



Report of the Director Environment and Neighbourhoods

Executive Board

Date: 14th November 2007

Subject: Waste Solution for Leeds – Submission of the Outline Business Case for the Residual Waste Treatment Project

Electoral Wards Affected: All	Specific Implications For: Equality and Diversity <input type="checkbox"/> Community Cohesion <input type="checkbox"/> Narrowing the Gap <input type="checkbox"/>
Eligible for Call In <input checked="" type="checkbox"/>	Not Eligible for Call In <input type="checkbox"/>

EXECUTIVE SUMMARY

The purpose of this report is to obtain Executive Board approval for the submission of an Outline Business Case (OBC) to DEFRA for PFI credits to support the proposed Residual Waste Treatment project.

The arguments for moving forward are compelling from both an environmental and economic point of view. Disposal to landfill is the least favourable waste management option, due to the associated greenhouse gas emissions and impacts on climate change, and moving away from landfill is a fundamental principle of the Integrated Waste Strategy for Leeds.

Leeds City Council's strategy includes targets for achieving recycling levels in excess of 50% of household waste by 2020. However, achievement of this target will still leave an estimated 180,000 tonnes of non-recycled (or residual) waste for processing. No major UK city, nor the Government itself, is relying upon residual waste being eliminated. There is unity on the need to avoid landfill, and this is the basis for the development of a treatment technology solution.

It is, of course, conceivable that recycling performance will exceed these targets, and the proposed procurement strategy will ensure that future contracts provide the flexibility to accommodate reduction and recycling performance above targeted levels and will not put a ceiling on achievements in these areas.

Following approval of the Expression of Interest for PFI credits, the Council has developed its OBC, with DEFRA willing to reserve PFI Credits of a minimum of 50% of the relevant capital investment value of the residual waste treatment project (equivalent to £63.05m). The OBC (and its appendices) forms an appendix to this report and has been posted on the Council's website, and details are available from the clerk named on the front sheet.

The Government requires the Council to develop its OBC around a reference technology, against which costs can be evaluated, and a reference site within the Council's ownership or control.

As a result of the options appraisal completed by the Council in 2005, Energy from Waste was identified as the reference technology for inclusion in the OBC. However, it is acknowledged that some alternative technologies have gained credibility since the completion of the options appraisal, and the Council will therefore ensure that there is full opportunity for a range of solutions to come forward during procurement.

The Council has also identified a short list of suitable sites for residual waste treatment facilities following completion of a major, city-wide site selection study based on national, regional and local planning guidance and criteria. These sites have now been identified within the 'Preferred Options' stage of the Aire Valley Area Action Plan, which was approved by Executive Board on 11th September 2007. The wholesale market site is the only one of these four which is in the Council's ownership and the OBC therefore proposes moving forward with this as the reference site, but providing full opportunity for other sites to come forward from, or in addition to, the short list.

The report sets out details of the proposed procurement strategy and objectives, and the anticipated timescales for project delivery. The proposed approach to procurement, consistent with Defra's advice, will be that the Council adopts the principle of a neutral stance on both technology and sites, in order to encourage competition and ensure the most environmentally sustainable solution is identified. All bids received will be evaluated on the basis of environmental, technical and commercial considerations and it is intended that a further report will be provided to the Executive Board incorporating the evaluation model for approval.

The report provides an assessment of Value for Money and affordability. The report also shows a range of comparative costs of the reference project against continuing to landfill residual waste, in particular demonstrating the impact of potential future increases in landfill costs.

The recommendations for Executive Board Member approval are included at the end of this report.

1.0 Purpose Of This Report

1.1 The purpose of this report is to obtain Executive Board approval for the submission of the Outline Business Case to DEFRA for the Residual Waste Treatment project.

2.0 Background Information on the Waste Solution Programme

2.1 The Executive Board has agreed an Integrated Waste Strategy for Leeds which sets out to reduce the impact of waste on the environment. The Council sets out to reduce waste generation, reuse waste, increase recycling, recover value from non-recycled waste and significantly reduce the amount of waste going to landfill, with an aspiration to send zero waste to landfill.

2.2 Reducing the emission of greenhouse gases and their effect on climate change is the primary basis on which European and national policy on waste has been developed. The disposal of biodegradable waste to landfill results in emissions of methane, a greenhouse gas which contributes to global warming. Methane is over twenty times more damaging in global warming terms than carbon dioxide and this means that landfill has the worst environmental impact of any waste disposal option. Moving away from landfill is a fundamental principle around which the strategy for Leeds is based.

- 2.3 The Government has also accelerated the rate of increase in landfill tax from £3 per tonne to £8 per tonne per annum from April 2008 until March 2011. This will take landfill tax to £32 per tonne next year and increase disposal costs by over £2 million each year if we continue to landfill waste at the current rate.
- 2.4 The Landfill Allowance Trading Scheme (LATS) was introduced in 2005/06 as a mechanism of ensuring compliance with the European Union targets on the reduction of biodegradable waste sent to landfill. Leeds is issued with an ever decreasing number of LATS permits. Permits can be bought from other local authorities at a price determined by market forces. A penalty of £150 per tonne is payable for each tonne of waste landfilled without a permit. Penalties become a reality if there are insufficient permits nationally to cover the total amount of waste landfilled.
- 2.5 If the UK as a whole fails to meet its EU targets for the diversion of biodegradable municipal waste, the European Parliament can impose fines of up to £500,000 a day. The UK Government has indicated that it may pass on those fines to the local authorities failing to meet their landfill diversion targets.
- 2.6 On the 18th October 2006, Members approved the Integrated Waste Strategy for Leeds 2005-2035. In the light of the above, the strategy contains three main targets, which were revised by Executive Board at their meeting on 11th September 2007. They relate to waste growth, the level of recycling and the recovery of value from waste.
1. To reduce the annual growth in waste per household to 0.5% by 2010 and to eliminate growth per household by 2020 (with the effect of reducing our overall arisings by 10% as compared to previous forecasts);
 2. To achieve a combined recycling and composting rate of greater than 50% of household waste by 2020 (an increase on the previous target of 40%);
 3. To recover value from 90% of all household waste by 2020.
- 2.7 The means of achieving these three main targets are firstly through continuing to develop opportunities to reduce and reuse waste, but also through the implementation of a short to medium term strategy for the period 2008 to 2014 that will require a range of recycling service developments, and through a long term technology solution for residual waste, programmed to commence operations in 2014.
- 2.8 The Council is committed to ensuring that its residual waste management choice does not place a ceiling on the level of recycling that can be achieved in the future or deter initiatives to reduce waste arisings.

3.0 Recycling and Residual Waste Treatment

- 3.1 Members of the Board will be aware that the Council's Expression of Interest for PFI credits to DEFRA was successful, with DEFRA willing to reserve PFI Credits of a minimum of 50% of the relevant capital investment value of the residual waste treatment project. DEFRA has requested that the City Council develop and submit an Outline Business Case, setting out the City Council's proposals for the treatment of residual waste with the primary objective of achieving landfill diversion targets. The OBC (and its appendices) forms an appendix to this report and has been posted on the Council's website, and details are available from the clerk named on the front sheet.
- 3.2 Officers believe that implementing the short to medium term strategy will enable the City Council to achieve its target of recycling 52% of household waste by 2020, with continued increases beyond this time. It should be noted that the proposed strategy makes theoretical provision for achieving up to approximately 70% recycling. The proposed recycling initiatives include the following:

- Increasing the frequency of existing kerbside SORT collections (dry recyclables) to fortnightly;
- Adding glass to the range of materials collected;
- Introducing garden waste collections to all suitable properties;
- Providing weekly black bin collections of food waste and, where this is done, introducing residual waste collections on a fortnightly basis.

3.3 The strategy involves the retention of a weekly collection of waste, and indeed constitutes an increase in the five collections of recyclables and waste currently provided to most properties in Leeds every four weeks, to ten collections every four weeks. The introduction of weekly kerbside collections of food waste is also supported in the Government's Waste Strategy for England 2007.

3.4 It should also be noted that, although the Government has been formally consulting on proposals to remove the ban on local authorities introducing household financial incentives for waste prevention and recycling, it is not the Council's intention to implement new charging schemes for waste collection.

3.5 Notwithstanding the proposed recycling strategy, even after the Council has achieved its recycling target, detailed analysis has shown that the Council would still require treatment capacity of approximately 180,000 tonnes of residual waste per annum.

3.6 In preparing the Outline Business Case for PFI credits, which sets out a formal request for a specific level of credits that has been agreed with DEFRA, the Council is required to establish a reference project and technology against which costs can be evaluated. The Council is also required to put forward a site either in the Council's ownership, or control, for bidders to use as a potential location for the waste facility. The Outline Business Case is therefore, by necessity, based upon a reference project and technology, and on a reference site within the Council's ownership. However, when procurement commences, bidders will be requested to submit a range of alternative solutions that meet the Council's output and performance specification. The proposed approach to procurement will be that the Council adopts the principle of a neutral stance on both technology and sites, in order to encourage competition. All bids received will be evaluated on the basis of environmental, technical and commercial considerations.

3.7 The reference project forms the basis of the financial modelling for the OBC. If the outcome of the evaluation leads to an alternative solution being selected there may be an impact on the financial model including a shift in the balance of the capital and revenue elements.

3.8 The reference project has been based on an assessment by officers and external advisers of the most probable scenario for waste arisings and recycling levels. It is, of course, possible that recycling performance will exceed these estimates, and the proposed procurement strategy will ensure that future contracts provide the flexibility to accommodate reduction and recycling performance above targeted levels.

3.9 Increases in recycling substantially in excess of the most probable scenario would be required to enable Leeds to meet its landfill diversion targets without the use of a residual waste treatment facility. Even the most optimistic assessment would not see Leeds reach the diversion levels that can be delivered through residual waste treatment, thus significant amounts of waste would still be sent to landfill. In addition, relying on recycling alone would result in the Authority being exposed to significant financial risks, outlined in Section 8.

4.0 Technology

4.1 In arriving at the reference project, the Council has undertaken an appraisal, in conjunction with its technical advisors, of a range of technology solutions. One of the key criteria evaluated in this appraisal was the ability of the technologies to divert biodegradable

municipal waste from landfill. These included commercially established technologies and emerging technologies.

- 4.2 The options appraisal methodology has been applied to provide a robust and transparent means of evaluating the various technical options against a range of weighted criteria. The criteria, in addition to landfill diversion, considered other relevant factors so as to provide a balanced assessment.
- 4.3 The technology options were therefore assessed against a range of non-financial criteria at a stakeholder workshop in November 2005, involving Elected Members, senior Council officers, regional government officers, external advisors and representatives from community/environmental groups
- 4.4 A detailed financial appraisal of the technology options has also been completed by PricewaterhouseCoopers on the Council's behalf. The approach to the financial options appraisal has been to model the costs of the technology options to provide Net Present Values (NPVs) over a theoretical 28 year contract period, which allow the costs to be compared on an equal basis.
- 4.5 The results of the options appraisal were considered carefully to identify the technology for the reference project. The Energy from Waste (EfW) option scored consistently well across all appraisal criteria. EfW was the best performing option, achieving the highest ranking in terms of cost and 'benefit' criteria, and the highest ranking of all of the technological solutions in terms of risk. Based on the outcome of the appraisal and the operating experience of the technologies at the time of its completion, EfW has been identified as the preferred option to take forward to the reference project.
- 4.6 Mechanical Biological Treatment (MBT) is generally viewed as the main credible alternative to EfW, with other new technologies currently having little or no track record of operating on a commercial scale within the UK or indeed in Europe.
- 4.7 Three MBT options were evaluated as part of the original technology options appraisal in 2005. The primary reasons for MBT not scoring as highly as EfW were:
 - the significant uncertainty around the availability of markets for the outputs from these processes;
 - the associated costs and environmental impacts of having to landfill this material;
 - the costs of having to develop a dedicated thermal treatment facility, in addition to the MBT facilities, to process these outputs so as to ensure that landfill targets were met.
- 4.8 However, whilst these are still key issues associated with MBT, this technology is beginning to gain credibility, and the position around availability of markets for outputs may improve. As previously mentioned in section 3, the Council, consistent with Defra's advice, will therefore encourage other proven and deliverable solutions to come forward. In the light of potential changes and advances in waste treatment technologies, a partial or wholly alternative solution may therefore be selected, assuming its performance meets the Council's requirements.
- 4.9 This strategy is consistent with the current procurement rules, which aim to ensure a fair and transparent competition. The Council cannot preclude a solution nor state a clear preference ruling out other solutions unless there is a good reason related to the Council's desired outputs. Given the advances in waste treatment technologies (both in terms of performance and cost) and the developments in the private sector waste market since the technology options appraisal was completed in 2005, it is felt that the final decision on technology should only be taken after a thorough evaluation of potential solutions offered during the procurement. To do otherwise would not be consistent with procurement rules and may not offer best value for the Authority. This approach is in line with advice received from DEFRA in response to the submission of our Expression of Interest.

5.0 Reference Site

- 5.1 Central Government (DEFRA and the Project Review Group (PRG) which acts as the gateway for projects to commence procurement on behalf of HM Treasury) has set out a mandatory requirement for all new waste PFI projects that a site either in the Council's ownership or control (control could be via a legally binding Option to Purchase) is available for bidders to use as a potential location for the waste facility. This does not preclude the use of other sites in the procurement but is to ensure that the project is deliverable. This criterion was introduced after a number of earlier schemes failed due to a suitable site never being secured.
- 5.2 The Leeds UDP was reviewed in 2005, and includes criteria based waste policies. Pending the scheduled development of the Waste Development Plan Document (DPD), which will form part of the Leeds LDF, the Council has completed a robust and comprehensive city-wide site selection study based on national, regional and local planning guidance and criteria to identify sites for major waste facilities. This forms an appendix to the OBC.
- 5.3 The principal purpose and outcome of the study was to complete a city wide 'search and sieving exercise' to identify a suitable site for a major residual waste treatment facility by applying planning selection criteria and comparative assessment. The criteria for the site selection study reflect national, regional and local objectives on waste.
- 5.4 The preferred sites identified as a result of the site selection study are:
- The site of the former wholesale market on Pontefract Lane owned by Leeds City Council;
 - Operational land within Knostrop sewage treatment works;
 - The site adjacent to the sewage treatment beds on Pontefract Lane;
 - The site of the former Skelton Grange power station.
- 5.5 These sites are all within the Lower Aire Valley area which contains 440 hectares (800 acres) of potential development land and is expected to provide over 50 per cent of the city's employment growth over the next ten to fifteen years. Good transport links will be provided by the new East Leeds Link Road which will connect with Leeds City Centre and its Inner Ring Road Stages 6 and 7. All the sites selected have been previously developed, are located strategically to serve the whole city and are in the vicinity of other industrial uses.
- 5.6 The sites have therefore now been identified as suitable for waste management uses within the Preferred Options stage of the Aire Valley Area Action Plan, which was approved by the Executive Board on 11th September 2007. National planning guidance recognises Area Action Plans as one form of Development Plan Document suitable for advancing proposals for waste management facilities.
- 5.7 The wholesale market site is the only one of these four which is in the Council's ownership and the OBC therefore proposes that the project moves forward on the basis that this site constitutes the reference site, but providing full opportunity for other sites to come forward from, or in addition to, the list above.

6.0 Procurement Strategy

- 6.1 In most purchasing situations there is existing commercial infrastructure or service in existence that can fill the need either in part or in full. The waste industry in the UK, however, is different, in that it is only recently that legislation has imposed changes to traditional collection and disposal operations. The result has been that the capacity for recycling, and for the treatment of waste other than by disposal to landfill, has been lagging behind demand.

- 6.2 Merchant capacity is not available within the proximity of the Leeds area in sufficient quantity to satisfy the needs of Leeds City Council and it is not likely to arise without a base load supply contract. Other neighbouring authorities appear to be sourcing their own capacity requirements only with minimal and reducing capacity for third party waste. Leeds cannot take the risk of waiting for merchant capacity to become available due to the impact of LATS and landfill tax costs, as it may not arrive in time, if at all.
- 6.3 The residual waste treatment technology will be procured using SoPC4 (standard PFI contract documentation) and the Competitive Dialogue procedure now standard for all PPP projects of this type. This approach is structured to allow dialogue with potential bidders to explore technical solutions available and the financial and contractual means by which they may be delivered. It is designed to allow varying solutions across the bidders and alternative solutions to be brought forward.
- 6.4 Furthermore, DEFRA, through the Waste Infrastructure Delivery Programme (WIDP), has indicated that it considers that the type of contract necessary for the procurement of large scale residual waste treatment facilities meets the requirements allowing the use of Competitive Dialogue, and that this route should be used.
- 6.5 This approach has the benefits of delivering optimum risk transfer, and allows the bidders to bring forward different solutions to deliver the required objective, thereby taking advantage of their knowledge of the industry, emerging technologies and existing market capacity in the form of existing plants built for other contracts and merchant facilities.
- 6.6 The programme for the project, which is anticipated to remain unchanged irrespective of the selected technology until contract signature in April 2010, is that procurement will commence in June 2008 with contract signature programmed for April 2010, and financial close in April 2011. Construction will commence on a two year programme in April 2011 completing in April 2013. The period from April 2010 to April 2011 will be used for the contractor to obtain planning permission for the plant which will require a detailed Environmental Impact Assessment prepared during the procurement period. A one year commissioning period is anticipated following construction enabling the plant to become operational by April 2014.
- 6.7 The contract will continue for a further 24 years under the management of the contractor with the plant coming under the ownership and control of the Council at the end of the contract in 2038.
- 6.8 The City Council must at the outset of the procurement be clear on how the procurement will be undertaken. Any significant change to the Council's published OJEU notice would require re-advertisement and therefore cause potential delay, cost impact and higher risk implications. Additionally, once the criteria for award of the contract are published, the Council may only amend these in very limited circumstances.

7.0 Contract Objectives and Project Scope

- 7.1 The contract objectives are set out in the table below which will determine the output specification development. The output specification will be developed in accordance with 4ps guidance for waste PFI procurements. It is stressed that the contract is open to any technology, provided that it can deliver to the output specification.
- 7.2 It is envisaged that the technology will be delivered primarily to treat the Council's waste. However, it is not intended that this should restrict the facility's ability to take third party waste on the basis that this could deliver added value for money (i.e. waste could be accepted on the basis that any savings realised would be expected to subsidise the Council's unitary charge) subject to considerations of sustainability. Assessment of this opportunity will be dealt with in the contract evaluation framework.

7.3 The scope of the project and possibly the procurement will require the transfer of waste to the treatment facility. Leeds is a large geographical area which makes transfer loading operations an integral element of waste management. While the Council considers that it may be value for money to include the transfer station in the scope of procurement, the level of PFI Credits applied for is for 50% of the capital value of the residual waste plant only. It is therefore part of this report that the cost of this facility be covered by the Council through the Unitary Charge.

Table 1

Contract Criteria	Anticipated Scope and Performance Indicators
Contract structure	The contract will be a PPP/PFI type procurement on the basis of an output specification that will be in accordance with 4P's guidance. The contract will cover design, build and operation of the facility.
Contract scope	The Council will seek a contract to provide for treatment of 182,000 tpa of residual municipal waste from household kerbside, household waste sorting sites and Council trade collection services. Options within the standard bid will include operation of a transfer station
Contract duration	24 operational years with three years development
Recycling Performance	Facilities operated will not prejudice the Council's continued efforts to maximise overall recycling rates in the City. The facility will include recovery operations that contribute to the Council's recycling performance.
Flexibility to adapt to changes in waste volumes, composition, collection arrangements, regulation and legislation	<ul style="list-style-type: none"> • Facility has sufficient flexibility to accommodate variations in the growth in waste; • Contractor is responsible for cost-effective utilisation of spare capacity through third party contracts; • The process is tolerant of long-term changes in waste composition including as a result of high recycling performance; • Both parties will be able to implement improvement and initiate change through an agreed change mechanism incorporating defined response times.

8.0 Financial Issues

8.1 This section of the report deals with the financial issues relating to the residual waste treatment project. The main financial elements relate to Value for Money and Affordability

8.2 The table below shows a range of comparative costs of the reference project against continuing to landfill residual waste. The reference project finance modelling is based on the assumption that landfill tax stays at £48 per tonne from 2011 onwards – the government have not announced their intentions beyond this point. If this remains the case, diverting waste using residual waste treatment technology is more expensive than landfill. However, it is widely anticipated that landfill tax will continue to rise beyond that point to become more in line with other EU Member States. The current levels of landfill tax in the Netherlands and Austria, for example, are at approximately £61 per tonne, and are still being subject to regular increases. The 'break even' figure for landfill tax, assuming LATS at £30, is £60.40. At £72 per tonne, a scenario which would require only three further years of increases above current notified tax rates, the reference project is £17.1m cheaper over the 25 year life of the reference project.

Table 2 Summary Analysis of Total Costs Inc Service Developments & All Disposal / Recycling /LATS & Unitary Charge

<u>PERIOD 2008/9 TO 2037/38</u>			LFT remains at £48 / LATS at £30	LFT remains at £48/ LATS at £50	LFT at current EU High £61/ LATS at £30	LFT at current EU High £61/ LATS at £50	LFT at £72/ LATS at £30	LFT at £72/ LATS at £50
<u>NET PRESENT VALUE COSTS</u>	L'fill %	Re-cycling %	£000	£000	£000	£000	£000	£000
Current approved budget 2007/08 for recycling & disposal	75%	25%	170,380	170,380	170,380	170,380	170,380	170,380
Do nothing	75%	25%	381,396	413,769	424,622	456,995	458,009	490,383
Service dvlpmnts + landfill residual	48%	52%	478,034	488,498	504,951	515,416	525,471	535,936
Service dvlpmnts + treat residual waste	10%	52%	496,429	487,699	504,127	495,397	508,383	499,654
Variance (btwn Treatment and LF)	-38%		18,395	(799)	(824)	(20,019)	(17,088)	(36,282)

*note – the above table assumes that the landfill gate fee rises by the retail price index only

8.3 The price of LATS is also expected to rise as the number of available permits nationally diminishes. The reduction in available LATS is particularly steep between 2010 and 2013, during which time Leeds is in a deficit position. There is some doubt as to whether sufficient treatment capacity will be available to allow the UK to meet its EU targets and, if this were the case, some local authorities could face penalties of £150 per tonne

8.4 Value for Money for the Public Sector – PFI Projects

8.4.1 PFI Projects must demonstrate Value for Money (VFM) to the Public Sector before DEFRA and HM Treasury's Project Review Group will give formal approval to confirming the award of PFI Credits for Residual Waste Treatment Project and the formal procurement of the Project can commence.

8.4.2 A quantitative assessment of value for money has been undertaken using the HM Treasury Guidelines (revised November 2006), which is attached as an appendix to the Outline Business Case.

8.4.3 Under HM Treasury guidelines there is no formal Public Sector Comparator (PSC); the PSC is effectively calculated using the HM Treasury spreadsheet based upon data contained within the Whole Life Cost Model developed with the City Council by the Council's external technical adviser, Jacobs.

8.4.4 The approach, methodology and assumptions made in making the VFM assessment are set out in detail in section 8 of the Outline Business Case. After the data has been input into the HM Treasury Model, and based upon assumptions that HM Treasury have built into the Model, the resultant output demonstrates that the Project offers value for money through the PFI route with a VFM margin of 3.22%. HM Treasury also requires some sensitivity analysis, and the results of this analysis are set out in Section 8 of the Outline Business Case and illustrates that the Unitary Charge would have to increase by 3% before the VFM margin is eroded.

8.5 Affordability of the Project to the City Council – Reference Plant

- 8.5.1 The affordability implications of the reference Waste Solution Project are also set out in Section 8 of the Outline Business Case, and the estimated annual cash flows of the PFI project are set out in this report.
- 8.5.2 The revenue implications of the reference PFI Project are the product of the Unitary Charge (or gate fee) payable to the PFI Contractor, financed from the revenue support from Central Government resulting from the level of PFI credits awarded for the Project through PFI Revenue Support Grant.
- 8.5.3 The Unitary Charge in the first full year of the operations is estimated to be £20.867m, Over the life of all PFI Projects, a proportion of the Unitary Charge increases each year due to inflation. For this Project 50% of the Unitary Charge will be fixed during the life of the Contract and the remaining 50% subject to the RPIx (or equivalent) price index. Energy consumption risk remains with the PFI Contractor whilst the price risk rests with the City Council.
- 8.5.4 The most significant external source of funding for the Reference EFW Project is derived from the PFI Revenue Support Grant arising from the notional credit approval afforded by PFI Credits. For Residual Waste Management projects, DEFRA has confirmed that it will reserve, as a minimum, PFI credits equivalent to 50% of the relevant capital costs of the Project, which are estimated to be £126.1m, with PFI credits estimated at £63.05m This level of credits will produce annual PFI Revenue Support Grant in 2014/15 of £4.776m.
- 8.5.5 After taking into account the receipt of PFI Revenue Support Grant there will be annual deficits (referred to as the “Affordability Gap”) to be financed by the City Council. A summary of the estimated cash flows for that year and over the life of the Contract is summarised in the table below, and set out in detail in the Annexe to this report.

Table 3

Estimated Project Cash Flows	First Full Year 2014/15 £000	Total Over the Life of the Contract £000
Unitary Charge	20,867	579,853
Contract Management costs	100	3,235
Total costs	20,967	583,088
PFI Revenue Support Grant (£63.05m of PFI Credits)	(4,776)	(119,235)
Deficit(s) to be financed by the City Council	16,191	463,853
Net Present Value at 2008/09	10,706	161,602

Note: These NPV costs are included in the total costs included in Table 2

8.6 Price Sensitivity Analysis

- 8.6.1 Changes in the macro-economic environment could impact on both the price and the affordability of the Project. HM Treasury’s Project Review Group requires that a number of scenarios are modelled to illustrate the possible impact on the Unitary Charge and these are illustrated in the table below.

Table 4

Price Sensitivities	First Full Year Unitary Charge £000
Capital Cost sensitivities	
Minus 5%	20,162
Plus 5%	21,572
Operating cost sensitivities	
Minus 5%	20,644
Plus 5%	21,090
Combined capital and operating cost sensitivities	
Minus 5%	19,940
Plus 5%	21,795
Interest SWAP rate sensitivities	
Minus 50 basis points (- 0.5%)	20,325
Plus 50 basis points (+ 0.5%)	21,420
Contractor Internal Rate of Return	
At 15%	20,867
At 17%	21,957

- 8.6.2 In order to meet its commitments to delivering a sustainable waste strategy, the Council will inevitably be required to devote significant levels of spending to support its ambitions. The arguments for moving away from landfill are primarily environmental rather than economic. The extent to which financial and regulatory penalties will support the argument are uncertain but it is the judgement of officers that a combination of known pressures from the EU to reduce landfill and trends in governmental policy point to the probability that a failure to move away from landfill will also be more costly to the Council.
- 8.6.3 At the end of 2006/07 (the second year of the LATS scheme), Leeds has a confirmed surplus of LATS permits equivalent to 69,564 tonnes which will be carried forward into the 2007/08 LATS year. It is anticipated that by the end of 2008/9 with the recycling initiatives being planned, this would increase the projected surplus to around 75,000 tonnes. As a condition of the scheme, these must be sold or they will have no residual value as allowances cannot be carried into 2009/10.
- 8.6.4 Given the volume of allowances that Leeds needs to sell between now and the end of 2008/9, it is unlikely that a single buyer will be found, (i.e. it is unlikely that one single authority will require this level of allowances). Therefore allowances need to be sold in blocks which will probably result in different selling prices for each block, depending upon the prevailing market conditions. The income generated from the sales needs to be either used to offset the cost of purchase of LATS from the period 2009/10 to a time when the treatment facility is brought on line, or alternatively the income could also be used as a source of funding for additional recycling services, which would in turn reduce future LATS liabilities.
- 8.6.5 This report proposes that decisions on the sale and purchase of LATS be delegated to the Directors of Environment and Neighbourhoods, in consultation with the Director of Resources at what is considered to be the best achievable price.

9.0 Communication and Consultation Strategy

- 9.1 There has been extensive public consultation on the Waste Strategy for Leeds via the Citizens' Panel, Council newspaper, local media, community forums, local environmental groups, on-line questionnaires, etc. This has indicated that there is strong and widespread support from the people of Leeds for the long-term proposals being put forward for waste prevention, recycling, recovery and landfill diversion.

9.2 Following the conclusion of the consultation at the end of May 2006, the Strategy was adopted by the Council in October 2006. However, the Authority will continue to deliver a structured programme of communication and consultation with the public as the Strategy is implemented, and this will form the primary focus for the ongoing work of Leeds City Council's waste and recycling education team.

9.3 Key milestones throughout the procurement process requiring communication or consultation with relevant stakeholders have been identified. The necessary actions have been included in a communications plan which forms an appendix to the OBC.

10.0 Evaluation Strategy

10.1 The evaluation of bids received for the project will be carried out using an evaluation model which is neutral on technology alternatives but seeks to use proven technology solutions. In addition the sites proposed by bidders will be evaluated on their suitability for the technology to be located at the site. The objective of the evaluation will be to ensure the Council is provided with the most appropriate solution, delivered in a way which minimises environmental impact and located on a suitable site.

10.2 The evaluation model will be prepared over the next few months alongside the development of the bid documentation. It will be completed prior to the commencement of the procurement (i.e. the issue of the OJEU notice), and it is intended that a further report will be provided to the Executive Board incorporating the evaluation model for approval.

11.0 Implications for Council Policy And Governance

11.1 At their meetings on 9th March and 13th October 2005, Members of Executive Board agreed the Corporate Governance arrangements for the procurement of PPP / PFI projects, giving appropriate delegations to the PPP / PFI Co-ordination Board and to specific Project Boards. The procurement of the Residual Waste Treatment Project will be undertaken in compliance with these arrangements, and for this purpose the establishment of a Project Board chaired by the Deputy Chief Executive and comprising the Director of Environment and Neighbourhoods, Assistant Chief Executive (Corporate Governance), Chief Officer (Financial Management), Director of City Development and Chief Officer Public Private Partnerships (or their nominated representative in the case of absence) is proposed.

11.2 The Residual Waste Treatment Project forms one element of an overarching programme of interrelated projects and service activities to deliver the Integrated Waste Strategy for Leeds, otherwise known as the 'Waste Solution'. A Waste Solution Programme Board will be established chaired by the Director of Environment and Neighbourhoods which will provide strategic direction for the Waste Solution, and will ensure the effective implementation of the projects and activities outside of the scope of the Residual Waste Treatment Project.

11.3 Whilst the Residual Waste Treatment Project is a discrete procurement, it will be necessary for its management and governance to be properly integrated with the management and governance of the Waste Solution Programme. For this purpose there will be full documentation in the Residual Waste Treatment Project Initiation Document of the roles and responsibilities of the respective Boards, the integrated approach to risk management across the programme and arrangements to support a high degree of cooperation in relation to project and financial management. The effectiveness of these arrangements will be reviewed before the Project proceeds into formal public procurement.

11.4 It may also be necessary either to extend the responsibilities of the Residual Waste Treatment Project Board, or to establish one or more new Project Boards (with delegated powers) under the Governance Arrangements for PPP/PFI Projects, in order to support the Director of Environment and Neighbourhoods in the delivery of the wider Waste Solution. It is proposed to delegate authority to do this to the Deputy Chief Executive, in consultation with the Director of Environment and Neighbourhoods.

11.5 This procurement is expected to commence during the 2008/09 financial year. Environment and Neighbourhoods is making appropriate provision within its revenue budget for 2008/09 and subsequent years to cover the costs associated with taking the procurement forward.

12.0 Project Risks

12.1 A Project Risk Register has been developed to enable the continuous, monitoring of project risks and means of mitigation, should they arise. A summary of the key risks is reported to each meeting of the Residual Waste Treatment Project Board, and forms an appendix to the OBC.

13.0 Recommendations

13.1 Members of Executive Board are recommended to:

- a) Note the contents of this report;
- b) Approve the submission of the Outline Business Case for the Residual Waste Treatment project to DEFRA;
- c) Note the proposed recycling strategy approved at the Executive Board meeting on 11th September 2007, in particular the proposals to retain a weekly kerbside collection, and to also note the fact that it is not the Council's intention to introduce new charging schemes for waste collection;
- d) Note that the submission of the bid will be based upon a reference site and technology, with no implication that Leeds City Council land or Energy from Waste constitute preferred options;
- e) Agree that the procurement will proceed on a neutral technology and site basis;
- f) Accept the affordability implications of the Outline Business Case and of entering into a PFI contract for the treatment of residual waste from April 2014 to March 2038 as set out in Table 2 of this report.;
- g) Approve the submission of the Outline Business Case in the knowledge that both the procurement process and prevailing macro-economic conditions may affect the Unitary Charge at Financial Close in April 2011, as illustrated at paragraph 8.6 of the report and in Table 4;
- h) Approve the project governance arrangements outlined in section 11 of the report, including the establishment of the Residual Waste Treatment Project Board (with delegated powers), and delegate authority to the Deputy Chief Executive, in consultation with the Director of Environment and Neighbourhoods, to extend the responsibilities of the Residual Waste Treatment Project Board and to establish one or more new Project Boards (with delegated powers) in order to support the Director of Environment and Neighbourhoods in the delivery of the wider Waste Solution;
- i) Note the intention to bring further reports to the Executive Board prior to the commencement of the procurement regarding the project evaluation model;
- j) Agree that decisions on the sale and purchase of LATS be delegated to the Director of Environment and Neighbourhoods, in consultation with the Director of Resources, at what is considered to be the best achievable price.