

STROUD DISTRICT COUNCIL
ENVIRONMENT COMMITTEE

**AGENDA
ITEM NO**

4 JUNE 2020

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Report Title	PAPER RECYCLING CONTRACT EXTENSION			
Purpose of Report	To set out the rationale for the decision to operate the extension in the contract.			
Decision(s)	The Committee RESOLVES to extend the existing contract for a period of 12 months on the terms set out in this report.			
Consultation and Feedback	S151 Officer, Environment Committee Chair and members, Legal and Procurement colleagues have been consulted at various stages.			
Report Author	Michael Towson, Community Services Manager Tel: 01453 754336 Email: michael.towson@stroud.gov.uk			
Options	Full procurement could be undertaken but is advised against for reasons laid out in the report.			
Background Papers	None			
Appendices	The following appendix contains exempt information by Virtue of Paragraph 3 of Part 1 of Schedule 12a of the Local government act 1972 and a resolution may be passed to exclude the public during consideration of this item: Appendix 1 - Contract Extension Offer			
Implications (further details at the end of the report)	Financial	Legal	Equality	Environmental
	Yes	Yes	No	No

1. INTRODUCTION

- 1.1 In July 2018 SDC entered in to a contract for the haulage and recycling of waste paper and cardboard collected by Ubico from district residents.
- 1.2 The contract was for an initial 2 years with the option to extend for up to an additional 2 years.
- 1.3 The paper and card mix, officially known as ‘mixed papers’, is tipped from collection vehicles at the transfer station in Gossington, where haulage vehicles load the material for onward transportation and reprocessing.
- 1.4 Over the last months, changes to world markets have impacted paper recycling prices. Numerous countries including China have imposed much stricter specifications, which has essentially closed large portions of the market. This has meant that remaining markets

are flooded with paper recycle, driving prices lower, whilst the need for quality is increasing.

- 1.5 The timing of this depression means that SDC is not insulated financially and needs to act swiftly to ensure an appropriate outlet is retained. This will ensure that the material can continue to be recycled and that recycling credits related to this are safeguarded.

2. CONTRACT DETAIL

- 2.1 At the inception of the contract, the contractor charged a gate fee of £15 per tonne and bought the mixed paper material for £50 per tonne (a £35 net income for SDC). These rates were to be reviewed throughout the contract term.
- 2.2 After the most recent review the gate fee remained at £15 and the rebate reduced to £45. These rates will apply until the end of June 2020.
- 2.3 In recent discussions the contractor has indicated that the price review mechanism within the contract does not allow for sufficient movement and therefore lags behind the true market rates.
- 2.4 SDC refer to Lets Recycle Prices, available publically at www.letsrecycle.com/prices. These prices are recognised nationally and are produced for use within the industry. They form the basis of the price review mechanism.
- 2.5 In July 2018 the mid-point price for mixed paper was £38.50. The latest figure published for March 2020, lists the mid-point price for the same commodity as **-£9.00**, a difference of £47.50.
- 2.6 This does illustrate the contractors' argument very clearly. The original contract was set at a price £11.50 above the average (mid-point) price, whilst in March 2020, the contractor was paying £54.00 above the average price. Clearly in the short term this is good for SDC finances, but it does mean that the contractor is unwilling to extend the contract without adjusting the terms.
- 2.7 It should be pointed out that a comparison of the industry prices indicate that this is a genuine industry wide problem and not one that has been created by the contractor to renegotiate the strong contractual terms SDC currently have.

3 NEGOTIATIONS

- 3.1 In early November 2019 a regular management meeting took place when a contract extension was discussed positively. However, both parties thought it prudent to keep the option under review and make arrangements for the extension clause to be invoked in early 2020.
- 3.2 Following the 2019 festive period, the contractor responded to the global markets by tightening their quality standards, particularly reducing the acceptable moisture content and acceptable contamination levels. At this point it was made clear that an extension to the existing contract was viable but only under amended terms. Clarification was sought and on 31st March 2020 an offer was made to SDC.

4 OPTIONS

- 4.1 There are only really two viable options available. The first is that we accept the revised terms provided by the incumbent contractor. Full details are laid out in Appendix 1. Financially the likely impact is laid out below in table 1 although this will change based on a monthly review, rather than the current 6 monthly review which introduces a level of fluidity and provides less certainty than the Council has at present. The review will also entirely reflect the market, rather than adjusting at a percentage of the market fluctuation:

Table 1 – Table to illustrate the financial implications of the proposed new contractual terms

Year	Total Annual Income/Cost (based on 5,000 tonnes recycled per annum)
2018	£175,000
2020 (until June)	£150,000
2020 (new terms post June)	-£105,000

- 4.2 This option will require an amendment to contract terms.
- 4.3 The alternative option is to go back to the market and procure the service. There is limited time to undertake this, although it is feasible. However, there are a number of considerations that make this option less attractive at this time.
- 4.4 Firstly, the impact of Covid-19 on procurement is somewhat unknown. Many sectors continue to function but whether businesses will be looking to add to their portfolio at the current time is unknown.
- 4.5 In addition, the market for mixed papers is depressed and prices are well below historic highs. Procuring in such times does risk any future upturn benefits whilst an extension will provide some certainty and give officers an opportunity to track the market prior to inform a future procurement exercise
- 4.6 Most convincingly though is the limitation of paper mills quoting for contracts. At the time of the last procurement, one paper mill submitted a bid, alongside two merchants. Merchants are essentially a third party that trade material and run logistics. The prices they offer are usually lower than a paper mill to allow for their margin, something that was very evident at procurement in 2018. During evaluation of the 2 year term, the incumbent contractor was estimated to provide an additional £250k of income over the next best bid from a merchant. In fact Lets Recycle list different prices for merchants, reflecting that greater benefits can be gleaned from a relationship directly with a paper mill. In March 2020 the mid-point price from a merchant for each tonne of mixed papers was -£30; this compares to -£9 for domestic mills.

5. CONCLUSION AND RECOMMENDATION

- 5.1 Recyclates are prone to price fluctuations and like other global commodities, tend to reflect the buoyancy of markets. In recent times markets have dwindled, flooding the market with paper to recycle. Paper mills have been able to upgrade their specifications whilst paying less money. The result means a far less appealing deal for local authorities up and down the country.

- 5.2 Given the information laid out in this report, the recommendation is that SDC extend the existing contract for a period of 12 months and accept the revised terms proposed. Not only will this guarantee that paper continues to be recycled, it will also enable officers to consider the market when carrying out procurement for a new contract, during which time the global markets may have recovered. Even if this is not the case, it is hoped that any uncertainty provided by Covid-19 will have subsided.
- 5.3 Financially this will cost SDC circa. £255k over the 12 month term. This is though a reflection of the current market and cannot be mitigated beyond the existing contract term.

6. IMPLICATIONS

6.1 Financial Implications

The financial implications are clearly set out in the report. The full year impact of this change is a cost of approximately £255k. As the shift in pricing happens at the end of June it is estimated that the impact will be approximately £190k in 2020/21 and £65k in 2021/22.

The fall in income in 2020/21 will be managed through the Waste and Recycling reserve.

An adjustment will need to be made in the 2021/22 budget setting process to reflect the change in the economic value. Although this is a significant additional budget pressure for the authority, it is quite clear from the report that this is a reflection of market trends and not an issue with Stroud's contractual arrangements. This necessitates adjustment in the Council's Medium Term Financial Plan as re-procurement at the end of the extension period is unlikely to materially change the situation.

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6.2 Legal Implications

The current contract provides the ability to extend the contract as proposed. Whilst this should normally be on the same terms in order to satisfy Regulation 72 of the Public Contract Regulations, given the circumstances set out in this report, the Monitoring Officer has taken the view that he would ordinarily have issued an exemption to Contract Procedure Rules and it is appropriate to extend the contract notwithstanding that Reg.72(1) (iii) (price) is not satisfied.

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6.3 Equality Implications

There are not any specific changes to service delivery proposed within this decision.

6.4 Environmental Implications

There are no significant implications within this category.