

<b>Meeting:</b>	<b>Cabinet</b>
<b>Meeting date:</b>	<b>19 March 2015</b>
<b>Title of report:</b>	<b>Waste management services contract update</b>
<b>Report by:</b>	<b>Head of Corporate Finance</b>

## **Classification**

Open

## **Key Decision**

This is a key decision because it is likely to result in the council incurring expenditure which is, or the making of savings which are, significant having regard to the council's budget for the service or function to which the decision relates.

and

because it is likely to be significant in terms of its effect on communities living or working in an area comprising one or more wards in the county.

Notice has been served in accordance with Part 3, Section 9 (Publicity in Connection with Key Decisions) of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012.

## **Wards Affected**

Countywide

## **Purpose**

To approve the deferral of the payment for the purchase of the Energy from Waste plant site in Hartlebury and provide an update on the outcome of the execution of joint waste PFI contract variation concluded in May 2014.

## **Recommendation(s)**

**THAT:**

- (a) the conclusion of the agreed joint waste PFI contract variation and associated joint working agreement be noted; and**
  
- (b) the deferral, until December 2023, of the purchase of Herefordshire's share of the Hartlebury waste site be approved.**

## Alternative options

- 1 The following alternative option has been considered:

**To purchase 24.2% of the Hartlebury waste site now.** This would incur immediate costs of £1.9m and is not recommended.

## Reasons for recommendations

### Conclusion of the PFI Contract Variation

- 2 Final agreement between Herefordshire Council, Worcestershire County Council and Mercia Waste Management Ltd was reached on 21 May 2014. Construction of the energy from waste (EfW) facility began soon afterwards.
- 3 Herefordshire will save an average of £1.6m pa as a result of its decision to invest in the EfW plant (£41m over the expected life of the plant of 25 years), an improvement of £0.4m pa on the expected savings approved by Cabinet in December 2013, achieved through successful final contract variation negotiations.
- 4 The Cabinet decision in December 2013 compared agreeing to construct an EfW with continuing to send waste to landfill. Doing nothing included the increasing costs of landfill, e.g., landfill tax has risen from £8 per tonne in 1996 to £80 per tonne in 2014. In addition, not building the EfW would have resulted in no confirmed capacity for treating or disposing of non-recyclable municipal waste after 2023.
- 5 The table below compares the final agreed contract cost over the life of the plant, 25 years, with the “as is” option of continuing to landfill waste. The final position agreed is substantially better than that reported to Cabinet in December 2013.

Option	Final Net Present Cost to Herefordshire (25%)	Dec 13 Net Present Cost to Herefordshire (25%)
	Whole Life £m	Whole Life £m
Energy from Waste Plant	170	175
Continuing as is	211	207
<b>Saving</b>	<b>41</b>	<b>32</b>

- 6 The business case, with financial data prepared by Deloitte, re-enforced the decision to execute the contract variation, providing the best value for money solution for Herefordshire residents. Full details were published in the final Variation Business Case available through the following web link:

[http://www.worcestershire.gov.uk/downloads/file/4157/variation\\_business\\_case\\_v40\\_june\\_2014](http://www.worcestershire.gov.uk/downloads/file/4157/variation_business_case_v40_june_2014)

## Revised Joint Working Agreement (JWA) with Worcester County Council

- 7 The JWA has been updated as a result of the joint PFI contract variation to include:
  - a. Herefordshire’s share of the contract cost to be based on the proportion of

---

Further information on the subject of this report is available from  
Josie Rushgrove, Head of corporate finance on Tel (01432) 261867

contract waste flows arising from 1 September 2013. This was previously paid based on population share. This new split will generate annual savings to Herefordshire of approximately £0.6m.

- b. Confirmation of Herefordshire's share of the EfW funding at 24.2%.
- c. Agreement to the holding of a maintenance reserve account balance of £0.4m on expiry of the PFI, December 2023.
- d. Clarification of terms of reference, governance, roles and responsibilities of the JWA through a Joint Waste Advisory Board and Joint Review Board.
- e. Agreement for the Joint Review Board to meet to discuss the desirability of extending the contract no later than 22 June 2018.
- f. The right and commitment to provide the EfW plant with 48,400 tonnes of suitable waste for a period of twenty five years. Herefordshire currently produces this level of tonnage of waste. By the time the plant opens in 2017, allowing for forecast new homes and the ability to obtain waste from the commercial sector, this commitment is easily achievable. The commitment is a valuable interest which could be sold to other authorities or the commercial sector.
- g. Property purchase options of the EfW and recycling site both located in Worcestershire, as described below.

### **Purchase of Herefordshire's share of the Hartlebury waste site**

- 8 On execution of the waste PFI contract variation for the EfW plant (EnviRecover) a Deed of Trust was entered into over its Hartlebury site. Worcestershire holds all its interest in EnviRecover on trust for both Councils in the same proportion as their respective funding percentages, being 24.2% for Herefordshire. Herefordshire has also registered a Restriction against Worcestershire's title to record and protect Herefordshire's interest in relation to the EnviRecover site pursuant to The Deed of Trust. This protection negates the need to purchase Herefordshire's share now.
- 9 The JWA included a commitment from Herefordshire to acquire its 24.2% share in the Hartlebury site either within twelve months of the contract variation being signed (May 2015) or on expiry of the contract (December 2023).
- 10 The cost of the acquisition is based on Herefordshire's share of the acquisition cost plus debt charges incurred by Worcestershire from the date of acquisition until Herefordshire's date of purchase.
- 11 This gives a total estimated total acquisition cost of £1.7m in 2023, which will be funded by the waste disposal reserve balance expected to be held at that date.
- 12 It is recommended that the purchase of Herefordshire's share of the Hartlebury site is deferred until December 2023. This allows for the maintaining of a waste disposal reserve balance during the period of construction of the EfW and avoids the need to utilise prudential borrowing to fund the purchase cost.

### **Key considerations**

- 13 In December 2013 Cabinet authorised a variation to the council's Joint (Herefordshire and Worcestershire) Waste Management Service Contract with Mercia Waste

---

Further information on the subject of this report is available from  
Josie Rushgrove, Head of corporate finance on Tel (01432) 261867

Management Ltd, to construct and operate an EfW plant to treat residual household waste from the two councils (Cabinet report 12 December 2013).

- 14 In February 2014 Council approved the budget consequences of the contract variation. This approval included the financing arrangements for the new facility where Herefordshire Council and Worcestershire County Council lend to the contractor the funds to construct the EfW plant (Council report 7 February 2014).

## Community impact

- 15 The previous approval will significantly reduce the amount of waste sent to landfill which has been collected by Herefordshire Council. The deferral of the site purchase will contribute to the following council corporate objectives:

**Managing our finances effectively to secure value for money and deliver a balanced budget**

**Making best use of the resources available to us in order to meet the council's priorities** (includes money, buildings, IT, information)

## Equality duty

- 16 The report and its recommendations do not have an impact on Equality or Human Rights.

## Financial implications

- 17 The conclusion of the contract variation has resulted in savings that have been reflected in the Medium Term Financial Strategy approved by Council 7 February 2015.
- 18 The delay of site acquisition will result in the retention of the waste disposal reserve during the construction of the Energy from Waste plant as a contingency balance for risk mitigation.

## Legal implications

- 19 The revised JWA improves governance and ensures value for money is delivered to both authorities.

## Risk management

- 20 Deferring the site purchase entails a risk of interest rate increases. However, this risk has been reviewed and is considered to be a low risk. Deferring the purchase also entails a risk of the open market value of the recycling site changing over time. However, if it this value is higher in 2023, it will mean the EfW site acquisition cost would be reduced further. Based on historic property price indices, the decision to defer is considered to be of least financial risk.

## Consultees

None

## **Appendices**

None

## **Background papers**

None identified