

ITEM NUMBER: 17.2

CONFIDENTIAL REPORT

COUNCIL WIDE RECYCLING CONTRACT

Pursuant to Section 83(5) of the Local Government Act 1999 the Report attached to this agenda and the accompanying documentation is delivered to the Council Members upon the basis that the Council consider the Report and the documents in confidence under Part 3 of the Act, specifically on the basis that Council will receive, discuss or consider:

- b. Information the disclosure of which could reasonably be expected to confer a commercial advantage on a person with whom the council is conducting, or proposing to conduct, business, or to prejudice the commercial position of the council; and would, on balance, be contrary to the public interest.**

- d. Commercial information of a confidential nature (not being a trade secret) the disclosure of which could reasonably be expected to prejudice the commercial position of the person who supplied the information, or to confer a commercial advantage on a third party; and would, on balance, be contrary to the public interest.**

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Recommendation – Exclusion of the Public – Section 90(3)(b & d) Order

1. That pursuant to Section 90(2) of the *Local Government Act 1999* Council hereby orders that the public be excluded from attendance at this meeting with the exception of the Chief Executive Officer and Staff in attendance at the meeting in order to consider Report No: 93/19 Council Wide Recycling Contract – Impact of China Sword Policy in confidence.

 2. That in accordance with Section 90(3) of the *Local Government Act 1999* Council is satisfied that it is necessary that the public be excluded to consider the information contained in Report No: 93/19 Council Wide Recycling Contract – Impact of China Sword Policy on the following grounds:
 - b. pursuant to section 90(3)(b) of the Act, the information to be received, discussed or considered in relation to this Agenda Item is information the disclosure of which could reasonably be expected to confer a commercial advantage on a person with whom the Council is

conducting business; or
would prejudice the commercial position of the Council.

 - d. pursuant to section 90(3)(d) of the Act, the information to be received, discussed or considered in relation to this Agenda Item is commercial information of a confidential nature (not being a trade secret) the disclosure of which could reasonably be expected

to prejudice the commercial position of the person who supplied the information, or
to confer a commercial advantage on a third party.

In addition, the disclosure of this information would, on balance, be contrary to the public interest. The public interest in public access to the meeting has been balanced against the public interest in the continued non-disclosure of the information. The benefit to the public at large resulting from withholding the information outweighs the benefit to it of disclosure of the information.

 3. The Council is satisfied, the principle that the meeting be conducted in a place open to the public, has been outweighed by the need to keep the information or discussion confidential.
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Item No: 17.2
Subject: COUNCIL WIDE RECYCLING CONTRACT
Date: 12 March 2019
Written By: General Manager City Assets & Services
General Manager: City Assets and Services, Mr H Lacy

SUMMARY

Council has a commercial contract with Solo Waste Management Services (Solo) to provide a fortnightly kerbside recycling collection and disposal service for mixed dry recyclables including paper, cardboard, PET bottles, mixed plastics, glass and cans.

Solo undertakes the kerbside collection and has a sub-contract with Visy Recycling to provide the sorting and recycling component of the service Materials Recovery Facility (MRF) at Wingfield. Sorted recyclables have previously been sold as feedstock for other downstream manufacturing or reprocessing.

Solo provide similar services to the Cities of Marion, West Torrens and Murray Bridge.

Downstream markets for sorted recyclables have existed locally, interstate and internationally depending on the product stream. Much of the sorted recyclable products were shipped internationally (predominantly to China) as feedstock for reprocessing or for manufacture. Some sorted products such as paper and cardboard were recycled interstate and a much smaller fraction (eg some recycled glass) were recycled within SA.

From around 2015, raw, part and fully reprocessed recyclables were traded like any other commodity and stable markets and trading patterns had developed. Councils were paid about \$10/t on average for their recycled materials by the MRF operator. The City of Holdfast Bay benefited from this commercial market.

On 1 January 2018, the Chinese Government implemented a policy known as China Sword. Under this policy, China sought to restrict the import of sorted recyclables to force Chinese manufacturers to use domestically sourced wastes/recyclables. Strict quality control restrictions were placed on imported recyclables, which Australian recycling plants (MRFs) could not meet. The immediate effect was the collapse of export opportunities for Australian recycled materials and an immediate oversupply of recycled product within Australia.

The impact of the China Sword policy implementation on the recycling industry and Australian Councils has been significant.

International commodity trading of recycles has all but stopped, domestic recycle markets are in significant oversupply and some MRF operators are simply stockpiling sorted recycles due to loss of downstream markets. The SA recycle market has also been hit significantly by the China Sword policy with operators such as the Victorian based SKM abandoning their contracts and ceasing operations in SA.

The commercial impact in SA has been to shift pricing for recycles from a saleable commodity generating about \$10/t as a revenue, the gate fee for processing and disposing of recycles has gone to \$60/t (plus GST) cost – ie an effective price turn-around of \$70/t (plus GST) from 1 June 2018.

This report examines the impact of China Sword on CHB recycling contract and examines alternative strategies to address the sudden change in market conditions.

RECOMMENDATION

1. That Council notes the report.
 2. That a further report be provided once the preferred strategy has been developed.
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COMMUNITY PLAN

Economy: Boosting our visitor economy

COUNCIL POLICY

Not Applicable.

STATUTORY PROVISIONS

Not Applicable.

BACKGROUND

Council has a commercial contract with Solo Waste Management Services (Solo) to provide a fortnightly kerbside collection and recycling service. The recycling service collects mixed dry recyclables including paper, cardboard, PET bottles, mixed plastics, glass and cans.

Council's contract is with Solo who provide the kerbside collection component of the service. Solo have then entered into a sub-contract with Visy Recycling to provide the recycling component of the service. This involves sorting the recyclables into product streams using a Materials Recovery Facility (MRF) and downstream disposal of the sorted products typically as direct feedstock for other manufacturing or further reprocessing.

Solo provide similar services under the same business model to the Cities of Marion, West Torrens and Murray Bridge.

Downstream markets for sorted recyclables operated locally, interstate and internationally depending on the product stream. Much of the sorted recyclable products were shipped internationally (predominantly to China) as feedstock for reprocessing or for manufacture. Some sorted products such as paper and cardboard were recycled interstate and a much smaller fraction (eg some recycled glass) were recycled within SA.

The international trade of raw, part and fully reprocessed recyclables evolved to a point where products were being traded like any other commodity and stable markets and trading patterns developed. Whilst a significant proportion of select recycles (eg paper/cardboard and glass) were being recycled within Australia, a significant tonnage of materials was being traded internationally – particularly into China.

The development of international trading in raw, partly and fully processed recycles generated a recycling economy. From around 2015, MRF operators shifted from charging councils to dispose of their recycles to paying council a proportion of the sale price of the sorted materials. Council's disposal costs shifted from about \$40/t disposal cost to \$10/t paid revenue for recycles sold. This shift in pricing resulted in a significant commercial benefit to councils and this was reflected in their operating results. The City of Holdfast Bay benefited from this commercial market.

REPORT

The Impact of China Sword

On 1 January 2018, the Chinese Government implemented a policy known as China Sword. Under this policy, China sought to restrict the import of sorted recycles to force Chinese manufacturers to use domestically sourced wastes/recycles. Strict quality control restrictions were placed on imported recycles, which Australian recycling plants (MRFs) could not meet. The immediate effect was the collapse of export opportunities for Australian recycled materials and an immediate oversupply of recycled product within Australia.

The impact of the China Sword policy implementation on the recycling industry and Australian Councils has been significant.

International commodity trading of recycles has all but stopped, domestic recycle markets are in significant oversupply and some MRF operators are simply stockpiling sorted recycles due to loss of downstream markets. The SA recycle market has also been hit significantly by the China Sword policy with operators such as the Victorian based SKM abandoning their contracts and ceasing operations in SA. The commercial impact in SA has been to shift pricing for recycles from a saleable commodity product to a net cost for disposal. Where SA Council were receiving approximately \$10/t as a revenue, the gate fee for processing and disposing of recycles has gone to \$60/t (plus GST) cost – a turn-around of \$70/t (plus GST) from 1 June 2018.

Impact on Council's Contract with Solo

Following the implementation of the China Sword policy, Council's recycling contractor Solo wrote to Council advising of the new gate fee for recycling processing and disposal of \$60/t (plus GST). Solo facilitated a meeting with Visy so that they could explain the rationale for the change in pricing and to discuss long term options for recycling in SA.

Visy's position was clear – their new pricing was fixed and not subject to negotiations. In effect, if a Council didn't want to pay this fee they could discuss this with Solo but Visy would not alter its pricing. If Council's pushed too hard, Visy would make a commercial decision and consider whether they would close their MRF and withdraw services from SA.

Staff from Marion, West Torrens, Holdfast Bay and Murray Bridge have met on several occasions since the Visy meeting and have been negotiating with Solo. The CEO's of Solo's client councils have also met with Solo executives to discuss the impacts of the China Sword policy including contractual liabilities of each party under the existing Council-wide roadside recycling contracts.

Council's contract with Solo (and by default with Visy under sub-contract arrangements in place between Solo and Visy) expires on 31 March 2021. The similar recycling contracts with Solo and Marion and Solo and West Torrens both end in April 2020, so there is more urgency to resolve issues before that date.

In commercial terms, Solo has sought to pass on the full impact of Visy's revised gate price increase to Councils applicable to all recycling collected on or after 1 June 2018.

For Holdfast Bay, this would result in a net increase in cost of \$255,500 pa (based on 3650 t/a recycles). Solo is reportedly passing on the same increased gate fee to each of their other client councils.

Commercial Options

Since receiving Solo's letter in late July 2018, staff from Marion, West Torrens, Holdfast Bay and Murray Bridge have questioned Solo and sought additional information to ascertain whether:

- Solo has previously passed on all revenue paid by Visy to Councils
- whether Visy's revised pricing (post China Sword) is fair and reasonable, and is being passed onto Councils without additional Solo overheads.

The information we have been supplied by Solo appears to confirm that the cost pass-throughs appear correct. It has not been possible to identify whether Visy's costs post China Sword support their revised gate fees.

Anecdotal information suggests that the increase in gate fees for eastern state councils have been in the order of \$120-200/t (plus GST). SA therefore seems to have experienced a proportionally lower increase which may partly be explained by the relatively high local reuse of glass and metals, and existing supply arrangements for paper and cardboard. It is also reported that NAWMA (a regional subsidiary owned by Salisbury, Playford and Gawler Councils which operates a MRF at

Edinburgh) is charging SA Councils around \$60/t for recycles processing and disposal, although NAWMA constituent councils appear to be paying around \$45/t (offset by the cost of their equity in the subsidiary).

Solo - Alternative Commercial Offers

Following their initial advice in July 2018 of the additional gate fee charges from Visy, Solo has made a number of alternative offers including:

- **Pay new gate fees from 1 September 2018** – Solo will absorb new gate fee between 1 June 2018 and 1 September 2018.
- **Extend Kerbside Waste and Recycling Contracts by 5 years** – this offer includes Solo absorbing the new recycling gate fees until 31 March 2021 (at which time Solo will go to market for new rates), new trucks, education van, and resetting the contract pricing for both kerbside waste and recycling from 1 April 2021.

Council signed its original contract with Solo in 2006, and has extended the contract on 3 occasions in 2010, 2014 and 2017 with the current end date 31 March 2021. Notably, the last time this contract was subjected to market testing was in 2006, which will be 15 years if the contract runs to conclusion in March 2021.

General discussion with West Torrens, who also received a similar offer from Solo indicates that they may be minded to consider a contract extension of 5 years (ie to April 2025) but only if benchmarking of Solo's proposed collection cost rates appear attractive.

From CHB's perspective, Council has not tendered this contract for 15 years and it would be difficult for Council to justify not market testing in that time if challenged by the Auditor General or Ombudsman.

Having said that, it may be beneficial to council to extend the contracts for another period of say 3 or 4 years so that the contract can be aligned with similar contracts operating at Marion and West Torrens Council. Equally if they did a shorter extension, then City of Holdfast Bay could align with that as well.

If council was to consider extending the current Solo contracts, then one key requirement would be benchmarking perhaps undertaken by an independent advisor.

Administration has sought further details from Solo on year by year cost estimates which will enable lift rates (\$/lift) to be identified which will aid benchmarking.

Development of New MRF

The City of Holdfast Bay is a constituent Council of the Southern Region Waste Resource Authority (SRWRA). SRWRA is investigating whether to invest in building a MRF to operate in similar manner to the NAWMA MRF. For this project to be viable, it would require the recyclables from Marion, West Torrens and Holdfast Bay to be committed for an initial period (perhaps up to 10 years) as the base feed stock to underpin the financial viability of the new MRF. If SRWRA were to commit

to the project, it would be some 3-4 years from concept design to full operations meaning the plant could be operational as early as April 2022, but more realistically by mid 2023. It may therefore be advantageous for Council to extend its kerbside waste and recycling contracts until at least that date.

Alternatively if West Torrens and/or Marion Councils extended their contract with Solo for 5 years (ie until April 2025), then it may be beneficial to align CHB contracts to the same end date as the extended Marion/West Torrens contracts (being April 2025) which would allow the retendering of a combined contract for the 3 councils at that time. This would also enable the three Councils to commit their recycling as feed stock to any new MRF from April 2025. This would allow SRWRA more time for development of a new MRF and for the facility to come on online around the same time.

Risks

The key risk for CHB is that Visy and/or Solo will choose to leave the recycling market. If this were to occur, CHB (along with other councils using the Solo/Visy service) would be either unable to collect their recycling and/or be unable to process the recycling for disposal to downstream markets. The trigger for this situation can be several fold.

One trigger could be commercial impacts, where Councils have refused to pay Solo any additional gate fees and their losses mount to a point where their contracts are no longer viable. The same could occur at Visy if Solo refused to pay the additional gate fees because Councils refuse to pay them. In this instance Visy could choose to shut down their MRF and leave the market.

This would be an immediate crisis as there is insufficient MRF capacity to process the combined tonnages of recycles collected by the three (3) main Solo/Visy Councils – being West Torrens, Marion and Holdfast Bay. It would be very likely that some of the collected recycles (up to 30%) would need to either be stockpiled or disposed via landfill.

An alternative risk is that the downstream recycles markets deteriorate further and that either disposal costs escalate and/or segments of the disposal market close and product cannot be disposed. This could affect mixed plastics, glass or paper/cardboard segments. There is little that can be done to mitigate this risk other than to seek out alternative markets to ascertain flexibility and capacity. In the interim, this segment of the recycles collections would need to be either stockpiled or disposed to landfill whilst downstream disposal markets were re-established.

Summary

Based on our current knowledge, the commercial offers put and our assessment of market risks, the following options are shown in the following table:

Table 1 – Recycling Options

Option	Cost	Risk	Proposal	Estimate Cost Impact
Accept Solo Alternative Offer	High – passes full gate fee variation to Council	Low – Solo & Visy receive full revised gate fee. Best option to retain market stability	Pay full Visy gate fees \$60/t (plus GST) from 1 September 2018	\$255,500 pa
Reject Solo request for revised recycling gate fee	Low – no direct cost; but risk of high indirect costs if recycles have to be disposed to landfill or another operator at higher cost	High – could cause Visy and/or Solo to exit the market.	Reject the proposed contract gate fee proposal of \$60/t (plus GST)	Nil – direct \$317,600 pa (if 30% went to landfill and 70% at \$60/t)
Accept alternative offer – extend contract	Medium – recycling gate fee frozen until March 2021. Then exposed to market pricing after that.	High – governance risk as contract has not been market tested for 15 years. High – recycling exposed to market rates from April 2021.	Waste collection & kerbside recycles collection/disposal contract extended from March 2021 for 5 years. Solo to absorb recycles gate fee until March 2021, then market rates after that for 5 years.	Saves \$529,250 in additional recycling costs up to Mar 2021. Unknown cost once recycles subject to market rates from April 2021
Part payment of new gate fees	Medium – negotiate a lower gate fee direct with Solo	Medium – potentially places Solo under financial stress by cutting profit	Negotiate a lower gate fee than the \$60/t proposed by Visy. Solo to subsidise from margin within existing contract.	At \$50/t +GST, cost to council would be \$182,500 pa (saving \$73,000pa)

Based on current information, it is still unclear what the best approach is, although the options which stabilise and support an orderly market do appear to offer greater certainty and lower political fall out than the low cost options.

It will be important to continue to liaise with other Solo based Councils and to align strategy with them and SRWRA proposals.

In the meantime Council has requested additional information from Solo and this may assist in assessing the "alternative market offer – extend contract" option.

BUDGET

Although this report does not make a final recommendation on the way forward, funding will need to be included in the 2018/19 budget to accommodate the additional gate fee charges should they need to be paid for the period 1 September 2018 to 30 June 2019 of approximately \$189,000. This will be taken into consideration as part of the March budget review.

Similarly funding has been included in the draft 2019/20 operating budget to pay the revised gate fee of \$60/t and to allow for the \$10/t loss of revenue – a net turnaround of \$70/t.

LIFE CYCLE COSTS

The full impact of each option will be examined once full details are available.

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