
Council Report

Cabinet/Commissioner Decision Making Meeting 11th April 2016
Cabinet Member: Councillor Sims
Commissioner Ney (for decision)

Title

Beatson Clark Recycling Contract – Contract Price Review

Is this a Key Decision and has it been included on the Forward Plan?

Yes

Strategic Director Approving Submission of the Report

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Ward(s) Affected

All

Executive Summary

As the report contains information commercially sensitive to Beatson Clark Plc, some information has been deemed exempt from publication and extracted from the public sections of this report and can be found in the “closed” Section 15.

From July 5th 2014 a three year contract (with annual review) was awarded to Beatson Clark PLC to process kerbside collected household waste for recycling from the blue box - glass, cans and textiles.

For the third annual review of the contract, Beatson Clark has requested a reduction in the current contract price they pay to the Council. The company cite the reason they wish to reduce the price paid per tonne is due to a major reduction in the market price of recycled materials. They have also confirmed officially and in writing on 21st December 2015 that if a reduced price cannot be agreed they will have no other option than to terminate the agreement to treat glass, cans and textiles at the end of the current contract term on the 4th July 2016. Through negotiation between officers of the Council and Beatson Clark, a final improved price per tonne has been offered.

Recommendations

It is recommended that:-

1. The Council accepts a revised contract price paid by Beatson Clark PLC for the processing of Glass, Cans and Textiles collected at the kerbside;
2. That the revised contract price takes effect from 5th July 2016;
3. That the market price be reviewed on a quarterly basis;
4. That the Strategic Director of Regeneration and Environment be delegated authority to review and agree any future re-assessment of the price mechanism for this contract:- consultation with the Cabinet Member and Commissioner.

List of Appendices Included

Appendix 1 – Beatson Clark PLC’s letter of renewal and request for price review - Exempt

Appendix 2 – Beatson Clark PLC’s letter confirming the revised final offer - Exempt

Appendix 3 – Analysis of market prices for Blue Box materials over the last 18 months – Not Exempt

Background Papers

None

Consideration by any other Council Committee, Scrutiny or Advisory Panel

No

Council Approval Required

No

Exempt from the Press and Public

Partial Exemption – Part 2 and appendices 1 and 2 of the report contain information relating to the financial or business affairs of one of the Council’s partners and should be made exempt from public access.

Title

Beatson Clark PLC Recycling Contract – Contract Price Review.

1. Recommendations

It is recommended that:-

5. The Council accepts a revised contract price paid by Beatson Clark PLC for the processing of Glass, Cans and Textiles collected at the kerbside;
6. That the revised contract price takes effect from 5th July 2016;
7. That the market price be reviewed on a quarterly basis;
8. That the Strategic Director of Regeneration and Environment be delegated authority to review and agree any future re-assessment of the price mechanism for this contract:- consultation with the Cabinet Member and Commissioner.

2. Background

- 2.1 The Council has a statutory duty to provide a domestic waste collection service. Kerbside recycling supports this objective and contributes to the Councils current recycling performance as well as ensuring compliance with the national recycling policy and legislation. It also contributes towards the United Kingdom meeting the European Waste Directive target of achieving a recycling rate of 50% by 2020.
- 2.2 From 5th July 2014 a three year contract (with annual review) was awarded to Beatson Clark PLC to process glass, cans and textiles collected at the kerbside.
- 2.3 Although the contract was awarded for three years, it is reviewed annually; Therefore, the current “contract period” runs from 5th July 2015 to 4th July 2016. The following contract clauses are applicable for the 3rd year renewal.
 - *C4.1 The Contract Price shall be firm for the initial Contract Period. In the event of an extension being considered beyond the Contract Period the Council will review the charges with the Contractor in the six months prior to the expiry of the Contract.*
 - *C4.2 During this six month period, the Contractor may, following agreement with the Council and by giving the Council three months’ notice in writing to take effect at the end of the Contract Period increase or reduce the Contract Price.*

- 2.4 As the contract has now entered the six month period prior to the start of a 3rd contract year; meetings have been held between both parties. Beatson Clark has requested that the price they pay per tonne be reduced from the original tender price citing a major reduction in the market price of recycled materials. Through negotiation with Beatson Clark an improved, but final price per tonne has been offered.

3. Key Issues

- 3.1 The UK markets for recycled metals and glass has seen a significant reduction in price for materials over the last 18 months. This has affected Beatson Clark in two ways, the income they receive for selling sorted aluminium and tin has fallen, and the price to buy glass for their manufacturing process is now considerably lower than their original bid price. At times over the last 18 months the market has changed so significantly that they could even have charged to take recycled glass.
- 3.2 The Waste Resource Action Programme (WRAP) Gate Fee report 2015 shows Material Recycling Facility Contracts (beginning in 2014 or later and sorting four or more materials) have gate fees ranging from: paying £34 per tonne for material, to charging a fee of up to £35 to take materials, the report therefore returns a median gate fee of £0.00. The WRAP report was compiled from data supplied at the beginning of 2015 and since then the markets have continued to fall; therefore it can be surmised that gate fees will have worsened.
- 3.3 An informal conversation with our partner Shanks PLC has indicated that they would expect to be paid around £30 per tonne to process glass, cans and textiles. This is mainly due to the mixed glass content that is currently no longer an income generating recyclate. The charge may be reduced dependant on the quality/quantity of the metals and cleanliness of the load.
- 3.4 All market indices show income from recycled material had dramatically fallen over the last year and current gate fees are now as likely to be a cost rather than an income; appendix 3 provides a financial analysis of the recycled materials market over the last 18 months.
- 3.5 Beatson Clark PLC has reaffirmed their desire to continue in the partnership with the Council but state the current contract price they pay per tonne is financially unsustainable in the current glass and metals market.
- 3.6 The Council needs to ensure continuity of service and the continued delivery of a kerbside recycling collection to the residents of Rotherham. It also needs to maintain its current levels of recycling and maximise potential income from the materials collected.

- 3.7 The materials delivered to Beatson Clark are collected on the same vehicle as paper and card, albeit in separate compartments. The disposal points for the two waste streams are in close proximity to one another, in central Rotherham. If glass, cans and textiles had to be taken to a different disposal point, there would be an adverse effect on operational efficiency.
- 3.8 A similar situation has occurred with the Blue Bag Paper & Card Recycling contract where, due to a dramatic decline in the market price for recycled Paper and Card our contractor (Newport Paper) sought a reduction in price paid per tonne to ensure financial viability of the contract and prevent their withdrawal from it. This was reported to Advisory Cabinet Meeting at its meeting on the 18th January 2016, and a variation to the contractual price was agreed.

4. Options Considered and Recommended Proposal

- 4.1 **Option One** – Continue to work with Beatson Clark PLC, accepting a reduced price per tonne.
- 4.1.1 If accepted this option will see a reduction in income in the 3rd year of the contract.
- 4.1.2 Accepting this offer will give a guaranteed income to support financial planning for the 2016/17 budget.
- 4.1.3 Continuing to work with Beatson Clark supports the current waste operation in terms of processing facilities for glass, cans, textiles (Beatson Clark), paper and card (KCM Recycling) are in close proximity to each other in terms of offloading vehicles.
- 4.1.4 The Council will only be held to this reduced price for one year. A new tender will be required from the 4th July 2017 as there are no extension options in the current contract beyond this point.
- 4.2 **Option two** – Agree to terminate the contract at the end of the 2nd year and undertake a procurement exercise.
- 4.2.1 This option provides uncertainty as re-tendering in the current depressed market may not deliver a price per tonne that matches the revised offer from Beatson Clark. It is considered highly likely the Council would end up paying to recycle glass, cans and textiles.
- 4.2.2 Operationally, a new supplier's location may extend tipping times and impact on the ability of the crews to complete their rounds.

4.2.3 To re-tender for the start of the 3rd year of the contract (5th July 2016) will be challenging with procurement needing to commence immediately.

4.2.4 The options are to re-tender are:

- A one year term to keep the glass, cans and textiles contract compatible with the paper and cardboard contract. The short term of the contract may not be attractive to the market.
- Review the whole recycling service and contract all recycling streams to one processor for a 3 to 5 year contract. This will allow us to incorporate streams not currently collected such as plastics, commercial waste recycling and some Bring Sites materials. This option requires significant work prior to going to the market and would not deliver a revised contract in the remaining timeframe to meet our processing requirements.

4.3 Beatson Clark PLC has confirmed that they wish to continue their partnership with the Council and have proposed that the Council accepts a price reduction for the 3rd year of the contract.

4.4 It is considered that this proposal (option 1) is fair and reasonable in the current market. Working with our current partner will mitigate the risk to the Council. A review of the market rates in the short to medium term to ensure best value for the Council.

4.5 It is recommended that the proposal put forward by Beatson Clark PLC (option 1) be accepted in the current market climate.

4.6 The recommendation to continue with the Beatson Contract for a 3rd year is also deemed prudent as proposals for the future development of RMBC's Waste Services are being developed. Exercising the final year of the current contract, rather than going to market for a new 3 to 5 year deal, will give the Council the options to introduce changes our Waste Service sooner rather than later.

5. Consultation

5.1 Current analysis of the markets through leading industry publications: WRAP's Monthly Materials Pricing Report, WRAP's Gate Fee report 2015 and the www.letsrecycle.com waste industry website has shown a significant drop in prices in the recycled materials market in the last 18 months with no indication that the markets will improve any time soon.

5.2 The price of mixed glass from all sources currently shows that it is more likely processors will expect a gate fee to be paid for them to process glass and cans.

6. Timetable and Accountability for Implementing this Decision

- 6.1 The current contract period runs until 4th July 2016. For a 3rd year to be considered the Council has to review the contract with the Contractor within the six months prior to the renewal date.
- 6.2 In this review period the Contractor may, following agreement with the Council and by giving the Council 3 months' notice in writing to take effect at the end of the Contract Period increase or reduce the Contract Price. Beatson Clark PLC has submitted their revised proposal in writing.
- 6.3 If the Council determines not to accept the revised proposal from Beatson Clark PLC; a procurement exercise will need to be undertaken for a short term contract. It is considered that the current depressed state of recycling markets would not deliver a better solution.
- 6.5 Should the report's recommendations be delayed or rejected, renegotiation with Beatson Clark PLC may be required or may see their termination of the contract, leaving the Council little time to tender for glass, cans and textiles. This could also impact upon current kerbside recycling operations in terms of close proximity to outlets

7. Financial and Procurement Implications

- 7.1 The detailed financial implications are shown in the restricted section of the report. The renegotiated price creates an in-year pressure of c£72k for the service.
- 7.2 Beatson Clark's proposed price will see a reduction of income, creating a pressure on the Waste Management budget for the financial year 2016/17. It will be difficult for Waste Management to mitigate or sustain this reduction.
- 7.3 The forecasted loss of expected income has been discussed with officers in Financial and Corporate Services to highlight the pressure in advance of budget setting in 2016/17 and 2017/18.
- 7.4 During the next 12 months a report is to be submitted to the Senior Leadership Team providing proposals for the future service offer of all waste services. The report will include financial costings and overall budgetary savings will be sought.

8. Legal Implications

- 8.1 The Environmental Protection Act, Section 45 requires the Council to provide a domestic waste collection service. The kerbside recycling services support this objective and contribute to the Council's current recycling performance.
- 8.2 The EU Waste Framework Directive requires Member states to achieve a target of recycling 50% of their household waste by 2020.

- 8.3 The Waste (England and Wales) Regulations 2011 (as amended by the 2012 Regulations) require local authorities to collect the “four materials” of Glass, Metals, Paper and Plastics separately for recycling, however there is a test of economic practicality in terms of providing a viable separate collection (the TEEP assessment).

9. Human Resources Implications

- 9.1 None

10. Implications for Children and Young People and Vulnerable Adults

- 10.1 None

11. Equalities and Human Rights Implications

- 11.1 None

12. Implications for Partners and Other Directorates

- 12.1 Beatson Clark PLC, our Recycling partner is keen to maintain their relationship with the Council in terms of a local company using glass collected from the kerbside in Rotherham within their process.

- 12.2 The current contracts for the processing of recycled material support the local economy by using local companies within the Borough.

13. Risks and Mitigation

- 13.1 At the present time the market for aluminium, tin and mixed glass is still depressed and analyses of the last 18 month's trends show no improvement. It is anticipated the market trends will not increase significantly in the foreseeable future.

- 13.2 Discussions with Beatson Clark PLC have sought an agreed position that recognises the difficulties caused by the collapse of recyclate market prices while maintaining the contract and protecting, as far as possible, the interests of both parties. The proposal presented to the Council provides a guaranteed level of income over the remaining year of the contract.

- 13.3 It has to be recognised that Beatson Clark PLC have been a trusted partner of the Council and both parties are keen to continue this working relationship. Although Beatson Clark PLC has offered a reduced contract price per tonne, this is still a very competitive price within the current market.

- 13.4 It is considered that not accepting a reduced price will trigger a termination of the contract by Beatson Clark PLC and would force the Council to undergo a re-

tender exercise. Going to the market at the current time would see the Council achieve a price per tonne considerably lower than the current price offered and would in all likelihood see the Council lose all income from this material stream, and very likely see the Council having to pay for these waste streams to be processed.

14. Accountable Officer(s)

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For Director of Legal Services:

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