

**PUBLIC FINANCE INITIATIVE FOR WASTE
(Report by Head of Environment & Transport)**

1. INTRODUCTION

- 1.1 Waste is currently growing by 3% per annum and it is recognised nationally and locally that radical steps need to be taken to increase recycling, divert more waste from landfill and ultimately find alternatives ways of disposing of waste.
- 1.2 The County Council are developing a Private Finance Initiative (PFI) bid to fund investment in new waste management infrastructure and potentially waste collection infrastructure. They are looking for partner authorities to support them in their bid to DEFRA for PFI credits and this report provides Cabinet with an update on the process.

2. BACKGROUND

- 2.1 Joint working on waste between local authorities in Cambridgeshire has been facilitated since 1997 through the Cambridgeshire Councils Association (CCA) Waste Forum, which is made up of elected members and officers from the five district Councils, the County Council and Peterborough City Council. The Huntingdonshire District Council member representative is Cllr Pat Gregory, executive member for the environment.
- 2.2 All authorities agreed a Joint Municipal Waste Management Strategy in 2002 following considerable stakeholder and public consultation. Through this strategy the district council is committed to optimising recycling level.
- 2.3 The key drivers for recycling and diverting waste from landfill come from European and national targets (see Annex 1 for details). The County Council, as Waste Disposal Authority, is particularly concerned with the requirements of the landfill directive that will increase the cost of landfill tax and reduce the amount that can be landfilled quite considerably.
- 2.4 Forecasts of the County Council's annual landfill tax bill indicate that it will rise from the current £2.9M to £7.2M by 2011/12. By 2030 the County Council will experience a revenue deficit of roughly £60M. As landfill tax increases the option of investing in alternative treatments will become relatively more attractive.

3. PRIVATE FINANCE INITIATIVE

- 3.1 The Private Finance Initiative was first launched in the UK in 1992 and has grown into one of the government's most significant means to fund infrastructure developments. In the past, public authorities paid contractors directly for such projects. However through the PFI the private sector pays for construction and will then fully service and

maintain the infrastructure for a period of say 25-30 years in return for an annual payment (known as the unitary charge).

- 3.2 The Government believes that the PFI brings private sector skills and management to public sector services. It also believes that the transfer of risk to the private sector is particularly attractive to local authorities. PFI projects have included prisons, roads, schools and other capital projects required to deliver a public service.

4. JOINT WASTE STRATEGY PFI BID

- 4.1 The overall objective of the planned PFI bid is to enable the local authorities in Cambridgeshire and Peterborough to involve a private sector partner in a waste management contract to achieve the objectives of the Joint Waste Strategy and to strike the best possible balance between cost, environmental impacts and customer service over a 25-year period. The key milestones for the project are set out in Annex 2. The potential benefits and challenges associated with the PFI bid are at Annex 3.
- 4.2 The County Council are proposing that collection and disposal should be integrated in to one contract to maximise economies of scale, reduce the perceived risks to the contractor and therefore minimise the costs through the unitary charge.
- 4.3 If the District Council were part of the PFI procurement process then we would pay towards the unitary charge imposed by the contractor but would attract a revenue support grant to help pay towards these costs. There is still some uncertainty about the level of PFI credits available but an indication of the possible revenue support grant is at Annex 4.
- 4.4 As a partner in the PFI procurement process the District Council would need to decide whether to relinquish the collection services to a contractor or to sub contract the service back again. It appears at present that either option would be possible.
- 4.5 It is proposed that the PFI bid includes -
- To replace refuse and recycling vehicles every 7 years.
 - Provision of sufficient bins or boxes to deliver kerbside recycling for green waste, dry recyclables and residual waste to all households
 - To provide new, or replace or refurbish existing, Household Waste Recycling Centres (HWRC).
 - To provide transfer and sorting facilities to provide within each district drop-off points for the bulking up of material and/or to provide Materials Recycling/Reclamation Facilities
 - To provide for the disposal of residual household waste by Mechanical and Biological Treatment (or similar) facilities. This is a generic term used to describe a series of processes involving biological drying (composting) and material separation (for recycling).

5. DECISIONS

- 5.1 The joint waste partnership is planning to submit an outline business case to DEFRA in December 2003 from which they would get an indication of the likely level of PFI credits (currently believed to be £40 million). The district council can sign up to support the bid to DEFRA for the first stage without any obligation to then be part of the procurement phase.
- 5.2 It is at the development of the procurement phase, which will be early next year, when a more binding decision will be required as to whether or not the district council wish to be part of the procurement process. At this stage key decisions would be required in terms of contract management arrangements and whether or not to sub-contract the collection services.
- 5.3 If the council decide not to be part of the procurement phase then the county council would seek some kind of agreement with us as to the method of delivery to disposal facilities and the quality of waste we produce in order to reduce contractual risk, and therefore costs, in the treatment process. The Council would not attract the revenue support grant (currently estimated at £202K in the first year) but would have independence and flexibility over their collection services although future legislative changes are likely to give powers of direction to the county council.

6. RECOMENDATIONS

- 6.1 It is recommended that Cabinet:
- a) Approve the council's involvement as a partner in the submission of the outline business case to DEFRA for PFI credits; and subject to their decision on (a)
 - b) Authorise the Director of Operational Services, after consultation with the executive councillor for Environment, to agree the information included in the outline business case in respect of the council;
 - c) Require the Director of Operational services to provide to a future meeting of the Cabinet an evaluation and financial appraisal of the options for the future delivery of services including joint procurement supported by PFI credits and
 - d) Defer a decision on the council's involvement in any future joint procurement until it has received the Director of Operational Services evaluation and financial appraisal.

Background papers

The Strategy for dealing with Municipal Solid Waste 2002-2022 in Cambridgeshire and Peterborough - Environment and Transport 3rd Floor Pathfinder House

Contact Officer: Sonia Hansen, Development and Community Manager
☎ 01480 388341

Annex 1

National and European targets for recycling waste and the diversion of biodegradable municipal solid waste (BMSW) from landfill are key drivers for the partner authorities. The Joint Waste Strategy sets local aspirational targets for 55-60% of waste to be recycled by 2020. The Prime Ministers Strategy Unit has proposed a target of a 33% recycling rate by 2015. The EU Landfill Directive requires a significant reduction in the amount of waste landfilled.

Considering projected waste growth against the various targets it is clear that even if a target of 60% recycling is achieved by 2020 there is still a gap between this and the amount of waste that it will be possible to landfill by that date under the landfill directive. Therefore authorities will need to find new alternative to landfill in addition to the extensive recycling that can be done. Such alternatives would require some form of treatment of Biodegradable Municipal Solid Waste i.e. the residual waste that can be broken down.

Planned rises in landfill tax from £15 per tonne in 2004/05 to £35 per tonne by 2011 will make landfill increasingly expensive.

The Waste and Emissions Trading Bill (currently being debated in Parliament) will introduce a system of trading landfill allowances or permits. Strict limits will be set for each authority on the amount of waste they can landfill. It is envisaged that authorities that need to exceed their landfill limit will have to buy permits from better performing authorities who have surplus allowances.

To enable a shift from 75% dependence on landfill (2002/03) to 40% or less by 2020 to achieve the landfill directive targets, significant investment is required in new infrastructure to recycle and recover value from waste. The CCA Waste Forum has noted that such investment is more likely to be achieved through a long-term partnership with the private sector, than from the partners' resources and that the availability of PFI credits for such an investment is an attraction.

Alternative methods of treatment that would enable partners to meet the landfill directive and recycling targets will require considerable investment. The District Council as Waste Collection Authority will need to maintain and replace collections infrastructure (lorries, bins, transfer stations). New recycling, composting and waste treatment facilities would be required across the county.

Originally the partners agreed a two-phase approach for procurement of the facilities and infrastructure necessary to achieve the Joint Municipal Waste Strategy. The first phase was to cover the procurement of waste and recycling treatment facilities. The second phase was to cover waste collection infrastructure.

With the planned roll out of the garden waste trial it is projected that we would achieve a recycling rate of 47% but further work will need to be done to achieve the required 55%.

Targets for recycling and reduction in use of landfill

- EU Landfill Directive targets — permissible levels of biodegradable municipal solid waste which can be landfilled
 - 2010 = 75% of 1995 level
 - 2013 = 50% of 1995 level
 - 2020 = 35% of 1995 level

- National Waste Strategy targets
 - household waste recycled/composted by 2005 25%
 - household waste recycled/composted by 2010 30%
 - household waste recycled/composted by 2015 33%

In addition a target has been set to recover value from municipal solid waste of 40% by 2005, 45% by 2010 and 67% by 2015. Recover means obtain value from waste through recycling, composting, other forms of material recovery (such as anaerobic digestion and energy recovery through thermal treatment).

- Cambridgeshire Joint Municipal Waste Strategy targets
 - recycling/composting BVPI target for 2005/06 36%
 - recycling/composting target for 2010/11 45-50%
 - recycling/composting target for 2015/16 50-55%
 - recycling/composting target for 2020/21 55-60%

- HDC Best Value Performance Indicator targets for 2004 (2005)
 - percentage of household waste recycled 27%
(39%*)
 - percentage of household waste composted 13%
(25%)
 - kilogrammes household waste per head 369
(380)
 - household with kerbside collection of recyclables 100%
(100%)

** this is a locally set target and assume the district-wide roll-out of garden waste collections – the BVPI standard set by government for the indicator is 21% in 2005*

Cambridgeshire County Council issues

- existing disposal contracts generally end in 2007, new facilities are required by 2010 – 3 year lead time to have new facilities in place hence need to start process now
- requirement to reduce need for landfill to meet government/EU targets
- need to invest in alternative technologies – MBT preferred
- landfill tax rising from £15 to £35 per tonne (2004/5 to 2011/12)
- potential for Waste and Emissions Trading Bill which would require waste over-produces to buy permits from other better placed waste disposal authorities
- funding gap – in worst case disposal costs could rise from £9 million to £22 from 2005/06 to 2020/21 – hence PFI being considered

- government more likely to support PFI bid which demonstrates partnership and includes collection as well as disposal

Annex 2

PFI Project Milestones

Action	Date
All partners to decide whether to take part in joint bid	November 2003
Submit a bid to central government for PFI credits to support the contract. To include defining the business case for investment and consolidating the partnership	December 03 / Jan 2004
Partners to decide whether they wish to be part of the procurement process and if so the type of consortium arrangement for the joint procurement and contract. This information needs to be included in the Outline Business Case to be presented to central government.	January 2004
To procure a long term contract, using the EU negotiated procedure	November 2005
Obtain necessary planning approvals and IPPC approvals	
Contract Starts	Mid 2007

Annex 3

POTENTIAL BENEFITS OF A PFI FOR WASTE MANAGEMENT

The benefits of a successful PFI Waste Management project would be:

- The partnership and the individual authorities would have a high degree of confidence that their obligations in terms of targets for waste management would be met
- The necessary investment would be provided by the private sector
- The costs, though higher than current waste management costs, would be less than those anticipated with lack of investment
- The council tax payer would see improvements in service delivery through cohesion, economies of scale and flexibility
- The environmental benefits of a more efficient use of resources, through recycling, re-use and recovery, would be realised
- Such benefits would outweigh the environmental costs arising from the new infrastructure
- The long-term public private partnership would provide the authorities with some resilience in the face of unpredicted threats, but also the flexibility to take up new opportunities, such as technical developments

CHALLENGES ASSOCIATED WITH THE PFI

There are a number of challenges or potential drawbacks of the PFI as follows:

- Choice of technology - Sensitive decisions would need to be taken on the type of non-land filled technology. Environmental performance would be one of the selection criteria and the final contract is likely to be outcome based rather than specification driven to allow industry to propose the most suitable technology
- Choice of location – Whilst we have the advantage of a site specific Waste Local Plan, there are likely to be objections and differing views across the county as to where facilities should be constructed
- Degree of risk transfer – In theory the more risk, or accountability for achieving the landfill directive target that the authorities transfer, the more of the service the contractor will want to have in its control. This hypothesis and its cost implications need to be tested with the industry.
- Relinquishing independence – The County Council are proposing that the PFI bid is put forward through a consortium of both Waste Disposal Authorities (County and Peterborough) and Waste Collection Authorities (District Council) in order to integrate the planning and financing of collection, recycling, processing and final disposal. For the District Council this will mean losing some independence of costs and accountability on waste collection
- Timescales – the County Councils bidding timescale gives very tight deadlines for the other partners to sign up to the bidding consortium. They are pressing for a decision on membership to this by the end of November 2003. A decision on joining the procurement consortium is needed early in 2004 from which time there is in effect no going back.
- Decisions on managing the waste contract – if councils do combine in a joint procurement consortium then how far should they go in jointly managing and administering their waste functions?

Annex 4

Provisional Revenue Support to Waste Collection Authorities from PFI Credits at £40m

	1	2	3	4
Authority	Total Capital Expenditure (undiscounted cash flows) (£'000)	Potential PFI credit (£'000)	First year of Revenue Support Grant 2007/08 (£'000)	Year 25 revenue support – 2031/32 (£'000)
Cambridge City	11,757	1,800	207	73
East Cambridgeshire	7,929	1,360	158	54
Fenland	6,644	1,070	124	44
Huntingdonshire	14,136	1,750	202	72
Peterborough	11,087	1,670	193	68
South Cambridgeshire	10,523	1,550	179	64
Total	62,076	9,200	1,060	375

Assumptions:

1. All vehicles are replaced at the start of the contract ie the capital expenditure occurs in 2007/8 and then every 7 years
2. The shortfall in bins and boxes is made good in 2007/8 and all bins and boxes are replaced once during the contract
3. In calculating the Revenue Support Grant, a 4% MRP and a Treasury Discount Rate of 7% have been assumed

If the Partnership is successful in its bid for a PFI credit which is reflective of the capital expenditure for the WCAs and this is passed down to them pro rata, then there will a significant degree of revenue support available to each Collection Authority. (As shown in columns 3 and 4 of the table above).

It should be noted that support from the PFI credit is over and above the funding which is provided through the Formula Spending Share. This additional support will be available to the WCAs to help meet the required investment in vehicles and bins to ensure that the collection infrastructure is compatible with the preferred disposal technology. It is, however, dependant on pursuing an integrated waste PFI procurement route satisfactory to DEFRA approval.