

re3 Joint Waste PFI

Memo To:	Cllr Rob Stanton (Chair JWDB, WBC), Cllr Dorothy Hayes (Vice Chair JWDB, BFBC), Cllr Paul Gittings (RBC), Cllr Deborah Edwards (RBC), Cllr Simon Weeks WBC), Cllr Iain McCracken (BFBC).
From:	Mark Moon (re3 Project Director)
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Date:	27 th January 2010
Subject:	WRG Energy from Waste Proposal

The re3 council partnership has been approached by our PFI contractor, WRG, with an offer for an additional 10,000 tpa of Energy from Waste (EfW) capacity at the Lakeside facility. The offer is co-terminus with our existing EfW arrangements although on different payment terms.

Financial Implications of the Proposal

The net cost / benefit to the re3 councils by acquiring an additional 10,000 tonnes for energy from waste disposal is shown in the table below. There are two scenarios shown. Both contain a break point at 3 and 7 years. The councils may wish to negotiate further break points. The first (middle column) shows the known escalation of Landfill Tax at an additional £8 per tonne per annum until 2013 (as has been announced by HM Treasury). The second (right-hand column) shows the Landfill Tax escalator continuing beyond 2013 until the second break point.

	No L.Tax escalator after 2013/14	L. Tax escalator continues to 2016/17
Year	(Cost) / Benefit - £	(Cost) / Benefit - £
2010/11	(176,756)	(176,756)
2011/12	(155,387)	(155,387)
2012/13 contract break point	(92,316)	(92,316)
2013/14	(29,445)	(29,445)
2014/15	(42,526)	33,474
2015/16	(55,798)	96,202
2016/17 contract break point	(69,002)	158,998
2017/18	(82,386)	tbc
2018/19	(95,815)	
2019/20	(109,278)	
2020/21	(122,765)	
2021/22	(136,267)	
2022/23	(149,770)	
2023/24	(163,264)	
2024/25	(176,735)	
2025/26	(190,170)	
2026/27	(203,555)	
2027/28	(216,874)	
2028/29	(229, 936)	
2029/30	(243,071)	
2030/31	(255,906)	
2031/32	(268,597)	

TOTAL	(£3,265,618)	(£165,230)
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The table above is based on a number of factors, however two are of marked significance in relation to considering the merit of this proposal.

Firstly, no potential surplus LATS income has been included. At time of writing LATS remains very difficult to model with any certainty and should therefore be considered as possible, rather than probable, realisable income.

Secondly, we have some certainty that Landfill Tax will remain in its present form until 2013 but not thereafter. You will notice that the cost to the councils (in the table above) reduces until 2013. That is a result of the annual escalation in Landfill Tax. The escalation makes landfill more expensive and thus an alternative treatment, such as EfW, relatively less expensive in comparison. Because our PFI contains a known price for Landfill, Landfill Tax is the most significant variable. After 2013 officers cannot be certain that Landfill Tax will continue to escalate. The further escalation of Landfill Tax is probable; landfill is becoming scarcer and remains at the bottom of the waste hierarchy. If the escalation continues, in whatever form, it would put the proposal in a more favourable light than that articulated in the first scenario above.

The degree to which certainty can be applied to the cost modelling is, however, unknown and it is for this reason that the second scenario has been included. The final three years of the second period show a net saving to the councils. Although in this 7 year scenario the councils do not break-even, we would be able to take a decision, towards the end of that period, in the knowledge of whether Landfill Tax was set to continue to rise.

The councils may wish to attempt to negotiate further break-points.

For the first scenario in the table above, the average cost to each council over the remainder of the contract is approximately £50,000 per annum. For the second scenario, the average cost to each council for the period up to the second break point is £8,000 per annum.

LATS

Aside from the purely financial considerations, additional diversion of waste from landfill will assist the councils in their efforts to comply with our Landfill Allowance Trading Scheme (LATS) targets. Estimates based on current EfW diversion and recycling and composting performance by the three councils, assumes that the collective LATS target may just be failed in 2014/15. The additional 10,000 tonnes of diversion would extend that point to 2016/17. In both scenarios, council increases in recycling and composting yields will extend the point at which the target may be failed.

The value of surplus LATS permits is likely to diminish over time, as more Waste Disposal Authorities commission treatments or services which assist them in diverting waste from landfill. LATS itself is also due to cease from 2020. As such, and if a LATS market develops, there may be a window of opportunity between now and 2014 in which it is most likely that the re3 councils could generate income from the sale of their LATS surplus.

The table below shows the potential maximum income (for the surplus permits which would be generated from the additional 10,000 tonnes of EfW) at a series of average

values. There will be a 6 year period in which the additional, and collective, surplus from the 10,000 tonnes could be sold. After that it is required to assist in meeting LATS targets.

Value	£
£10	314,160
£20	628,320
£30	942,480
£50	1,570,800
£100	3,141,600

Analysis

The following is a summary assessment of the risks and benefits of the energy from waste proposal.

Risks / Disadvantages	Benefits
<ul style="list-style-type: none"> The proposal results in a significant net cost to the councils without making assumptions about either surplus LATS income or future retention of Landfill Tax. 	<ul style="list-style-type: none"> If Landfill Tax continues to escalate, the proposal could result in a saving to the re3 councils.
<ul style="list-style-type: none"> The net cost to the councils over the remaining 22 years of the PFI contract would be £3.2m (or approximately £50,000 per council per annum). 	<ul style="list-style-type: none"> The additional EfW tonnage would further divert waste from landfill and provide a further two years of collective LATS security (up to 2016/17)
<ul style="list-style-type: none"> If a vigorous LATS market does not develop there may be limited, or no, additional financial benefit to be derived as a result of this proposal. 	<ul style="list-style-type: none"> If a LATS market does develop there is a potential for the councils to derive a significant additional financial benefit through the sale of additional surplus LATS permits.
<ul style="list-style-type: none"> As the volume of EFw purchased grows the incentive to recycle may be reduced. Our own business case assumptions for the PFI require continuous improvement in recycling and composting. 	<ul style="list-style-type: none"> The tonnage appears to be being offered at the market rate with known growth factors applied throughout the remainder of the PFI contract (mirroring the certainty we've negotiated for our landfill contract)
<ul style="list-style-type: none"> DEFRA approval may be needed, and should be sought, for additional energy from waste above the current 60,000 tonnes level. 	<ul style="list-style-type: none">

Conclusions

Without certainty over the future of Landfill Tax, the additional 10,000 tonnes per annum of EfW would add a cost of £3.2m to the remaining years of the re3 joint waste PFI. This would amount to an approximate annual cost of £50,000 per annum per council.

However, if Landfill Tax continues to rise at the current rate, the proposal represents good value to the councils. If Landfill Tax escalation continued throughout the period of the PFI contract, the councils would break-even on the early years cost with 9 years.

The additional 10,000 tonnes per annum of EfW would extend the point of potential LATS failure for the re3 partnership to 2016/17.

There is potential for surplus LATS income to be increased by the additional diversion from landfill that this proposal would bring about.