

8 RECYCLING ACCEPTANCE AND SORTING CONTRACT (11/04)

FILE REFERENCE INT1863089

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RECOMMENDATION

That:

1. A Deed of Variation for Contract 11/04 be entered into for the period 1 July 2018 to 30 June 2020 and
2. The Chief Executive Officer be delegated the authority to execute the relevant contract documentation.

Attachments

Nil.

EXECUTIVE SUMMARY

Problems with the recycling industry arose early in 2018, driven primarily by changes to the environmental policies in China which restricted imports of recyclables, and reduced acceptable contamination levels. Commodity prices at this time dropped considerably, and impacted on the financial viability of the recycling industry generally.

To address this issue, Councils across Victoria, including Cardinia Shire Council are renegotiating their contract terms with recycling processors.

Discussions regarding Councils Recycling acceptance and sorting contract (11/04) with contractor SKM Industries Pty Ltd (SKM) have been ongoing since early 2018. A draft Deed of variation has been developed, and it is recommended that the CEO is delegated authority to execute the documentation.

This deed will change the contract from Council being paid for its recyclables by SKM to Council paying SKM per tonne, including an allowance for contamination.

BACKGROUND

Industry issues

Problems with the recycling industry arose early in 2018, driven primarily by changes to the environmental policies in China which restricted imports of recyclables, and reduced acceptable contamination levels. Commodity prices at this time dropped considerably.

Early in 2018, meetings were held between industry and the Victorian government, to discuss the long term viability of the industry, and the request was made by industry for Victorian Government assistance. The Victorian Government announced a support package. Officers attended a meeting with SKM to discuss the issues in March 2018, and there has been ongoing dialogue since.

Under the initial agreement and extensions, Councils contract with SKM expires 30 September 2020. In April 2018, Council entered into a temporary variation with SKM which amended the contract terms to a payment for service model, from March 2018 onwards. Previously, SKM had

paid Council for its material. The intention of the temporary variation was to come to a new agreement for the period July 2018 onwards.

To enable this initial and consequential variation to be entered into, Council was granted exemption by Local Government Victoria (LGV) to enter into a varied contract(s) without tendering for recycling collection services under section 186(5)(c) of the Local Government Act 1989. This exemption applies until 30 September 2018.

Effective March 2018, Department of Environment, Land, Water and Planning (DELWP) also awarded Council a Temporary Relief Funding Agreement which would help fund this move to a payment model to the value of \$204k. It covered payments to recycling processors from March until June 2018 with all costs after this date to be built into Council fees and charges.

Cardinia Shire Council are not alone in this situation, which is a national and international issue. Municipal Association of Victoria (MAV) have been working closely with Councils, and liaising with LGV on this issue. DELWP have been providing regular updates relating to both the Temporary Relief Funding Agreement and the s186 exemption process, which have helped inform work in this area.

Discussions on this Deed of Variation has been ongoing since early 2018, with Council officers liaising with SKM, Metropolitan Waste and Resource Recovery Group (MWRRG), DELWP, MAV and Councils lawyers, Maddocks. This has been a lengthy but robust process, achieving a best value and fair outcome for our community and SKM.

Deed of variation

Ongoing discussions SKM have now resulted into a draft Deed of Variation being developed, to cover the period 1 July 2018 to 30 June 2020. Whilst a lengthy process, this approach has allowed Council to come to a best value and fair outcome for our community and SKM. The key changes to the Contract arrangement as a result of the draft Deed of Variation are:

- Revert to a payment per tonne arrangement, rather than the previous payment for recyclables arrangement
- Inclusion of contamination payment whereby each tonne of contamination incurs a landfill and transport additional cost. The percentage contamination is determined as per an agreed methodology.
- Contract end date 30 June 2020 - to align with Collection contract dates and to allow Deed of variation to entered into without requirement for future s186 exemption for period 1 July to 30 September 2020 (3 months).

It is recommended that Council endorse the changes proposed to Contract 11/04: Recycling Acceptance and Sorting and delegate authority to the CEO to finalise the documentation.

The resulting and estimated costs arising from these changes were estimated, and have been included in the Garbage charge budget for the 18-19 financial year.

Longer term

In the longer term it is important that the recycling industry and all waste producers (including Council) focus on reducing waste production generally and minimising contamination. It is recommended that Council partake in a future joint procurement process with other Councils, facilitated by the MWRRG for contracts beyond 1 July 2020. This process will commence in the next 6 months. The focus will be on resetting the market to a financially sustainable footing and ideally bringing new suppliers into the market through aggregation of tonnages, reducing risk of over time.

POLICY IMPLICATIONS

This work and direction aligns with the general vision of the Waste and resource recovery strategy (2017-2026), and some of its top priorities:

- increased resource recovery with a particular focus on hard waste service, food within garbage waste, additional kerbside programs and e-waste
- continuing to drive value for money within services
- supporting local community to be responsible and accountable for their waste generation and disposal practices

RELEVANCE TO COUNCIL PLAN

This work helps deliver the actions 3 Our Environment - 3.3 Enhanced natural environment - 3.3.4 Promote practices that result in the reduction per household of the amount of waste going to landfill, particularly food waste.

CONSULTATION/COMMUNICATION

Updates on Recycling industry issues, and its impacts to Council and ratepayers have been made on Councils website and Social Media platforms. Changes to the Garbage Charge have also been explained to ratepayers with advice within the rate notice package. Extensive media coverage of this issue also helped explain the wider issue to the community.

The Deed of variation has been developed with legal advice from Councils lawyers.

FINANCIAL AND RESOURCE IMPLICATIONS

Increases in costs associated with Recycling processing due to industry issues have been proposed since early 2018. As such, allowances were made within the 2018/19 budget and Waste Charge to facilitate these costs.

Within Councils Garbage charge budget, Recycling Processing was budgeted for the year at \$1.275M for 2018-19 financial year. Based on the Deed of Variation, these costs are now estimated to be \$586k to \$800k per annum, depending on tonnages and contamination levels experienced.

These costs will be monitored throughout the year. Dependent on contamination and tonnages experienced, any potential under expenditure will be considered when establishing the Waste charges for the 2019/20 financial year.

CONCLUSION

The Recycling industry issues experienced across the country and internationally, which affected commodity prices, have impacted SKM, Councils contractor for Recycling acceptance and sorting contract (11/04).

In order to have continue recycling, and to have a financially viable service, there is the requirement to enter into a Deed of variation for this contract and change to a payment to SKM per tonne service model, with contamination payment. Discussions on this Deed of Variation has been ongoing since early 2018, with Council officers liaising with SKM, MWRRG, DELWP, MAV and

Councils lawyers. This has been a lengthy but robust process, achieving a best value and fair outcome for our community and SKM.

The negotiations have been finalised, it is recommended that the Chief Executive Officer be delegated the authority to finalise any further arising negotiations (should they arise) and execute the relevant contract documentation.