



EXPRESSION OF INTEREST TO
DEFRA FOR PFI CREDITS
SEPTEMBER 2006

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Version Control

Version 0.1	Distribute to EOI coordination team for comment
Version 0.2	Distribute to wider LCC for comment
Version 0.3	Distribute to Exec Board/Asset Management Group for comment/approval
Version 1.0	Distribute to DEFRA as final

Section One - Executive Summary

Introduction

- 1.1 Leeds City Council is seeking PFI Credits to provide a residual waste treatment solution as part of its commitment to long-term and sustainable waste management.
- 1.2 Leeds has reputation as a vibrant and successful city and the Council has the highest available '4 star' CPA rating. Leeds is the second largest local authority, with a population of 720,000 people living in 320,000 properties. In 2005/06, we collected 366,000 tonnes of waste, primarily through our in-house collection service and household waste sorting sites.

Current Arrangements and Waste Strategy

- 1.3 To encourage recycling, the Council offers kerbside collections of recyclables to over 90% of households. In recycling performance, Leeds has consistently been the best performing Core City in the UK in recent years, with a recycling rate of 21.3% in 2005/06, and a national recycling award in 2005. Despite this, Leeds City Council still landfilled 78.6% of household waste in 2005/06, and achieving European and Government landfill diversion targets is one of the most significant challenges currently facing the Authority.
- 1.4 The commitment of Council Members to continued improvement in waste management is demonstrated through the approval for public consultation of the Integrated Waste Strategy for Leeds by our cross-party Executive Board in December 2005. The Strategy, which completed its consultation period in May 2006 with overwhelming public support, includes the following key targets:
 - to reduce annual growth in municipal waste per household in Leeds to 0.5% by 2010, and eliminate growth in waste per household by 2020;
 - to achieve a recycling rate of 40% by 2020;
 - to achieve the recovery of value from 90% of our waste by 2020.

Project Scope

- 1.5 We have carried out extensive technical analysis of options for meeting our targets which has resulted in a programme of required changes to collection arrangements and investment in infrastructure for recycling, composting and processing residual waste. The anticipated increases in recycling and composting will necessitate a range of modern facilities to deal with recycling and composting materials for which the Council intends to embark on a separate procurement exercise. As a complementary exercise, the Council has carefully selected its residual treatment solution through an option appraisal process which balanced qualitative benefits, costs and risks. The result is a clear choice of Energy from Waste as the technology solution.
- 1.6 The scope of the PFI project is therefore the procurement of a PFI contractor to design, build finance and operate an Energy from Waste facility and a waste transfer facility to ensure transport efficiency. The waste transfer facility is seen as a branch of the EfW reception service (i.e. another gate for the EfW), and therefore naturally falls within the PFI scope. As well as operating the facilities, the contractor will provide transport services from the transfer facility to the EfW and from EfW to landfill sites separately contracted for by the Council.
- 1.7 The Council considers that PFI provides the best procurement route as it provides clear risk transfer to the private sector which is best placed to manage the performance of the EfW plant. The preferred technology option has been subject to a detailed financial appraisal using a PFI Shadow Bid which is based on a 28 year contract and assumes financial close in March 2009. The Council is applying for the full PFI Credits for the EfW and waste transfer facility - the NPV of these full capital costs is £119 million. This funding will ensure that the project is affordable and that the Waste Strategy targets can be achieved.

Ensuring Delivery

- 1.8 We have proactively sought to mitigate the risks that threaten the successful delivery of this procurement project. We have conducted extensive site selection work, in accordance with national and local planning policy, to identify our preferred sites, and are implementing a strategy for securing planning permissions for these sites. We have carried out a formal sounding of key waste management companies to gauge interest in the proposals for Leeds, the results of which have helped to shape our procurement strategy. Both this and emerging DEFRA policy have resulted in a decision to exclude all waste management services except residual waste treatment from the scope of the PFI project.
- 1.9 We have carried out extensive consultation with residents, elected Members and other key stakeholders both prior to and since the Executive Board approval of the Waste Strategy for consultation. This has indicated strong and widespread support for the Strategy's proposals including the procurement of an EfW plant.
- 1.10 To deliver this project, the Council has a dedicated Public Private Partnerships Unit and a robust project governance structure. The PPPU has delivered signed PFI schemes with a capital investment value approaching £0.5 billion in the last 5 years and, with other schemes currently in procurement, are on target for delivering over £1 billion worth of investment in the City. In recognition of this, the Council won two categories at the 2006 national PFI Awards.

Conclusion

- 1.11 We are confident that our clear strategic vision, the rigour of our evaluation and consultation processes and our experience of procurement delivery all combine to provide a highly deliverable PFI scheme and a sustainable waste management solution for Leeds
- 1.12 To demonstrate how this project meets the criteria for funding and for ease of reference, the Council has completed checklists summarising the content of this EOI against the criteria for approving PFI Credits set by both HM Treasury Project Review Group (Appendix 1A) and DEFRA (Appendix 1B).

Section Two - Current Arrangements and Waste Strategy

An Introduction to Leeds

- 2.1 Over the last ten years Leeds has become one of the most vibrant and successful cities in the UK. Leeds City Council is the second largest local authority, with a population of over 720,000 people living in over 320,000 domestic properties. Current projections show that the number of domestic properties in Leeds is expected to increase by between 30,000 and 35,000 in the next ten years.
- 2.2 Following our 2004 Comprehensive Performance Assessment (CPA) inspection, Leeds City Council was rated as an 'Excellent' council, the highest of the five categories. This was consolidated upon in 2005 when the Authority was again awarded the highest CPA rating of '4 stars', and was found to be 'improving well'.
- 2.3 One of the key priority areas set out in the Vision for Leeds 2004-2020, the Council's overarching community strategy, is entitled, 'Environment City - A Reputation for Environmental Excellence', and sets out the following commitment:

Leeds will have a reputation for environmental excellence through the quality of our built environment, the use of our green space, the effective use of natural resources, clean air quality and waste management. It will be a place that joins economic, social and environmental objectives so that the action we take today does not limit the choices of future generations or others elsewhere in the world.
- 2.4 Leeds City Council's Corporate Plan 2005-8 and its annual Council Plan set out the Authority's key objectives for delivering the Vision for Leeds. One of the key outcomes identified within this plan is that, "all neighbourhoods are safe, clean, green and well maintained", and the plan sets out specific objectives for reducing waste, increasing recycling and minimising landfill.

A Profile of Municipal Waste Management in Leeds

- 2.5 Leeds is a unitary authority and has a statutory responsibility for the collection and disposal of waste, operating its own in-house collection services. The Authority has a number of landfill contracts with the private sector, which are due to expire at the end of 2008, with the possibility of extensions for a further two years.
- 2.6 In 2005/06, Leeds City Council managed approximately 366,000 tonnes of municipal waste, of which household waste accounted for 333,000 tonnes. The Authority operates a weekly collection of residual waste, and a four weekly collection of co-mingled, dry recyclables (i.e. paper, card, cans, plastics) to which over 90% of households has access. In some 'pilot' areas of the City, these recycling collections are made on a fortnightly basis.
- 2.7 The Council also operates eleven household waste sorting sites, eight of which have now undergone major redevelopment, transforming them into model recycling centres. It has consistently been the top performing Core City in the UK in recent years, with a combined recycling and composting rate of 21.3% in 2005/06. Leeds also won the 'Recycling Target Success' award at the National Recycling Awards in 2005.
- 2.8 The Authority landfilled over 78.6% (261,000 tonnes) of household waste in 2005/06, and the diversion of municipal waste from landfill is one of the key issues addressed in the revised Integrated Waste Strategy for Leeds 2005-2035, included in Appendix 2A

National and Regional Waste Strategy

- 2.9 The most significant challenge currently facing local authorities in relation to waste management is the achievement of the landfill diversion (LATS) targets resulting from the introduction of the EU Landfill Directive. In addition to this, Waste Strategy 2000 set out statutory recycling and recovery targets for household and municipal waste. Current targets are summarised in *Table 1* below.

Table 1

Target Year	WS 2000 Recycling Targets*	WS 2000 Recovery Targets**	EU Landfill Directive Targets***
2005	25%	40%	-
2010	30%	45%	75% (of 1995 level)
2013	-	-	50% (of 1995 level)
2015	33%	67%	-
2020	-	-	35% (of 1995 level)

* Applies to household waste

** Applies to municipal waste

*** Applies to biodegradable municipal waste

2.10 It is estimated that Leeds City Council will have to divert almost 1.5 million tonnes of biodegradable municipal waste between 2005 and 2020 in order to meet landfill diversion targets, and that, if action is not taken to address this situation, the Authority could face LATS penalties of over £217m by 2020 in the event of no permits being available.

2.11 In addition, the Government is now increasing landfill tax by £3 per year. It currently stands at £21 per tonne, and the Government has indicated that this will rise to at least £35 per tonne in the medium term. This represents an increase of around £800,000 per year to Leeds City Council based on current waste levels.

2.12 It is also acknowledged that the national Waste Strategy Review consultation was launched in February 2006. Policies adopted as a result of this consultation will need to be reflected in the Regional Waste Strategy and the Integrated Waste Strategy for Leeds. The strategy for Leeds is consistent with the current consultation document.

Integrated Waste Strategy for Leeds

2.13 The Integrated Waste Management Strategy for Leeds was adopted in 2003, and sets out the Council's long-term strategic vision and key objectives for waste management. The Strategy has now been subject to a scheduled review, particularly in relation to recycling targets and the recovery of value from waste. This updated document was approved for consultation by the Council's cross-party Executive Board in December 2005. This document is included in full at Appendix 2A.

2.14 The Integrated Waste Strategy for Leeds has also undergone a detailed sustainability appraisal and Strategic Environmental Assessment (SEA), with the Environmental Report having now been published for consultation alongside the Strategy itself.

2.15 The current period of public consultation closed at the end of May 2006. Results of the consultation show strong support for the Strategy. No changes have been required that affect the main policies contained within the strategy and it will be put before the Executive Board in September 2006 for adoption.

Strategy Objectives

2.16 **Our vision is of a zero waste city, where we reduce, re-use, recycle and recover value from all waste, and where waste becomes a resource.** Zero waste is not considered an absolute figure, but a target to strive for that encourages new levels of innovation and efficiency. A summary of the key targets to be met within the Integrated Waste Strategy for Leeds are set out in *Table 2*.

Table 2

Target Year	Waste Minimisation Targets (growth per household per annum)	Leeds City Council/WS2000 Recycling Targets	Leeds City Council/WS2000 Recovery Targets	Leeds City Council LATS Allowances (BMW)
2010	0.5%	30%	45%	151,189

2013	-	-	-	100,703
2015	-	33%	67%	92,063
2016	-	-	-	87,774
2020	0%	40%*	90%	70,465

* See footnote

Waste Minimisation and Re-use

2.17 Reducing the historically high growth in waste provides a primary focus for the Waste Strategy for Leeds. In conjunction with its technical advisors, Jacobs Babbie, the Council has undertaken a detailed analysis of the projected profile of municipal waste in Leeds. The scenario selected for the purposes of modelling, and the specific targets set out within the Integrated Waste Strategy for Leeds is **to reduce annual growth in municipal waste in Leeds to 0.5% per household by 2010, and eliminate growth in waste per household by 2020.**

Recycling and Composting

2.18 Recycling and composting remain key priorities for Leeds City Council. A range of optimised recycling collection and education initiatives to increase recycling levels in Leeds has also been agreed for the purposes of modelling and for consultation within the Waste Strategy. All targets, waste levels, capacity estimates and cost projections are based on the assumptions that these service changes are made. These include:

- Garden waste collection
- Glass collection
- Increased frequency of collections for recyclables
- Textiles collections
- Increased range of plastics collected in kerbside recycling bins
- Increased range of paper and card collected in kerbside recycling bins
- Increased roll-out of kerbside recycling collections
- Increased roll-out of recycling litter bins
- Enhanced participation in recycling through increased education

2.19 According to the waste flow model, the introduction of the optimised recycling initiatives set out above would yield a BVPI recycling and composting rate of 38.7%, and the specific target set within the Waste Strategy is **to achieve a recycling rate of 40%* by 2020.** Whilst collection services are not within the scope of this proposed PFI project, their future role will form a critical part of the wider solution. The fundamental changes required to kerbside collections in order to meet long-term recycling targets has necessitated a thorough review of collection in order to ensure that it represents Best Value and that a potential PFI contract complements these services as part of an overall waste solution for Leeds.

Waste Solution for Leeds

2.20 It is recognised that recycling and composting alone are unlikely to deliver the Waste Strategy in relation to landfill diversion. Leeds City Council initiated the formal Waste Solution project in January 2005 as the mechanism for determining and delivering its Waste Strategy in relation to the achievement of LATS targets. This project, or programme of projects, incorporates delivering new recycling, composting and residual waste treatment facilities, determining a package of enhanced recycling services for Leeds, and determining the future of waste collection and disposal, including the role of the in-house collection service. The term 'Waste Solution' will be used from this point on to refer to this overall programme of projects, of which the scope of a potential PFI contract would form a key part.

** It is recognised that the 40% recycling target may need to be reviewed in the light of the national Waste Strategy Review consultation and the evaluation of the viability of longer-term recycling initiatives such as organic kitchen/food waste kerbside collections*

Section Three - The Need for Residual Waste Facilities

Assessing the potential of recycling and composting

- 3.1 The increases in recycling and composting associated with achieving the targets set out within our Waste Strategy necessitate the local provision of a range of modern recycling and composting facilities. A materials recycling facility is required to separate the co-mingled, dry recyclables collected at the kerbside, and a combination of windrow and in-vessel composting facilities is needed to deal with projected increases in organic waste.
- 3.2 Waste flow modelling indicated that the optimised recycling initiatives detailed above would enable Leeds City Council to achieve a recycling rate of 38.7%, but also that the Council would need an overall recycling rate of approximately 70% in order to meet LATS targets through recycling and composting alone.
- 3.3 A range of further scenarios was therefore analysed to examine the ability to achieve such high recycling rates. This included introducing a kerbside collection of organic kitchen/food waste, and the impact of reaching the highest capture rates achieved in the UK and internationally for each recyclable material. These rates are over and above the improvements already targeted in the waste flow model, and beyond what is deemed realistic given current public participation. The most ambitious scenario still showed a significant shortfall against the Authority's LATS targets in 2020. It should also be noted that these enhanced scenarios take no account of issues such as sustainability, cost and deliverability.

Defining the Business Need

- 3.4 The conclusion from the analysis on recycling is that in order to meet both the Leeds and wider national commitments on landfill diversion, there is a need for a residual waste treatment facility to complement our recycling strategy.
- 3.5 Whilst achieving landfill diversion is one key benefit of investment in a residual technology facility, it is important to define the balance of benefits sought against which the residual waste treatment options should be assessed. These are listed below:
 - Achieves sustainability in relation to social, economic and environmental impacts
 - Provides long-term and certain markets for outputs
 - Provides flexibility (i.e. to adapt to changes in waste volumes, composition, etc.)
 - Achieves landfill diversion (LATS) targets
 - Achieves long term statutory and local recycling and composting targets
 - Minimises impacts associated with land use and allows self-sufficiency

Section Four - Options Appraisal

Introduction and Options

- 4.1 The Council has evaluated a broad representative range of the available technology options for the long-term management of residual municipal waste in order to establish their relative performance. The technology mixes assessed are set out below:
- Do Nothing
 - Do Minimum (optimised recycling, but no residual waste treatment)
 - Autoclave + Advanced Thermal Treatment
 - Autoclave + Landfill
 - Energy from Waste (EfW)
 - Mechanical Biological Treatment (MBT) + Advanced Thermal Treatment + In-Vessel Composting
 - Mechanical Biological Treatment (MBT) + Landfill + In-Vessel Composting
 - Mechanical Treatment + Anaerobic Digestion + Landfill
- 4.2 All of the options set out above, except 'do nothing', assume the introduction of the range of service improvements and enhancements to existing kerbside recycling services detailed in Section Two. Each of the technical options modelled, again with the exception of the 'do nothing' scenario, assumes the development of a materials recycling facility (MRF) and in-vessel and windrow composting facilities to process the anticipated increases in recyclable materials being collected. In accordance with Defra and 4Ps guidance, 'meet targets' and 'exceed targets' scenarios have been modelled for each technology option.

Selection Process

- 4.3 An options appraisal methodology has been applied to provide a robust and transparent means of evaluating the various technical options against an agreed range of weighted criteria. The technology options were assessed against a range of non-financial or 'benefit' criteria (as defined in Section Three) at a stakeholder workshop in November 2005, involving Elected Members, senior Council officers, regional government officers, external advisors and representatives from community and environmental groups. See Appendix 4A for the outcome from the stakeholder workshop.
- 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 In addition, Jacobs Babbie undertook a professional assessment, in discussion with the Council's Project Team, of the risks of deliverability for the various technology options. The results of each of the elements of the options appraisal are brought together and summarised in *Table 3* below. The Executive Summary from the technical options appraisal report is included within Appendix 4B, and Appendix 4C details the financial options appraisal output.

Appraisal Results

Table 3

Option	Description	'Benefit' Score (highest = best)	Risk Rating (lowest = best)	NPV (£s) (over 28 years)
DN	Do Nothing	10	47	£530m
DM	Do Minimum	19	38	£518m
Option 1	Autoclave + Advanced Thermal Treatment	64	129	£618m
Option 2	Autoclave + Landfill	33	103	£631m
Option 3	Energy from Waste (EfW)	72	52	£474m
Option 4	MBT + Advanced Thermal Treatment + In-Vessel Composting	57	107	£614m
Option 5	MBT + Landfill + In-Vessel Composting	39	88	£585m
Option 6	Mechanical Treatment + Anaerobic Digestion + Landfill	45	101	£617m

4.6 The results from the options appraisal have been that Option 3 (Energy from Waste) is 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 ('do nothing' and 'do minimum' naturally present lower risks of deliverability).

Conclusion

4.7 Energy from Waste is being pursued as the preferred technology option and was specified as such in the revised Waste Strategy approved for consultation by the Council's Executive Board in December 2005. Appendix 4D contains the minutes and report from Executive Board. The Authority will also be exploring the potential for combined heat and power. The specific target set out within the Integrated Waste Strategy for Leeds is **to achieve the recovery of value from 90% of our waste by 2020.**

Section Five - Preferred Option and Procurement Scope

Procurement Scope Considerations

- 5.1 Leeds City Council's Waste Solution requires the development of a range of state-of-the-art facilities for recycling, composting and energy recovery. There is also a need to develop a waste transfer facility (or transfer loading station) to receive waste from parts of the City which are geographically distant from the likely site for an EfW plant. It has been necessary to determine whether these facilities should be procured as a package or separately.
- 5.2 The Council has undertaken a preliminary assessment of the contractual scope and structure which will optimise value for money. This has taken into account the desire for integration of services, the required performance targets, the expected level of risk transfer and the market sounding response in relation to scope and structure. In particular, the Council considers that the inclusion of collection, landfill operations, a Materials Recycling Facility (MRF), in-vessel composting (IVC) and green windrow composting (GWC) in the contract would not be desirable due to the added complexity and commercial concerns about managing performance in diverse areas.

The PFI Project Scope

- 5.3 The scope of the PFI project therefore focuses exclusively on the residual waste treatment necessary to enable the Authority to meet its targets for recovery and landfill diversion. These facilities are set out in *Table 4* below.

Table 4

Facility	Waste Stream	Estimated Capital Cost
Energy from Waste Facility	Residual waste (direct delivery and from waste transfer facility)	£127m
Waste Transfer Facility	Residual waste (for transfer to EfW facility)	£2.3m

- 5.4 The Council considers that a long term waste partner is best placed to design, build, finance, maintain and operate an EfW and transfer station through a long term PFI contract. It is considered that the private sector is best placed to manage the integration of capital and running costs and to ensure the availability and efficiency of waste treatment.
- 5.5 Leeds is a large geographical area which makes transfer loading operations an integral element of waste management. A failure to include this within the PFI scope would introduce unacceptable levels of risk both in terms of our ability to deliver waste to the EfW and our ability to ensure continuity of refuse collection services. This assessment is based on several experiences that resulted in extreme pressure on the service and high costs. The Council strongly feels that it is necessary to protect itself in the most robust way possible in this area. It also provides greater efficiency of waste transport given that the contractor will be responsible for transport to landfill from the EfW. In essence it is our intention to create a clear and consistent gate at which responsibility for the waste is transferred to the contractor.

- 5.6 Since the services of the waste contractor would be the same whether receiving waste directly at the EfW or at a transfer station and then transporting it to the EfW, there is no reason to think that the project would be less bankable if it included the transfer station. In fact, it would provide the contractor with a greater degree of control of waste to feed into the EfW from the point that it was delivered by waste collection vehicles, rather than relying on another party to manage this link in the chain.
- 5.7 The extent of the contractor's control of waste flows would include the following: receiving waste from collection vehicles, transporting waste between transfer stations and EfW, waste treatment, and transporting residual waste to landfill sites designated by the Council. The Council will also require the Contractor to be an integral partner in education and other Council waste initiatives and make provision for public viewing and displays that reflect the wider Council waste strategy.
- 5.8 It will help in providing a clear scope of responsibilities for the contractor that all the treatment and transfer facilities will be newly built and there will be no need to transfer existing operations to the contractor.

The Wider Waste Management Programme

- 5.9 Although not within the scope of the PFI project, the overall Waste Solution for Leeds plans to also incorporate upgrading the three (out of eleven) household waste sorting sites that have yet to be developed into model recycling centres.
- 5.10 MRF and IVC facilities will be procured through separate PPP contracts, funded through unsupported borrowing or private sector investment, and the existing Council budget which includes savings in landfill costs arising from the procurement of a residual treatment facility. This will allow a phased approach to the provision of the necessary infrastructure. These contracts will be drafted to incentivise recycling and composting and to reduce risk through their interface with the PFI contract.
- 5.11 Reuse and recycling of other waste streams will be dealt with through appropriate contract arrangements or through partnerships with the community and voluntary sector. The Council already has links with this sector and work is underway to strengthen these relationships and expand the scope of the services they provide. A key partner in this work is the Community Recycling Network.
- 5.12 GWC is likely to continue to be operated through local third party operators and the bidders will be encouraged to source services as subcontracts from the community sector where possible.
- 5.13 The Council would retain responsibility for collection and residual landfill. The collection service would continue to include management of household waste sorting sites and bring banks as well as collection vehicles and household bins. These services would either be directly managed or separately contracted for on a shorter term basis.

Regional Partnerships

- 5.14 As the second largest local authority in the UK and with a projected demand for EfW capacity of around 320,000 tonnes pa, and a geographical area which stretches to a large rural hinterland, Leeds on its own provides a suitable size for an EfW plant. Private sector feedback suggests that the waste requirements for Leeds would constitute a contract of optimum size in terms of risk, and that a joint contract with another authority could diminish the interest from potential bidders.
- 5.15 Leeds City Council is engaged in regular dialogue with the other local authorities within the region, and is a key participant in the South and West Yorkshire Waste Forum. The Authority has also worked with the 4ps in trying to identify opportunities for developing regional waste management solutions. The practical obstacles to joint working are that the majority of Leeds' neighbouring authorities have either already secured their own residual waste treatment solutions, or have yet to establish their preferred treatment option. The geographical area of Leeds and some of its neighbours means that the provision of regional solutions would create logistical difficulties and potentially cause greater environmental impacts.
- 5.16 However, a bid to the Regional Support Fund to fund a Yorkshire and Humber Region site selection exercise has been prepared. This will identify if regional sites are a sustainable option, and if any suitable sites exist in the appropriate areas. Opportunities, benefits and impacts of importing or exporting waste across local authority boundaries will also be considered.

Further opportunities

- 5.17 The estimated throughput of the facilities in the above table relates to municipal waste only. The Council feels strongly, however, that it has a role in ensuring more sustainable management of commercial and industrial waste. This is also in line with the government's own waste strategy review. Further data gathering and market research/consultation will be undertaken to establish estimates for the needs of this sector and the likely market share that can be expected for facilities procured by the Council. We will then look to provide the appropriate capacity for this waste within our waste solution facilities, subject to value for money considerations and ensuring that any cross subsidisation is transparent and acceptable,
- 5.18 As referred to in Section Two above the Council is committed to exploring the benefits of potential regional synergies and economies of scale. Additional capacity required to realise any emerging benefits will also be provided.
- 5.19 We are keen to explore the opportunity of developing a feature of significant educational and environmental importance for both the City and the region, not simply to ensure that we meet our waste targets, but also as the co-location or clustering of all the waste solution facilities would allow a synergy of waste management that is unprecedented on this scale. The delivery of this concept, whilst desirable, is not considered to be either within the scope of or essential to the delivery of the PFI project. However, our ultimate aspiration is for a Sustainable Energy and Resource Park which would bring all of the above elements together with business development units and education facilities.

Section Six - Procurement Route and Value for Money

Procurement Options

- 6.1 The options appraisal in Section Four demonstrated that the option of Do Nothing has a higher whole life cost to the Council than procuring and running an EfW plant. In other words, Do Nothing is not an option.
- 6.2 Section Four provided further evidence that the Council will be worse off not investing in a residual treatment technology since the Do Minimum Option, constituting a MRF and composting infrastructure but no residual treatment, had a higher whole life cost than adding the EfW. This is largely due to the additional landfill costs, including LATS, which make up a large component of the Do Nothing and Do Minimum costs, but are saved and, in the case of LATS, turned into income by investing in an EfW plant.
- 6.3 The Council is therefore committed to procuring an EfW plant to achieve value for money and it has considered its procurement options for delivering the EfW. It has considered the following three procurement routes:
- A conventional design & build contract supported by prudential borrowing
 - A design, build, finance and operate PPP contract but with no PFI funding
 - A PFI contract with PFI funding
- 6.4 A conventional D&B contract may have a timing advantage because of reduced approval processes and negotiation time. It also offers a lower financing cost than private finance. However, it leaves many of the risks of construction, operating and landfill disposal with the Council, who are not in the best position to manage an EfW plant. Such risks as impact of delay in construction, higher operating costs due to poor design, and performance failure leading to higher landfill, are considered to outweigh any timing or financing advantages of this option.
- 6.5 A DBFO contract is likely to be as complex to negotiate as a PFI contract and offers no saving in negotiating time. A DBFO without PFI would only be a better prospect if suppliers were considering a speculative development and did not want to be constrained by PFI terms. However, the results of the market sounding exercise showed that this is not the case. The market sounding also showed that suppliers welcome the familiarity provided by PFI terms & conditions. It can be concluded that a DBFO procurement offers no advantage over a PFI contract.
- 6.6 The remaining option of a PFI contract offers a clear advantage in affordability and no significant disadvantages in other aspects. In December 2005 the Council Executive Board therefore made a decision to pursue an EfW through PFI as part of the Waste Strategy.

Value for Money of PFI procurement

- 6.7 In order to confirm that PFI is suitable as a procurement route in terms of viability, desirability and achievability, the Council has carried out a detailed qualitative assessment of whether a PFI contract provides an appropriate procurement route in line with HMT guidance –included as Appendix 7A. The Council believes that the characteristics of this project indicate that the PFI procurement route is appropriate. In particular, the Council's current intention is that collection, landfill contracts, MRF, IVC and GWC will be outside the PFI contract in order to closely define the PFI services and performance requirements.
- 6.8 The Net Present Value (NPV) of the Shadow Bid Model over 28 years is £228m. At OBC stage the HM Treasury model will be used to demonstrate that the costs of the PFI option are likely to be lower than the costs of undertaking a project delivering the same outputs using conventional procurement uplifted by an appropriate value of risk.

Section Seven - Funding and Affordability

Introduction

7.1 This section builds on the options appraisal work described earlier. In order to assess the level of funding required and the resulting revenue impact on the Council's budgets, the Council has undertaken further financial analysis of the preferred option.

Affordability Appraisal Process

7.2 The following methodology has been used to assess funding and affordability:

- Determine which costs and income are attributable to a PFI Contract and which will be contracted for separately
- Develop a Shadow Bid model for the PFI costs, calculating a resulting Unitary Payment profile
- Develop an Affordability model to include both the PFI shadow bid Unitary Payment and other Council costs and budgets available
- Calculate the level of PFI Credits required from the Net Present Value (NPV) of the core PFI infrastructure capital costs

PFI Service Charge

7.3 The PFI Shadow Bid is based on a 3 year build and 25 year operating period to ensure a sufficient operational period after capital investment. See Appendix 6A for the PFI Shadow Bid and analysis of operating expenditure and the unitary charge profile. The key assumptions are as follows:

- Assumed contract date of March 2009, service commencement date of April 2012
- Nominal capital costs for the EfW of £127m and for the transfer station £2.3m
- Private Sector bid development costs of £4m
- Facility operating and lifecycle costs of £9.4m per annum in 2008 prices
- Income from sale of electricity of £4.3m per annum in 2008 prices
- Third party income from spare capacity of £1.7m in 2012, gradually falling off during the contract as Leeds waste volumes increase
- Addition of Insurance costs of £500k per annum and SPV management costs of £250k per annum
- Costs have been indexed by 2.5% from a 2005 base except for capital which have been indexed by 3.5% to take account of construction inflation
- 90% debt funding at 6.15% all in rate, and 10% equity funding at 15.0%

7.4 The resulting PFI Unitary Charge is £15.750m per annum in April 2009 prices and with the effect of inflation at 2.5% per annum, £16.961m at service commencement from 1 April 2012 and full indexed thereafter until contract completion at the end of March 2037. Appendix 6A shows how this Unitary Charge is a net position which benefits considerably from third party income offsetting the operating costs of the plant.

PFI Credits

7.5 The Council is applying for PFI Credits for the capital expenditure of facilities included in the PFI contract. The NPV of the full facility construction costs at contract start date April 2009 using the 6.0% 2006/07 prescribed financing rate is £119m. This is the value of the PFI Credits being applied for.

Affordability

- 7.6 The estimated net cash-flow position for the City Council is set out in Appendix 6B and the position for the first year of operations in 2012/13 is summarised below.

	£000
Expenditure:	
Unitary Payment to the Contractor	16,961
Client Contract Management costs	100
	17,061
Funding:	
PFI Revenue Support Grant (£118.911m PFI Credits)	(8,925)
Net Reduction in Landfill Tax	(7,979)
	(16,904)
Balance to be met by the City Council	157

Over the course of the Contract the "Affordability Gap" to the City Council will increase due to the effect of inflation being applied to the Unitary Charge, assumed to increase at 2.5% per annum. Over the life of the Contract this equates to an annual contribution by the City Council of £1.8m per annum.

- 7.7 If the project was to be supported with £119m of PFI Credits, this would provide approximately £9m per annum revenue funding. This, combined with lower landfill tax payments, would allow the Council to proceed with the procurement with a manageable affordability gap. However, the Council is ultimately committed to the financial consequences of the EfW procurement if they prove to be more onerous.
- 7.8 It is recognised that the affordability is based on a number of assumptions which are variable both prior to and post contract award and the actual outturn cannot be known for certain at this stage. However, the Council has worked with both technical and financial advisors to ensure a robust baseline. The Council will undertake further analysis and sensitivity modelling at OBC stage, to confirm this baseline and ensure affordability is robust in the light of sensitivity analysis.

Section Eight - Deliverability: Approach to Key Risks

Introduction

- 8.1 Leeds City Council is well aware of the risks that threaten the successful delivery of the project, and has proactively sought to mitigate these risks. An overview of the measures taken and strategies developed to address the most significant risks is set out below. A comprehensive risk register setting out the detailed risks associated with the procurement project will be developed to accompany the Outline Business Case (OBC).

Securing Sites and Planning Permission

- 8.2 Securing sites and obtaining the necessary planning permissions and consents is clearly the most significant risk for a procurement exercise of this nature. The Leeds Unitary Development Plan (UDP) was reviewed in 2005, and includes criteria based waste policies. These criteria form an important basis for the selection of sites for waste facilities.
- 8.3 Pending the scheduled development of the Waste Development Plan Document (DPD), which will form part of the Local Development Framework (LDF) for Leeds, the Council has commissioned a robust and comprehensive city-wide site selection exercise to identify sites which could be suitable for major waste facilities. This was carried out by Leeds City Council planning officers and Jacobs Babbie. Sites have been assessed against a range of criteria derived from planning guidance provided by National Planning Policy on Sustainable Waste Management (PPS10), the emerging Yorkshire and Humber Regional Spatial Strategy and the Review of the Leeds UDP.
- 8.4 Following the completion of a site selection study, the Council will identify a short list of sites for which obtaining land and securing planning permission for a major waste facility is considered deliverable. The Authority is currently developing a detailed implementation strategy to secure the preferred site(s). The process for securing planning permission will be progressed in parallel with the procurement process (see appendix 11B for timetable). In order to avoid delays to implementation the Council intends to complete appropriate elements of the environmental impact assessment (EIA) in consultation with bidders, and to make this available to them during the competitive dialogue prior to the submission of final proposals. Bidders would then be expected to provide data to complete the EIA for their own submission. At the start of the preferred bidder period the successful bidder would then submit the application with their accompanying EIA. We also intend to require the preferred bidder to sign a project development agreement at contract signature. This will enable the contractor to commence site preparation work prior to the issuing of planning approval for the scheme and provide a framework to resolve any planning issues which emerge following contract signature.
- 8.5 The Council recognises the risks in terms of impact on the timescales for project delivery in the event of a planning inquiry being instigated. In order to mitigate this risk, the Council intends to apply the maximum level of rigour to the processes for site selection and securing planning permission outlined above.

Interface with Other Services

- 8.6 The Council has evaluated a wide range of potential options in relation to the extent of integration of waste collection, treatment and disposal in a future contract to be let by the Authority, including the full integration of services. It has now been decided that the scope of a potential PFI contract should exclude collection, processing and disposal, and should focus on core waste treatment facilities.
- 8.7 As regards collection and processing, the Authority is considering the interface between these services and those provided within the scope of the PFI. The PFI contract will include incentives relating to key Waste Strategy targets such as minimisation, re-use, recycling and composting, but will ensure that the specification provided to the contractor defines clear responsibilities and does not involve the transfer of risks that they would be unable to manage effectively.

- 8.8 As regards disposal, it is envisaged that the PFI contractor would be responsible for delivery to landfill and the volumes of waste delivered, and this would be incentivised within the contract. However, Leeds City Council would manage the risk of ensuring the provision of sufficient landfill capacity.
- 8.9 These decisions are based on professional insights into the waste sector, the results of the market sounding outlined below and feedback from the relevant Government departments in relation to waste PFI policy. It is considered that the interface between services and the responsibilities to be defined within the different constituent elements of the overall Waste Solution can be specified adequately, and the need for full integration is not therefore considered essential. However, Leeds City Council will be assessing how an incoming PFI contractor will work effectively with other providers who have a formal involvement in the delivery of the Integrated Waste Strategy for Leeds (including community and voluntary sectors).

Market Interest

- 8.10 Leeds City Council is fully aware that market capacity is constrained and that it will need to tailor its procurement requirements to maximise competition. A soft market testing exercise was therefore conducted during February and March 2006 by PricewaterhouseCoopers on behalf of the Council. Key waste management companies (including fully integrated and residual technology suppliers) were targeted, provided with a letter explaining the current waste strategy of the Council and requesting their views on the proposed scope of the waste solution, its structure and key risks.
- 8.11 The Council received more responses favouring EfW than all other residual technologies put together. Due to EfW being the selected solution, only suppliers supporting EfW have been considered in detail and letters from these suppliers have included in the confidential Appendix 8A.
- 8.12 In total, the Council received eight letters from suppliers who utilise EfW as their residual technology, seven of whom would act as the primary contractor and one being a design and build subcontractor. These all expressed a keen interest in being involved with the Waste Solution for Leeds, regarding Energy from Waste as the right solution, primarily due to the likelihood of funding being received, as the technology is well understood, safe, proven and reliable, and can complement recycling and recovery programmes. Only two suppliers suggested alternative residual technology solutions.
- 8.13 As the Council wanted to understand the market appetite for integrating services, suppliers were asked if they would be interested in delivering wider services including recycling and collection. Six said they would be able to deliver both recycling and composting facilities as well as the EfW facility. Four were in favour of collection being excluded from the contract, on the basis that there is better value for money in separating the services. These suppliers consider that collection arrangements are more flexible as shorter term contracts, and the tie between collection and end processing performance may make the procurement less commercially deliverable. These responses demonstrate that exclusion of recycling and collection would expand the market to a greater number of potential suppliers.
- 8.14 To conclude, the soft market testing exercise has indicated that there is a sufficient sized group who are committed to bid for the Council's procurement of EfW. The Council intends to find other ways to engage with the market during the development of the OBC, such as through interviews.

Section Nine - Stakeholder Support

- 9.1 On 14th December 2005, the Council's cross-party Executive Board gave approval for formal consultation on the revised Integrated Waste Strategy for Leeds 2005-2035, and to the submission of an Expression of Interest to Defra for PFI credits. The Waste Strategy clearly sets out the proposed range of facilities required to deliver the proposed Waste Solution for Leeds, including Energy from Waste as the preferred technology for residual waste. Elected Members have been significantly involved in the options appraisal process. An extensive programme of Elected Member consultation has been delivered in the months leading up to the approval of the consultation draft of the Waste Strategy by Executive Board.
- 9.2 Leeds City Council also commissioned a full Scrutiny Inquiry into the Waste Solution Project by its Environment and Community Safety Scrutiny Board in order to secure further Elected Member involvement. This has run in parallel with the development of the revised Waste Strategy. The Scrutiny Inquiry reviewed and validated the options appraisal process leading to the selection of Energy from Waste as the preferred technology.
- 9.3 In addition to this, there has been extensive public consultation on the Waste Strategy for Leeds (e.g. via the Citizens' Panel, Council newspaper, local media, community forums, local environmental groups, on-line questionnaires, etc.). This has clearly 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. See Appendix 9A.
- 9.4 Following the conclusion of the consultation at the end of May 2006, the Strategy has now been revised and will be adopted by the Council, subject to Executive Board approval. 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. In addition, officers have started work on the development of a public relations strategy to promote the benefits of and address concerns relating to Energy from Waste.

Section Ten - Proposed Output Specification and Key Contract Terms

Output Specification

- 10.1 The Council has taken the view that it needs to plan for one technology now in order to avoid delay in the procurement process later, which is why it has orientated its project planning towards EfW.
- 10.2 The responsibilities of the PFI contractor will be clearly defined in an Output Specification. This will be based on the model documentation set out in the 4ps procurement pack and the Council is committed to working with the 4ps in ensuring that any updates to the model documentation are taken into account. The Council will work with its advisors to prepare a comprehensive set of procurement documentation in parallel with the development of the OBC so that it is ready for issue as part of the PQQ pack following OBC approval.
- 10.3 In parallel with the OBC development, the Council will develop a suite of integrated documents which link the Output Specification with the performance management framework and the payment mechanism. In order to do this, the Council will engage closely with the market since the procurement documentation needs to be commercially deliverable. The Council recognises the need to set performance standards and incentives which both encourage the contractor to deliver in line with Council objectives and can be controlled by the contractor.
- 10.4 A fundamental element of risk transfer to the contractor will be meeting landfill diversion targets. Volumes over and above those required to meet LATS targets will be managed by the contractor, as this will limit the Council's exposure to LATS, landfill tax and landfill gate fees.

Contract Terms

- 10.5 The Council is mindful of the waste specific contract for SOPC3 and will adopt its provisions in full in its procurement documentation. The contract length will be 25 years from the opening of the EfW plant, which will provide a conventional time period for the repayment of capital financing. The Council will require the facilities to be transferred back into its ownership at the end of this period.

Balance Sheet Treatment

- 10.6 The Council is also very mindful of the need to transfer sufficient risk to meet the FRS5 assessment of commercial risk on the facilities. The Council will work with PricewaterhouseCoopers who has significant experience in evaluating waste schemes under FRS5. It will structure the payment mechanism so as to have an integrated factor for indexation and believes that there are opportunities for third party capacity which means that the contractor will take a large element of third party income risk.

Section Eleven - Project Management and Delivery

Project Management and Experience

- 11.1 Leeds City Council has established a dedicated Public Private Partnerships Unit (PPPU) to manage the delivery of PFI Schemes. The primary role of the Unit is to take the lead on behalf of the Council with regard to PFI and similar public / private partnership opportunities, and to provide guidance and support to individual Departments on projects they wish to promote. PPP Unit was recently awarded Best Public Sector Project Team and Best Government Agency Team to add to its existing Beacon status
- 11.2 The project governance structure will follow Leeds City Council's established structure for PFI procurements and an organogram chart showing how this will operate is contained at Appendix 11A. The Council will utilise its retained external advisors for finance legal and technical support for the OBC and procurement stages
- 11.3 Since 1999, the Council has attracted £800m in new capital through PFI and is currently delivering eleven projects, six of which are post procurement. Leeds is therefore one of the most successful Local Authorities in the Country in managing and delivering PFI Projects. The Council believes the substantial experience it has gained will serve to ensure the successful delivery of this Waste Solution PFI project.

Partnership

- 11.4 The PPP Unit has worked effectively with a significant number of major contractors and bidders, to successfully deliver the Council's PFI Programme covering the entire spectrum of schemes from Education to Street Lighting and Housing. To ensure successful delivery of the Council's PFI Programme, effective working relationships have been developed with Government agencies to include Partnerships for Schools, Partnerships UK and the Government Departments comprising DfES, DfT, DoH and the ODPM. The Council and the PPP Unit also work closely with the 4P's and share our work and results with other public sector agencies and authorities.

Project Timetable

- 11.5 The main project stages have been considered by the Council and are shown in Appendix 11B.

