

## RECYCLING INCOMES

**Head of Service/Contact:** Ian Dyer, Head of Operational Services  
**Urgent Decision?(yes/no)** No  
**If yes, reason urgent decision required:**  
**Annexes/Appendices (attached):** None  
**Other available papers (not attached):** None

### Report summary

This report summarises market conditions currently negatively affecting the Council's recycling incomes.

### Recommendation (s)

- (1) That officers be authorised to investigate options for mitigating the budgetary impact of negative market conditions.

## 1 Implications for the Council's Key Priorities, Service Plans and Sustainable Community Strategy

- 1.1 The Council's recycling service, Simply Weekly Recycling, is the key service which allows residents to recycle their household waste. It contributes to the Council's key policies of Sustainability and Managing Resources.
- 1.2 It is very expensive to dispose of refuse. Recycling has historically been a way to save money and protect the environment. However, the increasing cost of gate fees for mixed recycling and the withdrawal of significant funding by Surrey County Council have recently brought the cost of refuse and recycling much closer together.

## 2 Background

- 2.1 Recycling markets have long been listed as a corporate risk. Recycling markets are generally beyond the control of councils, or even groups of councils.

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- 2.2 Historically, China has been a key market for paper, card and plastics collected for recycling in Europe and the UK. While Epsom & Ewell's paper has always been recycled in the UK, our card and some plastics have historically gone to China for recycling. This is a normal part of the commercial activity that underpins councils' recycling services.
- 2.3 However, in autumn 2017 China banned the import of paper and card collected for recycling in other countries. On 1 January 2018 it also banned the import of plastics collected for recycling in other countries. It took these actions to protect and stimulate its internal recycling infrastructure and industries.
- 2.4 Suez, the company that takes the majority of our recyclables (and which also runs SCC tips across Surrey) has been successfully able to divert recyclables from China. For example, much of its card and plastics currently go to plants in Vietnam.
- 2.5 However, the overall effect of China's actions has been to create a glut of recyclables in Europe and elsewhere. This oversupply has adversely affected the prices of paper, card and plastics as 2018 has progressed.
- 2.6 For Epsom & Ewell, this has meant that the cost of our mixed recyclables (those collected in our green recycling bins) has increased significantly:
  - 2.6.1 Simply Weekly Recycling launched in May 2017. When planning the service we estimated a gate fee of **£45 per tonne** payable on green bin recycling. The gate fee is the net expenditure to the Council derived from the market value of the materials less the cost of transport and the cost of sorting. It is usual that mixed recycling will result in some level of cost to a district or borough, which is termed a 'gate fee'.
  - 2.6.2 This estimate proved to be robust at launch, and we experienced a gate fee of **£37.77 per tonne** from May to September 2017, a saving of £7.23 per tonne versus forecast.
  - 2.6.3 However, in response to the Chinese actions, gate fees have progressively increased since then as the prices of paper, card and plastics have worsened. Q3 2017/18 brought a gate fee of **£47.87 per tonne**. This increased in Q4 2017/18 to **£61.90 per tonne**, and again in Q1 2018/19 to **£65.22 per tonne**. As yet, Suez have provided no indication of Q2 2018/19 gate fees, which are calculated quarterly in arrears to reflect actual values achieved.
- 2.7 These market shifts were not expected when we forecast our budgets for 2018/19.

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- 2.8 It may be noted that this market shift has coincided with a new financial agreement with Surrey County Council, which dropped its recycling credit payment from £59.46 per tonne in 2017/18 to £37.50 per tonne in 2018/19 as part of a heavy, unilateral savings package. Consequently, our income has dropped at the same time as our gate fees have risen.
- 2.9 While the market income from our separately-collected glass has remained steady (it is UK-recycled and there is no China action on glass), overall, this has resulted in a Q1 forecast full-year overspend for the year of c.£164k.
- 2.10 As yet there are no signs of market recovery. Some in the industry have predicted that they will not stabilise until into 2019. Certainly, all Surrey councils who control recycling have been affected by this – some to a much greater degree than Epsom & Ewell owing to their larger size.
- 2.11 It may be noted that Surrey County Council has previously advised that it intends to take control of Epsom & Ewell's dry recyclables (both mixed recycling and our separately-collected glass) on 1 April 2019. This is part of its unilateral savings programme:
- 2.11.1 This is not a change in collection arrangements, which would still be exclusively controlled by the Council. Rather, it is an enforced transfer of ownership of the materials collected.
- 2.11.2 This would result in the transfer of all gate fee liabilities to SCC, but also the loss of all recycling credit income and the market income from our separately-collected glass. In normal times, that would be an adverse change for Epsom and Ewell, as we have historically made a net income from material market values and recycling credits. But the current situation, if it continues, would render it a positive change, as it would transfer the heavy gate fee liability to SCC.
- 2.11.3 However, recent conversations with SCC have suggested that it may be reconsidering its intentions in the light of the current market difficulties. Officers have asked SCC to formally state its position in order that the Council can understand budget implications. At the beginning of October we were told that SCC would announce its intentions “in the next few weeks.”

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- 2.12 Councils across Surrey have also seen market uncertainties accompanied by an increase in the amount of mixed recycling being rejected by sorting facilities. As the markets have weakened, sorting companies have increased the amount of mixed recycling that they deem 'non-target' or 'residual waste'. Suez currently classifies 16% of Epsom & Ewell's mixed recycling in these ways. An example is cartons (such as Tetra-Paks) which have previously been recycled but which are currently classified as 'non-target' due to them no longer being cost-effective to recycle. Analysis across Surrey districts shows 10-29% of mixed recyclables being rejected in these ways, with the average being 15%. This is significantly different to the low-single-figures we have historically experienced. The cost of disposing of these materials contributes to the overall gate fee.

## **3 Proposals**

- 3.1 The current situation leads to a high degree of uncertainty over the Council's budget position both this financial year and next. The Quarter 1 forecast for Waste in 2018/19 is an adverse variance of c.£164k, but that depends on gate fee movements. Next year's budget forecast depends on SCC's reaction to the current difficulties. Should SCC decide not to take control of the Council's dry recycling, we would wish to negotiate a change to the current arrangements which have become punishing in current market conditions.
- 3.2 The future is unclear right now. Future market trends and SCC's intentions for 2019/20 are as yet unknown. The Council will need to carefully monitor how the situation progresses and consider any response accordingly.
- 3.3 Therefore, this report recommends that officers continue to monitor the situation, conversing with colleagues in SCC, Suez and other Surrey districts and boroughs accordingly. Officers will report further to the Committee as appropriate.

## **4 Financial and Manpower Implications**

- 4.1 Due to the lag between SCC notifying the actual gate fees for a specific quarter and our requirement to post accruals to meet the tighter deadline for closing the accounts, the 2017/18 Q4 gate fees were estimated at £47.87 per tonne, the rate charged for Q3. The actual fee was charged at £61.90 which resulted in an under-accrual of Q4 gate fees of £24,315, the impact of which is to increase the 2018/19 costs by this amount.
- 4.2 The Council's waste budgets for 2018/19 include £240k for gate fees, based on an annual tonnage of 6,000 at £40 per tonne. This was set based on the actual fee at the time of £37.77, as detailed in paragraph 2.6.2 with an allowance for potential increase in fees.

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- 4.3 The current forecast for gate fees in 2018/19 is £413,690, which is based upon an updated annual tonnage of 6,343 tonnes and the 2018/19 Q1 actual gate fee of £65.22. Furthermore, the under-accrual from 2017/18 of £24,315 brings the total forecast to £438,005, which represents an adverse variance of £198k against the £240k budget.
- 4.4 It is possible that a settling of the market could lead to lower gate fees in the year which would reduce the current forecast, however, as stated in paragraph 2.10, this is not expected before 2019.
- 4.5 Any changes in markets and/or SCC's intentions will be reviewed with Finance accordingly.
- 4.6 **Chief Finance Officer's comments:** As it stands, the forecast adverse variance on waste gate fees is £198k in 2018/19. This represents a significant added pressure to the Council's budget and options should be explored to address it.

## 5 Legal Implications (including implications for matters relating to equality)

- 5.1 Any intentions signalled by SCC, or negotiations thereto, will be reviewed with the Council's Legal department accordingly.
- 5.2 **Monitoring Officer's comments:** The Environmental Protection Act 1990 allows SCC, as the waste disposal authority, to object to the council recycling waste collected and for this waste to be recycled by SCC instead. It is not yet clear if and when SCC will take over recycling of Epsom & Ewell collected waste. If the Council continues to recycle waste collected by it, legal advice will be required regarding the ongoing arrangements between the Council and SCC.

## 6 Sustainability Policy and Community Safety Implications

- 6.1 Simply Weekly Recycling is a key tool within the Council's Sustainability policy. Its financial implications will continue to be reviewed as above.

## 7 Partnerships

- 7.1 The Surrey Waste Partnership is the partnership of the eleven Surrey districts and boroughs, and Surrey County Council. Officers will continue to raise and discuss these issues within the Partnership and in particular with Surrey County Council.

## 8 Risk Assessment

- 8.1 Recycling incomes have long been listed as a corporate risk due to the commercial nature of material markets. As reported here, the current risk has increased as a result of the Chinese actions. The future risk is uncertain.

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**9 Conclusion and Recommendations**

- 9.1 Officers will continue to discuss and review the situation, and report back to the Committee accordingly.

**Ward(s) affected:** (All Wards);