

# **TAMWORTH AND LICHFIELD JOINT WASTE COMMITTEE**

**5th August 2020**

## **Report of the General Manager**

### **The Future Provision of the Dry Recycling Service**

#### **Purpose**

To endorse the approach being undertaken to determine the future provision of the Dry Recycling Service.

#### **Executive Summary**

Six Waste Collection Authorities (WCAs) – including Lichfield and Tamworth have a contract for the processing of Dry Mixed Recycling (DRM) with Biffa Waste Services Ltd; this contract will expire in March 2022.

A soft market test has confirmed that the market for the processing of DMR has shifted dramatically, primarily because of material quality issues, such that the current commingled collection may no longer be affordable and that a shift to dual stream collection with separate fibre collection may be required. Biffa has already indicated that they would not bid for any future contract if a WCA continues to collect commingled materials.

A range of other factors, in particular the volatility of commodity markets and the pending National Resource and Waste Strategy, make this a particularly challenging time to be re-procuring a DMR processing contract.

The proposal is to embark on a formal procurement process in the autumn and invite suppliers to bid for both commingled and dual stream options. The tender results will be considered together with the emerging National Waste Policy and ongoing discussions with Staffordshire County Council in their capacity as the Waste Disposal Authority (WDA).

The outcome of the procurement process can then be judged against the option of returning responsibility for DMR processing to the County Council. Another option could be to enter into a short-term contract to bridge the gap between current the contract and the settling of DEFRA policy.

## **Background**

### Legal Responsibility for Disposal

Where an area is governed by two tiers of local government which is the case in Staffordshire the District Councils are responsible for the collection of Controlled Waste and the County Council is responsible for its disposal. However a WCA can make its own arrangements for the disposal of any recycling that it collects provided the WDA is notified in writing of the arrangements which it proposes to make. Both Tamworth and Lichfield have adopted this responsibility ever since recycling services were introduced in their districts nearly twenty years ago. In return the WDA is required to pay a WCA a payment which reflects the savings that it makes on disposal. This payment which is known as a Recycling Credit is worth £56.49 per tonne in 2020/21.

### Dry Mixed Recycling

Residents of both Tamworth and Lichfield are currently able to put dry mixed recycling (DMR) – paper, cardboard, plastic, glass and metal – in a single blue bin which is collected from the kerbside every fortnight. The service is simple for residents to use because they don't have to sort out the materials into the different waste streams and also the single bin is a convenient container to store the waste between collections.

Whilst this collection methodology which is known as commingling is a very efficient way to provide the service, it struggles to deliver the quality of materials now demanded by the global recycling industry, especially following China's decision to ban certain waste imports in 2018. In particular the use of a single bin makes it difficult to check that residents are using the scheme correctly.

### Existing disposal contract

Six WCAs in Staffordshire: Lichfield, Tamworth, Cannock Chase, Newcastle-under-Lyme, East Staffs and South Staffs - currently hold broadly similar but separate contracts with Biffa Waste Services Ltd for the processing of DMR; all contracts are due to end 31st March 2022. The Councils pay a fixed gate fee of £37.54 per tonne and receive a financial rebate in accordance with a mechanism based on material composition and market value. Therefore the level of income which is currently in the region of £12 per tonne is variable and can change significantly especially if market conditions are volatile. The gate fee, although fixed, has increased year on year in accordance with the Consumer Prices Index (CPI).

The cost of the contract to the Councils has increased significantly since it was let following the settlement of a dispute with Biffa in April 2018, triggered by the change in Chinese import policy, and because of a decrease in material market values since 2015. Additionally, more stringent testing has been introduced to improve quality, resulting in an increase in rejected loads, despite WCAs undertaking extensive measures to try and minimise contamination (bin stickers, tagging and rejection of contaminated bins at kerbside, social media awareness campaigns, etc.). Each time a load is rejected the cost to a WCA is approximately £1,200 based on a typical weight of 10 tonnes.

The current contract can be extended by a further three years by mutual consent between Biffa Waste Services Ltd and individual WCAs and whilst the company has indicated that they would be willing to extend, the basis of their proposal and subsequent cost increase is unlikely to be permitted under procurement legislation and therefore poses legal risk.

### Wider Industry Changes

Decisions on DMR are further complicated by a range of wider industry changes:

- National Resource and Waste Strategy; the proposed introduction of extended producer responsibility (EPR) for packaging materials and deposit return schemes (DRS) in 2023/24 will have a range of impacts. EPR will hopefully provide additional funds to local authorities to cover the cost of collecting and disposing of DMR. However the DRS scheme will remove high value materials from kerbside collections affecting any income rebate.
- Economic concerns (Brexit and CV19) could affect the prices and market availability for commodities both nationally and globally.
- Requirement to meet minimum service standards (as part of the Government's 'consistency' agenda), including the suggestion that DEFRA may require glass to be collected separately. Consultation has been delayed by CV19.
- Ongoing commodity market volatility.
- Enhanced quality parameters with greater risk of rejected material. Quality issues range from contamination to moisture concerns for fibre materials.

Such volatility has particular impact on the functioning of the market:

- **Contract duration.** Shorter contracts are likely to have a significant premium for supplier risk. Whereas longer-term contracts can spread risk over the contract term.
- **Lack of market appetite;** a lack of competition which will negatively affect prices. During the last procurement in 2013/14, most WCAs only received one bid and at the start of 2020, Derby City Council halted their procurement of a new processing contract after receiving no bids for commingled material.

### Soft Market Testing

In order to appraise the options available and help secure the best deal for the future the WCAs, in Spring 2020, conducted soft market testing to gauge current market conditions, costings and requirements. Eight waste management companies and a Council entering into the industry (Coventry City Council) were approached with an information pack and a questionnaire. Of the eight, five companies and the City Council responded with information. A summary of the responses is as follows:

- The indicative gate fee for those that would accept commingled material was £75 to £95 was quoted, a significant increase on current gate fees (£37.54 per tonne). The WRAP Gate Fee Survey (2018/19, the latest report available), shows the average gate fee as £25 (range from -£41 to £97), illustrating the

magnitude of the increase now observed across the industry and also the speed of this change.

- The re-processors' preference is for a dual stream collection system, with fibre separate, which would require those WCAs providing commingled collections to implement a new collection system at considerable additional cost.
- Where fibre is collected in a separate container at the kerbside the cost of reprocessing would be correspondingly lower than for fully commingled recycle.
- Preferred contract term length varies considerably between companies, from 1 year to 10 years.
- All companies require the financial risk concerning the sale of reprocessed material to be shared, with the general view that WCAs should take the majority of the risk (minimum of 75%). Currently Tamworth and Lichfield have a risk share of 50%.
- Whilst some companies are willing to consider providing rebates from the sale of materials others prefer a fixed gate fee with no rebate.
- No company is willing to offer a minimum floor on the price of materials individually or on the basket of goods as a total, presenting an additional risk should negative material values become more prevalent.
- Most companies do not have local tipping points (either direct deliver or a waste transfer station WTS) and would prefer that WCAs source and manage their own local WTS.

### Twin Stream Collection

The soft market test has identified that continuing with commingled collection is cost prohibitive. The Joint Waste Service (JWS) could be looking at a cost pressure of at least £800k per annum.

The WCAs do have the option to change the collection methodology to a dual stream system, most likely collecting fibre separately. There is greater demand for these materials as they should be of a higher quality and as a consequence the gate fees will be similar or even lower than those currently paid under the existing contract for commingled material.

A further benefit of dual stream is that Biffa have indicated that they would bid for dual stream materials. Of the other respondents to the market test, only Biffa could offer a local tipping site. As the JWS has no access to a WTS, this is a significant benefit.

For dual stream, residents will need to be provided with an additional container. The cost to buy and deliver bins for the JWS's 79,000 properties is £1.8 million. Bags are a lot cheaper but need to be regularly replaced. The initial investment would be approximately £400k but the annual cost of providing replacements is estimated at £70k. Given that DEFRA may yet prescribe that glass has to be collected separately, bags may present a lower risk option.

In addition there will be an increase in operational costs because collection productivity will fall as two containers have to be collected from each property. Further work needs to be undertaken to estimate this impact.

#### Return Disposal Responsibility to Staffordshire County Council

An option that would enable WCAs to retain commingled collections and mitigate some of the cost implications of maintaining the status quo is to transfer responsibility for the disposal of the DMR back to Staffordshire County Council as the WDA. Under such arrangements the County Council would pay the gate fee and retain any income from the sale of materials but the WCAs would lose the Recycling Credit that it receives. There is no clarity at this stage whether responsibility for material quality and contamination would sit with the WCAs or the County Council.

This option would reduce the cost pressure for the Joint Waste Service to approximately £600k per annum. However a further risk is that the County Council can require the JWS to tip anywhere up to 5 miles (as the crow flies) from the districts' border without paying a tipping away fee. This could see all DMR having to be transported to an existing transfer station located in the centre of Burton with the JWS picking up the majority of the extra cost associated with the journey.

#### Next Steps

The findings of the soft market testing have been shared with the County Council and the WCAs are awaiting their feedback. Once received the WCAs are keen to discuss options with the County which will ensure an equitable approach to the challenges that both tiers of local government face in the provision of a dry recycling service. The WCAs are reluctant to transfer disposal responsibility back to the County Council as it would constitute cost shunting. On the other hand the WCAs do not want to face all of the challenges associated with changing the recycling service on their own particularly in an uncertain climate.

The County Council has also recently initiated their own soft market testing exercise just in case the WCAs collectively or individually decide to hand back responsibility for the disposal of dry recycle. In particular they want to explore whether there is market interest in providing a Materials Recycling Facility in Staffordshire rather than the material having to be processed outside the County. The WCA's have been invited to participate in the exercise.

Soft market testing is very useful in gauging suppliers capabilities and identifying alternative solutions but it doesn't provide enough information to assist the WCAs make a final decision on the future of their recycling services. Therefore the WCAs are proposing to start work on a replacement contract. Although the recycling industry would not welcome having to tender against a multitude of options there is scope within the procurement process for suppliers to bid for both commingled and dual stream collections, different contract lengths and variable risk profiles in respect of income from materials. The intention is to go market later in the autumn. The results can then be considered together with the outcome of the discussions with the County Council

and in particular the emerging National Waste Policy. A decision will need to be made no later than February 2021.

### Short term contract

A compromise option could be to approach Biffa to see if they were willing to change their stance on continuing to accept commingled material at Aldridge for a further two years to 2024. A short term contract would bridge the gap between the current contract ending in 2022 and the introduction of key market changes arising from the implementation of DRS and EPR in 2023/24, after which more certainty would hopefully be available at least on these concerns. There would still be a significant cost pressure during this period and it would make it more difficult to procure the next fleet contract which is due for replacement in 2022 because vehicles may have to be swapped if the methodology for delivering the recycling service ends up being changed.

### **Finance**

There are no direct financial implications to consider as a consequence of this report.

A detailed financial appraisal will be produced in order to facilitate the decision on the future direction of the recycling service once the outcome of the proposed procurement exercise and discussions with the County Council have been concluded.

### **Risk Implications**

<b>Risk</b>	<b>Mitigation</b>
Delays in the procurement process	<ul style="list-style-type: none"><li>• Prepare a project plan</li><li>• Set up a project team in partnership with the other WCAs</li><li>• Engage procurement support</li><li>• Regular progress monitoring</li></ul>
Further uncertainty caused by delays to National Waste Policy, the impact of Covid and Brexit.	<ul style="list-style-type: none"><li>• Keep abreast of developments</li><li>• Assess the implications of any changes to policy and markets</li></ul>
Unproductive discussions with the County Council	<ul style="list-style-type: none"><li>• Engagement/briefing of members at WCAs and County Council</li></ul>

### **Recommendation**

#### **That Committee:**

- 1. Endorse the approach being undertaken to determine the future provision of the Dry Recycling Service.**