

Report of the Director of City Strategy

## **Waste PFI – Updated Outline Business Case**

### **Summary**

1. This report provides updated financial information on the waste pfi project, and identifies a revised affordability position for the Council. Members are requested to confirm they are committed to finding the additional resources required to make the project affordable over the life of the project.

### **Purpose of report**

2.
  - 1) To advise the Executive of reduced costs and revised timescales for the proposed PFI procurement project for future waste services, and;
  - 2) To satisfy DEFRA requirements for commitment to the affordability of the proposed project.

### **Background**

3. The Executive approved the submission of an Outline Business Case (OBC) to DEFRA for joint procurement of future waste treatment services with North Yorkshire County Council on 12 September 2006.
4. DEFRA have subsequently revised and further clarified the requirements for PFI projects in relation to sites and planning consents, necessitating the OBC to be updated accordingly. The opportunity has also been taken to revise predicted waste flows and costs using up to date estimates.
5. The Councils have also recently set their budgets for 07/08, and Medium Term Financial Strategies (MTFS) covering 08/09 and 09/10. The base budget information used in the OBC has therefore been revised, with a consequential impact on the affordability of the project.
6. Changes to waste flows and financial information are a consequence of external factors such as waste growth and market prices, and will need continual monitoring to ensure project estimates remain up to date.

7. In addition to these changes, DEFRA have specifically requested that Members are fully aware of the affordability of the project relevant to each Authority, including appropriate sensitivity analysis.

### **Waste Volumes and Growth**

8. Estimates of future waste flows and growth have been revised to reflect the latest information available. The most significant changes result from increases in recycling and composting performance in 2005/06 and 2006/07 compared to that predicted in the OBC, and reduced waste growth.
9. Estimates of future growth in waste have been revised downwards to more accurately reflect recent experience and trends. The consequence of this reduction is that the total amount of waste predicted to be handled in the period from 2008 to 2033 across York and North Yorkshire has reduced by approximately 370,000 tonnes to 13,255,000 tonnes. Biodegradable waste sent to landfill in the same period is also predicted to reduce from 2,209,700 to 1,946,300 tonnes . The reduction in estimated waste has had implications on the costs of the project, reducing the size of the treatment plants and thus operating costs. Other costs have also been updated, including taking into account price and interest rate changes since submitting the OBC.

### **Programme changes**

10. As a consequence of the changes to the procurement strategy, key dates have now changed. Acquisition of sites and planning consents have become critical activities to delivery of the overall programme. Any slippage in tasks associated with this work stream will delay the whole programme. Revised key dates are:

	<b><u>Key Issue/Event</u></b>	<b><u>OBC Date</u></b>	<b><u>Revised Date</u></b>
	<b><u>PFI Procurement</u></b>		
	PRG approval of OBC	Jan 07	May 07
	Prepare Planning Application for Treatment Plants	Jul 09	Sept 07
	Issue OJEU	Feb 07	June 07
	Issue Tenders	July 07	Aug 07
	Contract Award	Nov 08	Mar 10
	Consent Granted	Apr 11	Sept 09
	Construction Period - Efw	Apr 11 – Apr 13	Mar 10 – Mar 13
	Status as at 05/03/07		

## Consultation

11. As this report is an update on the process and financial information relating to the project no consultation has been undertaken on these aspects.

## Corporate Priorities

12. This project is critical in delivering Improvement statement 1, to decrease the tonnage of biodegradable waste and recyclable products going to landfill, enabling the diversion of waste from landfill to treatment facilities.
13. The costs identified below also consider the most efficient way to achieve this diversion, thus significantly contributing to Improvement statement 13, improving efficiency and reducing waste to free-up more resources

## Financial Implications

### Comparison of reference project and status quo

14. As reported to the Executive on 12 September 2006, there are extremely significant financial implications for this project. The costs set out below have been compared with a 'status quo' option, where waste continues to be disposed of to landfill and LATS permits are traded. The table below compares the revised project costs and revised costs of 'status quo' with those set out in the original OBC.

**Table A**                      **25 year partnership costs**

	OBC September 2006		Revised March 2007	
	Reference Project £000	Status Quo £000	Reference Project £000	Status Quo £000
Project Costs	1,398,967	785,749	1,345,182	723,920
Landfill tax	192,607	588,014	149,208	493,945
Landfill allowance costs	(27,262)	385,846	(54,698)	249,096
Total	1,564,312	1,759,609	1,439,691	1,466,961
Difference reference project vs 'status quo'	<b>(195,297)</b>		<b>(27,270)</b>	
Less PFI credit	(115,756)		(116,527)	
Benefit of 'do something'	<b>(311,053)</b>		<b>(143,797)</b>	

15. The costs have significantly reduced since the OBC was submitted in September 2006, largely because of the changes in waste volumes and growth explained in paragraph 12 above. In addition prices of the capital infrastructure and associated life cycle costs have increased (offset by reduced operating costs). Recent changes in interest rates have also been taken into account.
16. The benefit of undertaking the reference project compared to the status quo has reduced since submitting the OBC as identified above. Annex 1 highlights a number of significant risks / issues identified with this project for which estimated costs have not been included.

### **Affordability**

17. Table B sets out a comparison of the 'affordability gap' for the reference project between the OBC submission and the revised reference project.

<b>Table B</b>	<b>Affordability gap - full project</b>	
	OBC September 06 £000	Revised March 07 £000
Reference project costs	1,564,312	1,439,691
Adjusted for		
LATS	27,262	54,698
WCA Transport costs	- 39,268	- 48,724
	<u>1,552,306</u>	<u>1,445,665</u>
Less		
Budgets	- 590,657	- 620,292
PFI credits	- 115,756	- 116,527
Affordability gap	<u><b>845,893</b></u>	<u><b>708,846</b></u>

18. It will be noted that the gap has significantly decreased, as a result of the factors set out above. However the affordability gap still represents a significant challenge to the Council, particularly in the context of substantial spending pressures and Council Tax capping.

19. For York, the latest estimated affordability gap over the life of the project is £123,559k as set out in the table below:-

**Table C** **Affordability analysis - CYC over project life**

	Notes	Total £000	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000	2012/13 £000	2013/14 £000
<b>City of York Council</b>								
Recycling		25,176	330	712	736	760	786	809
Landfill & Composting		52,009	3,796	4,034	4,328	2,330	2,433	1,128
Residual Waste Treatment		206,876	0	0	0	3,418	3,480	8,766
		284,061	4,126	4,746	5,064	6,509	6,698	10,704
Existing Budget		-135,940	-3,980	-4,079	-4,181	-4,286	-4,393	-4,503
PFI Credits		-27,781	0	0	0	-757	-757	-1,313
CYC Affordability Gap	<b>a</b>	120,340	146	667	883	1,466	1,548	4,888
<i>Indicative Council Tax Increase</i>			0.2%	1.0%	1.4%	2.2%	2.4%	7.5%
LATS purchases	<b>b</b>	3,219	0	0	1,056	585	1,578	0
<i>Indicative C Tax Increase - LATS</i>					1.6%	0.9%	2.4%	
Overall affordability gap	<b>c</b>	<b>123,559</b>	146	667	1,939	2,051	3,126	4,888
<i>Indicative C Tax Increase - Overall</i>			0.2%	1.0%	3.0%	3.1%	4.8%	7.5%

Refer to Annex  
**a2**  
**b** Refer to paragraph 20  
**c** Paragraph 19

*NB. The above analysis ends at 2013/14 as this represents the peak year in budget growth, excluding the impact of price variances. Further detail over the entire life of the project is however, available in Annex 2 including the position for each Council and the Partnership as a whole.*

20. The scenario above represents the 'most likely' solution at present, taking into account the award of pfi credits but before taking into account sales of LATS. Whilst it is expected that the project will generate a net LATS surplus of £55m over the life of the contract, it is anticipated that

there will be a need to purchase LATS in 10/11,11/12 and 12/13, as shown in table C above for CYC.

21. It should be noted that the costs and affordability have decreased significantly, and that the Authorities will work with contractors to 'smooth' the impact on Council Tax over the period of the contract.
22. It is recommended, in order to satisfy DEFRA's requirements, that the Council commits to finding the additional resources to make the project affordable over the life of the project.
23. The budget figures included in the above tables are based on approved 07/08 budget figures, thereafter inflated for the following 2 years, gross of income generated, and assuming contract prices and inflation in existence at the time. These budget figures will continue to be reviewed and updated as the project progresses.

### **Sensitivities**

24. As can be seen from the revised projected costs set out above, changes in assumptions can have significant implications on the overall projection of costs, and thus affordability and the business case for undertaking the procurement project.
25. In order to test the robustness of the costs, sensitivity analyses has been carried out on the following assumptions:-
  - Internal rate of return (IRR)
  - Operating costs
  - Capital costs
  - Third party income
26. The impact of the sensitivity analyses identifies that the overall net cost (after taking into account the existing budgets) of the project could range between £654,148k (best case) and £774,227k (worst case) referred to as the 'affordability' envelope by DEFRA.
27. For York, the overall net cost (after taking into account the existing budgets,) could range between £106,952k (best case) and £135,928k (worst case). However it should be noted that the definition of best/worst case is a professional view taken by officers and advisers on the project, based on guidance from DEFRA.
28. Members are requested to note the 'affordability envelope' set out above, and recognise the variations from the most likely position as set out in table C above.

## **Other Implications**

29. The following implications have been assessed:
- **Human Resources (HR)** – there are no HR implications of this report
  - **Equalities** – there are no equalities implications
  - **Legal & Procurement Implications** – there are no additional or amended requirements as a result of this report, compared to the report approved in September 2006.
  - **Crime and Disorder** – there are no crime and disorder implications
  - **Information Technology (IT)** – there are no IT implications
  - **Property** – there are no property implications
  - **Other** – there are no other implications of this report

## **Risk Management**

30. The Waste procurement is identified as a high risk for the Council, largely because of the high level of government penalties should the Councils fail to divert sufficient waste from landfill and thus potential financial risk to the Council. This report does not change the approach to risk on the procurement project, and as identified in the report to Executive on 12 September 2006, a detailed assessment of the risks will be brought to the Executive when DEFRA have responded to the OBC. A list of risks / issues associated with this project are set out in Annex 1.

## **Recommendations**

31. Members are asked to
- a. confirm that the council is committed to finding the additional resources, as set out in paragraphs 14 to 28 above, required to make the project affordable over the life of the contract, subject to any further obligations and financial parameters as directed by DEFRA or any other Government department.
  - b. Note the revised timescales identified in paragraph 10 above

Reason: to progress the PFI application for funding to DEFRA

## Contact Details

### Author:

Sian Hansom  
Assistant Director, Resources  
and Business Management  
City Strategy  
No: 01904 551505

### Chief Officer Responsible for the report:

Bill Woolley  
Director of City Strategy

Report Approved

Date 7 March 07

Report Approved

Date Insert Date

### Wards Affected:

All

For further information please contact the author of the report

### Background Papers:

York and North Yorkshire Waste Management Partnership  
Waste PFI Project Outline Business Case  
Supplementary report to Y&NY Waste OBC  
Previous reports to Executive  
    Joint Waste Management Strategy report  
    Executive approval of OBC, 12 September 2006

### Annexes

Annex 1 – Risks and issues – Waste PFI project  
*Annex 2 – Financial profile of expenditure*