

Altering the Structure of Household Waste Collection Markets

A Discussion Document - June 2011

Introduction

Irish waste policy development is driven by the objectives of achieving improved economic and environmental outcomes. These objectives require that society considers alternative methods of delivering services, especially a service such as waste management which has important consequences for our collective wellbeing.

In 2009, householders produced in excess of 1.6 million tonnes of waste. It is estimated that 128,000 tonnes of household waste was not collected. Of the household waste that was collected, approximately 70% was sent to landfill, the lowest tier of the waste hierarchy. In the context of Ireland's obligations under the Landfill and Waste Framework Directives, such a situation is unsustainable. The amount of household waste which we produce must be reduced. How we deal with our waste must change.

The cost of household waste collection services is also of concern. A number of informed commentators have remarked on perceptions of high prices for household waste collection services, which may be accounted for, in part at least, by the current structure of household waste collection markets. If costs, and therefore, prices are unnecessarily high then we must seek to reduce those costs, if necessary by restructuring markets.

The Programme for Government states that the Government will introduce competitive tendering for local household waste collection services. It is envisaged that service providers will bid to provide waste collection services in a given area, for a given period of time and to a guaranteed level of service, including a public service obligation in respect of a waiver scheme for low income households. Such a system of organisation is known as 'franchise bidding'.

The Department wishes to consult with householders, businesses, participants in and observers of the household waste collection industry to help inform the shaping of policy in this area. This document is intended to provide some details of how such a reorganisation of household waste collection might work and to present some questions to which it is hoped consultees will respond.

The Department also wishes to ensure that the development of policy in this area is a transparent process which is conducted with the involvement of citizens and other interests.

The Government's General Approach to Waste Policy

The restructuring of household waste collection markets should be considered in the wider context of national waste policy. The national policy framework, to be in place by end-2011 following the completion of a review, will have a number of features:

- It will be designed to minimise the amount of waste generated and to extract the maximum value from the waste which is produced;
- It will be aimed at delivering positive environmental outcomes and maximising the collective wellbeing;
- It will be calibrated both to immediate demands and long-term challenges;
- It will be founded on a firm, evidence-based understanding of the many scientific, economic and social issues;
- It will be consistent with the cornerstones of national and European policy, including the waste hierarchy, the principle that the polluter pays, sustainable materials management and the urgent imperative to reduce greenhouse gas emissions;
- It will be in keeping with the complementary roles which the private and public sectors can play;
- It will be designed to facilitate necessary investment in infrastructure; and

- It will be sufficiently flexible to respond to emerging developments in technology, operational practice and wider thinking in the waste management policy realm.

A number of aspects of national waste policy, listed above, have a strong bearing on household waste collection, and the possible introduction of franchise bidding.

In parallel with the development of policy on household waste collection, the Government is working to finalise the details of wider waste policy, which will be completed by the end of this year.

What does “competitive tendering for local household waste collection services” mean?

In discussing household waste collection markets, it may be useful to establish some fundamentals. Firstly, household waste collection is a transport service. Waste is collected from households and taken to transfer stations or directly to waste disposal or treatment facilities. Secondly, a householder in Cork City, for example, is not participating in the same household waste collection market as a householder in County Westmeath. A large number of geographic markets for household waste collection exist across the country.

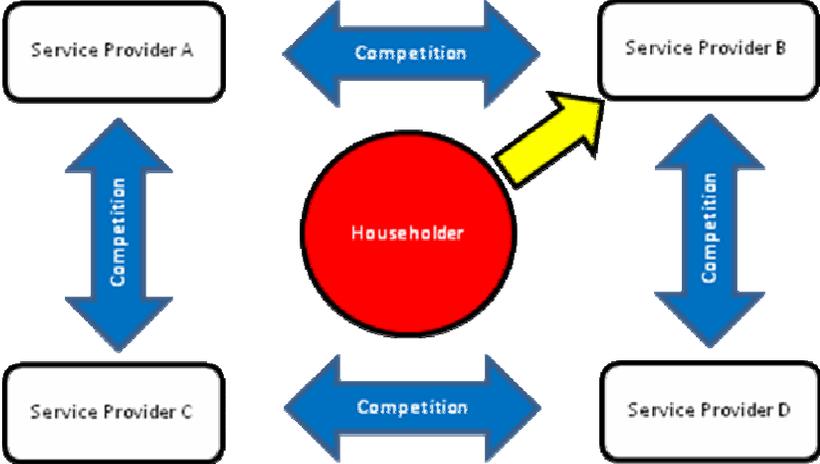
In the past, local authorities collected all household waste. However, in recent years the role of the private sector has increased very significantly. Private sector firms, which are regulated by local authorities, have gained a considerable share in many household waste collection markets. The situation is not uniform; in some areas, local authorities no longer provide a service; in others, the only service is provided by the local authority. In yet other areas, no service is offered by the public or private sector. However, in all areas local authorities are responsible for the issuing and oversight of waste collection permits, which are required if a private sector firm is to collect waste.

“Normal Competition”

Potentially at least, a market for household waste collection is not unlike that for groceries or DVDs, in that a number of service providers compete alongside one another for business from householders. In such a situation competition should be a continuous dynamic process, as service providers vie for business. New service providers may enter the market and existing service providers may exit. The most innovative and efficient service provider will have an advantage, as that service provider will be able to set a profitable price lower than its competitors, or offer innovative services which appeal to householders. The householder may select from among the service providers, based on his or her preferences, perhaps a combination of price and quality of service.

In Diagram 1 below, the householder has four choices, from among the competing service providers.

Diagram One: “Normal Competition”



In this instance, the householder chooses Service Provider B.

Diagram One, however, represents something of an ideal, and is not an accurate description of many household waste collection markets. In many areas competition is not as vibrant as is preferred, due partially, perhaps, to the economic characteristics of household waste collection as a service. Many householders do not have a choice of service provider as the service provider is a monopolist; in other areas no service provider, public or private sector, offers a service to households. In yet other areas, particularly in some of the larger urban centres, there can be a multiplicity of service providers all working the same collection routes, which has both cost and environmental downsides.

Franchise Bidding

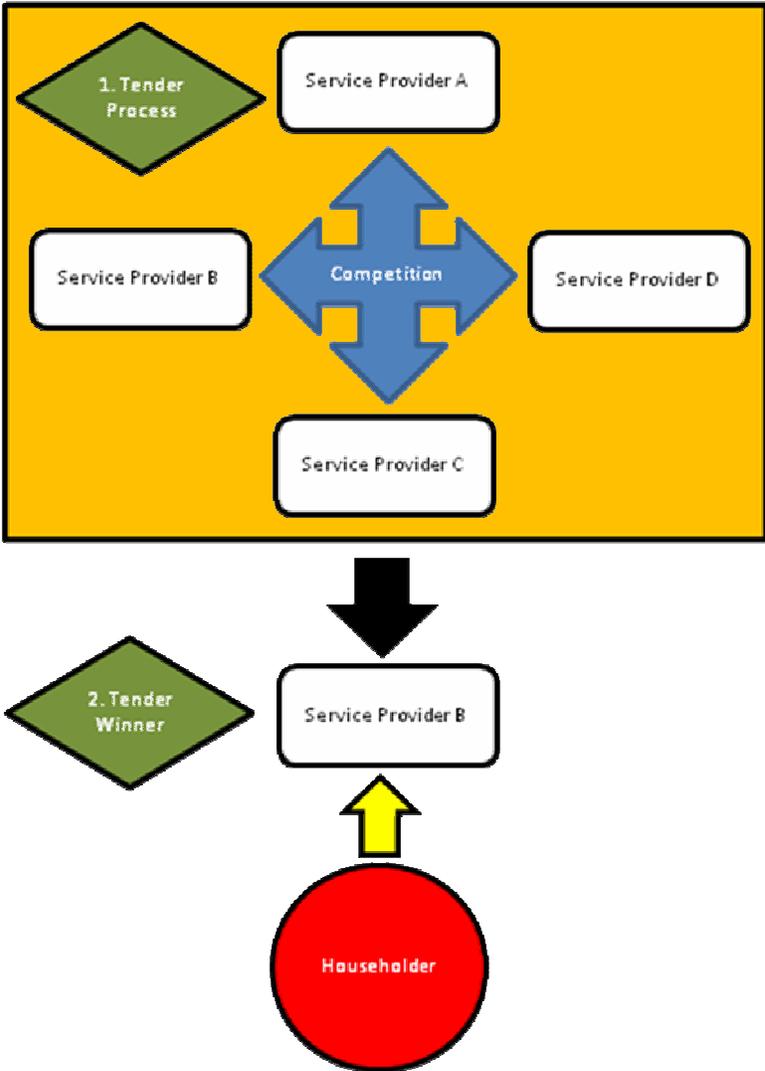
Introducing franchise bidding for household waste collection services is a way of restructuring the market. In a franchise bidding system, an arm of the State, such as a regulatory agency or a local authority, would oversee a tender process for the exclusive right to offer a waste collection service in a given area, for a given period of time. The tender process would specify a range of elements, including the required levels of service, such as frequency of collection, and measures intended to help ensure that preferred environmental outcomes are achieved, such as requiring the collection of categories of segregated waste. Service providers would compete to win the bidding process. As such, competition would occur during the tender process as opposed to continuously as happens in markets for, say, groceries or DVDs.

The winning bidder would enter into a contract with the regulatory authority, which would include monitoring and inspection provisions to ensure compliance with the terms of the contract. The winning bidder would be guaranteed to be the sole service provider for the duration of the contract, thereby providing a degree of certainty. Prior to the expiry of the contract, a new tender process would begin to choose the service provider for the subsequent contract period.

In many European countries and parts of North America and Oceania, franchise bidding for household waste collection services is the norm.

One reason for structuring household waste collection markets in such a way is because of what is known as the economy of density of household waste collection. In short, the additional cost to a service provider of collecting from a household on a given street, when that company is already collecting waste from other households on that street, is very low. From society's perspective, due to the existence of economies of density, it is wasteful for more than one service provider to provide a service in that area.

Diagram Two: Franchise Bidding



In this instance, Service Provider B wins the contract to deliver the service in a geographic area. All householders in that area are offered a household waste collection service from Service Provider B for the contract's duration.

Some Additional Points to Consider

In considering the consultation questions set out below, you may wish to bear a number of points in mind. Firstly, the management of household waste collection is an important element of our overall approach to waste management. Household waste forms a significant proportion of all waste. Also, waste collection is the most expensive element of waste management. As such, waste collection markets which are inefficient are more costly to society, and therefore have a major impact on the overall cost of managing waste. Ireland must meet a range of obligations in relation to its performance of waste management and collection systems are an important element of meeting these obligations.

Secondly, the impact on other stages of the waste management process should be borne in mind, as the structure of household waste collection markets could have implications for other areas of economic activity. Following collection, waste is sorted, treated and/or disposed of. As we manage our waste better, this process in many instances will be quite complex.

Lastly, not all households are the same. In considering household waste collection the range of household types and their specific needs must be considered; rural and urban; low, medium and high income; social housing, owner-occupied housing etc.

Consultation Questions

It is hoped that the questions below may be of assistance in framing your response to this document.

Objectives and Alternate Measures

A policy should be designed, from first principles, to meet an objective or objectives. Given those objectives, a number of potential policy options may be available, and it is a role of Government to determine the preferred option.

- Q.1 What should be the objectives of the Government's approach to policy on household waste collection?
- Q.2 Should the Government be considering alternatives to franchise bidding and, if so, which alternatives are appropriate and why?
- Q.3 Should legislation enable local authorities to choose from a range of options in relation to regulation of the structure of its waste collection market, including franchise bidding and other viable options; or should the focus be on implementing a single preferred structure on a national basis?

The Role of Local Authorities

Local authorities both regulate waste collection, through the issuing of collection permits and associated activities, and in some cases, provide collection services. The restructuring of household waste collection markets could provide an opportunity to re-examine the role of local government in this area.

- Q.4 Should all local authorities be required to ensure that a household waste collection service is available for all households in their respective areas?
- Q.5 How can the dual local authority role of local regulator of collection services and service provider best be balanced?

The Household Waste Collection Industry

The household waste collection industry is composed of a number of service providers, public and private, large and small. Cognisance should be taken of the diversity of service provider and of the characteristics of the wider waste industry, including the extent to which some waste collection service providers also provide waste recovery and/or disposal services.

Q.6 Are there any characteristics of the household waste collection industry in Ireland, or the Irish waste disposal and treatment industry, which may inhibit the benefit of reorganised household waste collection market structures?

Q.7 How best can the interests of household waste collection service providers be preserved, while also protecting the interests of households, businesses and delivering the required environmental performance?

Supporting Implementation

The implementation of policy decisions requires care to help ensure that objectives are met. Consideration of the impact on existing service providers and regulatory agencies is necessary.

Q.8 Were the Government to decide to introduce a system of franchise bidding, how best could the introduction of that system be supported; in particular, which supports, if any, should be provided to local authorities and which supports, if any, should be provided to private sector service providers, such as information and technical support?

Householder Responsibilities

Preventing and minimising waste is a task for all of society. In other jurisdictions, householders are required to demonstrate compliance with the law in relation to household waste.

Q.9 Should householders be required to either avail of a collection service or to demonstrate compliance with their household waste obligations if they do not have their waste collected by a properly authorised service provider?

Low Income Households

Currently, a number of local authorities operate household waste collection charge waiver schemes for low income households. The terms of waiver schemes vary considerably from local authority to local authority.

Q.10 What approach should be taken to meeting the needs of low income households?

Q.11 How should such supports be funded, and in that context how should the prevention of waste be incentivised?

Competition and the Tender Process

An objective of restructuring household waste collection markets would be to enhance competition. The tender process and resulting contracts should be designed to maximise competition, while also achieving the desired beneficial environmental outcomes. It would be damaging to competition if viable small and medium sized household waste collection forms were prevented from bidding due to contract requirements. To ensure competition is vibrant, a large number of bidders for each tender is desirable.

Q.12 Which agency or authority should perform the detailed design and management of the tender process?

Q.13 How best can the tender process be designed and managed in order to ensure the participation of as many competing service providers as possible?

- Q.14 How best can the tender process be designed and managed in order to ensure vibrant competition among service providers?
- Q.15 What size, or range, in terms of numbers of households, should tender areas be, and should there be differences between rural and urban areas?
- Q.16 Should the tender process specify a minimum level of service which all bidding service providers must meet?
- Q.17 Should the tender process permit service providers to compete in relation to service provision, that is, for bidding service providers to offer levels of service superior to tender requirements?
- Q.18 How long should contracts last for?
- Q.19 What measures should be taken to ensure that, following the selection of a winning bid, service interruption does not occur?
- Q.20 What measures, if any, should be taken to help ensure that a winning bidder does not have a significant advantage over competing bidders in the subsequent tender process?

Paying for the Service

A number of potential options for payment are possible. Currently, many householders receiving a household waste collection service pay a standing charge and then a supplementary charge for each additional bag of waste, or by weight. Such a fee structure is well aligned with the polluter pays principle. In other countries, householders pay for a waste collection service as part of an aggregated annual charge made by the local authority. The fee structure will have to be considered given our obligations in relation to the promotion of waste prevention, in addition to other relevant issues, such

as the polluter pays principle and ensuring that future fee structures are not unduly complex to operate.

Q. 21 What form of fee structure would best meet our economic and environmental objectives?

Waste Disposal and Treatment

Waste collection services are part of a chain of economic activity. Changes to the structure of the household waste collection market may have an impact on current and future waste treatment and disposal facilities, on markets for the services provided by those facilities, and possibly on downstream markets for the outputs of certain treatment methods and facilities, such as solid recoverable fuel or compost.

Q.22 What may be the impact of introducing franchise bidding on waste disposal, treatment and associated markets?

Q.23 The waste generated by the community can be a resource. Should the community's waste be owned by the community, i.e. should all waste collected by or on behalf of a local authority be deemed to be the property of the local authority?

Q.24 If all waste collected by, or on behalf of, the local authority, is deemed to be owned by the local authority, should the income realised from the sale of waste, or a proportion of that income, be dedicated to waste management projects, such as meeting the costs of civic amenity sites?

Providing Your Views

Please provide responses to this consultation document using the following channels:

By email to: eoyn_corrigan@environ.ie

By post to: Eoin Corrigan

Environment Division
Department of the Environment, Community and Local Government
Custom House
Dublin 1

Should you have any queries about the consultation process, please feel free to enquire using these contact details.

The consultation period will close on 2 September 2011.

Next Steps

The consultation process which this document is intended to help initiate will inform a Regulatory Impact Assessment, which will be necessary if significant regulatory change is proposed. Following completion of the assessment, proposals will be submitted by the Minister for the Environment, Community and Local Government to Government. It is intended that this process will be completed later this year.