

**Briefing note for the Resources Scrutiny Commission**

**West of England Waste Management and Planning Strategy  
Joint Residual Municipal Waste Management Strategy**

1. Attached are:
  - a report on the Joint Residual Municipal Waste Management Strategy to the West of England Member Project Board: The Board has agreed to recommend the Strategy to the individual authorities. The strategy itself is on the website [www.rubbishorresource.co.uk](http://www.rubbishorresource.co.uk);
  - the draft Costs and Budgets section of a joint Expression of Interest (EOI) for PFI Credits. The EOI is to be submitted by Bristol, North Somerset and South Gloucestershire.
2. This Information is circulated to the Commission to provide an opportunity for scrutiny of the financial implications of the joint strategy.

Director of Central Support Services

# WEST OF ENGLAND WASTE MANAGEMENT & PLANNING STRATEGY

## MEMBER PROJECT BOARD

Date: 12<sup>th</sup> March 2008

Agenda item 8

### Title: JOINT RESIDUAL MUNICIPAL WASTE MANAGEMENT STRATEGY

#### 1. RECOMMENDATIONS

That the Member Project Board:

Considers the responses made by relevant Scrutiny Panels which considered the papers received by the Member Project Board on 18<sup>th</sup> December 2007 **Appendix D**; whereupon it:

- 1.1 Agrees to recommend the Joint Residual Municipal Waste Management Strategy (the Joint Waste Strategy) to the individual authorities for adoption through their appropriate decision making bodies. **Appendix A**
- 1.2 Agrees to recommend f the Joint Waste Strategy Phase 2 procurement implementation plan to the individual authorities for adoption through their appropriate decision making bodies **Appendix B**
- 1.3 Notes the Procurement process summary for Phase 3 which includes an Expression of Interest (Eol) to Defra which is in the course of preparation for Bristol, South Gloucestershire and North Somerset and to be submitted to Defra by their stated deadline of 31<sup>st</sup> March 2008, subject to final approvals by individual Chief Officers, after consultation with their respective Executive Members if required. **Appendix C**
- 1.4 Notes that the preparation of an Outline Business Case will be required for the provision of long term residual waste management capacity on behalf of the three authorities. If successful at Eol stage for PFI Credit approval, this will need to be adopted formally by the participating authorities approvals in the Autumn of 2008, prior to submission to Defra.
- 1.5 Notes the development of governance options for the overarching West of England Partnership which will incorporate appropriate structural arrangements for the waste & planning projects.
- 1.6 That each authority ensures that it refers any decision to appoint Bristol as lead authority, and to procure Phase 2, to its appropriate decision making body.

#### 2. Summary:

- 2.1 The Joint Waste Strategy is the outcome of two years work involving two major public consultation exercises, a detailed technical evaluation of the technology options available to the Partnership, a financial appraisal of the main options and further technical work to consider environmental issues, including the impact on climate change.

2.2 Following its referral in December 2007 to the Joint Overview & Scrutiny Reference Group and individual authority Scrutiny panels for review and comment, the Joint Waste Strategy has been revised and an updated version is attached at **Appendix A**.

2.3 The outcome of this work is to propose that a phased strategy for managing residual Municipal Solid Waste (MSW) be implemented by the Partnership.

This approach has the support of Defra, it meets the objectives set out in the Waste Strategy for England 2007, aligns itself with the aims and objectives of the South West Regional Waste Strategy and is likely to offer the greatest competition from the market and value for money for Council Tax payers.

Phase 1: On-going waste reduction, reuse, recycling and source segregation to help reduce the tonnage of residual waste needing treatment. Each local authority will maintain a long term commitment to increase waste reduction, recycling and composting, and will move toward a longer term aim of achieving zero waste.

Phase 2: The procurement of medium term treatment of all four authorities' residual MSW for a five year period with a mandatory variant of a 10 year period, (2010-2020) to meet Landfill Allowance Trading Scheme (LATS) allowances at least until Phase 3 is in place; this is likely to involve a bio-stabilisation type process (Mechanical Biological Treatment(MBT)/Biological Mechanical Treatment (BMT) type technology), or an autoclave process.

A procurement implementation plan has been prepared (attached at **Appendix B**) which is intended to be carried out in partnership by Bristol, South Gloucestershire, North Somerset and Bath & North East Somerset Councils.

Phase 3: Long term treatment of 160,000 tonnes of residual MSW per annum to meet LATS allowances. This is proposed to be procured by a Competitive Dialogue procurement process leading to a 25 year contract carried out in partnership by Bristol, South Gloucestershire and North Somerset Councils.

An Expression of Interest (EoI) for Defra PFI credit support is to be submitted by 31<sup>st</sup> March 2008 (a summary attached at **Appendix C**). This will lead to the preparation of an Outline Business Case (OBC) for which a Reference Project technology must be specified. The Technology Options Appraisal determined that this should be Energy from Waste (EfW), with a preference for combined heat and power for the benefit of local energy users. Whilst Energy from Waste will be the reference project, this will not exclude interested parties coming forward with other forms of treatment including other forms of thermal processing.

Phase 4: Treatment of any remaining residual waste as determined by the nature and duration of the Phase 2 and Phase 3 contract(s).

- 2.3 A range of treatment technologies have been evaluated by an extensive technology options appraisal process to produce a preferred option. During this process the technical performance of each technology option was modelled and assessed. They were subjected to evaluation by quantitative and qualitative criteria to assess the environmental, economic and social implications of each option. The options were then assessed on capital expenditure (CAPEX), operating expenditure (OPEX) and revenue assessments based on the size and number of facilities determined in the technology modelling.
- 2.4 The same waste treatment options were subject to consultation with the public, before a preferred option was chosen to form the basis of Phase 3 of the Strategy. In addition, the options were presented to industry representatives as part of a soft market testing exercise. The preferred strategy brought forward from these consultations includes Energy from Waste.

<b>3. The significant issues in the report are:</b>
---

- 3.1 Since October 2005 the West of England Waste Management and Planning Partnership has been developing a Joint Waste Strategy for managing the 330,000 tonnes of residual MSW it predicts it will have to deal with by 2020 and on to 2039/40 in accordance with a 25 year operating contract. The Strategy contained in **Appendix A** of this report summarises the work that has been undertaken to evaluate the technology options available to the Partnership and to summarise the outcome of the two public consultation exercises undertaken to gain the views of a wide range of stakeholders.
- 3.2 A significant amount of consultative work has been undertaken in order to thoroughly assess this important issue and to gain wide opinion from local residents and other diverse stakeholders as to how residual MSW should be treated in the future. Section 3.3 of the strategy document references the process and outcomes and full reports on the two phases of consultation can be found on the dedicated website [www.rubbishorresource.co.uk](http://www.rubbishorresource.co.uk).
- 3.3 Details of the Technology Options Appraisal process is set out in Section 4.3 of the strategy document. A full and comprehensive Options Appraisal Report was finalised in January 2007 which can be downloaded from the Partnership's dedicated website [www.rubbishorresource.co.uk](http://www.rubbishorresource.co.uk).
- 3.4 Future tonnage predictions are based on the authorities increasing their recycling and composting performance to achieve at least the National recycling targets (set out in the Waste Strategy for England at 50% by 2020). The preferred choice of options and phases of the Strategy allows for flexibility in order to accommodate changes in residual waste composition, population and housing growth, new legislation eg: direct charging, and behavioural change by residents on reducing their waste, and recycling more.
- 3.5 The outcome of all of this work has led to the development of a phased approach towards implementation. This recognises that the targets in the Waste Strategy for England are the minimum to be achieved. Each of the partnering authorities are encouraged to exceed the national targets, subject only to their own strategic priorities.

- 3.6 **Phase 1:** This recommends that the partnering authorities continue to make every effort to maximise waste reduction, reuse and recycling in the first instance. By doing this, as effectively as possible, the outcome will be to reduce the quantity of residual MSW to be treated and thereby reduce the scale of the facilities needed in the longer term. A separate report has been produced entitled '**Joint Position Statement on Reduce, Reuse and Recycle**', which outlines the work the authorities are undertaking in this area and is referenced in the Joint Waste Strategy document itself. In order to strengthen this area in the future, it is proposed that the authorities explore the opportunities for joint publicity and promotional working.
- 3.7 **Phase 2:** This recommends that the Partnership addresses the immediate problem of achieving landfill diversion in the short to medium term ie: to help reduce the risk of LATS penalties between 2010 and 2015. Further information on the procurement implementation plan is attached at **Appendix B**.
- (i) It is proposed that this is achieved through letting a minimum five year contract (though recognising that better value for money may or may not be achieved by a longer term contract to ten years), as soon as possible, to treat residual waste in a manner that will achieve the required landfill diversion.
  - (ii) The tender process would be non-specific on technology through an output specification but likely to comprise mechanical and/or biological treatment ie: bio-stabilisation or autoclaving. The result of discussions with waste industry representatives in this field indicates a willingness on their part to bring such a facility into operation in the short term.
  - (iii) Some outputs from these processes could include a Solid Recovered Fuel (SRF) which would require thermal treatment if the waste minimisation benefits of this option are to be optimised.
  - (iv) The use of an output specification will allow other developing technologies to come forward and be evaluated through the same criteria which will be developed and agreed in advance.
  - (v) The contract would be for between 100,000 and 150,000 tonnes of residual MSW per annum subject to a comparison with the rising costs of landfill gate fees and Landfill Tax (and avoidance of LATS penalties).
- 3.8 Bath & North East Somerset Council intend to work in partnership alongside the other authorities to procure Phase 2 facilities to treat its residual waste stream for a five year period with a mandatory variant of a 10 year period, (2010-2020) whilst developing further zero waste initiatives and source segregation of recyclables. The Partnership will then consider whether an extension to the phase 2 contract is appropriate, assess any viable alternatives that may exist at that time, and work jointly to determine if the partnership will move into a Phase 4 stage at around 2025.
- 3.9 **Phase 3:** At the same time as developing a Phase 2 solution, the Partnership would also tender for its longer term, Phase 3 solution. This would entail commissioning 160,000 tonnes per annum capacity treatment. It is anticipated that the facility would not become operational until 2015.

- 3.10 A plant of this scale would deliver the requisite level of landfill diversion for the Partnership to meet its LATS allowances in 2020, but critically should not present a barrier to future improvements in waste reduction, recycling or composting
- 3.11 As described in **Appendix C**, a Reference Project for an Outline Business Case must specify a technology that is proven, deliverable, and bankable. This is defined within Defra's guidance as "The technical solution selected as the basis for establishing the operational and financial deliverability of the project". A prerequisite for any technology being deemed the Reference Project is that it must have been determined following a rigorous appraisal process, and that it can be delivered at the requisite scale. This Reference Project will be used as a yardstick against which the partnership will assess potential solutions submitted from the market in response to an EU Competitive Tendering Procedure. In seeking tenders from the market, the Partnership is recommended to adopt an open output specification so as to attract a wide range of potential solutions. This could include solutions other than that identified in the reference project.
- 3.12 The key reasons why Energy from Waste (EfW) by incineration is proposed as the Reference Project are as follows:
- EfW ranked a close second place to pyrolysis/gasification. This technology was not taken forward because of risks around the deliverability of a not yet proven technology on UK municipal waste. However, there remain opportunities in the procurement processes to adopt pyrolysis/gasification, should such an alternative technology become proven.
  - 58% of respondents in the Issues and Options consultation (January – March 2007) ranked EfW as their highest preference. EfW was consistently ranked the highest preference across all the tests used to assess public opinion in the Issues and Options consultation.
  - EfW is a low risk, top performing technology for diverting BMW from landfill and there is a bankable track record of similar EfW projects in the UK.
  - EfW is a proven, deliverable technology favoured by many European countries, most of whom enjoy much higher levels of recycling and composting than the UK. The public expressed support for best European practice.
  - The public recognised the benefits to be gained by using waste as a viable and valuable energy resource. The Partnership would ideally like to deliver a high efficiency Combined Heat and Power (CHP) facility in order to maximise energy recovery and improve energy off-setting and thus reduce the carbon footprint impact.
  - Health Risk Assessment (HRA) studies on the potential health impacts of Energy from Waste carried out in Bristol and B&NES between 2002 and 2005 concluded that, for all locations, the risk to public health would be very small indeed, even having made a series of pessimistic assumptions regarding emission levels from the plants and the health of those who might live their whole life

with a maximum theoretical exposure. The HRA found that the increases in pollution levels associated with the EfW plants would be well within the recommended acceptable limits set by the World Health Organisation, Environment Agency and US Environment Protection Agency.

3.13 A summary of the overall key risks and opportunities of these two options is given below:

	Pyrolysis / Gasification	Energy from Waste (EfW)
<b>Key Risks</b>	<ul style="list-style-type: none"> <li>• <b>BANKABILITY</b></li> <li>• <b>NOT YET PROVEN ON RESIDUAL MSW/SCALE</b></li> <li>• <b>Supplier's (financial) robustness</b></li> <li>• <b>Operational track record for MSW</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Capital Expenditure (capex)</b></li> <li>• <b>Public perception</b></li> <li>• <b>Political deliverability</b></li> <li>• <b>Planning</b></li> </ul>
<b>Key Benefits</b>	<ul style="list-style-type: none"> <li>• <b>LATS</b></li> <li>• <b>Modular</b></li> <li>• <b>Power (and heat)</b></li> <li>• <b>Renewable Obligation Certificates</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>BANKABLE</b></li> <li>• <b>DELIVERABLE</b></li> <li>• <b>PROVEN TECHNOLOGY</b></li> <li>• <b>LATS DIVERSION</b></li> <li>• <b>Low (probability) operational and performance risk</b></li> <li>• <b>Power (and heat)</b></li> </ul>

Clearly Pyrolysis/Gasification has the opportunity to prove itself and the opportunity will be there for operators to make their case for inclusion at the final solution

3.14 **Phase 4:** In the longer term, beyond 2020, there is a degree of uncertainty as to which emerging technologies will become proven. Equally it is not easy to predict how the LATS will function or what quantity of residual waste there will be. The sizing and number of facilities will take account of any future waste reduction and improvements in source segregation performance by individual authorities. It will also take account of outcomes from further soft market testing, from implementing Phase 3, the performance of the New Technologies Demonstration Project pilot plant at Avonmouth (Compact Power), and sites and planning issues arising from the Development Plan, together with sensitivity modelling of multiple sites/multiple modules. Facility(s) are anticipated to be operational by 2018/19. No treatment technology is prescribed.

**4. Policy**

- 4.1 Firstly, each of the Partnering authorities has its own policies in regard to waste reduction, reuse, recycling and the collection of waste.
- 4.2 Secondly the partnering authorities have been working together to produce a Joint Residual Municipal Waste Management Strategy. In order to guide the project a shared set of policies have been developed. These policies are detailed in Section 3.2 of the Waste Strategy document (**Appendix A**). In addition a shared vision was agreed at the commencement of the project by all four authorities. The vision in respect of the Waste Strategy is:
- “The four local authorities in the West of England area are working together to develop, in consultation with local residents and other stakeholders, a range of facilities for the treatment of municipal residual waste”.*
- “These will deliver significant reductions in the amount of waste, particularly biodegradable waste, being sent to landfill sites. They will also maximise the efficient recovery of resources and encompass environmental, social and economic factors”.*
- “Each local authority will maintain a long term commitment to increase waste reduction, recycling and composting, and will move toward a longer term aim of achieving zero waste”.*
- 4.2 This fully accords with the intent of the Regional Waste Strategy for the South West 2004–2020, and the aims and objectives for municipal waste management embodied within the Government’s Waste Strategy for England 2007.

## **5. Consultation**

- 5.1 Two comprehensive consultation exercises, during the Summer of 2006 and early in 2007, have been undertaken to guide the Partnership in the development of the Waste Strategy, the draft of which was put out to public consultation during phase 2 consultation (January to March 2007). The activities undertaken and feedback provided from these consultation exercises are contained in Section 3.3 of the Joint Waste Strategy document (**Appendix A**). Fuller reports on all the consultation undertaken can also be found on the Partnership’s dedicated web-site [www.rubbishorresource.co.uk](http://www.rubbishorresource.co.uk)
- 5.2 The feedback received from stakeholders has been carefully considered in developing the strategy. In particular more emphasis has been placed on waste reduction and recycling by seeking to reach minimum targets of 50% by 2020. The development of the Phase 2 solution and the sizing of proposals in Phase 3 have all been influenced by the consultation responses. Further technical work was also undertaken to check that the Phase 3 technology had an acceptable environmental impact in terms of climate change.
- 5.3 The consultation carried out in both 2006 and 2007 was comprehensive and

wide ranging; however if it is deemed appropriate to carry out yet further public consultation on the Joint Waste Strategy there are likely to be major implications in terms of the implementation timetable and the Partnership's forward programme, together with its exposure to LATS penalties. Any future delay in implementing the Waste Strategy will have an adverse financial impact upon the project.

- 5.4 It should however be noted that the Member Project Board has received comment and feedback from the West of England Joint Waste and Planning Overview and Scrutiny Reference Group and the individual scrutiny panels in each of the authorities. This has been taken into account in the preparation of the updated Joint Waste Strategy.
- 5.5 In the course of preparing the Joint Waste Strategy senior officers from the Officer Project Team met with Defra's Waste Infrastructure Delivery Programme (WIDP) officials and shared its key components with them. The Strategy has received their general support. In particular, they:
- emphasised the importance of ensuring certainty of delivery in any waste management proposals, whilst at the same time encouraging flexibility in capacity and performance;
  - expressed support for the decision making framework used to determine the preferred technology and scale, ie: based around LATS compliance and not crowding out waste reduction, reuse and recycling (both of which are key PFI criteria), and giving due consideration to developing new technologies;
  - supported the phased approach whilst emphasising the need to set a timetable for the delivery of short-term diversion from landfill;
  - are looking for proposals to include provision for third party commercial and industrial waste;
  - wish to see evidence that combined heat and power opportunities are being promoted within a thermal treatment solution;

## **6. Context**

- 6.1 The Partnership authorities will be required to manage approximately **330,000** tonnes of residual municipal waste per year, all of which currently goes to landfill. This is the remaining waste after 306,000 tonnes of waste handled by the authorities has been recycled and composted.
- 6.2 Following the introduction of the Landfill Directive and UK law implementing the Directive in 2003, local authorities are legally obliged to reduce their dependency on landfill disposal. If they do not, they will be faced with rising landfill costs (including Landfill Tax) and substantial fines (£150 per tonne above the allowance) for non-compliance. The relevant LATS permits (in

tonnes) for the partnering authorities for each EU Target Year are shown in the table below:

Unitary Authority	Base year figure	2007-2008 allocation	Target year 2010	Target year 2013	Target year 2020
<b>B&amp;NES</b>	53,806	46,515	37,604	25,047	17,526
<b>BCC</b>	122,194	101,660	76,563	50,996	35,684
<b>NSC</b>	69,195	57,954	44,214	29,450	20,607
<b>SGC</b>	84,421	69,996	52,366	34,879	24,406
<b>WoE</b>	329,616	276,125	210,747	140,372	98,223

- 6.3 Failure to meet these targets could result in fines amounting to a total of £85million by 2020.
- 6.4 In order to guide local authorities on the development of their waste strategies, Defra has issued guidance on the production of these documents. This guidance has been followed by the Partnership in the development of the Joint Waste Strategy, which aligns itself with the Government's Waste Strategy for England 2007, which amongst other things sets targets and objectives for local authorities in relation to the development of their own waste strategies. These obligations are set out in Sections 1.4.1. and 3.1.3. of the Joint Waste Strategy document (**Appendix A**). In particular there is a requirement to achieve 50% recycling and composting by 2020, and 75% recovery from waste by 2020.

## **7. Options**

- 7.1 The option of developing a large single facility (up to 330,000 tpa) has also been considered. At this stage, whilst it remains an option for the Partnership, it is not being recommended as the way forward. Not only may it prove to be a disincentive to further waste reduction, re-use and recycling, it would remove the opportunity for new technologies to be adopted at an appropriate scale and location in the longer term when they become proven. For example the present phased approach could facilitate the adoption of pyrolysis/gasification technology, such as that being developed by Ethos (formerly Compact Power) at Avonmouth, once it has been successfully demonstrated.
- 7.2 The do nothing (Status Quo) option has been shown to be the most expensive option in terms of long terms costs. Not only would this result in the partnering authorities being fined for non compliance with the Waste and Emissions Trading Act 2003, the costs of landfill (including Landfill Tax) will rise rapidly.
- 7.3 It will be important for the Partnership to continue to monitor the performance of the individual authorities, predictions in population and housing growth, waste composition and behavioural change so that these can be factored into future capacity requirements, particularly around Phase 4. The generation of energy and value for money are key drivers in this regard.

## **8. Other Issues**

- 8.1 A key component of moving towards procurement is the funding mechanism for the required waste infrastructure development. The Defra PFI Credit system potentially contributes up to 50% of the capital expenditure costs to successful authorities. Hence the preparation of an Expression of Interest (EoI) to Defra, and the subsequent submission of an Outline Business Case (OBC), is being pursued by Bristol, South Gloucestershire and North Somerset in order to maintain this as an option. **Appendix C** provides a summary of the process and work required to complete the EoI which the Member Project Board is being asked to note.
- 8.2 The current advice from the Partnership's Defra WIDP Transactor is that there is no guarantee that any authority submitting an Expression of Interest (EoI) after Round 4 (31 March 2008) will be eligible for PFI credits for Waste Management Infrastructure programmes procured under PFI. The funding allocated in the 2007 Comprehensive Spending Review is, at this time, expected to be committed after Round 4.
- 8.3 Bath & North East Somerset is committed to working within the West of England Partnership to procure appropriate treatment processes to divert waste from landfill, however the Council is also committed to its own goal of Zero Waste, and within this context is opposed to committing to a 25 year PFI contract. Although Bath & North East Somerset Council has made its own position clear with regards to PFI procurement, it in no way seeks to jeopardise the 3 remaining partner authorities continuing to submit an Expression of Interest for PFI funding.

## **9. Risk Assessment**

- 9.1 The Partnership has developed a comprehensive risk register which is being overseen by Capita Symonds, currently Project/Risk Managers to the Partnership. A summary of the technical risk assessment and the manner in which these risks can be mitigated/controlled is set out in Appendix E of the Joint Waste Strategy document.
- 9.2 Equally important is the need for the Partnering authorities to jointly agree the Joint Waste Strategy. The proposals set out in the recommendation should ensure that the Partnership keeps to its (and Defra's) planned programme – that is, to be able to submit the Outline Business Case to Government for approval by October 2008.

## **10. Equalities Impact Assessment**

- 10.1 The Officer Project Team has recognised that the communications process must be extended to hard to reach groups to ensure all communities have the opportunity to participate and contribute. This principle has been incorporated

into a Communications Strategy and Stakeholder Engagement Plan to accompany the Waste Strategy.

## 11. Legal and Resource Implications

### Legal

- 11.1 As explained in this report, the authorities must reduce and recycle waste so as to reduce the amount of residual waste they send to landfill. If they do not meet their targets they will incur LATS penalties and fines.
- 11.2 The financial and other calculations in this report are based on the submission of an Expression of Interest to Defra by the end of March 2008 and progress with the Phase 2 procurement
- 11.3 If the authorities postpone any of the steps leading to the taking of the key decisions for the adoption and implementation of the Strategy, this is likely to make it impossible to meet the programme so as to achieve the desired results. It will also be necessary to have the structures and mutual indemnities in place to support their joint procurement before they start any procurement process.
- 11.4 Meanwhile the authorities are pursuing a parallel initiative to establish model structures to cover a wide range of their joint initiatives, and the project has been asked to hold back finalising the waste structures so as to collate them with this. At the time of writing this, there is insufficient information to report further on this initiative.
- 11.5 If the authorities are purchasing jointly for both Phase 2 and Phase 3 but Bath & North East Somerset is only involved in Phase 2, the parties will be different. So it will be necessary to have separate joint arrangements for the two phases. It is proposed that for Phase 2 Bristol takes the lead on procurement.

(Advice given by Dru Brooke-Taylor, on behalf of Head of Legal Services, Bristol City Council)

### Finance

- 11.6 Implementation of the Joint Waste Strategy will have major financial implications for the partnering authorities. Indicative costs have been prepared by Ernst & Young, and on the basis of 340,000 tonnes of residual waste these show net costs, over a 28 year period (from start of construction), as follows

	£m
Continued dependence on landfill	2,110
Biological Mechanical Treatment	1,678
Energy from Waste	1,261

- 11.7 These estimates have been refined to take account of updated estimates of residual waste and the phased strategy. The revised estimates continue to show the 'do nothing' option as the most expensive, and EfW as less expensive than BMT.
- 11.8 This provides an indicative 'cost envelope' for the project, and the basis for the proposal that EfW is used as the reference project in the Expression of Interest for PFI credits. However, as set out in the report, both Phase 2 and Phase 3 procurements will be undertaken using output specifications, so that the most advantageous proposals coming forward from the market may involve different technologies.
- 11.9 The principles of cost sharing agreements for each Phase are being developed by the Finance Officers Group and will be brought forward for recommendation in due course.
- 11.10 Specific financial implications for an individual authority will be detailed in its own Cabinet or Executive report.

(Advice given by Carew Reynell, Chief Finance Officer, Bristol City Council)

## **Land**

There are no land implications at this stage, although land acquisition will be a critical aspect of the overall procurement and implementation costs.

## **Personnel**

There are no personnel implications at this stage other than on-going staff commitments to support the current processes.

## **12. Appendices:**

- |             |  |
|-------------|--|
| Appendix A: | Joint Residual Municipal Waste Management Strategy                                       |
| Appendix B: | Summary of Procurement Process for Phase 2   |
| Appendix C: | Summary of Procurement Process for Phase 3   |
| Appendix D  | Notes from Scrutiny Panels following the Member Board of 12 <sup>8th</sup> December 2007 |

## **ACCESS TO INFORMATION**

### **Background Papers**

Waste Strategy for England 2007 – Published by Defra in July 2007

South West Regional Waste Strategy – Published by the South West Regional Assembly in 2004.

**Authors:** Steve Evans, Project Sponsor, and Director of Community Services, South Gloucestershire Council.

David Turner, Director, Development and Environment, North Somerset Council

Steve Moore, Head of Environmental Services, Bristol City Council

Matthew Smith, Assistant Director, Environmental Services,  
Bath & North East Somerset Council

**APPENDIX A**

**THE JOINT RESIDUAL MUNICIPAL WASTE STRATEGY CAN BE FOUND HERE**

### Summary of the Procurement Process for Phase 2 – Medium-term Residual Waste Treatment Capacity

#### 1. Context

The Joint Waste Strategy identifies a need for all 4 authorities to secure treatment capacity or purchase allowances from 2010/11 until at least 2015 in order to avoid LATS fines. It also indicates that the contracting process should commence early in 2008. A contract length of 5-10 years is envisaged.

The soft market test (SMT) interviews revealed that a number of companies are actively pursuing the establishment of waste treatment facilities in the West of England area and have indicated they would be prepared to offer capacity to the Partnership on a gate fee payment basis.

It is anticipated that the type of treatment processes which are likely to be offered will be hybrid solutions involving bio-stabilisation (MBT or BMT) or autoclaving with or without thermal treatment; the products being a low grade compost or a refuse derived fuel for combustion together with small quantities of dry recyclables.

#### 2. Issues

##### a) Procurement

- i) Procurement of treatment capacity will have to be in line with the latest EU Regulations for public authority procurement. The quickest procurement process would be to follow a Restricted Tendering process, provided that the output specification can be relatively well-defined. Basically the specification will seek the treatment of residual waste in such a way that the Councils meet their LATS targets and is landfill tax neutral (ie; no landfill tax pass-through by the contractor).
- ii) The Restricted Tendering Procedure is well understood by contractors and therefore it is likely to attract a number of competitive tenders.
- iii) The arrangements for the shared use of any facility, and the risks and benefits will need to be developed and agreed. Work cost sharing in general has commenced within the Finance Officer Group.

##### b) Governance/Resources

- i) Before formal procurement can commence it will be necessary to secure the full approval and sign-off of each authority for an agreed Joint Working arrangement and associated indemnities will need to be put in place.
- ii) Bristol City Council has offered the use of its Corporate Procurement Unit to manage the process, and it would seem appropriate therefore that Bristol be appointed the Lead Authority for this procurement. It will be undertaken by electronic communication (E-Procurement) with prospective contractors.

Each will be required to register on-line.

- iii) It is proposed that a project team be established to project manage the procurement process, supported by legal officers, procurement professionals and technical support from Jacobs.
- iv) Bristol City Council's procurement team have provisionally set aside capacity to provide specialist procurement support and undertake the actual tendering process on behalf of the partnership starting in April 2008.
- v) If Bristol is lead authority for this, Bristol's Contract Procedure Rules mean that its- Cabinet will need to decide to proceed with the procurement before the procurement is advertised in the OJEU. It is possible, depending on their own procedural rules that similar decisions may be required of some or all of the other authorities..

**c) Sites**

- I i) At this stage, and with some knowledge of what is being considered within the market, it is proposed not to offer a site(s) in the direct control of one or more of the partnering authorities but to invite proposals based upon the prospective contractor providing the land and facility. This will also have the benefit of not compromising the Phase 3 procurement process which is to follow.

**d) LATS Trading Option**

- i) In parallel with the Phase 2 procurement, the partnership may also wish to seek formal LATS trading proposals and purchase prices from authorities with surplus landfill allowances as a contingency.

**e) Timescale**

- i) The recent tonnage modelling by Jacobs has shown that there will be a joint shortfall in landfill allowances commencing in 2010/11. Assuming a period of 2 years for companies to secure a site, obtain planning permission, and build the treatment plant, then a planning application will need to be submitted during 2008 to meet the projected timetable. Officers are aware that some companies are already making speculative applications with technologies appropriate to meet our Phase 2 requirements, so this timescale may be reduced.
- ii) An indicative timetable is given below:-

Prepare tender documents and evaluation criteria	February to June 2008
Seek Cabinet approvals to undertake the procurement (as part of the Joint Waste Strategy report package)	May/June 2008
Start procurement	July 2008

Award contract	January 2009
Contractor secures planning permission and site ( <i>wholly dependent on their level of up-front activity</i> )	June 2008 - June 2009
Partnership commence deliveries	March/April 2011

## f) Risks

- i) Delayed start to procurement because companies slow in developing facilities and capacity not available by 2010/11. Authorities “held to ransom” as treatment and capacity is short and market forces produce excessively high costs.

*Mitigate – start procurement in 2008 with a view to awarding a contract by end of the year.*

- ii) Weak and ill-defined contract could result in unbudgeted additional costs, uncertainty around bio-waste diversion to meet LATS, facility not being available when needed.

*Mitigate – Input of all necessary resources and specialist input to produce a sound, robust contract.*

- iii) Lack of suitably qualified and sufficient resources dedicated to procurement – delays and possible poor contract.

*Mitigate – Establish a project team who can call on specialist support both internally and externally, working to a Project Plan and identified budget, supported by Procurement Professionals*

## 3. Next steps:

- i) Bristol officers to lead on preparing a specification, contract terms, evaluation criteria, payment mechanism and performance management system as appropriate.
- ii) Necessary internal and external resources to be identified to support the process, including the preparation of a Project Initiation Document, Project Plan, Budget and Programme;
- iii) Governance arrangements to be agreed with a proposal that Bristol becomes the lead authority for this procurement and contract award of Phase 2 until such time as the WEPO overarching structures are in place;
- iv) Finance managers continue to consider issues around shared use of the facility and cost sharing in general;
- v) The resource situation to be reviewed in June/July 2008, at a key stage in the process.

## Appendix C

### Summary of Procurement Process for Phase 3 – Long-term Residual Waste Treatment Capacity

#### 1. Introduction

This appendix provides a summary of the relationship between the Reference Project and the eventual Competitive Dialogue procurement process, Output specification and Contract.

It also provides an overview of the Defra PFI credit allocation process itself and includes a progress report in regard to the production of an Expression of Interest (EoI) for Bristol, South Gloucestershire and North Somerset. This must be submitted to Defra by the end of March 2008 if the Partnership wishes to gain Government financial support and to proceed towards joint procurement and the submission of its Outline Business Case (OBC) by October 2008.

The Technical Options Appraisal (TOA) was carried out for the Partnership by Jacobs UK Limited between June and December 2006. It had a dual purpose:

- i) to inform the Joint Waste Strategy in terms of the relative performance of technology options for the Partnership's residual waste to enable public consultation;
- ii) to determine the Reference Project for an OBC and procurement process.

#### 2. Reference Project and Competitive Dialogue process

The Reference Project or Public Sector Comparator, as it is also sometimes called, forms the basis of the OBC against which the total capital cost of the project and hence the level of Government PFI credit support is determined. It is also used as a benchmark for evaluating bids. An OBC would still be required in some form if any other funding/ procurement method was to be pursued eg: non-PFI.

It should be noted that although specifying EfW technology in the Reference Project it does not necessarily mean that the final technology process selected through the Phase 3 procurement will be EfW. An 'open/output' specification is more likely to attract a wide range of potential solutions, which are then evaluated against the Reference Project before a final decision is taken on the choice of technology.

The Competitive Dialogue procurement process was introduced in January 2006 to provide a robust framework and process for authorities to work within on complex projects such as waste infrastructure.

Important implications of the process are:

Greater clarity and certainty at the end of the process;  
Preparation is key;  
More pro-active engagement by LAs with bidders

One key element will be the preparation of an Output Specification which will include required aims and outcomes for the contract, for example, treatment of residual waste to optimise recovery of value. This will be written in alignment with a set of agreed targets and standards set by the Partnership, for example, to meet the Councils' LATS targets and in accordance with legislation & regulations.

Part of the preparation is that this also requires careful development of evaluation criteria to assess the bids submitted, as well as payment mechanisms, model contracts and so on. Defra's WIDP and 4ps provide support and standard documentation to assist authorities through the Competitive Dialogue process.

The industry will be invited to put forward proposals to meet the Output Specification. Thus a potential scenario could be that the partnership may receive bids for different types of treatment. A true Output Specification will be flexible so as to allow for innovation. This will allow scope for emerging thermal treatment process such as pyrolysis and gasification.

### 3. Defra PFI Credit allocation process

Since early 2007 and as adopted by other government departments, Defra are following a system of PFI credit award rounds, as part of their Investment Pipeline Management Strategy for the major programme of waste management infrastructure. The PFI credit system involves a two-step process:

- (i) **Expression of Interest (EoI):** These submissions will be assessed on the degree to which projects are:
  - Structured in a manner consistent with Defra's PFI Credit Criteria;
  - Expected to contribute to the overall programme;
  - Sufficiently well prepared to be likely to finalise an Outline Business Case in accordance with the time table for the award round.
  
- (ii) **Outline Business Case (OBC):** Within approximately five months of approval of the EoI, authorities will be required to submit an OBC, which will include more detailed information as well as a Planning Health checklist. Criteria for assessment of OBCs will focus on:
  - Scale;
  - Deliverability;
  - Readiness;
  - Environmental objectives

Over the past 2-3 years, the PFI credit process has been structured in accordance with a formal programme of bidding and funding rounds by Defra.

Round 4 which is currently the final round that has been announced by Defra which gives 31<sup>st</sup> March 2008 for EoI submission and 31<sup>st</sup> October 2008 for OBC submission.

Defra have indicated that there is no guarantee of any further bidding and funding

rounds and there has been no announcement of future opportunities to secure PFI funding credits.

The partnership could delay EoI submission in the hope that future funding rounds may be announced. There is a risk in pursuing that approach of putting the authorities in a very difficult financial position as they will not be able to forecast and plan for long-term spending commitments.

#### 4. EXPRESSION OF INTEREST (EoI) – Summary of Content / Progress:

The submission of an EoI is not a Key Decision, and it can therefore proceed to be written and submitted to Defra with the approval of the appropriate Executive Members and Chief Officers.

A decision to prepare and submit the EoI on the basis of 3 partnering authorities (Bristol City, North Somerset and South Gloucestershire Councils) necessitated re-modelling the waste tonnages and cost profiles and will need to be explained in supporting documentation to the EoI.

The implications arising from Bath and North East Somerset Council clarifying their position regarding the Partnership and the Joint Waste Strategy are in the process of being discussed with the Partnership’s WIDP Transactor, David Revell whose advice is essential if the EoI is to meet Defra’s requirements.

The table below shows the required sections with a short description and a note of the progress to date. This area of work also requires substantial input and support from Jacobs, technical advisers to the Partnership.

Section name and short description	Progress
<b>1. Executive Summary</b>	To be written by waste officers on completion of full EoI
<b>2. Background</b> Key characteristics of the authorities, analysis of waste arising (MSW and other), composition and expected growth rates, current collection arrangements including the nature and coverage of any source segregation arrangements, current arrangements for disposal including names of contractors, length of contracts, break clauses, ability to extend, facilities used.	To be drafted by Jacobs for officer comment
<b>3. Waste Management Strategy</b> Status of the Joint Waste Management Strategy, any ongoing consultation process, measures being taken to address waste minimisation objectives, consistency between the local Waste Management Strategy and the Waste Strategy for England 2007.	Jacobs to provide summary of JRMWMS for the EoI
<b>4. Procurement Strategy</b> Planned procurement activity (recycling, composting, landfill, as well as residual waste treatment) including any interim	To be drafted by Jacobs for officer comment

<p>arrangements until the PFI Project infrastructure to is completed; rationale for any preliminary decisions taken regarding planned procurement strategy including details of any feasibility studies, options appraisals exercises etc and any advice provided by external advisers; neighbouring WDAs planned activity and any discussions held.</p>	
<p><b>5. Risk Management, Risk Allocation and Contractual Structures</b> Initial risk analysis and the approach to be adopted in relation to identifying, recording and managing risk throughout the project</p>	<p>Jacobs to review and comment on initial risk analysis undertaken by Partnership</p>
<p><b>6. Project Team and Governance</b> Project team including details of individuals involved and the process for filling any posts not filled at the time of submission of the EoI; plans for procuring external specialist advice in relation to legal, technical, financial, insurance, planning and PR issues; Project governance arrangements including details of the membership of any Project Board or any other body with a duty to oversee the project from inception until at least the commencement of operations; Plans for securing member approval at key stages.</p>	<p>Drafted by waste officers for review by Jacobs</p>
<p><b>7. Sites, Planning and Design</b> Current status of Development Plan Documents; Evidence of engagement with the process for the development of Regional Spatial Strategies; Timetable for adoption of development plans; Details of work undertaken to identify and secure suitable sites; a plan for engagement with planning officers of the Planning Authority (agreed by the planning officers).</p>	<p>Drafted by planning officers for review by Jacobs</p>
<p><b>8. Costs and Budgets</b> Approved budget for procurement process, covering internal resources, external advisory support, land acquisition costs and other additional costs associated with the procurement; Medium term budget for waste management costs; Members' awareness of the budgetary implications of the increasing cost of waste management; the approach to sharing the cost of project development and the process for agreeing the respective financial contributions to the project in relation to asset contribution, cost allocation and risk sharing.</p>	<p>To be drafted by finance officers for review by Jacobs</p>
<p><b>9. Stakeholder Consultation</b> Analysis and identification of major stakeholders in the process; Plans for managing consultation and engagement with major stakeholders.</p>	<p>Drafted by Comms Officer for review by Jacobs</p>
<p><b>10. Timetables</b> Provisional plan for completion of the OBC; high level</p>	<p>Jacobs to provide the</p>

timetable, for the procurement.

procurement  
timetable

|

### **Notes from Scrutiny Panels following the Member Board of 12<sup>8th</sup> December 2007**

#### **West of England Waste Management and Planning Strategy**

#### **Joint Overview and Scrutiny Reference Group**

**Monday, 21st January 2008**

#### **New Council Chamber, Town Hall, Weston-super-Mare**

#### **Extract from the Minutes in respect of the item on the Joint Waste Strategy:**

##### **Joint Waste Strategy**

Councillor Veal read out the following statement given that morning by Councillor Charles Gerrish, Cabinet Member for Customer Services, Bath and North East Somerset Council.

“I wish to make clear the Council’s position on mass burn incineration established in October 2006 and the reaffirmation in March 2007 of our commitment to the long-term goal of Zero Waste.

Within the context of our opposition to mass burn incineration and the Zero Waste goal, I today duly informed our West of England partners of these issues and the difficulty Bath and North East Somerset Council would have in supporting this element of the Waste Partnership and, as a result, the associated PFI Bid.

However, the Council maintains its intention to work closely with its West of England Partnership colleagues within these constraints while working to achieve our goal of Zero Waste”.

Councillor Symonds added that although the statement was made by an Cabinet Member of the minority Conservative administration, it was supported by the Liberal Democrat Group. He considered it unlikely that the full Council would change that position. He queried whether mass burn incineration was a good use of public money, and recommended that Councillor Gerrish’s statement be considered by the Member Project Board.

Steve Evans, Director of Community Services, South Gloucestershire Council, reminded the meeting that an expression of interest (EoI) must be submitted to Defra by the end of March 2008. The system of PFI credit awards formed part of Defra’s Project Management Strategy for the major programme of waste management

structure. The outline business case (OBC) must be submitted by October 2008. There was no clash between the two issues of EoI and OBC.

Councillor Hopkins advised that following financial difficulties, Compact Power had been taken over, and the new company had indicated that the new plant would be operational by July 2008. He suggested that in the circumstance, mass burn incineration would not be a sensible option.

Holding Meetings of the Joint Overview and Scrutiny Reference Group in Public (Agenda Item 9)

**It was noted that the four unitary authority scrutiny panels/committees had agreed that the Joint Overview and Scrutiny Reference Group should meet in public.**

Feedback from Individual Scrutiny Panels/Committees on the Joint Municipal Waste Strategy (Agenda Item 9)

Councillor Hopkins anticipated that Bristol City Council's Physical Environment Scrutiny Commission would comment strongly on this matter.

David Turner, Director of Development and Environment, North Somerset Council reported that his authority's Environmental Services Policy and Scrutiny Panel would be meeting on 31st January 2008 to consider the strategy document.

Councillor Symonds commented that events had changed greatly since the meeting of Bath and North East Somerset Council's Safer and Stronger Communities Overview and Scrutiny Panel on 15th November 2007. The views expressed in the minutes may no longer be in line with the current views of his authority.

Steve Evans, Director of Community Services, South Gloucestershire Council advised that the views of the scrutiny panels/committees would be reported back to the Member Project Board meeting on 12th March 2008.

It was moved by Councillor Hopkins, seconded by Councillor Moulin:

“that a strong recommendation be made to the Member Project Board that there be no further moves through the use of public money towards mass burn incineration and private finance initiative (PFI) at this stage”.

Stephen McNamara, Head of Legal Services, Bristol City Council, explained that it was a DEFRA requirement that an expression of interest had to be submitted by the end of March 2008, if there was to be any possibility of access to private financial initiative (PFI) funding. An expression of interest did not constitute a commitment.

Steve Evans also informed the meeting that the issue of reviewing waste collection services had been discussed and rejected by the then Member Project Board because of the complexities associated with the different collection arrangements and contractual arrangements of the four unitary authorities.

Councillor Moulin considered that a flexible approach was best.

Councillor Symonds considered that a 50 per cent recycling target was unambitious.

The Joint Reference Group then moved to a vote on Councillor Hopkins' motion.

Councillor Hopkins requested that a named vote be taken and recorded.

**Agreed:** that a strong recommendation be made to the Member Project Board that there be no further moves through the use of public money towards mass burn incineration and private finance initiative (PFI) at this stage.

**(In favour:** Councillors Alexander, Hockey, Hopkins, Dr. Kellaway-Marriott, Moulin, Roberts, Symonds and Veal

**Against:** Councillor Hunt

**Abstention:** Councillor Webb)

## **Bristol City Council - 31<sup>st</sup> Jan 2008 Physical Environment Scrutiny Commission**

Following motion proposed - 'that there be no further moves through the use of public money towards mass burn incineration and private finance initiative (PFI) at this stage'

The motion was seconded by Councillor Bolton. On being put to the vote, 4 voted for the motion and 4 voted against. The Chair used his casting vote so that the motion was carried 5 for, 4 against.

Councillor Eddy expressed concern that the casting vote had been used as the Council's Commissions practised nonpolitical, consensus based scrutiny.

**RESOLVED - (1) that this Commission recommends that there be no further moves through the use of public money towards mass burn incineration and private finance initiative (PFI) at this stage;**

**(2) that the above view of the Commission is forwarded to Cabinet and to the West of England Waste Management & Planning Strategy Member Project Board.**

## **North Somerset Council – 31<sup>st</sup> Jan 2008 Environmental Services Policy and Scrutiny Group**

A motion that the Panel be fully briefed on a flexible approach to waste reduction and treatment with a view to increasing the waste recycling rate to 50% as quickly as possible; and that, in Partnership with the West of England local authorities, the Council seek a more flexible approach with the target of achieving a 60% waste recycling target by 2015 was, however, lost.

In conclusion, the Panel considered that the financial and political arguments supporting the urgent need to agree the proposed strategy outweighed any benefits that might arise from prolonging the investigation of the options and underlying assumptions. It was therefore:

**Concluded:** that it be recommended to the Executive and the West of England Waste Management and Planning Strategy Member Project Board:

(1) that the Project Board move forward with the proposed “expression of interest” to DEFRA; and

(2) that formal project governance arrangements be put in place as quickly as possible.

## **South Glos Council – 16h January 2008 Communities Select Committee**

### **Points raised by Communities Select Committee regarding the West of England Waste Strategy.**

- Concern was raised over the time frame regarding the identification of a site and the time required to gain planning permission.
- Vast amounts of time and money were spent on facilitated workshops and consultations to identify the preferred option for the facility to deal with residual waste. The strategy states that the chosen technology, gasification/pyrolysis, was not pursued because the technology is still not proven in the UK. As there appears to have been no additional information over and above what was known and taken into consideration when the consultation was undertaken, the explanation of this needs to be included in the report..

## **B&NES Statement in respect of the draft WoE JRMWMS - 21/01/08**

Councillor Charles Gerrish (Conservative, Keynsham North), Cabinet Member for Customer Services, received questions from both elected councillors and members of the public at the Bath & North East Somerset Council Cabinet meeting on 9 January about the Council's waste policy and mass burn incineration, a type of which is also known as Energy from Waste (EfW) incineration.

In view of these questions and extensive press interest he is making the following statement.

“I wish to make clear the Council’s position on mass burn incineration established in October 2006 and the reaffirmation in March 2007 of our commitment to the long-term goal of Zero Waste.

Within the context of our opposition to mass burn incineration and the Zero Waste goal, I today duly informed our West of England partners of these issues and the difficulty Bath & North East Somerset Council would have in supporting this element of the Waste Partnership and, as a result, the associated PFI Bid.

However, the Council maintains its intention to work closely with its West of England Partnership colleagues within these constraints while working to achieve our goal of Zero Waste.”

Councillor Gerrish confirmed that any final decision on the Council’s position on the Waste Partnership would be subject to Council involvement.

## **General statement from Bath & North East Somerset Council 22-02-08**

### **Position within the West of England Waste Management & Planning Strategy Partnership**

Bath & North East Somerset are supportive of Sub-regional partnership working in developing a Joint Development Plan and a Joint Residual Municipal Waste Management Strategy.

Bath & North East Somerset is also committed to its own goal of Zero Waste and within this context is opposed to committing to a 25 year PFI contract for mass burn EFW for its own waste. The authority remains committed to working in partnership to procure appropriate treatment processes through merchant facilities on shorter timescales which allow more flexibility for B&NES to develop its front end recycling services in achievement of its own Zero waste goal. B&NES will continue to assess new treatment technologies, and review tonnage modelling throughout the project period to ensure that the authority meets its longer term landfill diversion targets.

## 8. Costs and Budgets

### 8.1 Preamble

8.1.1 The Partnership has costed the Reference Project as one phase of its overall waste disposal costs commencing from the year that the Partnership as a whole has its first predicted LATS exposure (2010/2011). This is also the year by which the majority of the partnering authorities' current landfill disposal contracts end or have break clauses. The Reference Project, EfW by incineration, has been scaled at 160,000 tpa to reflect the needs of Bristol, South Gloucestershire and North Somerset who are committed to a Phase 3 procurement.

### 8.2 Project Management Budget

8.2.1 An indicative budget to meet the costs of procuring future residual waste management infrastructure was approved by each of the partnering authorities in December 2006. This provides for costs relating to overall project management, administrative support, communications, project support, and legal/financial/technical advisors. The table below shows the approved budget for the next three financial years.

Table XX: Approved Project Budget

Year	2008/09	2009/10	2010/2011	Total
Procurement budget £ 000s	1,347	903.5	530.5	2,781

8.2.2 These budgets are currently being reviewed to take into account the other procurement phases, for example to cover the LATS exposure from 2010 to 2015.

### 8.3 Medium term budget and costs

8.3.1 *Comparative costs for the Reference Project* – Ernst & Young undertook initial financial modelling on the cost of treatment of the total volume of residual waste arising across the four authorities. Jacobs, who maintain a database of latest market information, provided the technical cost data. This informed a report comparing net present values and annual cost implications comparing a BMT and an EfW facility against only undertaking planned service improvements (i.e. achieving 50% recycling). Using the outputs from their report, further modelling has been undertaken by the Partnership. Figure ABC below demonstrates the total nominal costs of the Reference Project split into a unitary charge for the Reference Project treatment process itself, PFI revenue support, and haulage from transfer stations to the treatment facility.

8.3.2 Based on a projected capital spend for the reference project of £91 million, and assuming that 50% of this would attract PFI Credits, this yields revenue support of £83 million over the 25 year period from 2015/16 to 2039/2040.

8.3.3 To enable a like-for-like comparison, costs associated with other treatments and landfill of any remaining residual waste are included but separately identified. The total is compared with the total anticipated costs of disposal after current Programme Service Improvements (PSIs) have been undertaken from 2010/2011 to 2039/2040. This shows a saving of £302 million over the 30-year period through avoiding LATS penalties.

8.3.4 The costs do not include land purchase, site preparation and remediation. The costs relate entirely to waste disposal. The costs of recycling and activity to reduce residual waste tonnages are not included.

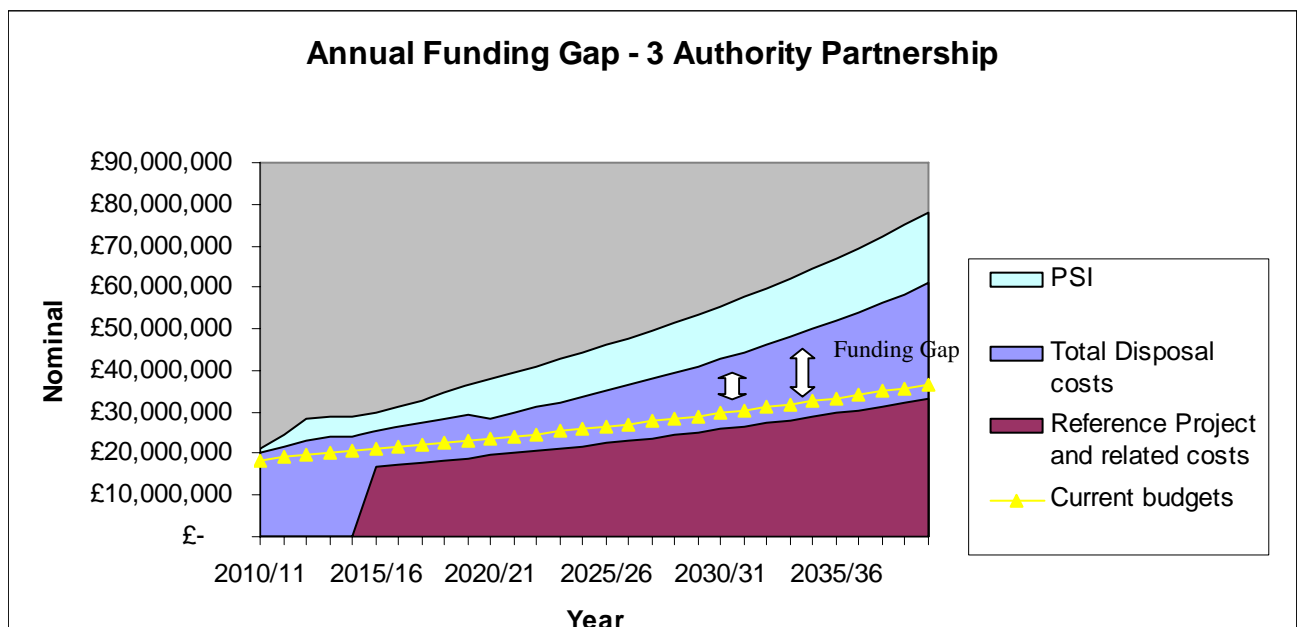
**Figure ABC – predicted costs relating to waste disposal for the Partnership of Bristol, North Somerset and South Gloucestershire, from 2010/11 to 2039/40: Reference Project compared with costs of only implementing PSIs**

Nominal - £ million	PSI with all residual waste disposed in Landfill (Comparator)	Reference project and directly related costs	Other treatments and landfill	Total Anticipated Disposal Costs	
Landfill Gate fee	£ 273	£ -	£ 142	£ 142	142
Other treatment Gate fee	£ -	£ -	£ 55	£ 55	55
Landfill Tax	£ 640	£ -	£ 263	£ 263	263
LATS penalties	£ 309	£ -	£ -	£ -	-
Unitary Charge*	£ -	£ 653	£ -	£ 653	653
PFI revenue support	£ -	£ 84	£ -	£ -	84
Haulage to sites	£ 191	£ 38	£ 45	£ 82	82
<b>Total</b>	<b>£ 1,412</b>	<b>£ 607</b>	<b>£ 503</b>	<b>£ 1,109</b>	<b>1,109</b>

\* Unitary Charge includes landfill gate fee, tax and haulage of residual waste from treatment

8.3.5 *Affordability* - Figure XYZ below demonstrates the annual funding gap predicted between extrapolated current waste disposal budgets and anticipated costs of disposal. Reference Project costs (included in the Total Disposal costs) include the PFI unitary charge less PFI revenue support plus haulage from transfer stations to an indicative site. The PSI line demonstrates the anticipated costs should the partnering authorities continue to landfill their waste whilst achieving 50% recycling targets.

Figure XYZ



## **8.4 Budgetary implications**

- 8.4.1 The partnering authorities are aware of the budget implications of the increasing costs of waste disposal, the risk of LATS fines and the need for medium term financial plans to take this into account.
- 8.4.2 There have been a series of reports/presentations making the Member Project Board aware of the significant and prolonged growth in waste disposal budgets. Members are aware that in order to mitigate these on-going costs, a long-term investment in an appropriate treatment facility is required.
- 8.4.3 On 26 September 2006, Ernst and Young led a workshop for the Member Project Board in Weston-super-Mare where they presented the overall 30 year effect of only initiating planned service improvements compared with constructing a facility. They also demonstrated the financial impact of the facility (on an annual basis) compared with the current waste disposal budgets in the medium term financial plans (extrapolated over the 30 year period).
- 8.4.4 As currently modelled, there remains a funding gap against current extrapolated budgets. During the OBC stage, further modelling will take place to attempt to quantify the magnitude of this gap along with identifying potential mitigation strategies. The partnering authorities are taking this into account in their medium term financial plans: Members will be regularly informed of progress.

## **8.5 Cost sharing agreement**

*8.5.1 Procurement and Development costs* - the current basis for sharing costs during the Procurement development/process is based upon the quantity of residual waste landfilled in each respective authority updated on an annual basis. This is applied to the Project Budgets approved by each Council. The Member Project Board recommended a method of apportionment on 26<sup>th</sup> September 2006 and each council subsequently agreed this in December 2006.

*8.5.2 Land Procurement* – should a decision be made to purchase a site that is not currently under the ownership of one of the partnering authorities, a mechanism is being developed for sharing the capital costs of purchasing the land, the risks and rewards attached. If a site is chosen that is already under the ownership of one of the authorities, shares of it (based on the current cost sharing agreement) will in effect be sold at open market value to the other authorities, with the risk and reward attached to the ownership being shared on the same basis (even if legal title remains with one authority under either circumstance).

*8.5.3 Unitary Charge* - the basis for sharing the Unitary Charge is expected to be determined in relation to the quantity of residual waste arising in each authority – with the aim to maintain incentives for waste reduction. The Unitary Charge payment will be wrapped into a total payment for all disposal costs (including landfill and other treatments), therefore allowing the Partnership to make operational waste disposal decisions on what is most cost effective for the Partnership rather than for an individual authority.

8.5.4 The cost and risk sharing arrangements will be incorporated into a legal agreement between the authorities including appropriate sanctions on those failing to achieve key aims such as recycling targets on which the cost calculations have been determined and covering other risks, eg withdrawing from Partnership.