

Report to the Cabinet

Report reference: C-076-2010/11
Date of meeting: 18 April 2011



**Epping Forest
District Council**

Portfolio: Environment

Subject: Processing of Organic Waste after September 2014

Responsible Officer: John Gilbert (01992 564062)

Democratic Services Officer: Gary Woodhall (01992 564470)

Recommendations/Decisions Required:

- (1) To consider whether, from November 2014:
 - (a) to utilise the Essex Waste Partnership arrangements, through the Inter Authority Agreement, for the processing of all organic waste using the processing facilities to be provided in the south of Essex; or
 - (b) to continue to make arrangements for the processing of organic waste via the Council's waste service provider; and
- (2) To inform Essex County Council and amend the Council's Inter Authority Agreement service plan accordingly.

Executive Summary:

This report sets out the future options for the processing of commingled organic waste collected within the District. Two options are presented, one to join with all other Essex collection authorities in committing to use Essex County Council procured processing capacity or alternatively to continue to rely upon the Council's waste service providers to ensure access to appropriate processing capacity. The report sets out the issues and risks associated with these approaches.

Reasons for Proposed Decision:

The County Council is at a critical stage in its procurement of organic waste processing facilities. It needs to be certain of the tonnages to be processed since otherwise best value for the taxpayer will not be achieved. The Council therefore need to make a decision on how in the future it is to process organic waste collected from within the District.

Other Options for Action:

The only option not discussed in the report is for the Council to independently seek to procure its own processing arrangements. This has been discounted on the basis of:

- the Council would have to accept all of the risks associated with that approach; and
- as a sole procurer any advantages of scale in the procurement exercise would be lost compared to a partnership contract led approach.

Report:

1. Since the introduction of the revised food and garden waste collection service, all such waste has to be treated using specialist in vessel composting. This is necessary to ensure that any foodstuffs within the material are heated to an adequate temperature to kill any harmful bacteria, such as those causing foot and mouth disease. The temperatures required cannot be achieved by windrow (traditional) composting methods.
2. The food and garden waste collected by Sita is currently bulked up either at Sita's Barking transfer station or at a County facility near Ongar. From there it is taken to an 'in vessel composting (IVC)' facility at Sandy in Bedfordshire. Members visited this operation back in March 2010. This arrangement is destined to remain in place until the current contract comes to an end either in October 2012 or October 2014.
3. Currently the Council receives a recycling credit from the County Council for every tonne of waste diverted from landfill, and this applies to the commingled food and garden waste. In addition, because the Council is recycling at a level in excess of the target set within the Inter Authority Agreement (IAA), it also receives a bonus payment per tonne which reflects the savings made by the County on waste diverted from landfill. The Council does however pay Sita a haulage and gate fee for each tonne of waste delivered to the IVC.
4. The County Council is in the process of procuring organic waste processing facilities for the County. This is part of the agreed and adopted waste strategy which will result in the construction of transfer stations, a PFI credit funded Mechanical Biological Treatment facility and two separately procured organic waste processing facilities.
5. The southern organic waste processing facility is presently being procured and the County Council has been working on the assumption that the Council's organic waste will be sent to this facility. The IAA is currently unclear regarding the treatment destination for Epping's organic waste beyond 2014 and the County is therefore seeking clarification as to whether the Council want access and if so what the likely annual tonnages will be. The County Council has now reached a point its procurement where it needs contractually binding certainty regarding what the Council intends to do with its organic waste. This Council collects around 17,000 tonnes per annum of commingled food and garden waste which would constitute a significant proportion of the throughput of any new processing facility. It is of course important to ensure that the plants are not immediately either under or over capacity.
6. The funding arrangements for the use of County provided facilities are different to that we currently enjoy. Collection authorities using County facilities do not pay haulage or gate fees at and from the transfer station nor at the processing plant. However, to offset this, the County does not pay any composting credit for waste delivered to and treated at their plants. The County will pick up any haulage and gate fee increases into the future as well as any costs associated with plant failures etc that can be recovered through the contracts.
7. The section below on resource implications sets out the detail of the financial position. However, at the present time the Council is effectively a net beneficiary of the arrangement since the total recycling credit (including the bonus) is in excess of the haulage and gate fee. For 2010/11 this surplus is estimated to be in the region of £57,000. However, this may not always be the position as the level of recycling bonus changes each year. Furthermore, when the current contract with Sita ends, the Council will not know what the position on haulage and gate fees will be until the new contract procurement exercise is complete, and there can be no certainty that the financial benefit currently enjoyed will be continued.
8. The choices can be set out as follows:
 - (a) if the Council wishes to be certain of access to organic processing facilities with

certainty of costs into the future, then it should inform the County that it will enter into an agreement for all organic waste to be sent to a County provided facility; or

- (b) if the Council wishes to continue to act independently and hope in the future to maintain haulage and gate fee costs at a level lower than recycling credit and bonus then it should opt out of the County arrangement. Whilst this option may bring with it financial advantages, there is also a risk that a financial gain may not materialise and the Council will have reduced protection in the event of plant failures or other access difficulties.

9. Two organic processing plants are being procured by the County Council; for the south and north/central. The north/central will handle source separated food waste whilst the plant for the south will handle commingled food and garden waste. All of the Essex authorities, including Southend Unitary, are committed to deliver their organic waste into the County procured processing plants with the exception of Colchester BC. The Council is a full member of the Essex Waste Partnership and has signed the Inter Authority Agreement through which it receives revenue support for the food and garden service as well as the recycling credit and bonus.

10. As part of the County's strategy transfer stations are also being procured to which the Council will have free access if it agrees to send material to the new processing plants. The location for the transfer station serving this area will be in Harlow. Such an arrangement will have advantages to the Council in that refuse freighters will be travelling fewer miles extending their longevity and reducing maintenance costs. Furthermore, looking to the future and the retendering of the waste service, either in 2012 or 2014, there will be potential financial benefit in being able to inform potential service providers that they will have access to transfer facilities.

Resource Implications:

Based on data to date for 2010/11, there will be an anticipated surplus of around £56,911 arising from the processing of organic waste. This arises from the receipt of recycling credits and LAA bonus of £1,075,266 against the costs of haulage and gate fees paid to Sita of £1,018,355. The IAA sets out how the recycling bonus will be calculated. In essence it is the total cost of landfilling a tonne of household waste less the recycling credit for all waste diverted above the agreed LAA2 recycling target, in this Council's case, 42%. The disposal costs comprise the gate fee at the tip plus the government's landfill tax. The reason for the large increase in bonus received in 2011/12 reflects an increase in landfill tax of £8.00 per tonne (see table below). From April 2012 the total of credit and bonus per tonne of diverted household waste will remain the same with the effect that the bonus will decline over time as the credit increases by 3% year on year. Eventually the bonus will disappear and only recycling credit will be paid.

Assumptions have also been made regarding the future costs of haulage and gate fees, adding inflation at 5% (high because of escalating fuel costs). Within the IAA, recycling credits increase by 3% each year. Recycling performance has been assumed to remain steady at around 60%. Using these assumptions the table below sets out the financial consequences of the current arrangements with County and Sita:

	2010/11	2011/12	2012/13	2013/14	2014/15
Composting credit	£929,713	£957,650	£986,450	£1,016,114	£1,046,638
LAA2 bonus	£145,553	£199,745	£183,450	£166,666	£149,395
Total ECC Credit	£1,075,266	£1,157,395	£1,169,900	£1,182,780	£1,196,033

Gate fees at IVC	£831,585	£873,147	£916,780	£962,652	£1,010,768
Haulage to IVC	£186,770	£196,083	£205,915	£216,260	£227,125
Total IVC costs	£1,018,355	£1,069,230	£1,122,695	£1,178,912	£1,237,893
Net benefit to EFDC	£56,911	£88,165	£47,205	£3,868	-£41,860

For the purposes of a sensitivity analysis, if the inflation rate for haulage and gate fees is reduced in 2013/14 and 2014/15 back to 3% the net benefit for the Council becomes £26,450 in 2013/12 and £5,050 in 2014/15.

The bonus payment is based upon the actual costs of landfill, which the County Council re-tenders on a regular basis to achieve the lowest price available. It is not possible to be precise at this stage as to the financial consequences of the decision required. However, the following sets out some issues for consideration:

EFDC outside of ECC arrangements	EFDC within ECC arrangements
<ul style="list-style-type: none"> • Financial benefit will only accrue if there are no significant reductions in the level of recycling bonus • Financial benefits may not accrue through reduction in bonus levels and the outcome of future tendering exercise • Financial uncertainty for the budget in the future • Reduced certainty of access to processing plants and associated transfer facilities • Only Essex collection authority not to be delivering waste to ECC facilities except Colchester • Potential service providers will need to be able to provide their own certainty of access to processing facilities 	<ul style="list-style-type: none"> • Loss of current financial benefit if recycling bonus levels do not decrease from present levels • Financial benefits may accrue through reduction in bonus levels and the outcome of future tendering exercise • Financial certainty for the budget in the future • Certainty of access to processing facilities and transfer stations • Benefits of operating within a large partnership arrangements with the other Essex collection authorities • Certainty for future service providers in the tender process • Reduction in environmental footprint through reduced travelling times for the Council's and contractor's fleet

Legal and Governance Implications:

The current contract with Sita UK terminates on 4 November 2012 although there is an option to extend for a further two years by mutual consent, to October 2014. The contract has been amended to reflect the introduction of the new food and garden waste service which saw all organic waste requiring full processing at an IVC. The responsibility for arranging that processing lies with Sita, who have a contractual agreement with an IVC located at Sandy in Bedfordshire. It is intended to negotiate with Sita with a view to a contract extension to be approved by Members, and part of those negotiations will include discussions to ensure the security of processing for organic waste.

The future procurement of waste services will need to take into account the decisions made now regarding the processing of organic waste. The specification for the next waste tender will need to be specific as to how and where organic waste should be processed.

Safer, Cleaner and Greener Implications:

The collection and processing of organic waste is a key component of the Council's waste

service. The food and garden waste service has been successful with around 17,000 tonnes of material collected and sent for processing at the IVC. This makes a significant contribution to the Council's current rate of recycling which stands at around 60%.

Direct access to the County processing facilities and transfer stations will also bring potential environmental advantages through reduced travelling times. The Council's vehicles will only be required to travel to the transfer station, to be provided in Harlow. All waste will then be bulked for onward transfer to the new plant in the south of the County. This will reduce distances travelled per tone of waste collected with an added benefit of less wear and tear on vehicles. If the Council elects to remain outside of the County arrangement, any such advantages will be wholly dependant upon the selected service provider being able to match these arrangements.

Consultation Undertaken:

Essex County Council.

Background Papers:

Inter Authority Agreement.

Impact Assessments:

Risk Management

There are two identified risks associated with the decision required, one financial and one operational.

The financial risk revolves around whether the current financial benefit of operating outside of the County partnership will continue into the future. The financial table in the resource part of the report sets out the effects of inflation upon the haulage costs and gate fees over time, with the net benefit to the Council declining sharply. If the gate fees/haulage costs were to rise following the service re-tender in 2014 then the effects could be significantly worse. If the Council wishes to have certainty of budget planning in the future without concerns of fluctuations of income, then entering the partnership arrangement provides that assurance.

The operational risk is related to the partnership providing guaranteed access to transfer station and processing capacity local to the district, reducing vehicle usage and time away from the district. Opting out of the partnership arrangement will result in the Council being wholly reliant upon the outcome of the future tendering exercise and what an incoming contractor can provide.

Equality and Diversity:

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications? No

Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken? No

What equality implications were identified through the Equality Impact Assessment process?
N/A.

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
N/A.