

Report of Director of Environment and Housing

Report to Executive Board

Date: 17th September 2014

Subject: Update on district heating and the Residual Waste Treatment PFI project

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Summary of main issues

Since the signature of the Residual Waste Treatment Project a number of opportunities have presented themselves that will deliver further benefits for the city.

The Recycling and Energy Recovery Facility currently being constructed at Cross Green is already designed to generate enough electricity to power over 22,000 homes. There is a further opportunity to harness the heat that is also produced whilst processing the waste, and develop a District Heating Scheme.

The report outlines the next steps to realise the first of an ambitious three phase project that will look at supplying heat from the Recycling & Energy Recovery Facility to a number of council owned tower blocks and operational buildings, as well as public and private sector commercial buildings and to significant development sites in the city centre.

It is estimated that more than 2,000 flats in parts of the city where fuel poverty is most prevalent could have their heat supplied direct during the first phase of the scheme. This initiative will replace out dated heating systems currently which offer poor levels of comfort and value for money. This first phase would build the foundations for a wider district heating network that can be developed in the future and also create confidence in the principle of heat networks and possible further schemes.

In addition, further significant financial savings associated with the Project, **c£3.8m** per annum once the project is in full operation, which equates to an additional overall saving of

c£95m over the life of the project are achievable by enacting a number of options within the contract, for which this report seeks Executive Board approval to progress.

Lastly the report outlines arrangements for various Community Benefit Funds related to the Project, the implementation & administration of which will be further developed, in consultation with local ward members and will provide assistance and support to communities and community projects.

Recommendations

Members of Executive Board are recommended to:

- a) note the contents of this report, including progress with feasibility work for a district heating scheme linked to the Recycling and Energy Recovery Facility (**RERF**) as part of the Project and the community benefits associated with the Project;
- b) Authorise the Director of Environment and Housing to approve the installation of initial infrastructure at the RERF necessary to the delivery of a district heating scheme (as described at 3.1.9-3.1.12 of this report), subject to his receipt of a further satisfactory technical and financial assessment subject to the timescales detailed in para 3.1.12 of this report;
- c) Approve the implementation of the Non Reverting Asset option in relation to the Project (as described at 3.2.2-3.2.11 in this report), in order that the Director of Environment & Housing can take the decision subject to DEFRA approval and subject to the Deputy Chief Executive determining there are no accounting treatment issues following consultation with the Council's external auditors by the Extended Commissioning Date currently anticipated to be 25th March 2016 although subject to programme;
- d) Subject to the approval of c) above, for Executive Board to note that the Director of City Development will arrange for disposal of the RERF site for an additional 15 years at the appropriate time and in accordance with the Asset Management functions in the officer delegation.
- e) Approve an injection into the City Council's Capital Programme and authority to spend £30m as a Capital Contribution to the Project (as described at 3.2.12-3.2.18 in this report) by the Actual Full Payment Date currently expected to be 8th July 2016 although subject to programme change and subject to DEFRA approval;
- f) Delegate authority to the Deputy Chief Executive to negotiate and agree to further proposals with Veolia for an increased Capital Contribution of up to an additional £12m, should this (in the Deputy Chief Executive's opinion) represent value for money, subject to DEFRA approval and subject to the Deputy Chief Executive determining there are no accounting treatment issues following consultation with the Council's external auditors by the Extended Commissioning Date currently anticipated to be 25th March 2016 although subject to programme;

- g) Subject to (f) above being actioned, approve an injection into the capital programme and authority to spend up to £12m;
- h) Save as expressly set out above Executive Board to note the Director of Environment and Housing will take any necessary action associated with the implementation of the above options in accordance with the timescales and Waste Management Function.

1 Purpose of this report

- 1.1 The purpose of this report is to provide Executive Board with an update on progress towards the delivery of a district heating network linked to the Recycling & Energy Recovery Facility (**RERF**) as part of the Residual Waste Treatment Project (the **Project**), and on a range of potential benefits and options for achieving substantial cost reductions through the Project.
- 1.2 The report seeks Executive Board approval and the delegation of appropriate authority to the relevant directors to exercise specific contractual cost saving options, to instruct Veolia to install elements of infrastructure at the RERF necessary for the export of heat from the site subject to further technical and financial assessment and to explore other potential value for money opportunities.

2 Background information

- 2.1 The Council signed the Residual Waste Treatment PFI contract with Veolia in November 2012 (the **Contract**), and construction of the RERF has been underway since September 2013. The Council and Veolia are monitoring the construction process closely and working to finalise the date that the RERF is expected to start accepting Council waste. This is currently estimated to be in early 2016, and once fully operational will provide significant environmental benefits in terms of recycling and energy recovery from waste that is currently predominantly being landfilled.
- 2.2 The estimated cost of waste disposal in the assumed first full year of operations under the Contract (2016/17), and based on the tonnages currently forecast, is in the region of £13.0m. Members will recall that this represents a cost reduction of approximately **£2.9m** per annum compared to the projected cost of a continuation of the current waste disposal arrangements.
- 2.3 As envisaged by the Project, officers have also been progressing feasibility work to assess the potential for a district heating scheme linked to the RERF. This is covered in more detail in section 3.1 below.
- 2.4 The development of the RERF located in the one of the four areas within the 142 hectare Enterprise Zone marks the commencement of the first wave of development within the Enterprise Zone. The zone when fully developed has the potential to accommodate more than 9500 private sector jobs and offers the largest opportunity for employment growth within the Leeds City Region.
- 2.5 The zone is an integral part of the Aire Valley, where over four hundred businesses are presently located, including major manufacturing companies which provide supply chain opportunities for businesses locating within the enterprise zone.
- 2.6 The recently announced boost for business and local economies by the Department for Communities and Local Government has now awarded the zone an £8.7 million “Building Foundations for Growth” grant, which will directly;

- facilitate and support the delivery of over 300,000 sq ft of grade A manufacturing and logistics buildings;
- support more than 500 jobs;
- contribute to the remediation and infrastructure of three sites;
- provide leverage in some £30 million of private sector finance with an accelerated delivery corridor within the Enterprise Zone.

2.7 Work on these sites will commence in October 2015.

3 Main issues

3.1 District Heating

- 3.1.1 It is a requirement of the Contract that the RERF be combined heat & power (**CHP**) enabled. This essentially means that the RERF be designed such that the necessary works and installation of infrastructure required to implement a CHP scheme can be completed without significant disruption or modification of the RERF. Veolia's proposals envisage that the turbine at the RERF (as well as being capable of producing electricity) incorporates space for an additional piece of equipment known as a grid control valve in order to provide for a more efficient off-take of heat as part of any CHP scheme. This, along with additional components, can be retro-fitted to the RERF to allow the simultaneous production of both electricity and useful heat. This makes the RERF both more environmentally beneficial as the heat can replace gas and other fossil fuels currently used to provide heating and / or cooling to commercial, public sector and/or residential properties, and more cost effective as the heat generated is likely to be worth more than the sacrificed electricity.
- 3.1.2 The Council has been aware of the benefits of heat networks for some years and already operates several small networks within tower blocks, with a biomass network supplying 231 flats in the Clydes Housing Estate due to start construction this year. The Council promotes heat networks to private sector developers, with new networks being recently approved for both housing and commercial properties. The Council has included a specific district heating enabling policy within the draft Core Strategy (EN4) which has been examined in public and will be adopted this year, subject to the planning inspector's approval.
- 3.1.3 Leeds City Region (**LCR**) commissioned Ramboll in September 2013 to undertake heat mapping for all 10 LCR authorities, and energy masterplanning in Kirklees and Leeds. The energy masterplanning in Leeds city centre and the Aire Valley has involved the following stages:
- a) Mapping existing and future heat demands
 - b) Identifying the technical and economic viability of a number of potential low carbon heat supply opportunities;
 - c) Establishing and testing the economic potential of possible heat network configurations around the known demands, the existing supply assets and future low carbon supply opportunities;

d) Establishing the extent of a viable heat network opportunity and an outline strategy for delivery, including phasing. This is summarised in the map included at Appendix 1 of this report.

- 3.1.4 The energy masterplan (soon to be published on www.leedscityregion.gov.uk) identifies a realistic strategic network that could be developed over the long-term to supply c120MW of connected load with c40MW of heat capacity from low carbon generation sources. Ramboll have identified a wide range of heat sources for this long-term project including other Energy Recovery Facilities, data centres and industrial processes and hundreds of development sites and existing buildings that could connect to make use of the heat. In simple terms, 40MW of low carbon generation would provide enough heat for approximately 48,000 average homes, equivalent to all the houses in a city the size of Exeter. This is an important piece of work as it articulates how a critical piece of infrastructure could help deliver the Council's carbon reduction ambitions. However, the short-term priority for the Council is to build an initial network to supply heat from the RERF in order to generate confidence in heat networks and create an oversized spine heat network that can then be developed over future phases.
- 3.1.5 The district heating project has therefore been split into three distinct phases. The first of these is to supply heat from the RERF to a number of Council owned multi storey flats, public sector buildings, private sector commercial buildings and significant development sites in the city centre.
- 3.1.6 The Council now needs to undertake further techno-economic feasibility work and detailed project development for this first phase. To help fund this work, the Council has applied for £210k from the Government's Heat Network Delivery Unit (HNDU). If successful, this will allow the completion of all the work required to procure delivery partner(s) for this first phase. Ramboll and the Carbon Trust have worked with the Council to identify the key tasks and associated timelines, and have produced an implementation plan which would allow the Council to complete the phase 1 heat network by late 2017.
- 3.1.7 In summary, the primary aims are:
- To reduce vulnerable residents' fuel bills by c10% to tackle fuel poverty;
 - To maximise CO₂ emissions reduction opportunities associated with the RERF to contribute to our citywide target of 40% CO₂ reductions between 2005 and 2020;
 - To establish the first phase of a city-wide district heating network to stimulate additional investment in heat networks as a way to provide low carbon heat from the perimeter to the city centre.
- 3.1.8 In addition to the benefits implicit in the aims, the principal anticipated benefits are:
- Creation of construction and maintenance jobs;
 - Greater retention of wealth within the local economy;

- Demonstration of the benefits of district heating with a view to persuading public and private sector partners to connect;
- Initiation of a strategic network to allow us to implement policy EN4, requiring new developments to connect and providing an outlet for heat from proposed waste/energy activities in the Aire Valley;
- Removable of outdated storage heaters leading to improved comfort levels in flats and more controllable heating;
- Further enhancement of the environmental performance of the RERF, and clear benefits of using the heat locally.

3.1.9 More work needs to be done with the HNDU funding to make sure that the district heating provides maximum social benefits to the city. This will include building a social impact plan into the delivery phase to quantify the number of local jobs and training opportunities that will be created and critically work to understand the needs of the tenants who will be connected. Initial estimates are that the 2,000 flats that we aim to connect will each save around 10% of their bills, approximately £80 per annum, a total of c£140,000 pa, and tenants will benefit from modern, effective and controllable heating systems. Independent of savings the heating systems that are being replaced are difficult to control and offer poor levels of comfort. The council will have been faced with a need to replace systems in any case. In addition, we will aim to provide energy efficiency advice to residents to maximise their savings and are investigating how we can include wifi and smart technologies as part of the retrofit programme to save more energy and improve access to council services. This will be detailed in a future report, once the next phase of development has been completed.

3.1.10 Although the baseline position under the PFI Contract is that the RERF will (at the commencement of operations) generate electricity only for sale into the grid, Veolia are required to deliver a facility that is 'enabled' for CHP. This means that the plant has been specified and designed to allow the incorporation of the necessary additional on-site CHP infrastructure should a viable heating scheme come forward, and the Project and Contract envisage the development of such a scheme by the Council and Veolia.

3.1.11 Given the genuine opportunity for a viable district heating scheme that is now emerging further to the recent feasibility work undertaken (outlined above), with further potential additional users being identified on an on-going basis and the Council's commitment to bringing this aspiration to reality, consideration is being given to the merits of installing the grid control valve elements of the CHP infrastructure at the RERF now, which results in cost savings and efficiencies compared to installing such element at the time a fully worked-up CHP scheme is available. The cost of these initial plant adaptations will initially be carried by Veolia, with the opportunity for Veolia to recover such amounts to be agreed when a CHP scheme is operational.

3.1.12 It should be noted that the installation of the grid control valve prior to the operation of a CHP scheme will result in a minor loss in efficiency in electricity generation, and therefore there will be a corresponding minor impact on the electricity revenues subsidising the City Council's Waste PFI Contract. This

represents a moderate financial risk in the event that a heating scheme is not delivered for, say, a number of years which (in the context of current electricity prices) will be carried by Veolia. However, in any event, this limited financial risk must be weighed against the more significant cost impacts associated with seeking to make these plant changes once the RERF has become fully operational.

- 3.1.13 Executive Board are asked to note the Director of Environment & Housing intends to subject to, further technical and economic due diligence, agree to the installation of this additional equipment. This decision is in accordance with the delegation of the Waste Management functions under the officer delegation scheme and will be undertaken by 30th September 2014.
- 3.1.14 In terms of the commercial delivery vehicle for the future installation and operation of a district heating network, officers are now undertaking options appraisal work to determine the most beneficial model. As noted above, the Council has the benefit of the Ramboll study to inform this and is working with Veolia to develop further proposals where these would link directly with the RERF.

3.2 PFI Cost Saving Options

- 3.2.1 The contract management team for the Project has been engaged in discussions with Veolia to assess the potential benefits of a range of options for reducing the annual costs of the Contract. These are detailed below.

Non-Reverting Asset (NRA) option

- 3.2.2 The Contract accords with all the Council's previous PFI projects in that, after the facility has been built and Veolia have operated it for the 25 year operational term of the Contract, the RERF will be handed back to the Council as an asset with a further 15 year anticipated life. However, the Contract also contains an option (proposed by Veolia) which would allow the Council to grant an additional 15 year lease to Veolia (subject to DEFRA's approval). This 15 year period coincides with the anticipated working life of the plant (i.e. around 40 years' operational life), after which time it is anticipated that it will need to be replaced or the facility will need to be decommissioned.
- 3.2.3 The NRA option can be exercised up until ten weeks following the date on which the facility is ready to receive waste for commissioning, which on the current programme would mean by around March 2016. If exercised, then after the 40 year lease term the asset would revert back to the Council, and at this point the Council has the option to either require Veolia to demolish the facility and return a cleared site to the Council, or recover the asset as it stands at that time. It should be noted that during the extended lease term there is no obligation on the Council to deliver waste to the facility. Following expiry of the 25 year service period, the Council will be required to re-procure residual waste treatment capacity, which may or may not result in a tender being submitted by Veolia for the Council to continue using the RERF.
- 3.2.4 Should the NRA option be exercised, it would result in substantial cost savings to the Council from the monthly service payments during the 25 year Contract term.

The most recent estimates, which were based on the waste tonnage forecasts at the time of Financial Close, show a total saving over the life of the project of around **£51m**, or **£2m** per annum.

- 3.2.5 An assessment has recently been undertaken by Asset Management which considers the likely value to the Council of the RERF during the 15 year extended lease period. An Appraisal including sensitivity analysis allowing for variations in assumptions has been carried out and concludes that the savings associated with the NRA option do not represent “less than best consideration” for the disposal of the extended lease (thereby complying with the requirements of the Local Government Act 1972 to obtain best consideration reasonably obtainable on the disposal of an interest in land).
- 3.2.6 There are also a range of non-financial benefits and risks/issues associated with exercising the NRA option which also need to be taken into consideration.
- 3.2.7 The benefits can be summarised as follows:
- a) No decommissioning or other ownership liabilities for the Council;
 - b) No Council risk of holding an ageing facility;
 - c) No remediation and site clean-up cost liability;
 - d) A longer commitment from Veolia to the facility can be of benefit to the district heating scheme.
 - e) Subject to the outcome of a procurement exercise, the Council would be likely to have access to the facility after 25 years at gate fees which are likely to reflect the fact that the capital cost of the facility has been recovered;
 - f) Significant flexibility for the Council’s future waste strategy with an increased ability to secure an alternative technology/waste treatment solution after expiry and the ability to run a procurement where continued use of the facility is not the default position (though this would depend at the time on prevailing economic circumstances, including prevalence of waste arisings in Leeds and capabilities of other technological solutions available, etc.);
 - g) No future obligation on the Council to procure an operator of the facility, including securing power off-take contracts and commercial or other third party waste to fill any spare capacity;
 - h) Unlikely to be TUPE implications and staff liabilities at Contract expiry;
 - i) The value of the asset may reduce from the current assessment, meaning the Council makes more from the Unitary Charge reduction than it would have from the turn-out land value in 2042.
- 3.2.8 Potential issues and risks with the NRA option if implemented include the following:

- a) The assessment of the value of the RERF in 2042 is less than the ultimate actual value, which then exceeds the financial benefit accrued by way of Unitary Charge reduction. This is only likely if few options for the treatment of residual waste exist at that time and therefore the market value of the asset is greater due to the scarcity of alternative facilities;
- b) The existing 1% Non-Leeds Waste contractual restriction would not apply after 2042 as the contractual restrictions will fall away when the contract terminates. However, the facility has limited capacity, providing a natural cap on importation of waste, and haulage costs would naturally limit the distances over which waste could be economically transported;
- c) Public perceptions of a potential loss of the Council's control over the operation of the facility post 2042 (although in reality the relevant legislative requirements and environmental controls are via the regulatory authorities (e.g. the Environment Agency) and will remain in place and continue to be enforced indefinitely);
- d) Market conditions are such that the Council is forced to enter into a new, less favourable contract with Veolia in 2042 as they are the only viable option for residual waste treatment. This is only likely if very few options for the treatment of residual waste are available in 2042 and is the converse of the potential benefits described at 3.2.7 above where the Council has significant flexibility in its future waste disposal options as alternative disposal facilities/technologies exist.

3.2.9 Exercising the NRA option would represent a substantial change to the terms of the contract, meaning that the accounting determination has been produced which concludes that if the NRA option were to be exercised, the asset would remain as an 'on balance sheet' asset with the same accounting treatment as for a standard PFI scheme. However this is a more marginal decision than previously. It is therefore intended to ask the Council's current external auditors (KPMG) to review the new accounting determination at this stage. The Council believes that there is a low risk of alternative accounting treatment being required, but the consequences would be significant if the asset were no longer to be on balance sheet, as the Council would be unable to use capital funding sources for the project.

3.2.10 Despite the potential balance sheet issues referred to above, it is deemed that the benefits significantly outweigh any risks associated with the NRA option, and Executive Board are asked to approve in principle the NRA option and note the Director of Environment and Housing will formally take the decision under the officer delegation scheme subject to DEFRA approval and subject to the Deputy Chief Executive determining there are no accounting treatment issues following consultation with the Council's external auditors. The decision will be taken by the Extended Commissioning Date currently anticipated to be 25th March 2016 although this is subject to programme change.

Council Capital Contribution

- 3.2.11 The Contract allows for a capital contribution to be made by the Council of up to £30m, which has to be made by the date on which the full Unitary Charge becomes payable (currently expected to be July 2016). This would result in a significant reduction in the Unitary Charge payable by the Council due to the more favourable borrowing rates that the Council can secure.
- 3.2.12 The Project Team are also exploring the benefits associated with a contribution in excess of £30m in line with HM Treasury guidance, which states that contributions may be allowed up to 30% of the capital value of the project. Any contribution at this threshold would require approval from Treasury, but this could potentially equate to a contribution of approximately £42m. However, as noted above, since the Contract only provides for a contribution of up to £30m, commercial negotiations with Veolia are required which may lessen the benefit that might accrue to the Council for the band above the £30m.
- 3.2.13 Whilst Executive Board approval is sought for the Council to make a capital contribution of £30m, the project team are currently in the process of modelling figures with Veolia for the higher contribution of £42m, and it is therefore proposed that Executive Board delegate authority to the Deputy Chief Executive to make the decision on a contribution above £30m should this prove to represent value for money to the Council.
- 3.2.14 As noted above, any capital contribution would only be following the successful commissioning and testing of the RERF. The risks relating to payment of a capital contribution in the event of any service failure are therefore considered to be limited.

Estimated cost benefits under PFI Contract

Cost benefits based on Financial Close position:

- 3.2.15 Following recent discussions with Veolia a set of financial models have been provided showing the impact of injecting a £30m capital contribution on both the standard Reverting Asset and NRA options. The information from these models has then been used by the Council and updated with its latest waste tonnage forecasts in order to estimate the financial benefits.
- 3.2.16 Based on these calculations, the net impact of introducing a £30m capital contribution (after taking account of prudential borrowing costs) is an annual reduction of **c£1.7m** in the Unitary Charge once the project is in full operation. This results in an overall saving of **c£44m** over the life of the project.
- 3.2.17 When combined with exercising the NRA option, this increases to an annual Unitary Charge reduction of **c£3.8m** once the project is in full operation, which equates to an additional overall saving of **c£95m** over the life of the project.
- 3.2.18 It should be noted that exercising both of the above options is subject to DEFRA approval. Government has made a commitment that reductions in the cost of operational PFI's shall be for the benefit of the relevant local authorities, and initial feedback from DEFRA has indicated that they will not seek a share of the reduction in Unitary Charge provided that the value for money of the options can

be satisfactorily demonstrated. Should the Government or DEFRA change their position, this will reduce the benefit to the City Council.

- 3.2.19 It should also be noted that the ultimate, actual financial benefit of these options will be determined by the actual tonnages processed under the Contract each year.

Medium-term cost benefits based on latest waste projections

- 3.2.20 As payment of PFI credits to the Council starts at the point that the facility is ready to accept waste (currently expected in January 2016), some level of saving, compared to continuing with current waste disposal arrangements, is expected to accrue during the financial year 2015/16. The actual saving will be dependent on the actual date by which the facility is ready to start accepting waste. A January 2016 start date would result in PFI grant of c£1.1m in 2015/16.

- 3.2.21 However, it should be noted that, on the current project timetable, Unitary Charge payments under the Contract (as opposed to commissioning payments) would only commence part way into 2016/17. Cost saving options impacting on the Unitary Charge (such as NRA and capital contributions) would therefore have no impact in terms of savings in 2015/16, a part-year impact in 2016/17 and the first full year of impact in 2017/18.

- 3.2.22 Although the precise figures will need to be calculated by and considered with Veolia, *Table 1* below sets out the Council's current estimates of the medium-term savings that might be expected to accrue compared to the projected costs of continuing with the current waste disposal arrangements and continued reliance on landfill.

- 3.2.23 Based on an assumed 170k tonnes per annum of residual waste being delivered to Veolia, the following savings compared to the projected cost of landfill are expected to accrue over the next three financial years.

Table 1

Option	Estimated Saving		
	2015/16	2016/17	2017/18
Current baseline position within PFI Contract	£1.1m	£2.9m	£3.0m
Baseline + £30m capital contribution	£1.1m	£4.3m	£4.7m
Baseline + £30m capital contribution + NRA	£1.1m	£6.2m	£6.8m

3.3 Community Benefit Funding

- 3.3.1 The project team has continued to engage in discussions with Veolia about the practical application of the provisions within the Contract for community benefit funding. There are a number of sources of potential community benefit funding linked to the RERF, both provided through the Contract itself, and independently via schemes operated by Veolia.

Veolia Pre-Service Commencement Fund

- 3.3.2 Veolia are currently voluntarily providing, prior to Service Commencement, a fund of £5,000 per annum for small scale awards to local community groups to support their activities. This fund is being promoted at the Community Liaison Group and via local Members and has so far supported a diverse range of groups, activities and projects.

Community Benefit Fund

- 3.3.3 Post Service Commencement a community benefit fund account will be established. At the start of each Contract year Veolia will pay into this account:
- £15,000 indexed;
 - All proceeds from charges made for use of the Visitor Centre in the preceding Contract year minus any reasonable costs incurred in running the visitor centre;
 - £10,000 indexed less any amounts distributed by the Veolia Environmental Trust (see paragraph 3.3.6) to projects within the Council's administrative boundary.
- 3.3.4 Annually Veolia will provide the Council with its proposals as to how they intend to invite expressions of interest. As well as local community groups applying, the Council will also be able to make its own suggestions for suitable projects. The parties are currently drafting terms of reference and application protocols for this fund on which they will consult more widely before finalising. Applications and awards would be determined by representatives from both organisations.

Excess Third Party Income Share

- 3.3.5 Under the Contract, Veolia will also share any excess third party income that it might generate with the Council. The Council intends that up to £75,000 per Contract year of any such income generated will be available to fund further local improvements. Monies distributed from this fund will be at the sole discretion of the City Council.

Veolia Environmental Trust

- 3.3.6 Veolia also operate the Veolia Environmental Trust. This is an independent trust that has been operating for over 15 years, supporting compliant community and environmental projects under a value of £0.5m throughout the UK by awarding grants through the Landfill Communities Fund. Applications must satisfy one of the five funding categories in order to qualify, and projects must be located within a ten mile radius of a Veolia facility either under construction or in full operation. Average funding awards under the scheme are £20,000 to £25,000, with the maximum being £100,000.

4 Corporate Considerations

4.1 Consultation and Engagement

- 4.1.1 The Project and Contract has been the subject of extensive consultation as previously reported to the Executive Board. The Executive Member (Cleaner, Safer and Stronger Communities) has been consulted on the proposals detailed within this report.
- 4.1.1 It is intended that local ward members of Burmantoffs & Richmond Hill and Temple Newsam wards will be consulted on the mechanisms for the administration of the Community Benefit funds as detailed in section 3.3 of this report.
- 4.1.2 Tenant consultation and stakeholder engagement regarding district heating forms a key part of the work we have sought HNDU funding for. This will take place in late 2014 / early 2015.
- 4.1.3 Discussions have taken place between the Council's Energy Procurement Team and the Enterprise Zone team in relation to potential energy requirements, which is primarily for power, which would need to be available 24 hours a day 365 days a year. The RERF has planned maintenance periods. Therefore if an arrangement to buy power from the RERF was achievable the local electricity network would still need to be upgraded to the same extent in order to provide for these planned maintenance periods

4.2 Equality and Diversity / Cohesion and Integration

- 4.2.1 Equality and diversity impacts in relation to the Contract were considered through stakeholder consultation in the development of the Project. Actions taken to mitigate negative impacts are detailed in the Full Equality, Diversity Cohesion and Integration Assessment undertaken in June 2012.
- 4.2.1 An Equality Impact Assessment was carried out on the Project in February 2010, and Veolia's Tender was deemed to meet the requirements identified in the assessment process.
- 4.2.2 Through the tender evaluation process in July 2011, Veolia's tender was scrutinised to ensure that it complied with the City Council's Equality, Diversity and Community Cohesion Policies and relevant legislation.
- 4.2.3 Veolia have developed and agreed an Employment Skills and Business Engagement Plan with Employment Leeds which sets out targets to achieve and deliver training and employment opportunities which are available to the local workforce.
- 4.2.4 Veolia have also implemented a Corporate Social Responsibility programme, which includes access to potential funding for local community projects to further benefit the local area.
- 4.2.5 An Equality, Diversity, Cohesion and Integration Screening was undertaken in May 2014 to accompany this Executive Board Report for the Project.
- 4.2.6 An Equality, Diversity, Cohesion and Integration Screening was undertaken in August 2014 for the District Heating Project to accompany this Executive Board

Report. This concluded that district heating would have an overwhelmingly beneficial impact, by reducing fuel costs for tenants in some of the more deprived parts of the city, with consequent positive impacts on fuel poverty and cold related ill health.

4.3 Council policies and City Priorities

4.3.1 The Residual Waste Treatment PFI project clearly supports delivery of the Best Council objective of, “Dealing effectively with the city’s waste: minimising waste in a growing city, with a focus on:

- *ensuring a safe, efficient and reliable waste collection service;*
- *providing a long-term solution for disposing of our waste;*
- *increasing recycling;*
- *reducing landfill tax costs.”*

4.3.2 The recommendations in this report, in seeking to secure substantial cost savings for the Council, clearly support the Council’s financial priorities.

4.3.3 The district heating project supports delivery of the Best Council Objective, ‘Supporting communities and tackling poverty’ by reducing fuel costs and cold-related ill health.

4.3.4 The inclusion of district heating with the RERF clearly supports the Visions for Leeds aim to ensure that “all homes are of a decent standard and everyone can afford to stay warm” and several Best City objectives:

- Best city... for business:
 1. Support the sustainable growth of the Leeds’ economy;
 2. Improve the environment through reduced carbon emissions.
- Best city... to live:
 1. Maximise regeneration investment to increase housing choice and affordability within sustainable neighbourhoods;
 2. Improve housing conditions and energy efficiency.

4.4 Resources and value for money

4.4.1 The recommendations within this report, if approved and implemented, will result in very substantial reductions in Unitary Charge payments under the Residual Waste Treatment PFI Contract. Details are set out within Section 3.2 of this report. These are savings over and above the anticipated savings of c£200m from the base case Contract compared to the projected cost of landfill.

4.4.2 Although at an early stage of development, providing district heating from the RERF could increase income from the Project as well as reduce fuel bills for tenants and commercial sites by around 10% per annum. This will be defined using HNDU funding as the next stage of the programme.

4.4.3 Subject to approval of a Capital Contribution being made approve an injection in to the capital programme and authority to spend of the corresponding amount.

4.5 Legal Implications, Access to Information and Call In

4.5.1 The decisions to be taken by Executive Board as detailed in this report are subject to call-in.

4.5.2 The NRA option and the £30m Capital Contribution option are already provided for in the Contract and no further variation is required in order to exercise these options.

4.5.3 Any further amendments required to implement the recommendations of this report will require formal contractual variations.

4.6 Risk Management

4.6.1 Risks associated with the NRA & any capital contribution option are discussed and addressed in section 3.2 of this report.

4.6.2 From a financial perspective, the risks of not exercising the options proposed within this report are very significant given the magnitude of the associated savings to the Council.

4.6.3 Risks of the NRA and capital contribution options not providing the anticipated benefits are deemed to be limited given the provisions already made within the Residual Waste Treatment PFI Contract.

4.6.4 Regarding the decision to install infrastructure at the RERF to facilitate a district heating scheme, there is a risk that delays in the delivery of a district heating scheme limit the justification for the cost of this additional equipment and the associated impact on plant efficiency. However, in light of initial technical feasibility findings and emerging opportunities for heat off-take, as well as the inevitable progressive increase in policy support for heat networks, that Veolia are largely taking the initial financial costs/risks in this regard and the Council's commitment to the delivery of a scheme, this risk is deemed to be limited.

5 Conclusions

5.1 Significant progress is being made towards the delivery of a viable district heating scheme linked to the RERF. A decision to invest in the proposed plant adaptations at the RERF will facilitate progress towards the realisation of the Council's aspirations for a district heating network.

5.2 Given the significance of the savings, and the limited risks and issues, associated with the Contract cost saving options dealt with in this report, Executive Board are recommended to agree to necessary delegations required for their implementation.

6 Recommendations

6.1 Executive Board is recommended to:

Members of Executive Board are recommended to:

- a) note the contents of this report, including progress with feasibility work for a district heating scheme linked to the Recycling and Energy Recovery Facility (**RERF**) as part of the Project and the community benefits associated with the Project;
- b) Authorise the Director of Environment and Housing to approve the installation of initial infrastructure at the RERF necessary to the delivery of a district heating scheme (as described at 3.1.9-3.1.12 of this report), subject to his receipt of a further satisfactory technical and financial assessment subject to the timescales detailed in para 3.1.12 of this report;
- c) Approve the implementation of the Non Reverting Asset option in relation to the Project (as described at 3.2.2-3.2.11 in this report), in order that the Director of Environment & housing can take the decision subject to DEFRA approval and subject to the Deputy Chief Executive determining there are no accounting treatment issues following consultation with the Council's external auditors by the Extended Commissioning Date currently anticipated to be 25th March 2016 although subject to programme;
- d) Subject to the approval of c) above, for Executive Board to note that the Director of City Development will arrange for disposal of the RERF site for an additional 15 years at the appropriate time and in accordance with the Asset Management functions in the officer delegation.
- e) Approve an injection into the City Council's Capital Programme and authority to spend £30m as a Capital Contribution to the Project (as described at 3.2.12-3.2.18 in this report) by the Actual Full Payment Date currently expected to be 8th July 2016 although subject to programme change and subject to DEFRA approval;
- f) Delegate authority to the Deputy Chief Executive to negotiate and agree to further proposals with Veolia for an increased Capital Contribution of up to an additional £12m, should this (in the Deputy Chief Executive's opinion) represent value for money, this will be subject to DEFRA approval and ; subject to the Deputy Chief Executive determining there are no accounting treatment issues following consultation with the Council's external auditors by the Extended Commissioning Date currently anticipated to be 25th March 2016 subject to programme;
- g) Subject to f above being actioned, approve an injection into the capital programme and authority to spend up to £12m.
- h) Save as expressly set out above Executive Board to note the Director of Environment and Housing will take any necessary action associated with the

implementation of the above options in accordance with the timescales and Waste Management Function.

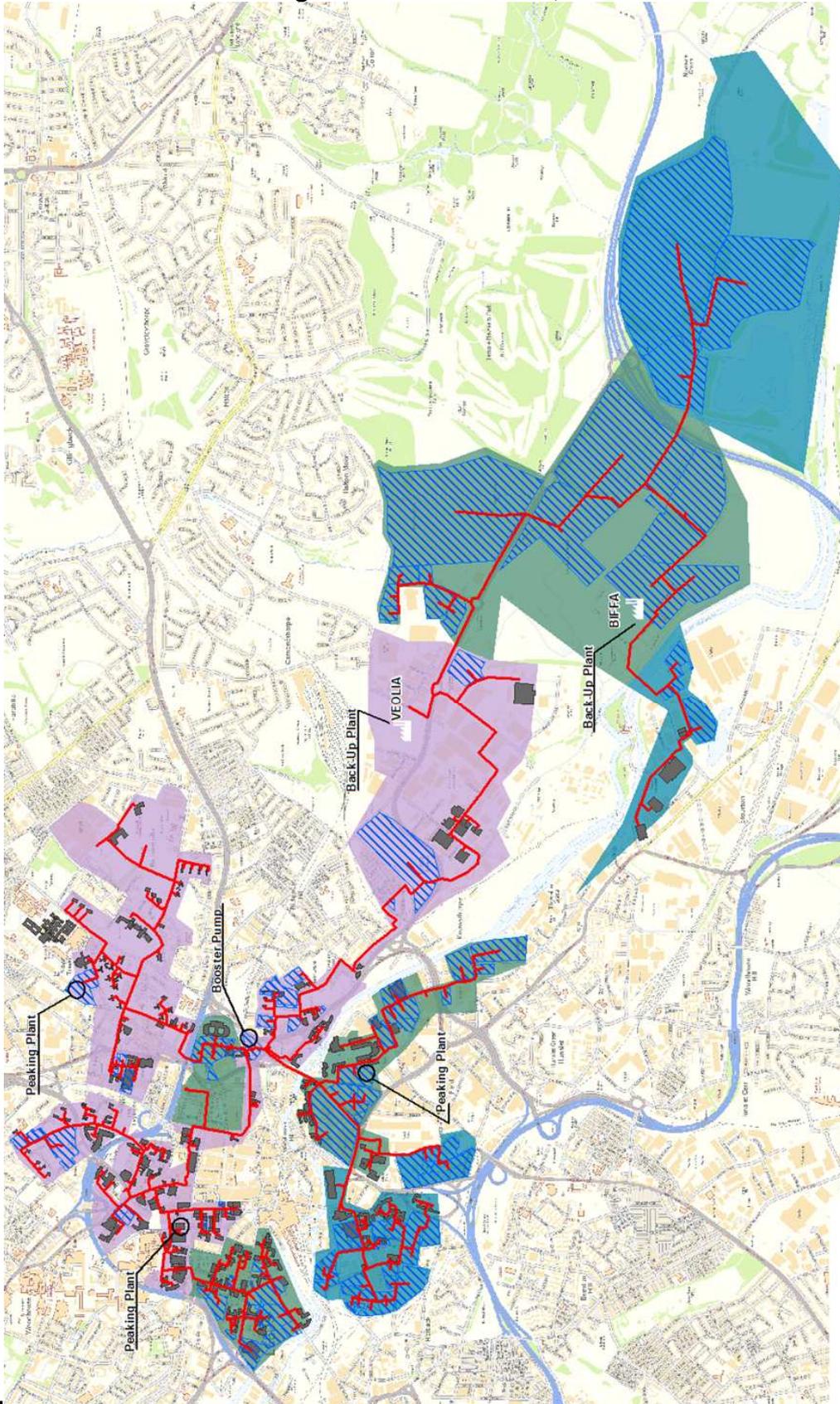
7 Background documents¹

none

¹ The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.

Appendix 1: Aire Valley and City Centre Energy Masterplanning: Potential District Heating Network, Phases

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