

Calderdale MBC

Wards Affected All

Cabinet

11th February 2013

Waste management PFI

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Report of the Head of Finance and Director of Economy & Environment

1. ISSUE

- 1.1 The opportunity has arisen to consider an investment, jointly with Bradford Council, into the funding of the waste management PFI project in return for savings from a reduced Unitary Charge for use of the new facility. It is anticipated that there would be net savings to the Council on future costs as a result of this investment.

2. NEED FOR A DECISION

- 2.1 A decision is required on whether to provide investment in the waste management project prior to it reaching Financial Close.

3. RECOMMENDATION

- 3.1 That Cabinet recommends to Council that the Director of Economy and Environment and the Head of Housing and Environment be authorised to agree to proceed to the award of the contract and that the Council invests £9.2m in the waste management PFI project at operational commencement on an invest to save basis.

4. BACKGROUND AND/OR DETAILS

- 4.1 The Council is jointly procuring a waste management solution with Bradford Council and the preferred bidder Pennine Resource Recovery Limited (PRR - a consortium of Skanska, Aecom and FCC Environment). Calderdale Council authorised the Director of Economy & Environment and the Head of Housing and Environment (as the Council's representatives on the joint programme board) to proceed to finalisation and award of the contract at its meeting on 12th December 2011. The financial implications of the waste management solution for Calderdale were detailed within that report.
- 4.2 The waste solution is to build Energy from Waste and Mechanical Treatment plant at Bowling Back Lane in Bradford which will divert from landfill a minimum of 94.4% of household waste collected by the councils along with a minimum of 17.7% recycling of the household waste delivered to the facility. The preferred solution will receive 193,000 tonnes of waste per annum of which typically 45,000 tonnes will be from Calderdale.
- 4.3 Bradford's Regulatory and Appeals Committee met on 1 November 2012 and planning permission was unanimously granted for three applications: to set up a site compound, to divert a gas main, and for the new facility itself. Enabling works on the Bowling Back Lane site are ongoing.
- 4.4 One of the key outstanding tasks is for PRR to finalise its funding for the construction of the new facility with commercial banks.

5. CURRENT POSITION

- 5.1 The Councils are seeking to reach financial close on the contract with PRR. To achieve this position, PRR has to finalise funding for the projected capital cost of the new facility. PRR are in the process of discussing terms with a club of funders.
- 5.2 If the major funder for the term loan is secured then the average funding required from commercial banks would be around £40m. Given the difficulties in the banking sector and the absence of risk appetite, the financial market has seen an increase in the cost of commercial funding. Whilst all indications are that the project can be funded on a fully commercial basis the opportunity has arisen for the Councils to consider making a capital contribution to the project to alleviate some of these costs and make savings themselves.
- 5.3 Based on the average package for commercial funders of around £40m and Calderdale's share of the projected use of the facility, this would require a capital contribution from Bradford Council of £30.8m and Calderdale Council of £9.2m. The major advantage of this proposal would come from the rate of interest at which the Council could borrow on a prudential basis from the Public Works Loans Board (PWLB) as compared with the rates charged by commercial banks. The saving from the difference in the annuity rates available to the Council (currently 3.6% over 25 years) and commercial rates would result in a reduced Unitary Charge for each tonne of waste delivered by the Council to the facility. As a result it is estimated that

the potential net saving to the councils would be around £1m per annum, of which around £200k per annum would be attributable to Calderdale.

6. OPTIONS CONSIDERED

6.1 The main options available are:

i) Do nothing – the Councils could continue on the basis that PRR would source all the funding for the new facility from commercial banks. The Council would not expose itself to additional risk but equally would not have the potential to reduce the Unitary Charge for use of the facility.

ii) Invest £9.2m in the project – this is the option being proposed within the report.

iii) Make a smaller capital contribution to the project – the level of investment being proposed within the report from the two councils is consistent with the scale of funding required from a commercial bank. Investing a smaller amount is unlikely to be attractive to PRR or other funders, would not generate a significant saving to the councils and is unlikely to force down the terms from other commercial lenders.

7. CONSULTATION

7.1 No other consultation is required as a consequence of this report.

8. FINANCIAL IMPLICATIONS

8.1 The two councils, Bradford and Calderdale, could provide an injection of capital totalling £40m to the project in return for a reduction in the Unitary Charge for each tonne of waste delivered to the new facility. Calderdale's share of the capital required, in line with its projected proportion of the waste delivered, would be around £9.2m.

8.2 If the Council agreed to prudentially borrow £9.2m over a period of 25 years at current PWLB annuity rates, the borrowing costs would equate to around £564k per annum. At assumed commercial interest rates, the repayments on £9.2m over a 25 year period could be around £766k per annum. The Council would therefore look to achieve a saving of around £200k per annum through a reduction in the contract Unitary Charge. The saving would represent around £3.1m in Net Present Value terms over the life of the contract. The actual saving would depend upon the rate secured from PWLB and the final terms of the commercial funders at Financial Close.

8.3 The total amount of prudential borrowing outstanding across the Council (including commitments) is around £42.6m with annual repayments of around £3.2m per annum. This investment would bring the amount outstanding to around £51.8m.

8.4 Risk assessment

The Councils have not previously considered providing a capital injection to the project despite the fact that other PFI deals have achieved financial close with local authority prudential borrowing. Some of the risk around the project has now been removed with the approval of planning permission (subject to judicial review) and the application for environmental permits but an element of risk would still be attached to the proposal. To help mitigate this risk it is proposed that the capital investment would only be available at service commencement to avoid the funding being at risk during the construction phase. The Council's funding would also rank equally with that of the other senior lenders. In more general terms, the project risk is further mitigated by the fact that the waste treatment technology is tried and tested in Europe, the operator is a recognised waste operator and the commercial banks have undertaken and continue to undertake significant due diligence on the proposed solution.

9. Corporate implications

- 9.1 The overall project will make a significant contribution to the Council's environmental targets in terms of reduced reliance on landfill as a means of disposal of waste and from increased recycling.
- 9.2 The waste management solution is intended to provide the Council with a more cost effective and certain means of disposing of its waste, without the exposure to variations in landfill tax and gate fees. Council at its meeting on 12th December 2011 agreed that its Medium Term Financial Strategy (MTFS) should make sufficient provision for the cost of the waste management solution when it commences in 2016/17. Further revisions of the MTFS will seek to ensure that this is achieved once the costs are finalised on Financial Close. A reduced Unitary Charge from using the facility should help achieve this requirement.

10. Conclusion

- 10.1 The opportunity has arisen to consider capital investment, on an invest to save basis, in the waste management solution with Bradford Council prior to reaching Financial Close with the contractor, PRR. The capital contribution proposed from Calderdale Council would be £9.2m, which could be funded from prudential borrowing, repaid through the reduction in the Unitary Charge for each tonne of waste delivered to the new facility and providing an additional saving on the Council's future costs. The capital investment would not be made until the construction phase has been completed.

For further information on this report, contact:

Mark Thompson	Head of Housing and Environment
Telephone:	01422 392435
Email:	Mark.thompson@calderdale.gov.uk

Nigel Broadbent	Finance Services
Telephone:	01422 393505

E-mail:

nigel.broadbent@calderdale.gov.uk

The documents used in the preparation of this report are:

Report to Cabinet on 12th December 2011 on the procurement of a long term waste disposal for Calderdale in partnership with Bradford City Council.

The documents are available for inspection at:

Finance services, Princess Buildings, Halifax, HX1 1TP