender

Previous ACCC Applications

Compared with other ACCC Applications, Council Solutions:

- Encompasses all waste services and streams instead of 1 or 2
- Starts with a dominant market share – business model based on WALGA's membership of 100% of Councils
- Has a growth objective – others don't
- Managed by an entity with an additional 1% charge (approximately $5 million over contract term)
- Only application from an entity with no waste management experience
- Council boundaries only 6.65% of total boundaries
- Application has 1076% more market power
- Empirical evidence and data shows overwhelming net public detriment

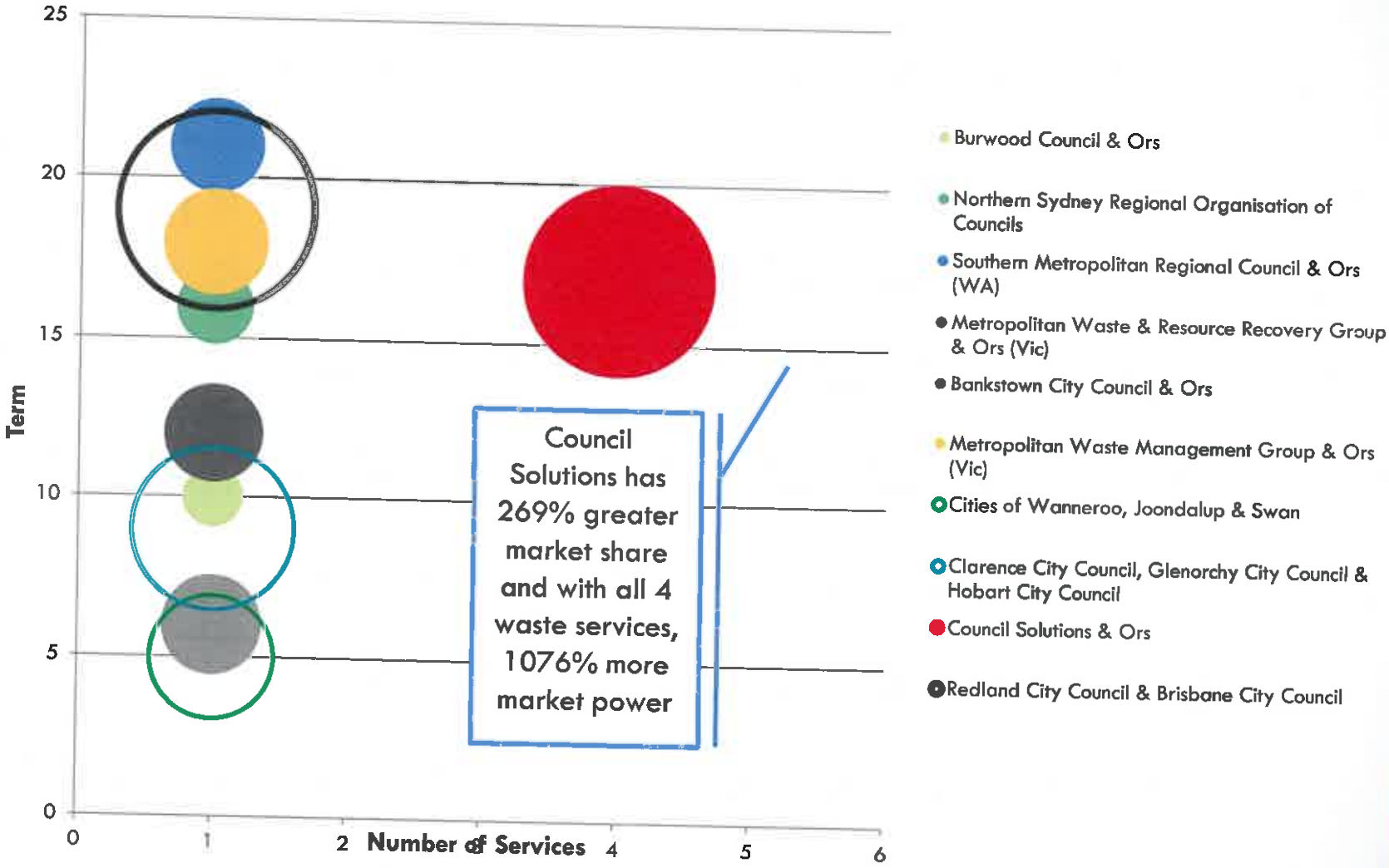
Previous ACCC Waste Applications

NAME	COUNCILS	HOUSEHOLDS	% to METRO	SERVICES	TERM
Council Solutions	5 +	185698	37.09%	1. Collection, 2. Recyclables processing, 3. Organics processing, 4. Garbage disposal/processing plus ancillary services	17
Central Queensland Local Govt Assoc	5	77460	N/A – regional area	1. Green Waste Mulching	5
Hunter Resource Recovery	4	135968	Regional area	1. Recyclables collection and 2. processing	12
Wollongong & Shellharbour City Councils	2	104932	Regional area	1. Recyclables collection and 2. processing	15
Burwood Council & Ors	6	90847	5.28%	1. Recyclables processing	10
Northern Sydney Regional Councils	7	172427	8.40%	1. Waste disposal	16
Melb Metro Waste Management Group 1	5	258886	15.80%	1. Organics processing	18
Clarence City Council, Glenorchy City Council & Hobart City Council	3	62679	Estimated at 27% of Tasmania	1. Recyclables collection and processing	9
Cities of Wanneroo, Joondalup & Swan	3	156438	21.52%	1. Recyclables collection and 2. processing	5
Bathurst Regional Council & Ors	8	106442	Regional area	1. Collection, 2. Recyclables processing, 3. Organics processing	13
Bankstown City Council & Ors	4	245423	14.26%	1. Hard Waste processing/disposal	6
Redland & Brisbane City Councils	2	456315	55% of QLD - net public detriment evidenced	1. Collection	19
Melb Metro Waste Management Group 2	4	230447	14.06%	1. Recyclables processing	Not advised
Maitland City Council & Ors	3	58287	Regional area	1. Organics processing and collection	Not advised
Southern Metropolitan Regional Council	4	92381	12.70%	1. Recyclables processing	21

Analysis of Metropolitan Councils

- Burwood & Ors – 5.3% and 1 service
- NSROC – 8.4% and 1 service
- Melbourne Metro 1 – 15.8% and 1 service
- Wanneroo & Ors – 21.5% and 1 service
- Bankstown & Ors – 14.3% and 1 service
- Melbourne Metro 2 – 14.1% and 1 service
- SMRC – 12.7% and 1 service
- Council Solutions – 37% + and 4 services
  - **269% greater average market share across 400% greater service spread.**
  - **Effectively 1076% more market power than any previous ACCC metropolitan application.**

Analysis of Metropolitan Councils



Current Service Levels

Public benefit manifests in 3 ways in waste services:

1. Lowest cost for services
   - Low charges in rates
2. Quality of service
   - Bin system (3 bins is the current standard)
   - Service reliability and enhancements
3. Environmental impact of the kerbside service
   - Waste diversion from landfill

South Australia is currently leading the nation on all measures of public benefit.

Detrimental Service Levels

The evidence shows that larger Councils have:

1. Higher prices charged by contractors - Brisbane, with a lagging bin system, is 15-20% more expensive than Adelaide Councils
2. Lower service standards – The biggest Councils in Queensland (Brisbane), Victoria (Geelong) and NSW (Blacktown) all have bin systems that are behind all Adelaide Councils and behind almost all others in their region.
3. Lower waste diversion – Areas with large entities such as Qld and WA have the worst diversion rates and inability of larger entities to adopt service innovations (such as a 3 bin system) result in poorer diversion rates. (please refer to page 15)

Net Public Detriment

If the Council Solutions Application is approved it will:

- Negatively change the culture of innovation, service to the public, environmental outcomes and best value delivery
- Lock out new service innovations for up to 17 years, stopping any incentive for continual improvement and discouraging investment and participation in the market
- Foster a monopolistic opportunity which will allow a dominant player to exercise increasing control as Council Solutions increases in size and their infrastructure network covers Adelaide.
- Council Solutions has a growth model, which could see its market power extend to 60% and beyond when their other constituent Councils exit existing contracts

The Likely Future

The likely future if the Council Solutions Application is rejected can be easily seen by looking at the current situation where Council Solutions is not involved. It is leading the nation:

- South Australia has the **nation's highest rate of waste diversion**, the prime objective of government waste services
- South Australia has the **highest quality public waste services in the country** with the highest distribution of the 3 bin system, hard waste, e-waste and programs such as the Container Deposit system.
- South Australia has the **lowest rates for waste services in the country** due to the prevalence of Councils perfectly sized for waste operations (30-50,000 households). Brisbane, at over 400,000 households, twice the size of Council Solutions, is 15-20% more expensive than Adelaide with poorer services and lower waste diversion.

Increasing Waste Diversion

Council Solutions claim that their application will improve waste diversion. This statement is not supported by the evidence.

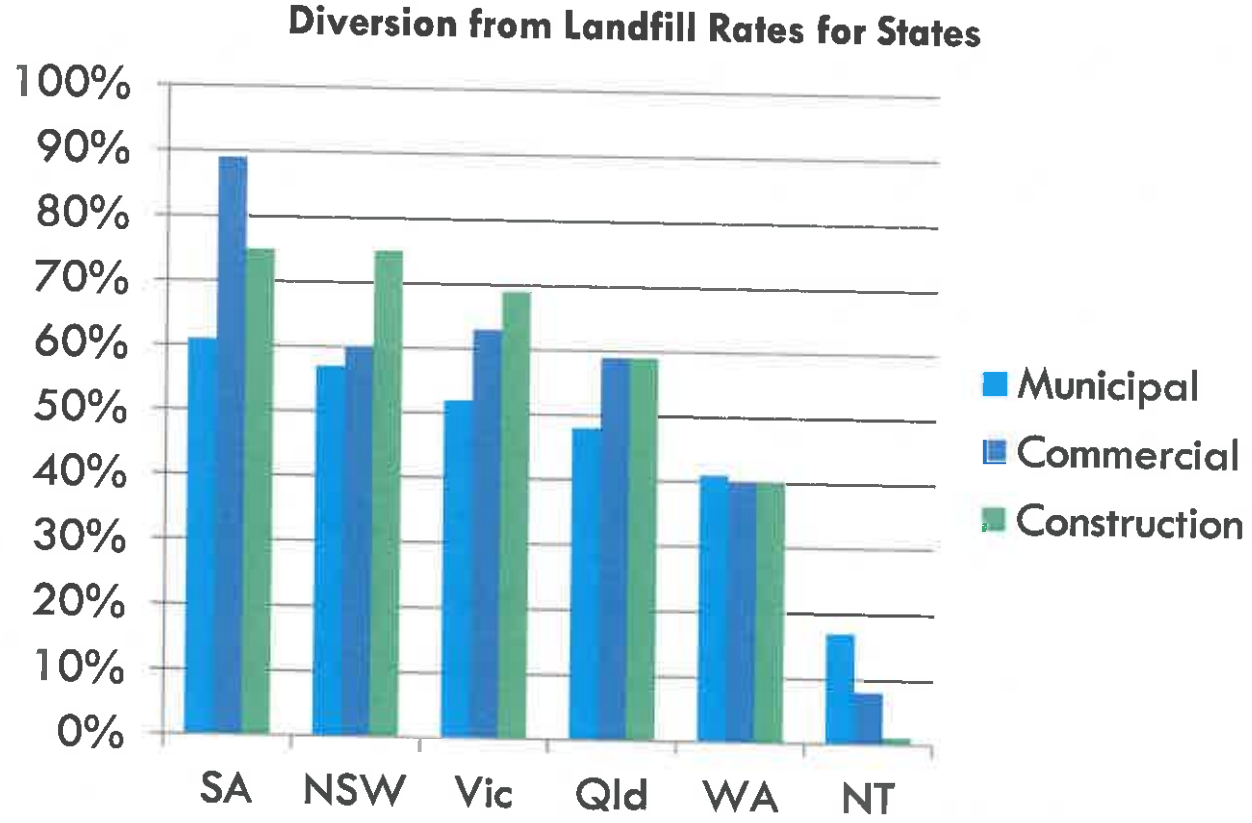
South Australia's waste diversion will be improved by:

- Possible change to legislation that allow a weekly organics/fortnightly residual waste collection
- Development of processing and disposal facilities by retrofitting, continual improvement and new facilities (this can be achieved by a group of clustered Councils as seen in other cities, or by facility owners investing in their site's future)
- Maintaining the current culture of innovation and service improvement
- Low risk contracts to encourage investment and service improvement to the public.

South Australia's waste diversion is nation leading. Where a larger Council arrangement exists poorer waste diversion results prevail.

Increasing Waste Diversion (cont.)

SA have successfully been a leader in all categories of waste diversion



ACT was not reported in the DSEWPaC report however other information shows diversion rates similar to SA

Contract Term – 17 years

The inappropriately long 17 year term locks out new service innovations for that period and beyond.

- It is extremely difficult to manage with varying possible terms for different services
- Different length terms set up the prime contractor with dominant market share for easy extensions and inclusions to the public's detriment
- Longer term for new infrastructure should be tailored for best state metro result not grouped with other services
- Plans for major state infrastructure (such as an Alternate Waste Treatment facility) should be planned with all Councils and the State Government, not just a select and dispersed few

Competitive Tendering

Contrary to claims by Council Solutions, the tender proposal will limit the number of tenders rather than attract more tenderers

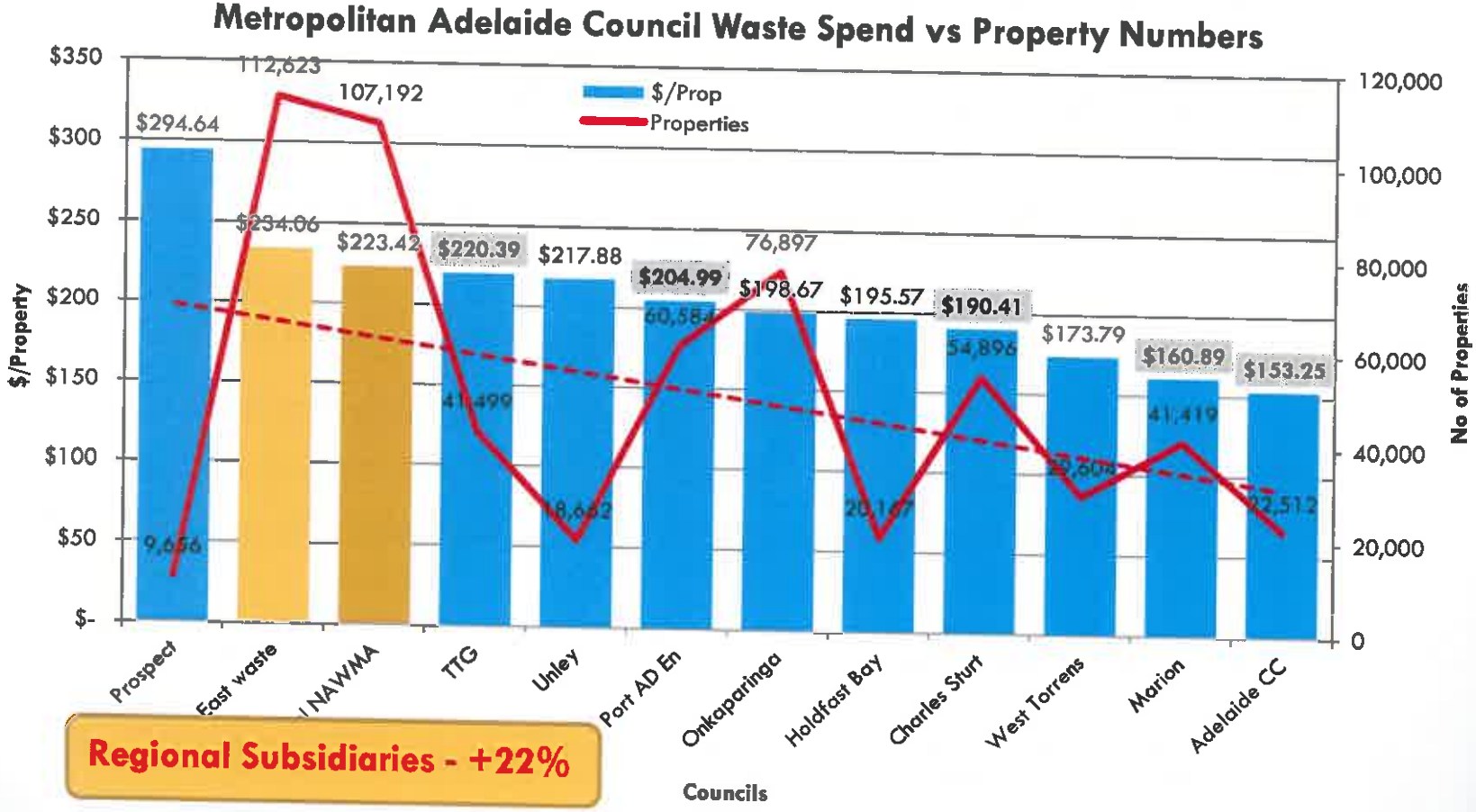
- All potential new participants identified by Council Solutions have tendered recently and even avoided the larger NAWMA tender in favour of smaller tenders like Unley and Charles Sturt/Tea Tree Gully
- Smaller recent tenders have received 5 submissions with larger tenders attracting 4 submissions
- Tenderers will tender for every opportunity (for their company's size) as the number of tenders available averages 1 every 3 to 6 months. Because success is not guaranteed every opportunity must be taken
- The largest companies are tendering for the smallest tenders also ensuring that continual service improvement is enjoyed by every Council

Economies of Scale

- Optimal contract sizes for collection is about 20,000 to 50,000 households with a 3 bin service
- All fixed costs are covered and additional households are added at the same flat rate
- Larger contracts become difficult as drivers become more anonymous (reducing service quality) and supplementary resources are required.
- The key cost saver is distance to the disposal point
- Brisbane, Australia's biggest contract at 436,000 households, has poorer waste diversion and service standards lower than all Adelaide Councils, subcontractor service issues, industrial relations events and prices that are 15-20% higher than Adelaide Councils one tenth their size.

Economies of Scale (cont.)

Regional Subsidiaries already formed show a 22% higher expenditure on waste than the Constituent Councils currently pay.



Economies of Scale (cont.)

The Council Solutions Application cites the need for aggregated tonnes to encourage investment in waste facilities. Yes, more tonnes can underpin a new facility but best results are achieved by:

1. Separating any individual service (in this case, 4+) for their own tender process
2. Identifying Councils that cluster. Council Solutions councils are in the north and south and only have 6.65% adjoining boundaries. Previous ACCC Applications show between 40-60% adjoining boundaries.
3. Minimising administrative layers between Councils. Council officers should have control of their services to residents and operators providing collection, processing and/or disposal services
4. Involving all Councils impacted by the AWT decision as an example. In other states this decision was guided by the State Government so all stakeholders were consulted and included

Transaction Costs

As has already been seen to date in this process, the concept of combining 5 or more Councils for tendering all waste services is extremely complex and the requirements for a project of this size have yet to be tested in the waste industry.

- Councils must still individually assess the tenders
- Councils must negotiate and agree with other Councils on the successful tenderer
- Councils must decide whether they are better off on their own or together with a group or a mix of both
- Councils must assess their arms length control of waste services at tender stage and also during the contract term
- Councils must pay a 1% ($5million for this contract) levy to Council Solutions
- There is no public benefit in this process

Transaction Costs (cont.)

Councils must still…	Councils will now also….
Agree to go to tender	Have to agree with Council Solutions (CS) and other Councils on the tender process
Be a part of tender document development	Have to agree with CS and other Councils on the tender specification
Assess internally Council Solutions tender documents	Have to organise meetings with CS and other Councils to discuss tenders
Be involved in a tender assessment panel	Have to agree with CS and other Councils on actions the group will be taking
Have several staff read through tenders and form opinions	Have to decide internally whether CS represents the best outcome for their Council
Prepare an internal report to Council for ratification of any decision	Have to work with CS and other Councils to negotiate with preferred tenderers
	Have to manage the additional "middle man" (CS) involved in their waste services during the 14 year contract period

Transaction Costs (cont.)

The Council Solutions Application cited Maitland & Ors as a previous application approved by the ACCC. This tender proved to be of serious public detriment with the initial tender for organics collection and processing attracting only 2 non conforming tenders.

Council rejected all tenders and consulted with all possible tenderers. Contractors recommended separate tenders that did not lean towards "whole of group" solutions or requirements for contractors to partner and commit to a risky long term arrangement with another party.

Council retendered for organics processing and received 6 conforming tenders with the successful tenderer not one of the initial 2 tenderers.

Council have just retendered for organics collection only separately and had 4 tenderers attend the briefing as opposed to the zero (0) tenders submitted previously. The overall delay will be 15 months.

Transaction Costs (cont.)

Following are facts from our members' combined history of tendering for waste contracts:

1. The costs of tendering and ongoing contract management grow exponentially with the number of Councils working together.
2. All other waste applications to the ACCC have been from a Council or regional waste authority that has not applied a 1% surcharge.
3. Councils must be part of a difficult process where individual interests can go against the group or subgroup benefit
4. As Councils tender jointly but can withdraw from the process, the number of pricing combinations explodes. With 5 Councils there are 31 different combinations. An average number of prices per Council tender is 19 (based on current Council previous tenders) giving 589 prices to be considered by a group with wide ranging needs.

Transaction Costs (cont.)

5. Alternative tenders, which will be common with the proposed tender, due to Council Solutions desire for the market to establish the most efficient services, will double the number of prices with each variation.

6. Council Solutions seeks economies of scale. This must be by appointment of a prime contractor, who must coordinate and accept the high risk for a "whole of group" tender.

7. This is the most audacious tender ever proposed in Australia's waste history with a 37% market share and the complete range of waste services. No Council or group have determined the Council Solutions model of all waste services to be of public benefit before because the risk of massive detriment to the public is high, especially managed by a "young" organisation (*as stated in the Council Solutions website*) with no waste experience.

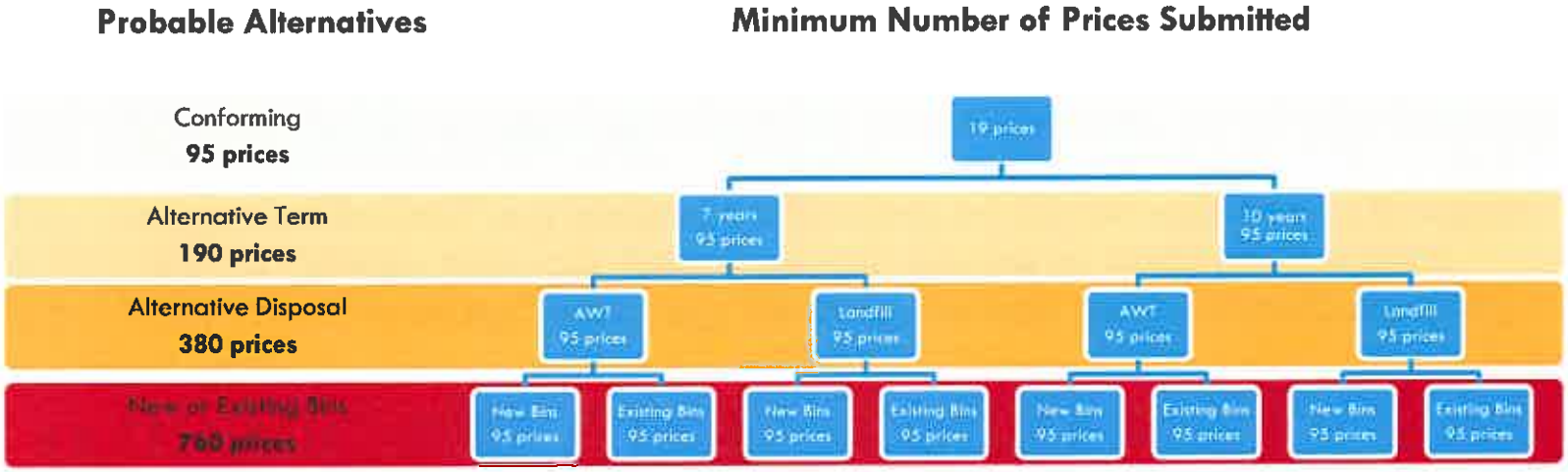
8. The "inherent uncertainty" that Council Solutions have identified is actually an incredibly complex tendering and contract management process. With 31 different Council combinations and 15 different service combinations (collection + 3 facilities) the complexity is unprecedented.

Transaction Costs – Pricing without Council Solutions

If Councils choose to tender individually at least19 prices will be submitted.

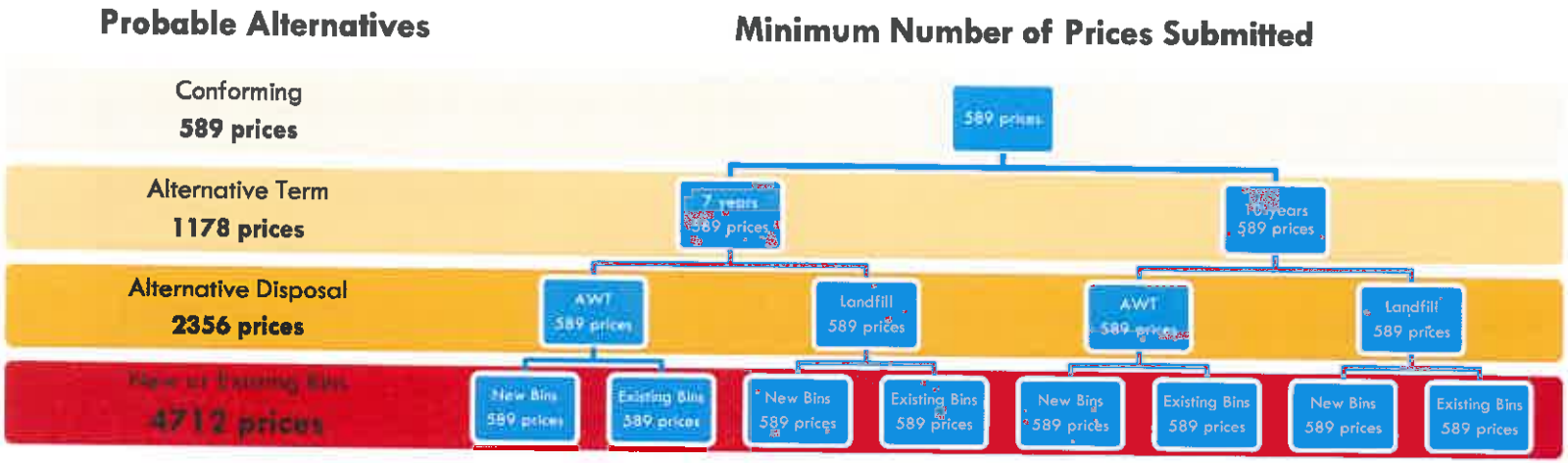
5 Councils multiplied by 19 prices is 95 prices in total, with no agreement required between the Councils and Council Solutions. With 3 Alternative Tenders as shown in the previous example below there are 760 prices.

95 to 760 prices equates to 19 to 152 prices for each Council to consider, instead of 589 to 4712 as part of a group (please refer to following page)



Transaction Costs – Pricing with Council Solutions

There are 31 different combinations of the 5 Councils. Based on 19 prices per Council there are 589 prices to be submitted. Each variation doubles the quantity of prices submitted. The effect of just 3 alternative tenders is a 620% increase.



There are many possibilities for other alternative tenders with each variation doubling the number of prices submitted.

Geographic Spread

- Council Solutions claim that the participating Councils are located conveniently for operational efficiencies. This is in fact incorrect.
- The participating Councils share just 6.62% of their boundaries, compared with between 40% and 60% for all other ACCC waste applications.
- Public detriment results due to:
  - Less opportunities for economies of scale compared with current arrangements
  - Inappropriate group of Councils for new infrastructure investment
  - Reduces ability of other Adelaide Councils to cluster and joint tender effectively for a regional AWT facility or similar or collection

Critical public benefit issue

Geographic Spread (cont.)

- The Participating Councils are split between the north and south sides of Adelaide
- All other ACCC approvals had clusters of Councils
- Onkaparinga in 2021 will further polarise the group
- Only 6.62% of Council boundaries adjoin

Market Share

The Council Solutions Application information on market share is substantially incorrect. The correct figures, checked against actual services provided, are as follows:

- Properties

Council	Properties	%
Adelaide Metro	584,473	100
Charles Sturt	54,067	9.25
Adelaide City	22,735	3.89
Marion	41,011	7.02
Tea Tree Gully	39,393	6.74
Port Adelaide Enfield	59,579	10.19
Council Solutions	**216,785**	**37.09%**

Market Share (cont.)

It should be noted that the "municipal tonnes" total supplied by Council Solutions from a "confidential" source vary significantly from actual figures from current collection services. We have calculated an accurate figure but recommend a full audit of the Council Solutions Application data supplied.

Council Solutions claimed market share (using total metropolitan waste tonnes) →

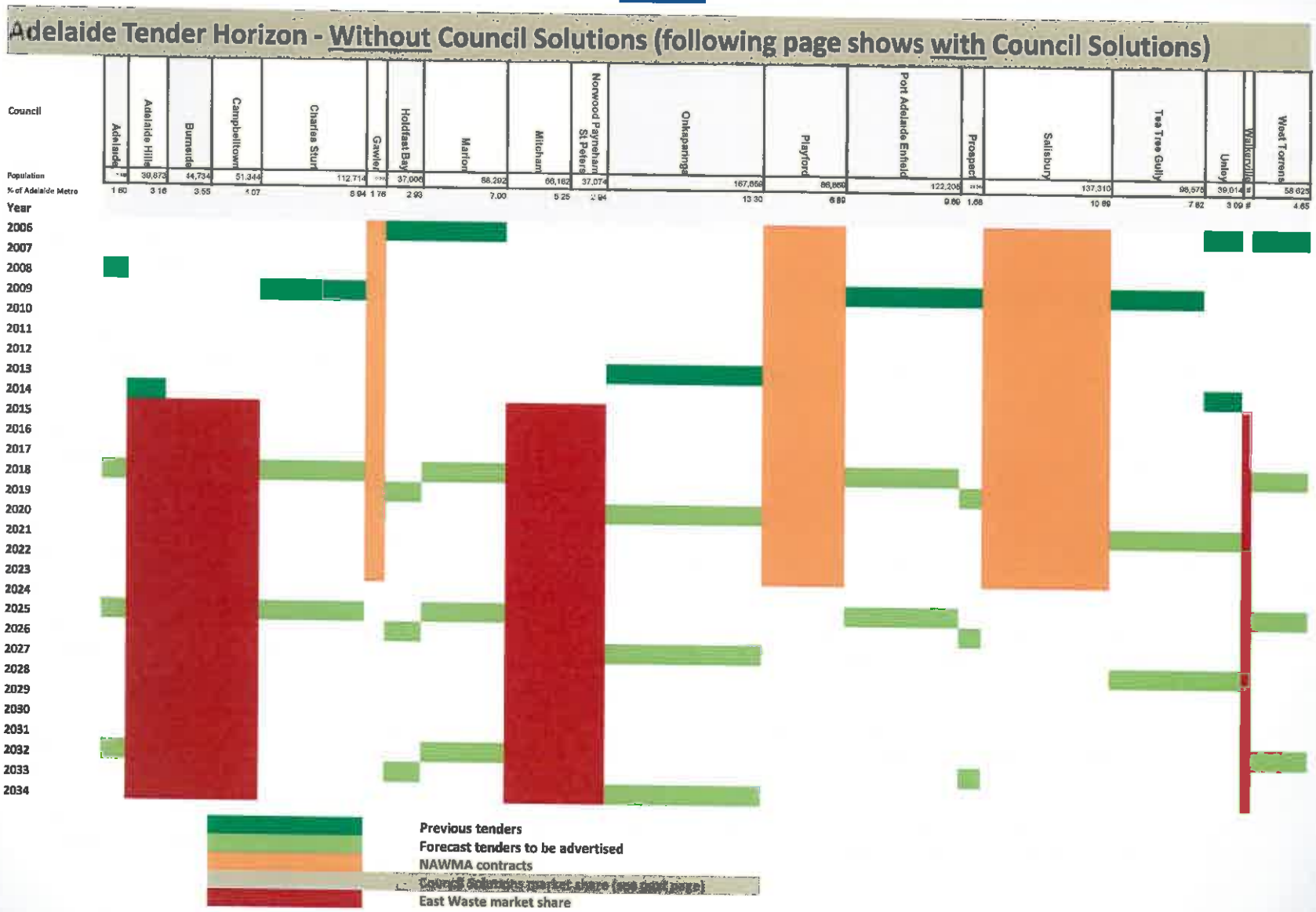
Garbage	8.2%
Recycling	1.3%
Organics	4.6%

Stream	Council Solutions Council's Tonnes	Estimated Actual Tonnes	Council Solutions Total Municipal Tonnes	Correct Municipal (Kerbside) Tonnes	Estimated market share (based on correct municipal totals)
Garbage	74,970	90,000	262,228	260,000	34.61%
Recycling	33,580	42,000	258,087	115,000	36.52%
Organics	45,880	60,000	126,121	175,000	34.28%

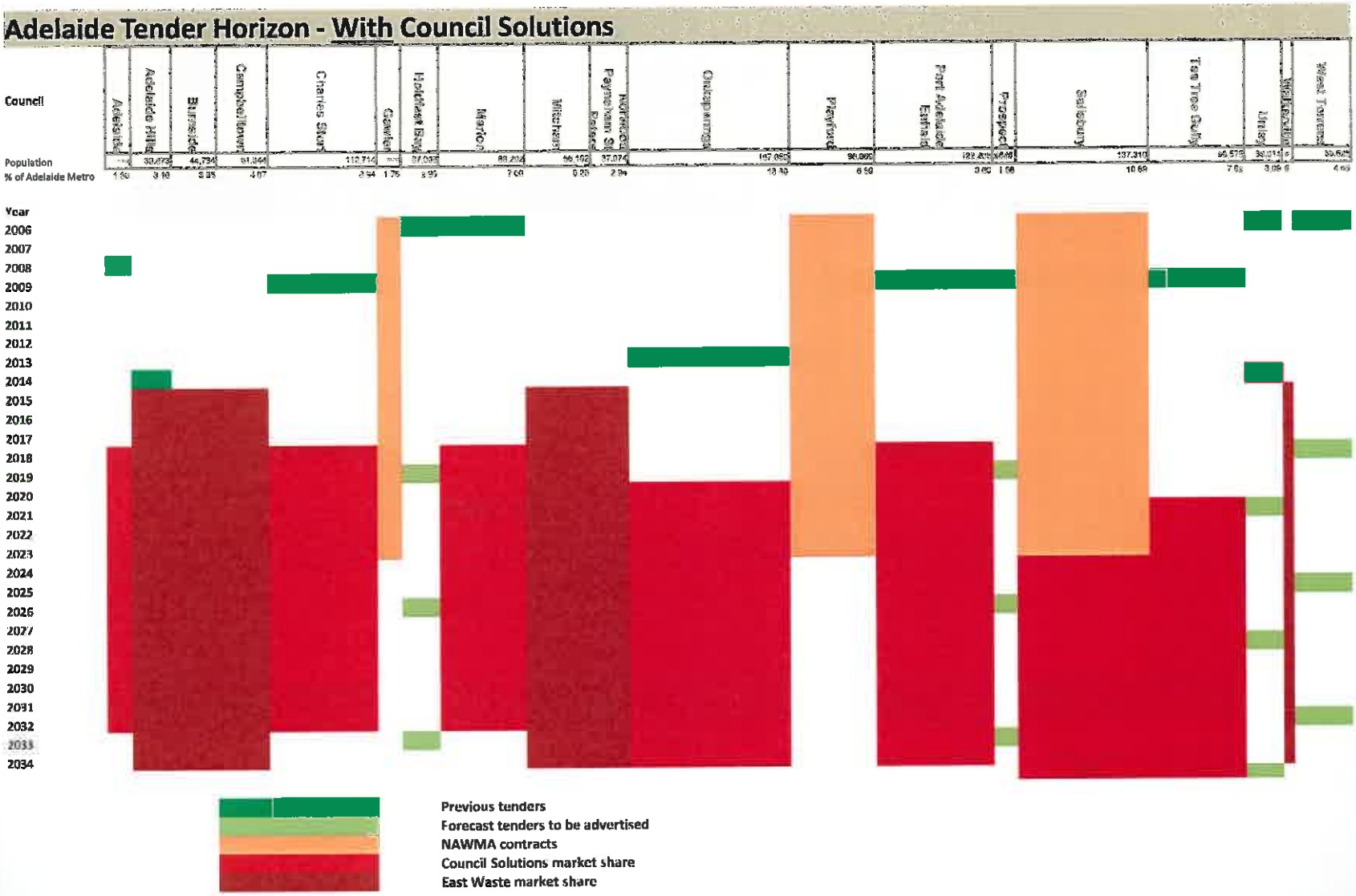
Market Share (cont.)

Adelaide has 585,473 households. The Council Solutions Regional Subsidiary will tie up the market	**Households Locked Out**	**% of Market**
Council Solutions represents 216,875 households out of 585,473 metropolitan Councils	Remove 216,875	37.0%
East Waste Regional Subsidiary Councils have an indefinite term and have no due tender date	Remove 116,758	19.9%
NAWMA Regional Subsidiary Councils are due for tendering in 2027	Remove 106,914	18.3%
Onkaparinga is a Council Solutions constituent Council and is able to join the group in 2021	Remove 79,508	13.6%
Councils available for competitive tendering during the next 11-17 years between 2016 and 2033	**65,508 Remaining**	**Only 11.2%**

Tender Horizon – no Council Solutions



Tender Horizon with Council Solutions



Market Share (cont.)

What will be the impact of this market share on Councils and the rate paying public?

- Given the low number of potential tenderers (1 or 2), and the likelihood of an existing Adelaide contractor being successful, they will establish a dominant market share of between 55% and 70% of the entire Adelaide metropolitan municipal waste market
- The empirical evidence discussed earlier shows this will have a likely effect of reducing service standards to the public, stagnate innovation and continual improvements and increase the cost of waste services
- The successful tenderer will be in a position to dominate the commercial, industrial, construction and demolition sectors of the Adelaide waste market as well as the municipal sector.

Recyclables Processing

Contrary to claims in the Council Solutions Application, the recyclables market is at its worst in decades. The value of collected material has dropped to a level that is forcing business closures.

1. Now is the worst time for the Councils to contract for a long period as processors will be offering low returns to Councils
2. Locking in long term arrangements at low returns will provide no incentive for investment in new infrastructure as we have seen with SKM's decision to transport half of Adelaide's material available to contractors to Melbourne for processing
3. The net effect is a loss of jobs in an emerging industry and great detriment to the public

Organics Processing

Adelaide's existing organics processing businesses arguably have the most to lose and their loss will be of significant public detriment.

1. At least one company is at high risk of downscaling or closing down
2. Adelaide's organics processing companies are among Australia's most innovative and successful drivers of increased waste diversion and closing the loop on collected organic waste. They have developed over decades clever production of soil products for residential and agricultural use, improving productivity and competitiveness of progressive local farming enterprises
3. Marion was the among the first organics collections nationally. On occasion innovation can only be implemented through lower risk contracts.
4. Job losses will be certain as well as the sad loss of critical contributors to the Adelaide waste industry that are also family run local Australian companies.

Unprecedented Risk Levels

The Council Solutions tender proposal has an unprecedented risk profile due to the term, number of Councils and range of services involved.
Even simple recycling collection and processing contracts are proving high risk in the current recyclables market downturn. Tenderers must factor in the following risks:

Risk of not being awarded all Councils	Risk of changes to input costs
Risk of subcontractors failing	Risks of changes in government regulation
Risk of insufficient price adjustments	Risk of not being awarded all services
Risk of incompatible terms and services	Risk of increases to waste levies
Risk of different contract interpretations	Risk of organics markets fluctuating
Risk of changes in the waste industry	Risk of changes to Council Solutions' officers expectations over 14 years
Risk of recyclables markets fluctuating	

The result for the Councils and public is less tender submissions and higher prices.
This has been proven in other joint tenders and large tenders.

Summary

Our assessment of the services we provide to Council and the public has demonstrated to our members that the Council Solutions Application should be rejected. There is no public benefit. Instead there is:

- Public detriment from reduced competition
- Public detriment from loss of optimal economies of scale
- Public detriment from loss of investment and jobs
- Public detriment from higher contract costs
- Public detriment from reduced services quality
- Public detriment from poorer waste diversion
- Public detriment from higher tendering and contract admin costs
- Public detriment from establishing a flexible and risky contract

WRASA requests a rejection of the Council Solution Application to enable Councils and their ratepayers to continue to enjoy the benefits of the most successful waste services market in Australia.

A Cost Benefit Assessment of the Council Solutions Proposal for Single Tendering of Multiple Councils in Adelaide

Prepared by Barry Burgan*, representing Economic Research Consultants 11 March 2016

A Cost Benefit Assessment of the Council Solutions Proposal for Single Tendering of Multiple Councils in Adelaide

A Report for the Waste and Recycling Association of South Australia

9 March 2016

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Introduction

In late 2015 the entity Council Solutions, on behalf of itself and five participating councils in metropolitan Adelaide, sought authorisation from the Australian Competition & Consumer Commission to explore whether there are any public benefits to be gained through a combined tender for waste collection, waste disposal and the receipt and processing of recyclables and organics. The submission suggested that there were substantial benefits of a combined tender process –categorising these benefits as:

- Savings in tendering costs
- Economies of scale –and resultant savings in the task
- Improved purchasing power –by the councils involved, getting a better price
- Environmental benefits from the increased diversion of waste from landfill –
- Improved incentive for new market entrants

The claims of potential benefits in the Council Solutions submission are based on argument and not quantified or measured.

The five participating Councils are Corporation of the City of Adelaide and the Cities of Charles Sturt, Marion, Tea Tree Gully and Port Adelaide Enfield.

In response, there have been a number of submissions with counter arguments focussing on the risks associated with the reduction in competition that would result in this single tender capturing over 35% of the local government waste collection task in metropolitan Adelaide (by value –and almost 40% by number of properties). Five metropolitan Councils operate a regional waste authority (East Waste – councils of Burnside, Norwood Payneham and St Peters, Campbelltown, Walkerville and Mitcham). East West also provides waste management services for Adelaide Hills (a semi urban council). Further, the Northern Adelaide Waste Management Authority (NAWMA) manages waste and resource recovery activities for the Town of Gawler, the Cities of Playford and Salisbury, the Barossa Council and other regional Councils.

Table 1 provides a summary of the core characteristics of the councils by waste management proposed solutions.

Table 1: Characteristics of SA Metropolitan Councils)

	Number of Councils	Population (June 2014)	No of Rateable Properties (Jan 2015)	Waste Management Expenditure ($'000, 2013/14)
Council Solutions Councils	5	444,476	220,910	42,132
East Waste	6	246,608	112,623	26,360
NAWMA (metro councils)	3	246,398	107,192	23,949
Other Metro	5	323,551	154,986	31,277
Total Metro	19	1,261,033	595,711	123,718
Regional	49	417,425	285,545	69,581
Total SA	68	1,678,458	881,256	193,299

Source: SA Local Government Grants Commission data base

The Scope of Waste Management Services in Adelaide

In 2009/10, South Australian households and business generated 2.3 million tonnes of collected waste or approximately 3 tonnes per property (ABS, 2011). 0.785 million tonnes went to landfill, and the remainder was reprocessed (ie 66%). With the volume of activity, the waste management industry is a big industry – with Local Government an extremely important player. In 2013/14, local government in South Australia spent $193 million in the provision of waste management services, with the majority outsourced to private or quasi-government contractors. In terms of industry structure, in 2009/10 the industry encompassed:

- 182 private and public trading sector businesses employing 1,917 employees, and generating income streams of $626 million. Waste services income was $362 million (or 58% of the total income) with the balance being from sales of recyclable material and energy generated (34% and 8% respectively) (ABS, 2011). At the national level 27% of the waste income was from residential sources, and 61% from commercial sources. Again at the national level, labour costs were 23% of total costs, 23% purchases of goods and services, sub-contracting for waste management services was 7%, treatment and disposal fees and levies 11.0%. Depreciation, amortisation and financing costs were only 8.3%. There were also 68 general government operations employing 339 employees, and generating income streams of $123 million (with the major expenses being purchases from contracted services). Waste services income was only $12 million (or 10%) for these government operations.
- As above, South Australia generates a total of 2.3 million tonnes of waste material, 66% of which is diverted from landfill, and 34% disposed of at landfill. This is well in excess of the national average where only 43% is diverted.
- Approximately $200 million of the waste management task occurs through the auspices of local government (SA Local Government Grants Commission, 2013-14) – of which around 50% is in metropolitan Adelaide. Council expenditure on waste management averaged $214 per rateable property for metropolitan councils –with the lowest spend per property being

Adelaide City Council ($153), and the highest being in Burnside and Prospect ($296 and $295).

From Table 1, the councils covered by the Council Solutions proposal had in 2013/14 a total spend of $42.1 million (or 34% of the total metropolitan activity). The spend on waste management was 8.4% of the total operating expenditure across these councils (a very low 2.1% for ACC, but closer to the average overall for the other 4 councils (varying from 9.5% to 12.9%)).

The East Waste and NAWMA arrangements cover 47% of the rateable properties in Adelaide, and 41% of the waste management expenditure.

An Evaluation of the Public Benefits Arguments

Transaction cost savings for both Participating Councils and Suppliers/Operators;

In principle one might expect that the tendering process has some fixed costs and some variable (per tender and/or size of tender). The counter claim is that by setting up Council Solutions, another layer of bureaucracy is formed (in addition to the LGA procurement body) which in itself adds governance and administration –and indeed with the significant differences between councils (location with the metropolitan area, differences in the demographic makeup of each council, and the need to ensure that the needs of each council are met) the argument may well be made that these costs (to manage the contract – both tendering and operations) may be sizeable (Kavanagh & Parker, 2000).

Regardless of the strength of the argument either way, the issue is that the implications of transaction costs savings are likely to be relatively immaterial. Tendering costs for a tender for a council of around 40,000 households are estimated by industry participants as requiring the input of 2 field staff for 60 hours each and 4 management staff for 80 hours each (2 weeks) – or a total time input of 440 hours per tender. Using an average hourly cost of $75[1] this amounts to around $33,000 per tender – and preparing 5 tenders would separately cost around $150,000. If it is further assumed that for each tender there would be 5 separate tenderers, this cost would be $750,000. If it is assumed that the Councils themselves spent 50% of this amount evaluating tenders, and the average tender was for five years, then the annualised cost of the tendering process for waste management services across five councils per tenderer is around $225,000.

Therefore in summary with respect to this purported benefit, even should they exist tendering costs are actually trivial at around 0.5% of the actual spend of councils on waste management – so any savings would be in turn trivial.

[1] This is probably at the high end, allowing for the average wage of the participants in the bid to be $75,000 per year (involving senior staff input) and a 50% on cost allowance.

Greater economies of scale and efficiency, underwriting investment in infrastructure;

The suggestion that significant economies of scale exist in local government operations has been subject to debate over decades – and has been part of the argument presented for local government rationalisation (see the report of the SA Ministerial Advisory Group on Local Government Reform, 1995). Whether such savings would be significant in this instance is highly questionable on the following grounds:

- The literature is somewhat historic and is generally based on a time when councils were much smaller than are in existence now (in South Australia, this is particularly the case in the metropolitan areas). In general the supports that economies of scale exist in smaller operations, but that these economies disappear as councils get larger, as follows:
    - In the UK, (Department for Environment, Food and Rural Affairs, 2007) the modelling concludes that the optimal size of waste management facilities is estimated at 50 kt per annum.
    - Callan and Thomas (2001) "infer that Massachusetts communities operate in the range of constant returns to scale for MSW disposal".
    - Stevens (Scale, Market Structure, and the Cost of Refuse Collection, 1978) was one of the early studies in this areas which concluded that in the US "costs to the household decrease under any market structure as the market served increases to about 20,000 individuals. Small costs savings may be achieved for further increases in scale up to about 50,000 individuals".
    - This perspective has been supported in subsequent studies, such as Bel and Fageda (Bel & Fageda, 2009)which concluded that in Spain "The results reveal economies of scale in municipalities of fewer than 50,000 inhabitants, such that cooperation between these municipalities could lead to cost savings". It is noted that the average council size is in the Council Solutions group is 89,000 residents, and only Adelaide City is well below this 50,000 threshold (and Adelaide City has significant business properties).
- Economies of scale result from high fixed costs in operations, but in reality it is not a simple relationship as costs may be fixed against some contract aspects and variable against other (eg number of contracts). The nature of the equipment required in waste management is highly divisible beyond certain scales, and while capital intensive in general is a low proportion of total costs. For the waste management industry in Australia depreciation and amortisation (the annualised cost of purchased equipment) represents only 5.4% of total expenditure). Labour costs are 23%, and subcontracting payment 7%. Purchases of goods and materials are 23%.
- There is no evidence in looking at current operating spend by metropolitan councils of any economies of scale above property numbers of 20,000 (see the Appendix for a simple illustrative analysis).

Therefore it can be concluded that any assertion that there exists substantial economies of scale to be achieved through the combined tender (which would require there to be single supplier) has no clear significant evidence that supports it. It should also be noted that given the various variables that influence costs, the outcomes will be further complicated (and costs increased) as the literature

considers issues such as distance to waste management facilities, urban density etc (Department for Environment, Food and Rural Affairs, 2007, p. 2) as being as or more significant than property or population related scale in this case by the geographic dispersion of the councils involved in the bid.

Improved purchasing power, leading to lower costs for Participating Councils;

The argument of the benefits of improved purchasing power presumes that the supply side of waste management services is non-competitive, and therefore the combined contract shifts some of the bargaining power to the purchaser of the services rather than the supplier of the services.

The debate in terms of the market power of the Australian supermarket retailers is one example which provides some of the cautions with regard to this assertion, and those cautions include:

- Firstly if the level of competition is already high in the supplier market, then squeezing the margins of suppliers even further may have detrimental long term implications (underinvestment) that reduce the quality of supply and increase the cost. One explanation is as follows "Many companies have made important contributions to society by investing wisely in research, development and technology. In many cases, these advances were possible because the organization made a healthy profit. As previously mentioned, competitive tendering can force a supplier to accept a very slim profit margin. These low margins can result in a supplier having little or no money to spend on research and development, new technology and equipment. The result - society loses out" (http://www.answers.com/Q/Advantages_and_disadvantages_of_competitive_bidding)
- Secondly, that predatory pricing practices can be used to game a dominant supplier, and once this occurs in the longer run the supplier can use the lack for competition to control the supply and significantly increase their margins.
- There are several reasons in a competitive tendering process that leading suppliers may not submit a bid and as such the best outcome not be delivered. These include:
    - *"The expense of the tendering process. Some complex tenders can involve huge costs that are not reimbursed to the bidder.*
    - *Suppliers may not believe that the tendering process is fair.*
    - *Suppliers may already be heavily committed to other customers and may not need the business*" or feel they can adequately service such a large contract http://www.answers.com/Q/Advantages_and_disadvantages_of_competitive_bidding

  The first and last of these are particularly impacted by the size of the tender task involved in this case.

It could also be expected that the relationships in such a large and diverse tender would need significant controls to ensure that agency costs in terms between contract management and the supplier are managed which would add costs.

Finally and significantly there is no evidence in the waste management industry of above normal margins and as such any improved purchasing power will come at the risk of reduction in sustainable services into the long run. More specifically:

- Operating margins in the industry as a whole (nationally) are a relatively low 7.6% (revenues/expenses -1) –and importantly in South Australia it is lower than the national average at 7.4%
- While the ABS provides evidence on operating margins, it does not provide balance sheet information so Return on Assets or Return on Assets cannot be reviewed and as such the possibility of reducing margins through purchasing power pressure is an uncertain thing.

Environmental benefits from the increased efficient diversion of waste from landfill; and

The Council Solutions proposal suggests that environmental benefits will result from the increased diversion of waste from landfill. The reason why this is suggested to occur is that the winning of a large combined tender will generate new investment, and new investment will be more efficient in facilitating diversion (citing an EPA report that has indicated that equipment was outdated).

The economic argument is that new investment will depend on the underlying profitability of the contract, and as such there is some internal contradiction or conflict in terms of the achieving the alternative touted benefits – in that using purchasing power to squeeze profit margins will put a dampener on investment (or vice versa).

The literature generally concludes that there are benefits from merged operations in waste collection and recycling, but not benefits of scale in this context.

As noted above SA's recycling rate already far exceeds the national recycling rate –with 66% of collected waste diverted from landfill in South Australia, relative to the national average of 43%. There is daylight between the rate of diversion in South Australia and the other states, with the second highest state is Victoria with 48%. At the national level 17% of operators in the industry suggest there are no significant factors impacting on the ability to divert waste streams to recovery, while 12.8% said it was lack of customer demand and only 12.2% said it was lack of facilities or infrastructure (ABS, 2011, p. 21).

The diversion of waste away from landfill is therefore clearly best facilitated by the range of effective policies in force, and South Australia is already doing something right in this regard.

Improved incentive for new market entrants or expansion.

The simple argument presented by Council Solutions is that the institution of such a large contract may encourage new players into the market – with a suggestion this would increase the degree of competition. Given that the industry is structured as a national industry with as IBIS world notes a current low concentration, it is more likely that existing participants would be at play in the market and competition would be reduced.

Indeed the opposite could be considered to be just as likely to happen, in that by concentrating contracts in the hands of one major player, or possibly up to 4 players if waste streams are separated, many of the competitors will leave the market and therefore decrease competition long term.

Acknowledgement of Risks and Dis-Benefits/Costs

The Council Solutions proposal contends that there are no dis-benefits that would accrue from this common tendering base. However, should the combined contracting arrangements result in a single supplier, there is the presence of significant risk to South Australian taxpayers.

- The metropolitan market for contracted services would become highly concentrated – with 6 contracts out for tender. The Council Solutions tender would be the biggest of these (107,000 rateable properties). Onkaparinga would be next largest at 77,000 properties, West Torrens at 30,000, Unley at 30,000 and Prospect at 10,000. The winner of the Council Solutions tender would have significant market power, and could use this across the rest of the region. Once they achieved "privileged" supplier status (ie not have serious competition) they could use their existing position to gain a price disadvantage and push prices up (and hold competitors out).
- The monitoring and control costs of a much bigger contract will be higher, over the whole life of the contract –again because of the complexities involved with the big differences between the Councils (density, distances, industrial structure, socio-demographics) and also because of the risks involved in such a large contract.

There is considerable case study evidence in the literature of perverse outcomes from competitive tendering practices, and the difficulties in aligning council interests in joint service delivery. DEFRA outlines the significant range of barriers to effective cooperation, and these are summarised in Appendix 2 (Economies of Scale - Waste Management, 2007).

- The ABS data suggests that larger operators are slightly more labour efficient than small operators (ABS, 2011, p. 10), reducing the jobs outcomes (exchanging labour for capital inputs). Given the current employment situation in South Australia, this should be a consideration. Also the larger the operation the more likely some aspects will be managed from outside the state.
- There is a positon that innovation and change, the features that increasingly ae understood as underpinning economic growth into the future are driven by smaller sized activities, and lost in larger scale operations. Preuss (On the contribution of public procurement to entrepreneurship and small business policy, 2011), in a review of local government procurement practices concludes that "entrepreneurship and small business policy have by and large marginalized public sector procurement" and proposes that Government should deliberately incorporate this in their economic development agenda –and ensure that this is recognised in their procurement practices.

Conclusion

The proposal presented by Council Solutions is based on the claim that the proposal generates substantial benefits in the form of savings from a government funded service, relieving the burden on taxpayers (or in this case rate payers).

The submission by Council Solutions included no quantification of these benefits and simply provides a range of assertions. The broad level and indicative review provided in this paper indicates that the extent of benefits (should they even exist) are likely to be marginal –and would be expected to be a small percentage of the contract value involved. It is also highly likely (based on the literature and in reviewing the circumstances of the proposal) that any such benefits would outweighed by the risks and possible costs that might be incurred (of increased costs and reduced competition) despite the argument by Council Solutions that the dis-benefits are trivial.

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Appendix 1

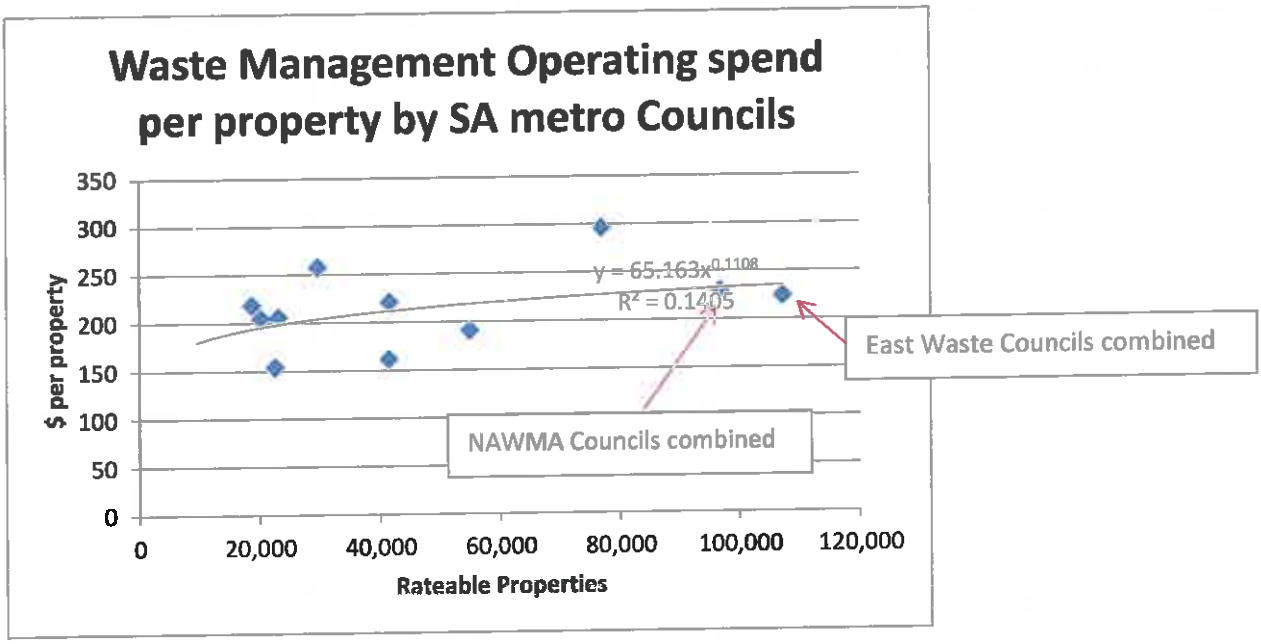
Identifying economies of scale in waste management in metropolitan Adelaide

As indicated in the literature there are many dimensions as to what impacts on the spend on waste management for a given local council. These include:

- The number of properties in the region
- The urban density of the region
- Demographic makeup of the population (household size, average age etc)
- Distance to landfill
- Access to recycling and treatment facilities
- Council/ratepayer choice in terms of quality of service (including frequency of collection, desire for recycling etc)

Therefore it is a difficult to task to identify core drivers and in particular to identify the existence of economies of scale in terms of the size of a given contract – and as noted in the literature there is substantial debate and no clear conclusion (at least beyond small scale councils).

The following represents the relationship between the operating spend of councils per rateable property by the number of rateable properties (the councils serviced by the East Waste regional authority and NAWMA are amalgamated). Prospect Council is excluded as an outlier (ie it is the only council with under 20,000 rateable properties, and indeed is under 10,000). The profile provides no indication of significant economies of scale – with the line of best fit only explaining 4% of the overall variation, and further the line of best fit being upward sloping (indicating if anything diseconomies of scale – while recognising this is a very simple analysis with the various complications noted above).



Appendix 2

Contract and transaction costs in amalgamated and combined service delivery

As noted in the main report, DEFRA outlines the significant range of barriers to effective cooperation between Councils win waste management services (Economies of Scale - Waste Management, 2007). The following is an extract from this report – but in short it would be clear that the more councils involved, the more people and the more significant the contract, the more likely these issues will be exacerbated. In short many or all of these issues will be present in the collection of representatives from Council Solutions and the respective Councils, with a potential for net public detriment.

In order for economies of scale to be realised, a degree of aggregation is required, to which evidence suggests there are a number of significant political barriers. It is clear from the collaboration studies that were reviewed that these barriers restrict the development of collaborative working. Some of the local and generic barriers identified in the studies are as follows:

- *Low profile and awareness of the relevant waste issues and different drivers for each authority at the relevant level and across relevant professional disciplines within organisations.*
- *Lack of preparedness for formulating strategies and policies for meeting future legislation or to deliver operational changes.*
- *Difficulties and complexities of establishing and practicalities of working together in partnerships at all levels including ineffective communication across partnerships and with the public (including industry where appropriate) and a lack of shared objectives.*
- *Officer/representative support and commitment at an appropriate level in the organisation with a resulting lack of resource and momentum.*
- *Elected member capacity to understand the different drivers, key issues and support partnerships.*
- *Political differences leading to conflicts of interest*
- *Differing strategic objectives*
- *Loss of sovereignty and flexibility*
- *Local authority cultures – lack of cohesion and standardisation in the way things are done even where best practice or frameworks exist*
- *Different levels of performance and service delivery in potential partner authorities*
- *Uncertainties over future infrastructure (both within and outside local authority control) and funding.*
- *Need for investment and/or lack of infrastructure.*
- *Poor baseline data and lack of agreement or common understanding on terminologies and definitions.*
- *Poor or conflicting stakeholder interaction and information*

Waste & Recycling Association of South Australia

Adelaide Metropolitan Area

Municipal Solid Waste

Market Review

March 2016

WATER + WASTE INNOVATIONS

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1 Introduction

This overview of the Adelaide Metropolitan area Municipal Solid Waste (MSW) market has been prepared in response to the Council Solutions application for authorisation A91520 submitted to Australian Competition and Consumer Commission (the ACCC).

The review provides an additional and more detailed reference for the ACCC when considering the Council Solutions application, and specifically looks at the make up of the Adelaide Metropolitan area MSW market and percentage of the market share held by the individual participants - both before and after implementation of the Council Solutions waste procurement strategy if it was to proceed.

To ensure consistency with the submission on this matter currently before the ACCC, all market share estimates and assumptions have been based on the same population data referenced by the Council Solutions application, i.e.

> *"Australian Bureau of Statistics, Catalogue 3218.0 Regional Population Growth Released 21 March 2015, Table 4. Estimated Resident Population, Local Government Areas, South Australia. As at 2014."*

The three main source sectors for waste in South Australia, and the Adelaide Metropolitan area are Municipal Solid Waste (MSW), Commercial and Industrial (C&I) and Construction and Demolition (C&D). In 2013/14 a total of 4.5 million tonnes of waste was either land filled or processed for recovery across the sectors, distributed as:

Municipal Solid Waste (MSW)	0.85 million tonnes	19%
Commercial and Industrial (C&I)	1.58 million tonnes	35%
Construction and Demolition (C&D),	2.08 million tonnes	46%

Some service providers in the Adelaide Metropolitan MSW market are also active in parts of the quite larger C&I and C&D markets, e.g. landfill operators and waste collectors, although with the latter the equipment and infrastructure differs from that required for MSW collections, and there is limited opportunity for any cross over between the sectors.

This overview will concentrate on the MSW area, identified in the Council Solutions submission as the service stream within which their contemplated activities are wholly contained.

The Adelaide Metropolitan area MSW sector consists of nineteen (19) Metropolitan councils, and within each of the main activities (kerbside collection, residual waste disposal, and processing of recyclables and organics) there are a range of contracts and agreements that currently function to provide these services.

Section 2 provides a market share break down of the various service providers, and some comment regarding the likely or possible impact on the market place and existing participants from the entry of a significant procurement entity i.e. Council Solutions, and subsequent redistribution of the market share.

2 Adelaide Municipal Solid Waste Market

2.1 Regional Authorities

(i) Current - Before Council Solutions

The present market place can be broadly divided into two established Regional Authorities, Eastern Waste Management Authority (East Waste) and Northern Adelaide Waste Management Authority (NAWMA), with the remaining Councils effectively functioning as "unaligned".

East Waste own and operate a fleet of collection vehicles whereas NAWMA tender for service provision. NAWMA have just signed a 7 + 3 year agreement with Suez Environment (formerly Sita Environmental Services) for the provision of kerbside services to member Councils so these two organisations can be considered as stand alone Regional Subsidiaries.

Entity	Member Councils	Market Share	Notes
East Waste	6	19.5%	Provide waste services only, similar to Councils 'doing their own thing'.
NAWMA	3	19.5%	Waste services to 3 member Councils and Recyclables Processing (see later)
Others	10	61.0%	Two examples of shared contractor & separate contracts, each across two Councils.

(ii) After Council Solutions

Council Solutions was established in 2012 with the objective of improving the financial performance of its constituent Councils through benefits to be gained from collaborative procurement, contract negotiation and management. This collaboration presently exists in supply contracts across a range of services, e.g. roadworks, temporary labour hire, facilities management and legal services.

By comparison East Waste and NAWMA were established for the specific purpose of providing waste management services only to their member Councils. East Waste own and operate their own vehicles and NAWMA tender for the services.

The key points here are that the market shares of East Waste and NAWMA will be unchanged, against the larger Council Solutions group with 35% market share and a strategic objective to expand their procurement activities across a broad range of services.

This leaves just 5 individual Councils with a total 25% market share to function in a market where the remaining 75% is spread across three consortia and perhaps two contracts.

A further concern would be if the City of Onkaparinga, a Constituent of Council Solutions but not a Participating Council in the current application, was to join the waste procurement contract in the future. Such a move would increase the Council Solutions control to 48% of the market.

Entity	Member Councils	Market Share	Notes
East Waste	6	19.5%	Unchanged
NAWMA	3	19.5%	Unchanged
Council Solutions	5	35.3%	New entity with significant market share by comparison with others
Others	5	25.7%	Includes Onkaparinga Council at 13%

2.2 Collection Contractors

(i) Current - Before Council Solutions

The kerbside collection services across the Adelaide Metropolitan area are divided amongst four main service providers. Two Councils collect their own residual waste, but the remainder of their services are provided by one of the main four.

Entity	Councils Serviced	Market Share	Notes
East Waste	6	14%	Mitcham recyclables and organics only
Suez Environment	3	20%	New NAWMA contract
Transpacific Cleanaway (TPI)	2	12%	
Solo Resource Recovery	8	36%	Onkaparinga recyclables and organics only
City of Onkaparinga	self	13%	In-council residual waste only
City of Mitcham	self	5%	In-council residual waste only

The City of Mitcham provides an in-council collection service for residual waste but the Council is aligned with East Waste as a member Council for the balance of services. If the Mitcham market share is added back into the East Waste figure, it increases to 19%.

The City of Onkaparinga also provides in-Council residual waste collections but contract to Solo Resource Recovery for the remaining services. If the Onkaparinga 13% is added back to Solo their overall market share for collection services increases to 49%.

As previously noted Suez Environment has recently contracted to NAWMA for a new collection contract so their share is considered constant in the analysis as is the case with East Waste.

(ii) After Council Solutions

Based on current contracts the following could be a scenario if the Council Solution Participating Councils are taken out of their current arrangements. All other current agreements are assumed to remain.

The analysis makes no assumptions as to where the Council Solutions 35% could be directed, but it can be clearly seen how it may potentially impact several entities as a consequence of the final allocation.

Entity	Councils Serviced	Market Share	Notes
East Waste	6	14%	Mitcham recyclables and organics only
Suez Environment	3	20%	New NAWMA contract
Transpacific Cleanaway (TPI)	1	2%	
Solo Resource Recovery	4	11%	Onkaparinga recyclables and organics only
Council Solutions	5	35%	
City of Onkaparinga	self	13%	In-council residual waste only
City of Mitcham	self	5%	In-council residual waste only

As was discussed in the previous 'Current - Before Council Solutions' notes, the Mitcham and Onkaparinga market shares can arguably be added back to East Waste and Solo which changes their market shares to 19% and 24% respectively.

A further variation could well occur when the current City of Onkaparinga contract with Solo expires. As a Council Solutions Constituent Council, Onkaparinga may join the procurement contractual arrangements which would push the Council Solutions market control to 48%.

Due to the relative size of the Council Solutions contract, it could be expected that the two large national companies with an Adelaide presence, Suez and Cleanaway, will lead a contest for the tender. Of the two, Suez as a stronger multi-national would end up with 55% market share if successful, and 68% when Onkaparinga joins the group.

In the event of such an outcome Transpacific Cleanaway would be left with 2% share in a MSW market, and two other more dominant players sharing the balance (excluding the East Waste share).

2.3 Landfill Operators

The Landfill market for disposal of residual waste has quite a broad spread of participants and is very competitive, with six locations competing for the Adelaide Metropolitan area residual MSW.

All locations also service the C&I and C&D sectors for either direct landfill disposal or receival of materials for various resource recovery activities.

(i) Current - Before Council Solutions

Entity	Councils Serviced	Market Share	Notes
Transpacific Industries (TPI)	3	12%	Extra tonnages for TPI Landfill at Inkerman from C&I and non Metro
AHRWMA	1	3%	Main tonnages for AHRWMA Landfill at Brinkley from non Metro
NAWMA	3	20%	Additional tonnage for Uleybury Landfill from C&I and non Metro
Integrated Waste Services	8	37%	
Southern Region Waste Resource Authority (SRWRA)	3	23%	3 Member Metro Councils
Southern Waste ResourceCo	1	5%	

(ii) After Council Solutions

Entity	Councils Serviced	Market Share	Notes
Transpacific Industries (TPI)	1	2%	Extra tonnages for TPI Landfill at Inkerman from C&I and non Metro
AHRWMA	1	3%	Main tonnages for AHRWMA Landfill at Brinkley from non Metro
NAWMA	3	20%	Additional tonnage for Uleybury Landfill from C&I and non Metro
Integrated Waste Services	7	28%	
SRWRA	3	23%	3 Member Councils only
Southern Waste ResourceCo	1	5%	
Council Solutions	3	19%	2 Participants opted out

This is an area where the Council Solutions market share is on a par with several other entities, due in part to the fact that two of the participating Councils (Cities of Marion and Port Adelaide Enfield) have initially opted to remain with their current landfill disposal arrangements, and not join the consortium for the service at this stage.

Nevertheless the final allocation of the Council Solutions 19% share may still significantly impact other businesses, especially with the possibility of going well beyond this original percentage if all the participating Councils opt back in.

2.4 Recyclables Processors

All kerbside collected recyclables are processed by SKM, Visy or the NAWMA facility, in a market split that is estimated as shown below.

(i) Current - Before Council Solutions

Entity	Councils Serviced	Market Share	Notes
SKM Recycling	8	36%	Relatively new in SA market - 2 years
Visy Recycling	8	45%	
NAWMA	3	19%	Member Councils

(ii) After Council Solutions

Entity	Councils Serviced	Market Share	Notes
SKM Recycling	8	36%	No Council Solutions Councils as current clients
Visy Recycling	3	10%	
NAWMA	3	19%	Member Councils
Council Solutions	5	35%	

A reasonable market place assessment could be that due to the relatively large quantity involved, NAWMA will not pursue the Council Solutions volume so the 35% market share is then allocated back to either SKM taking them to 71% share or Visy, taking them back to 45%.

All Council Solutions member Councils currently have their recyclables processed by Visy, so if Visy was to be unsuccessful in a Council Solutions tender there is quite a high risk that they could exit the MSW market. This would leave SKM with a monopoly for all but the NAWMA Councils, and no processing facility in Adelaide - all SKM recyclables are currently transported to Victoria for processing.

2.5 Organics Processors

All kerbside collected organics are processed by Peats Soil & Garden Supplies, Jeffries or Integrated Waste Services (IWS) in an estimated market split as shown below.

(i) Current - Before Council Solutions

Entity	Councils Serviced	Market Share	Notes
Peats Soil & Garden Supplies	5	31%	Long history in market
Jeffries	13	59%	Long history in market
Integrated Waste Services	1	10%	Relatively new participant in this market sector

(ii) After Council Solutions

Entity	Councils Serviced	Market Share	Notes
Peats Soil & Garden Supplies	4	24%	
Jeffries	10	41%	East Waste & NAWMA Councils
Integrated Waste Services	0	0	
Council Solutions	5	35%	

It should be reasonably assumed that the Council Solutions market share will be added back to one of the existing entities, with the potential to create quite a one side market place.

If Jeffries are successful in a Council Solutions tender their 76% MSW market share would be built around 3 substantial long term contracts and the remaining service providers left to compete for 24% of the market.

3 General Comments

3.1 Waste Sectors

In Annexure 1 - Data for Participating Councils, the Council Solutions application calculates the market place percentages for the three waste streams (residual waste, recyclables and organics) using the total waste stream data from all Metropolitan sectors (i.e. MSW, C&I, C&D), yet this tender proposal is dealing elsewhere with Council generated (MSW) quantities.

It does not necessarily follow that all entities or processors working in the MSW sector will also operate in the other sectors (C&I and C&D). See Comment in Section 1: Introduction.

3.2 Single Service Provider

It is noted in the Council Solutions application for authorisation A91520 Annexure 2, that it allows for an allocation of services across several providers in a specific sector or service area. The actual preference would appear to be consolidation through a singe provider - a realistic approach to market and expected outcome, which is more likely to achieve the benefits attributed to economies of scale.

Based on this assumption the analysis undertaken in this review has focussed on detailing the current MSW market and the subsequent impacts from an allocation of the Council Solutions service requirements as a single placement.

3.3 Adelaide Metropolitan MSW Participants

The following businesses and organisations are participants in the Adelaide Metropolitan area MSW market.

- 19 Metropolitan Councils
  - Cities of Onkaparinga and Mitcham provide in-house residual waste collection services only, using Council owned vehicles.
  - Remaining services by contract (except East Waste for Mitcham)

- Eastern Waste Management Authority (East Waste)
  - Kerbside collection services only to member Councils
  - Own and operate collection vehicles
  - Recent tender call for processing contracts

- Northern Adelaide Waste Management Authority (NAWMA)
  - Recent tender call for kerbside collection services to member Councils
  - Own and operate Uleybury Landfill
  - Own and operate waste transfer station (balefill) and recently upgraded recyclables processing facility

- Suez Environment
  - Retained new NAWMA collection contract 2016
  - Participated in recent Metro kerbside collection tender processes
  - Several regional collection contracts
  - Significant investment in alternative fuels
  - Provide services in C&I sector

- Transpacific Cleanaway (TPI)
  - Participated in recent Metro kerbside collection tender processes
  - Own and operate Wingfield Waste Transfer Station and Inkerman Landfill
  - Provide services in C&I sector

- Solo Resource Recovery
  - Focus on kerbside MSW services with some involvement in C&I
  - Operate large metropolitan waste transfer station: Adelaide Waste and Recycling Centre

- Integrated Waste Services (IWS)
  - Own and operate large metropolitan waste transfer station (balefill) at Wingfield
  - Own and operate Dublin Landfill
  - C&I resource recovery facility at Wingfield WTS
  - Recently established organics composting capability at Dublin site

- Southern Region Waste Resource Authority (SRWRA)
  - Regional subsidiary of three Metropolitan Councils.
  - Own and operating Pedlar Creek Landfill

- Adelaide Hills Regional Waste Management Authority (AHRWMA)
  - Regional subsidiary of one Metro (Adelaide Hills) Council and three southern regional Councils
  - Focus on providing transfer station and waste disposal facilities for member Councils
  - Receives MSW waste from surrounding regional non-member Councils

- Southern Waste ResourceCo (SWR)
  - Southern region landfill with a focus more towards resource recovery and site remediation options, and disposal of non-recyclable wastes
  - Recent entry into MSW market

- SKM Recycling
  - Recent entry into recyclables processing market in South Australia
  - Pricing structure has significantly reduced cost to Councils compared with more recent SA market
  - Recyclables consolidated and transported in bulk to Victoria for processing
  - Business model believed to be based on recyclables as back loads for glass supply contract (from recycling) into SA.

- Visy Recycling
  - Held monopoly for MSW recyclables processing until entry of SKM into market
  - Broad focus beyond MSW including C&I materials

- Peats Soil & Garden Supplies
  - South Australian company with processing facilities at Willunga, Dublin and Brinkley
  - Receive kerbside organics from MSW, and food organics from business and commercial sources

- Jeffries
  - South Australian company with processing facilities at Buckland Park and receival at Wingfield
  - Receive kerbside organics from MSW, and food organics from business and commercial sources

3.4 Adelaide Metropolitan Operators

The following businesses are not currently participating in the Adelaide Metropolitan area MSW market, but nevertheless have an Adelaide presence and are providing waste management services in the Metropolitan area.

- Remondis
  - Participated in Council municipal tenders in recent years
  - No current municipal collection contracts in Adelaide
  - Provide a C&I service to Adelaide clients from Wingfield Depot
- Veolia
  - Part ownership of IWS Wingfield transfer station and Dublin Landfill
  - Involved in recycling of C&I materials
  - No current metropolitan MSW contracts and not tendered in recent years
  - Focus on disposal, resource recovery and commercial waste solutions
- JJ Richards
  - Participated in a recent municipal tender process
  - No current Council contracts in Adelaide
  - Recently established presence in South Australia