

# Environment, Development and Transport Committee

<b>Report title:</b>	<b>Residual Waste Contract Arrangements</b>
<b>Date of meeting:</b>	<b>9 November 2018</b>
<b>Responsible Chief Officer:</b>	<b>Tom McCabe – Executive Director, Community and Environmental Services</b>
<b>Strategic impact</b> Existing arrangements to treat residual waste end in 2020 and need to be extended or replaced to allow the County Council to fulfil its statutory responsibility for managing waste as a Waste Disposal Authority.	

## Executive summary

The County Council's current arrangements to treat waste run to 2020 and are provided by three contracts with different waste management companies and an inter authority arrangement with Suffolk County Council. The three contracts can be extended by a year to 2021 and the arrangement with Suffolk can continue by agreement.

As national policy on waste is currently being reviewed and there remains uncertainty about the process of the United Kingdom leaving the European Union it is advisable to extend existing arrangements by one year so that the County Council can take a more informed view on its longer term approach later in 2019.

To inform future decisions, soft market testing was carried out in May and June 2018 with waste management companies and the main insights from that process are summarized in this report. This process will be repeated in spring 2019 after the effects of national policy and the process of the United Kingdom leaving the European Union are clearer.

In line with policy two of the twenty waste policies approved by Full Council, data on waste sent to incineration in 2017/18 is reported and shows that only 1.55% of waste collected by Norfolk local authorities was sent to landfill.

### Recommendations:

Members are recommended to:

- 1. Extend existing contractual arrangements to treat waste by one year to 2021.**
- 2. Support continuing the inter authority agreement with Suffolk County Council by one additional year to 2021.**
- 3. Note that in 2017/18 199,281 tonnes was sent to incineration and 4,191 tonnes was sent to landfill.**

## 1. Proposal

- 1.1. Three contracts with FCC Environment, Seneca and Frimstone currently provide residual waste treatment capacity for about 165,000 tonnes of waste a year. This is processed locally into a fuel that can be exported for incineration at Combined Heat and Power facilities in mainland Europe. These contracts end in March 2020 and it is proposed that they are all extended for one year until March 2021 as allowed under the contracts.

- 1.2. An inter authority agreement with Suffolk County Council provides residual waste treatment for up to 50,000 tonnes a year by incineration at its Energy from Waste plant at Great Blakenham. This arrangement can continue by agreement and it is proposed that it continues on existing terms for one additional year to 2021.
- 1.3. Committee on 15 September 2017 agreed '*To explore within the Norfolk Waste Partnership the merits of different approaches to helping fund recycling and waste reduction initiatives.*'

The Partnership subsequently considered a number of different approaches and agreed to focus on three that did not put any party at risk of being worse off. Work to explore the alternative models is ongoing and it is proposed that any future approach should be informed by the Partnership's considered view of the options and also a view of the opportunities and implications created by any change in national policy, in particular as a consequence of the Government's Resources and Waste Strategy which is expected to be published this autumn.

## **2. Evidence**

### **2.1. Current Contracts**

- 2.1.1. The current contracts started in 2016 and delivered savings of around two million pounds a year compared to the previous contracts and also ended a reliance on landfill as the main disposal option for the first time. The contracts are all based on export of bales of Refuse Derived Fuel for incineration in Combined Heat and Power facilities in mainland Europe, with incineration in Energy From Waste plants and landfill in the United Kingdom as contingency.
- 2.1.2. The contracts were procured in 2015 before the referendum on the United Kingdom's membership of the European Union. Uncertainty and changes to exchange rates since the referendum has caused price increases in the export market for Refuse Derived Fuel, however these have not increased the County Council's costs which were fixed in advance and furthermore do not affect the price for an extension to the contract which would be subject to an RPI indexation and not affected by foreign exchange rates.
- 2.1.3. Insights from soft market testing and benchmarking against other local authority recent prices shows that currently costs per tonne could go up by as much as 10% for any procurement. Therefore extending the current arrangements for another year based on current prices amended by RPI is considered to be best value for the County Council.

### **2.2. Soft Market Testing**

- 2.2.1. Key insights from the soft market testing completed in May and June 2018 are summarized under the themes below. Ten companies responded to an advert in the trade press and each attended a two hour meeting with officers from Waste Services and Corporate Procurement.
- 2.2.2. Contract Length  
A shorter initial term of five to seven years with the ability for extension/s was preferred as it allows for flexibility in treatment processes used over time with negotiation. For example this could allow use of existing capacity for Refuse Derived Fuel or Energy from Waste in the short term whilst allowing time to develop infrastructure or for other processes to come on line.

A contract under five years in length may not attract many bidders or leave a reliance on a mix of existing arrangements, the only exceptions to this were companies

planning to use capacity in their own larger facilities outside Norfolk.

Longer contract terms of ten to fifteen years with negotiations around extension points could allow for developing treatment options or facilities. However, some see more than a five year initial term as being too risky in a changing market and would want a break clause if the contract were to be longer.

Contract length affects the potential level of investment from a bidder. For example a ten year contract would only attract small scale investment in infrastructure whilst large scale infrastructure investment would require a longer term contract.

Contractors that do not wish to build a facility are subject to changing markets in waste treatment, therefore for them flexibility on the length of contract is a key factor for best value. A number of companies wanted the maximum flexibility to make changes to how they provide the service throughout the contract however the County Council's ability to do this is limited as any such changes must be lawful and not be seen to distort the market.

A limited number of companies were interested in long term and large scale investment to develop a waste treatment facility in Norfolk. However, some companies felt deterred from making such an investment because of the County Council's policy that rules out the use of an incineration in Norfolk for waste the County Council is responsible for.

### 2.2.3. Contract Size

All participants said that tonnage certainty is key. Failure to offer a guaranteed minimum tonnage would significantly increase costs and could deter bidders.

However, offering the whole Norfolk tonnage, currently around 205,000 tonnes a year, was not really attractive to any contractors and would likely put off contractors from bidding. It is too big a tonnage for most contractors especially small to medium size companies. Rather than economies of scale for some dealing with higher tonnages can become more difficult and expensive and become more costly due to the need to underwrite a larger risk.

Many contractors prefer a tonnage they can specify and indicated this would enable them to provide better prices compared to being required to price for wide tonnage bands or lots. A combination of lots to cover a certain percentage of the total tonnage and then a framework contract for the remainder was a suggested hybrid that may allow benefits from short term price advantages from the spot markets. To allow for tonnage flexibility, guarantees could change from one year to the next based on tonnages the year before, or to allow for changing waste compositions or collection changes, provided that contractors get appropriate notice.

### 2.2.4. Technologies

Some participants would consider exporting Refuse Derived Fuel in the short term but are uncertain about the longer term stability of export, meaning that it may be offered as part of a package with other technologies for longer term contracts.

Many would look to utilise existing incineration capacity at Energy From Waste facilities in the United Kingdom which may be facilities owned by them or third parties.

Producing Solid Recovered Fuel could be part of a solution. This is typically a drier, more calorie rich fuel used in applications like cement kilns, but end markets are not expected to be strong enough for this to be a complete solution.

Many contractors wouldn't like to commit to one solution for a longer term contract so any contract may need to be flexible enough to allow changes in technology during the contract. Emerging technologies and the progress of demonstrator plants are being

considered by contractors but reliable and proven technologies are very important for shorter term contracts and landfill is still mentioned as a fall back in some cases.

There was recognition that the County Council policy on incineration is deterring investment for such a facility in Norfolk.

#### 2.2.5. Bulky Waste

Bulky waste describes items that are too large to be accepted by the regular collection, for example items such as furniture, mattresses, fridges and freezers. Bulky waste accounts for around 5% of the residual waste stream and can be difficult to deal with for some processes, with the potential to damage or block machinery. Nevertheless it is part of the waste stream and a service for it is still required. Different views were expressed on value for money options including it being dealt with by separate arrangements or the requirement that such material is shredded.

#### 2.2.6. Indexation

All participants agreed that the main variables affecting costs in the waste sector include labour and fuel, but opinion was divided on whether the Retail Price Index (RPI) was appropriate or not. The preferred alternative was applying a basket of indices which may provide better value as it removes more risk for bidders but in doing so creates more potential for price volatility for the County Council.

It is clear that seeking fixed prices over a longer term contract with the contractor taking inflation risk would be unrealistic as there is too much uncertainty in the market.

#### 2.2.7. Transfer Stations

Opinion was divided whether companies should be able to offer their own transfer stations as part of a packaged bid. Some thought it would be beneficial having control of their own Transfer Stations, operationally as well as financially to the County Council, whilst some were happy to have this excluded from the treatment and disposal contracts.

#### 2.2.8. General Points

- a) The use of a streamlined competitive dialogue process was preferred by all.
- b) Some contractors would like the chance to offer haulage rates.
- c) Any change of legislation that affects price, for example introduction of an incineration tax, would sit with the County Council.
- d) Whether there is access to any County Council owned sites and the role of Norse and its transfer stations would need to be clear as part of a procurement.
- e) It would need to be clear whether landfill solutions were acceptable and how important diversion from landfill was and the position of advanced thermal treatment (principally gasification and pyrolysis) in relation to the County Council policy on incineration would also need to be clear.

#### 2.2.9. Soft Market Testing Update

In spring 2019 soft market testing for future residual waste treatment options will be completed to help inform decisions about how to secure arrangements beyond existing contracts. This is timed so that it will be informed by the national Resources and Waste Strategy which is expected to be published in autumn 2018, any measures on waste that featured in the autumn 2018 budget and the outcome of the process relating to the United Kingdom's membership of the European Union.

### 2.3 Residual Waste Contracts Annual Review

Policy two of the twenty policies agreed by Full Council in December 2014 states:

*'Incineration of waste or fuel derived from waste is accepted outside Norfolk and any such arrangements should be reviewed by Committee on an annual basis.'*

This information was last presented to Committee on 17 March 2017 and to directly address the policy requirement the contracts are summarised below using actual tonnages for these arrangements for the financial year 2017/18.

<b>Service Provider</b>	<b>Total tonnage</b>	<b>Combined Heat and Power tonnage</b>	<b>Energy From Waste tonnage</b>	<b>Landfill tonnage</b>
<b>FCC</b>	<b>95,384</b>	91,651	3,357	376
<b>Frimstone</b>	<b>33,522</b>	29,038	669	3,815
<b>Seneca</b>	<b>25,392</b>	25,392	-	-
<b>Suffolk</b>	<b>49,174</b>	-	49,174	-

### **3. Financial Implications**

- 3.1. The current contracts started in 2016 and delivered savings of around two million pounds a year compared to the previous contracts.

The price for one year extensions to the three contracts is subject to RPI, meaning that 2020/21 prices may go up or down, the price in the inter authority agreement with Suffolk County Council is also subject to indexation. The future budget provision will need to make a suitable allowance for this in 2020/21.

- 3.2. Although the unit cost per tonne is a key consideration the main variable is tonnage increases or decreases which can have a major impact; for example a 1% change in tonnage is equivalent to around a £230,000 effect based on this year's budget.

Looking forwards an allowance has been made for predicted housing growth of 0.7% a year with an associated residual waste increase of around 1,500 tonnes each year. The future budget provision will need to make a suitable allowance for this.

- 3.3. Beyond 2021 costs are uncertain. This will depend on the nature of the process of the United Kingdom leaving the European Union; the introduction of any fiscal measures that affect waste; the impact of Government's national Resources and Waste Strategy which is expected in autumn 2018; or the development of any new regional capacity.

### **4. Issues, risks and innovation**

- 4.1. **Changing Policy and Services**

EU legislation requires source separated bio-waste collections by 2023 and recycling targets of 55% by 2025. Government's intentions are expected to be expressed in a national Resources and Waste Strategy this autumn which is expected to identify ways that producers could contribute more to the costs of dealing with waste, the possibility of deposit return schemes and how to secure consistency of approach.

Where there is legislation change, for example the introduction of fiscal measures on waste, the effect of these would be passed through to the County Council.

Changes to services by districts can have a large impact on tonnages and the composition of residual waste left to treat, which can also affect the suitability of treatment or even the viability of processes or the price of solutions.

In relation to any inter authority agreement with Suffolk beyond 2021, it is expected

that this would be on different terms to reflect the longer term mutual benefits of the arrangement and other considerations such as the Government's Resources and Waste Strategy and other national policy, the process of the United Kingdom leaving the European Union and other local infrastructure developments.

#### 4.2. **Alternative Funding Models**

To explore the merits of different approaches to help fund recycling and waste reduction initiatives the Norfolk Waste Partnership secured a grant from national charity Wrap that has allowed consultants Eunomia to complete detailed work on three models to help improve performance and reduce costs.

The models being looked at focus on ways to incentivize and facilitate change through the County Council providing a greater share of its avoided costs than is required by legislation where performance is further improved:

- a) Increasing payments where service changes reduce the County Council's cost.
- b) Making additional payments where residual waste collected by districts is reduced to certain levels.
- c) Sharing a large proportion of the savings if the County Council put in place arrangements for recycling that would be used by the districts.

The outcome of the detailed work by Eunomia will be considered by the Partnership and before any approach is decided upon the Partnership's considered view of the options should be taken in to account, alongside a view of the opportunities and implications created by any change in national policy that occur as a consequence of the Government's Resources and Waste Strategy which is expected to be published this autumn.

## 5. **Background**

- 5.1. The County Council has a statutory duty as a Waste Disposal Authority to provide disposal for residual waste collected by the District, City and Borough councils in their statutory roles as Waste Collection Authorities and from the County Council's Recycling Centres.

### **Officer Contact**

If you have any questions about matters contained in this paper or want to see copies of any assessments, eg equality impact assessment, please get in touch with:

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