

Report to the Council

Committee: Cabinet **Date:** 31 July 2018

Subject: The Financial Impact of the Inability to Sell Recycling Materials in the Chinese Market

Portfolio Holder: Councillor N Avey (Environment)

Recommending:

(1) That the making of a financial contribution to Biffa Municipal be noted in recognition of the investment made by Biffa which would improve the quality of output materials from their MRF ensuring all of the Council's recycling materials were reprocessed and recycled and nothing was sent to landfill;

(2) That a supplementary capital estimate in the sum of £200,000 for 2018/19 be approved for the one off capital payment; and

(3) That a supplementary revenue estimate in the sum of £50,000 for 2018/19 be recommended to the Council for approval for the first of the revenue payments.

1. At its meeting on 10 April 2018, the Cabinet considered a report setting out the difficulties arising from the Chinese Government's decision to ban the import of paper produced by Material Recycling Facilities (MRF) in the United Kingdom. It was agreed to seek external specialist advice, which has now been sought from WYG Environment Limited.

2. The decision of the Chinese Government to ban imports has resulted in excess paper in the reprocessing market, which in turn has led to a major drop in its resale value. As it is a buyers' market, there is an increased focus on quality. Biffa have made significant capital investment in improving their Edmonton MRF, approximately £4.6 million, where the recycling materials from the District are processed. Biffa have claimed that the capital and ongoing operational costs amount to £133,680 per annum attributable to the processing costs of the Council's recycle.

3. In addition, Biffa asked for £39,000 in relation to historical errors in the way Recycling Unit Index Rate (RIUR) was calculated. In total Biffa has requested the Council to meet the total costs for the remaining six years (of the first of the two ten year term) of the contract to a sum of £841,080. The Council could reject all Biffa requests for making a contribution towards these costs. However, there are two risks with this approach:

- (i) Biffa may elect to cease processing materials and recycling materials could end up in landfill; and
- (ii) this will put further significant financial pressure on the waste

management contract.

4. Specialist advice was obtained by the Council from WYG Environmental Limited, who have considered the options and provided market intelligence to enable Officers to recommend a settlement offer to Biffa. Although the capital investment will benefit the MRF for longer, it is not reasonable for the Council to pay for more than the first ten years of contract. Some of the costs are related to contamination found in the recycling materials, as inadvertently some non-recycling materials find their way into recycling, and in arriving at the settlement figure the Council has factored in contamination levels.

5. It is felt that, against the Biffa request of £841,080, a settlement of £500,000 split into a one off capital contribution of £200,000 and six yearly payments of £50,000 is a fair and reasonable commercial offer; particularly if it is linked to the mitigation of risks on the future market for commodity prices. This was agreed by the Cabinet at its meeting held on 14 June 2018.

6. In order to proceed with this settlement, the Council is requested to agree a supplementary capital estimate in the sum of £200,000 for 2018/19 to cover the proposed one off capital payment, and a supplementary revenue estimate in the sum of £50,000 for 2018/19 to cover the first of the proposed revenue payments. The Cabinet has already agreed to make growth bids for the remaining revenue payments in future years.

7. We recommend as set out at the commencement of this report.