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By email only

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15 October 2015

Email:Neil.Evans@Leeds.gov.uk

Dear Neil

Leeds City Council - Residual Waste Treatment PFI Project

1. Thank you for the recent papers provided via your WIDP Transactor relating to your Authority's proposal to exercise two options under the terms of the Project Agreement dated 7 November 2012 between (1) your Authority; and (2) Veolia ES Leeds Limited relating to the design, construction, operation and maintenance of residual waste treatment facilities in Leeds (the "**Project Agreement**").
2. These two options are:-
 - a. an option to pay a capital contribution to the Contractor, Veolia ES Leeds Limited, pursuant to clause 43.4 of the Project Agreement; and
 - b. a right to exercise the non-reverting asset option pursuant to clause 3.5 of the Project Agreement,(together, the "**Options**").
3. From a contractual perspective, you have confirmed and I acknowledge that these Options are exercisable by your Authority under the terms of the Project Agreement. I am advised by you that neither Option would necessitate a variation to the Project

Agreement. Rather, these Options can be exercised and the consequences managed within the terms of the Project Agreement as agreed at contract close.

4. You are of course aware that your Authority's proposal requires Defra's prior written approval under the terms of Defra's Waste Infrastructure Credit Letter issued to your Authority on 17 December 2012 (the "**WIC Letter**"). Defra's decision is set out below.

Options Approval

5. Defra has considered your request under Condition 2(i)(a) and 2(i)(b) of the WIC Letter. On the basis of the information that you have provided to date, I can confirm that Defra has approved your Authority's proposal to exercise the Options.
6. Defra has also considered your request in the light of Condition 3 of the Annex to the WIC Letter. Defra is satisfied, on the basis of the information that you have provided, that exercising these Options would not amount to a material change under Condition 3. It follows that there is no need to issue a new Waste Infrastructure Credit Letter under Condition 3. Grant funding to your Authority's project remains subject to the terms and conditions of the WIC Letter.

Recycling Initiatives

7. I take this opportunity to remind you of the Authority's position in respect of its recycling strategy as set out at page 22 of the Final Business Case dated 25 May 2012:

"The OBC set out the City Council's waste strategy including a target for achieving recycling levels in excess of 50% of household waste by 2020. The City Council is still on target to achieve this position and the ongoing commitment to roll out the recycling strategy referred to in the OBC remains the same. The core principles of this strategy are:

- *fortnightly collections of SORT;*
- *weekly collection of food waste (subject to successful pilot);*
- *fortnightly residual waste collections (where food collection is in place); and*
- *fortnightly garden waste collection."*

8. As you will be aware, these assurances formed part of the basis for the allocation of Waste Infrastructure Credits to your Authority's project.
9. In section 7 of the note you recently provided to Defra entitled "*Implementation of Non Reverting Asset Option and a Capital Contribution as set out in the Project Agreement*", you indicate that a significant factor in the achievement of your Authority's recycling targets is food waste collections. It is then noted that your Authority has been unable to

expand its food waste collection scheme to more than 4,500 additional homes due to lack of resources.

10. In view of the substantial savings it expects to make from exercising the Options, Defra would strongly encourage your Authority to review opportunities to undertake the necessary recycling initiatives (not limited to food waste collections) to support further improvement.

Yours sincerely



Nigel Atkinson

Programme Director

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Cc Amanda Pitt Leeds City Council

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Daryl Hill – WIDP Transactor