

28 February 2006**WASTE MANAGEMENT – WET MATERIALS RECOVERY
FACILITY (MRF) TENDER****Committee** Planning and Environment**Presenter** Cr Ng**Purpose**

1. To obtain Council approval:
 - 1.1. for Council to continue working towards the establishment of a Wet Materials Recovery Facility (“MRF”) to separate and process waste for resource recovery;
 - 1.2. to negotiate and enter into a contract for the establishment and operation of a Wet MRF; and
 - 1.3. to commit Council funding to the Wet MRF upon entering into an acceptable contract.

Recommendation

2. That Council:
 - 2.1. together with other willing council members represented by the Western Regional Waste Management Group or its successor, enter into a contract with Global Renewables Melbourne Pty Ltd (ACN 108 108 005) to establish and operate a Wet Materials Recovery Facility subject to the following:
 - 2.1.1. successful negotiation of the outstanding contract terms;
 - 2.1.2. a commitment by other councils to the Project so that the aggregate quantity of waste supplied to the Wet Materials Recovery Facility is sufficient for the proposed gatefee to come into effect;
 - 2.1.3. the Wet MRF is established and operated in accordance with relevant Council policies;
 - 2.1.4. the contract being novated from Western Regional Waste Management Group to the Metropolitan Waste Management Group or other successor should this representative body change subsequent to the contract being entered into;
 - 2.1.5. approval of appropriate State Government funding including a grant from the Sustainability Fund; and
 - 2.1.6. Council obtaining the necessary approvals and consents under the *Local Government Act 1989* (including any approval required under section 193 of the Act) and Council, Global Renewables Melbourne Pty Ltd and other participating Councils obtaining the necessary approvals and consents to undertake the Project, including any approvals required under the *Planning and Environment Act 1987*;

- 2.2. by instrument of delegation sealed by the Council under section 98(1) of the *Local Government Act 1989* delegate its powers under the Act to the Chief Executive Officer, or the person from time to time acting in that position:
 - 2.2.1. to negotiate and agree with Global Renewables Melbourne Pty Ltd, Western Regional Waste Management Group and other participating councils the terms upon which Council will participate in the Project and agree to Council's contribution;
 - 2.2.2. to enter into a contract with Global Renewables Melbourne Pty Ltd, Western Regional Waste Management Group and the other participating councils to establish and operate the Wet Materials Recovery Facility on the terms agreed and to apply for any necessary approvals;
 - 2.2.3. to do all things incidental and ancillary to the same;
 - 2.2.4. that under section 98(3) of the *Local Government Act 1989*, authorise the instrument of delegation to the Chief Executive Officer, or the person from time to time acting in that position, to empower him or her to delegate any power, duty or function of Council delegated to him or her under paragraphs 2.2.1 to 2.2.3 above, to a member of Council staff; and
 - 2.2.5. resolve that the instrument of delegation referred to in paragraph 2.2 above report will cease and be of no further effect upon the completion of all necessary steps and the execution of all necessary documents to enter into the contract with Global Renewables Melbourne Pty Ltd, the Western Regional Waste Management Group and the participating councils; and
- 2.3. advise Western Regional Waste Management Group of Council's resolution.

Council Report Attachment:

1. Planning and Environment Committee, Agenda Item 5.1, 7 February 2006

**PLANNING AND ENVIRONMENT
COMMITTEE REPORT**

Agenda Item 5.1

7 February 2006

**WASTE MANAGEMENT – WET MATERIALS RECOVERY
FACILITY (MRF) TENDER**

Division Assets & Services

Presenter Michael Norton, Principal Engineer Services

Purpose

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 - 1.1. for Council to continue working towards the establishment of a Wet Materials Recovery Facility (“MRF”) to separate and process waste for resource recovery;
 - 1.2. to negotiate and enter into a contract for the establishment and operation of a Wet MRF; and
 - 1.3. to commit Council funding to the Wet MRF upon entering into an acceptable contract.

Recommendation

2. That the Planning and Environment Committee recommend that Council:
 - 2.1. together with other willing council members represented by the Western Regional Waste Management Group or its successor, enter into a contract with Global Renewables Melbourne Pty Ltd (ACN 108 108 005) to establish and operate a Wet Materials Recovery Facility subject to the following:
 - 2.1.1. successful negotiation of the outstanding contract terms;
 - 2.1.2. a commitment by other councils to the Project so that the aggregate quantity of waste supplied to the Wet Materials Recovery Facility is sufficient for the proposed gatefee to come into effect;
 - 2.1.3. the Wet MRF is established and operated in accordance with relevant Council policies;
 - 2.1.4. the contract being novated from Western Regional Waste Management Group to the Metropolitan Waste Management Group or other successor should this representative body change subsequent to the contract being entered into;
 - 2.1.5. approval of appropriate State Government funding including a grant from the Sustainability Fund; and

- 2.1.6. Council obtaining the necessary approvals and consents under the *Local Government Act 1989* (including any approval required under section 193 of the Act) and Council, Global Renewables Melbourne Pty Ltd and other participating Councils obtaining the necessary approvals and consents to undertake the Project, including any approvals required under the *Planning and Environment Act 1987*;
- 2.2. by instrument of delegation sealed by the Council under section 98(1) of the *Local Government Act 1989* delegate its powers under the Act to the Chief Executive Officer, or the person from time to time acting in that position:
 - 2.2.1. to negotiate and agree with Global Renewables Melbourne Pty Ltd, Western Regional Waste Management Group and other participating councils the terms upon which Council will participate in the Project and agree to Council's contribution;
 - 2.2.2. to enter into a contract with Global Renewables Melbourne Pty Ltd, Western Regional Waste Management Group and the other participating councils to establish and operate the Wet Materials Recovery Facility on the terms agreed and to apply for any necessary approvals;
 - 2.2.3. to do all things incidental and ancillary to the same;
 - 2.2.4. that under section 98(3) of the *Local Government Act 1989*, authorise the instrument of delegation to the Chief Executive Officer, or the person from time to time acting in that position, to empower him or her to delegate any power, duty or function of Council delegated to him or her under paragraphs 2.2.1 to 2.2.3 above, to a member of Council staff; and
 - 2.2.5. resolve that the instrument of delegation referred to in paragraph 2.2 above report will cease and be of no further effect upon the completion of all necessary steps and the execution of all necessary documents to enter into the contract with Global Renewables Melbourne Pty Ltd, the Western Regional Waste Management Group and the participating councils; and
- 2.3. advise Western Regional Waste Management Group of Council's resolution.

Key Aspects of the Proposed Wet MRF

Tender for the Processing of Municipal Waste for Resource Recovery

3. Since 2004, the City of Melbourne has been involved in a tender process, and subsequent negotiations, for a Wet Materials Recovery Facility ("MRF") to separate and process domestic waste for resource recovery. This process has been led by the Western Regional Waste Management Group ("WRWMG"), of which the City of Melbourne is a member council.
4. The conditions of the proposed contract have been largely negotiated as between WRWMG (in consultation with its member councils) and the preferred tenderer, Global Renewables Melbourne Pty Ltd ("GRM") leading to the preparation of a draft contract together with annexures.

State Government Towards Zero Waste Strategy – Recycling Implications

5. The State Government released its *Towards Zero Waste* Strategy in September 2005. As well as identifying priorities in addressing waste over the next 10 years, *Towards Zero Waste* establishes a statewide target to recover 65% of municipal waste for recycling by 2014.

6. Quantities of recyclables have increased by 54% since the introduction of the commingled recycling service to the City of Melbourne in December 2004.
7. This has increased the municipal diversion rate to 24%. (The state municipal average is 35%).
8. The City of Melbourne is unlikely to be able to comply with the *Towards Zero Waste* target under its current recycling system. A major barrier is the structural factor that more than 80% of residential properties are flats, units or apartments. Participation in recycling is generally low among apartment-dwellers, even though Council has made improvements to waste management services. In particular, garbage chutes make it easy to dispose of waste, but residents may have to manually cart their recyclables to a basement area, leading to very poor levels of recycling.
9. The proposed Wet MRF provides a means of addressing this barrier. In diverting 75% of waste from landfill, the Wet MRF will assist the City of Melbourne to comply with the *Towards Zero Waste* target for resource recovery.

Costs of Waste Management

10. The cost of the Wet MRF is estimated to be approximately \$46 per household per year (90 cents per week), compared to the cost of landfill, which is currently approximately \$14 per household per year. State Government grants, if approved, are estimated to reduce the cost of the Wet MRF to approximately \$32 per household per year for a period of five to six years

Time Frame

11. A contract term of 20 years is proposed. This is considerably longer than contracts to date for waste management, owing to the need to amortise the estimated \$100 million in capital investment over a period that will maintain contract costs at a manageable level for participating councils. These funds are provided by GRM with investment support from the Federal Government and financial institutions.
12. After construction and commissioning, the Wet MRF is anticipated to come into full operation by 1 July 2009.

Relation to Council Policy

13. The proposed Wet MRF will deliver outcomes that are consistent with Council's Strategic Objective of an Environmentally Responsible City:
 - 13.1. to reduce community and Council waste and increase the proportion of waste diverted to recycling and reuse; and
 - 13.2. to improve the energy efficiency of the Council's operations and reduce greenhouse emissions generated through its activities.
14. The City of Melbourne's Waste Management Strategy, adopted in November 2005, establishes Council's long-term commitment to seeking a better solution for the garbage stream than landfill.

Legal

15. Parties to the contract are the WRWVG, its member councils and GRM. Should the WRWVG be succeeded by the new Metropolitan Waste Management Group as announced by the State Government or other body, the contract obligations are to be assumed by that body.

16. Council is bound by the contract upon entering into it but no obligations arise until the performance of the conditions precedent as set out at clause 2 of the draft contract together with the threshold requirements set out at paragraphs 2.1.1 to 2.1.8 above.
17. Legal advice will be provided as required in relation to the negotiation of, and any issues arising from, the proposed contract.

Sustainability

18. The proposed Wet MRF represents an opportunity for the City of Melbourne to demonstrate leadership in introducing an innovative range of resource recovery technologies to Victoria. Managed by the subsidiary of publicly listed Australian company GRD Limited, the GRM integrated waste management facility is expected to create significant economic benefits to Melbourne through the construction of the \$100 million plant and the estimated 200 jobs required for its operation.
19. The Wet MRF will be the first facility in Victoria that is capable of recovering resources from the residual waste, or garbage stream. Among its environmental benefits, the proposed Wet MRF will dramatically reduce the City of Melbourne's dependence on landfill as its primary means of managing waste.
20. By reducing the amount of municipal waste sent to landfill by 75%, Council will significantly reduce Council's greenhouse emissions and other environmental impacts of landfilling waste.
21. Other environmental benefits of the proposed Wet MRF are:
 - 21.1. the generation of renewable energy from the processing of organic waste;
 - 21.2. the production of a soil conditioner product from the organic part of the waste stream; and
 - 21.3. the recovery of residual packaging and paper from the waste stream for recycling.

Background

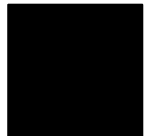

Wet MRF Tender

22. The Constitution of the WRWMG adopts as standard practice the principle of tendering on a competitive basis for the provision of all waste management facilities for its member Councils (Brimbank, Hobsons Bay, Maribyrnong, Melbourne, Melton, Moonee Valley, Port Phillip, Wyndham and Yarra).
23. The WRWMG advertised tenders for a regional 'Wet Materials Recovery Facility' (Wet MRF) to separate and process domestic waste for resource recovery in January 2004.
24. The WRWMG Management Committee resolved upon GRM as the preferred Wet MRF tenderer in August 2004 following evaluation by a panel including a representative from the City of Melbourne and other member councils.
25. In October 2004, Council's Finance, Corporate Services and Governance Committee considered its position on the Wet MRF proposal and resolved that a further report be considered at the November cycle. The report was subsequently deferred until a more appropriate time when the details of the contract terms and conditions negotiations were closer to finalisation.

26. In June 2005, Council advised the Minister for the Environment of the City of Melbourne’s ‘in principle’ support for the proposed GRM Wet MRF, subject to financial assistance being provided from the State Government.

Finance

27. Based on current rates of waste generation, the Wet MRF will entail domestic waste processing costs of approximately \$1.7 million per annum, compared with current landfill costs of approximately \$500,000 per annum. These costs will be substantially reduced over the first six years if State Government funding as approved. This initial funding is estimated to reduce Council’s annual domestic waste processing costs to approximately \$1.2 million. These figures do not include the costs of Council’s commingled recycling service. These costs will need to be considered in the development of future budgets.
28. The Wet MRF attracts a gatefee of \$81.00/tonne. The net gatefee to the City of Melbourne would be reduced by a number of factors which are outlined in Attachment 1 and summarised in the following table:

Gatefee (per tonne)	LANDFILL	WET MRF	Gatefee (per tonne)
Current Gatefee, including landfill levy \$27.90	27.90	81.00	\$81.00 Total gatefee
			\$79.65 Reduced by \$2 million RESF grant
			\$73.65 Further reduced by organics rebate
			\$55.00 Estimated net gatefee after further adjustment from a \$18.8 million Sustainability Fund Grant
NOTES: <ul style="list-style-type: none"> • RESF is the Renewable Energy Support Fund • The RESF grant and organics rebate are administered by Sustainability Victoria • The funding referred to above is subject to State Government approval • If approved, funding from the Sustainability Fund and the organics rebate will apply for five to six years • After the five to six year period, the gatefee will revert to \$79.65/tonne • The proposed grants are directed to the contracted throughput of the facility from all participating councils, not just the City of Melbourne. • The above costs do not include transport and disposal of residual waste to landfill 			

Other Implications for the City of Melbourne

29. The proposed contract does not necessitate a change from City of Melbourne’s current two bin system, and dry recyclables will continue to be collected through Council’s commingled service and delivered for sorting to SKM Recycling. This 10 year contract commenced on 1 May 2005. However Council may choose to operate a single bin system in certain circumstances and this arrangement could commence from the beginning of any wet MRF contract (eg. from July 2009). For example, a single bin system may present a practical way of recovering resources from high rise apartments which are inadequately designed for the separate collection of recyclables (See paragraph 8.1)

30. In November 2005, the Committee gave direction for many actions to be undertaken, including the following in relation to the processing of residential waste for resource recovery under the proposed Wet MRF:
 - 30.1. prepare a report for Council recommending endorsement of the Lord Mayor's stated 'in principle' support for the Wet MRF;
 - 30.2. conduct a broad cost-benefit analysis of collecting waste and recyclables using a single bin system, compared with the current two bin system; and
 - 30.3. conduct a more specific analysis of the geographic areas within the City of Melbourne where the collection of waste and recyclables using a single bin would deliver a positive triple bottom line outcome.
31. The City of Melbourne's current contract for waste disposal at the Wyndham landfill expires in June 2006, with an option for a two year extension.
32. The City of Melbourne's current waste collection contract expires in April 2007, also with an option for a two year extension.
33. No adverse change to the overall costs of collection and transport are expected. In fact, it is likely that the shorter distance to the proposed Brooklyn site of the Wet MRF, compared to the Wyndham landfill, may result in a cost saving.
34. The timing of these contract commitments will make it possible for the City of Melbourne to start directing some or all of its municipal waste to the Wet MRF from July 2008, subject to the anticipated timeframes for construction, commissioning, and commencement of full operations.

State Government Reforms to Waste Management Structures

35. In September 2005, the State Government announced that the four metropolitan Regional Waste Management Groups will be amalgamated into a new Metropolitan Regional Waste Management Group (MWMG). The new organisation is planned to commence in July 2006, subject to the passage of legislation in autumn 2006.
 36. The MWMG will have the capacity to enter into contracts with service providers as principal, supported by back to back contracts with councils.
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Attachment:

1. Financial Information

PROPOSED GRM CONTRACT - FINANCIAL INFORMATION

1. The City of Melbourne's landfill disposal gatefee is \$27.90/tonne including EPA landfill levy. Through indexing, the gatefee will be \$30.74/tonne by 30 June 2008, including levy.
2. Future landfill costs beyond this date are not known, and will depend on State Government policy as well as market factors. The State Government is expected to continue imposing stricter environmental standards on the management of landfills.
3. The wet Materials Recovery Facility (MRF) attracts a gatefee of \$81.00/tonne. This gatefee is affected by a number of factors:
 - 3.1. A \$2 million Renewable Energy Support Fund grant will reduce the gatefee to \$79.65/tonne, if approved by Sustainability Victoria.
 - 3.2. An organics rebate is estimated to reduce the gatefee by a further \$6/tonne to \$73.65/tonne over the first five years of the contract, if approved by Sustainability Victoria.
 - 3.3. An interest-accruing \$18.8 million grant from the Sustainability Fund will significantly reduce the gatefee if approved by the State Government. If approved, the adjusted gatefee is estimated to be \$55/tonne over the first six years of the contract.
 - 3.4. Indexing will apply to the gatefee from a date to be agreed upon between 2004 and 2005.
 - 3.5. The wet MRF gatefee does not include:
 - 3.5.1. The costs of transporting and disposing residual waste to landfill, which is estimated to be \$8.20/tonne of total waste supplied to the wet MRF. Residual waste is the proportion of waste that remains after the recoverable resources have been removed by the wet MRF.
 - 3.5.2. An annual profit share arrangement, under which councils will receive 50% of renewable resource revenue per tonne in excess of \$30/tonne of waste processed. This revenue comprises revenue from recyclable products, organic products, renewable energy, renewable energy credits and environmental credits.
 - 3.5.3. A royalty of \$10/tonne of alternative waste processed at the wet MRF. This applies to waste from commercial and industrial sources, and municipal waste from outside councils. However this only payable provided minimum tonnage requirements are met by participating councils.
 - 3.6. The Western RWMG estimates that the above three factors may deliver a net saving to councils, leading to an estimated net gatefee of \$43.65/tonne while the Sustainability Fund grant and organics rebate are in operation. However, there is considerable uncertainty about projections of royalty and profit share revenue.
4. Excluding profit share and royalty revenue, the estimated net gatefee is \$63.20/tonne while the Sustainability Fund grant and organics rebate are in operation. This equates to approximately \$32 per household per year, or twice the landfill gatefee applying at June 2008.
5. Once the Sustainability Fund grant and organics rebate expire, the gatefee will revert to \$79.65/tonne, not including the cost of transporting and disposing of residual waste (estimated to be an additional \$8.20/tonne of total waste supplied to the wet MRF). In total, this equates to approximately \$46 per household per year. This figure does not take profit share and royalty revenue into account.

FINANCE ATTACHMENT

**WASTE MANAGEMENT – WET MATERIALS RECOVERY FACILITY (MRF)
TENDER**

Funding of \$0.674M has been provided in the proposed 2006/07 budget for disposal and tipping costs.

This paper recommends committing Council to an additional \$1.1M per annum and an additional \$22M over the 20 year life of the contract.

Joe Groher
Manager Financial Services

LEGAL ATTACHMENT

**WASTE MANAGEMENT – WET MATERIALS RECOVERY FACILITY (MRF)
TENDER**

Council is a member of the Western Regional Waste Management Group (“WRWMG”) which was established pursuant to section 50F of the *Environmental Protection Act 1970*.

Section 186 of the *Local Government Act 1989* applies if Council is expending money for goods or services or for the carrying out of works to the value of \$100,000.00 or such higher amount and the tender process was coordinated by the WRWMG.

Council is bound by the contract upon entering into it but no obligations arise until the performance of the conditions precedent as set out at clause 2 of the draft contract together with the threshold requirements set out at paragraphs 2.1.1 to 2.1.8 of the report.

With respect to any liability arising under the contract, the contract provides that other than as provided for in the *Environment Protection Act 1970*, no party is liable jointly and severally in respect of any obligation under or any liability arising out of the contract.

Legal advice will be provided as required in relation to the negotiation, execution and delivery of the proposed contract.

Instrument of Delegation

On 26 April 2005 the Council resolved to delegate to the Planning and Environment Committee the power, duties and functions directly relating or ancillary to Environmental Issues and Initiatives, and Waste Management and Minimisation.

Alison Lyon
Manager Legal & Governance