

Leicester  
City Council

**WARDS AFFECTED**  
**All Wards**

**Cabinet**

**18 September 2000**

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**PFI AND WASTE MANAGEMENT**

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**Report of the Director of Environment and Development**

**1. Purpose of Report**

To seek Member approval for actions to be taken which will facilitate the implementation of the PFI and Waste Management procurement process and which will contribute to the overall deliverability of the PFI project.

**2. Summary**

The Council's PFI bid for a new integrated waste management is expected to be assessed by the Treasury Project Review Group within the next few weeks. If successful, this would provide the Council with a unique opportunity to build an innovative waste recycling and recovery facility and develop a new integrated service capable of meeting the City's waste management needs for the next 25 years.

This would be Leicester's first approved PFI scheme and with contract payments expected to exceed £200 million over 25 years it would result in the largest contract ever placed by the Council.

This report, with associated papers, provides Members with details of the PFI bid and the process and timescale for the realisation of the PFI project. Future reports will brief Members on progress during the contract procurement phase, with formal approval being sought from Members for the eventual PFI contract.

**3. Recommendations**

It is recommended that Cabinet approve the following recommendations subject to the PFI bid being successful:

- 3.1 Agree for the Director of Environment and Development under delegated powers, in conjunction with Head of Legal Services and Chief Financial Officer, to prepare and award contracts for the appointment of external specialist advisors to assist the Council. Details relating to specialist advisors is contained in the attached supporting information at paragraph 5
- 3.2 Approve the funding of advisors from reserves pending reimbursement from the successful contractor. The estimated cost of appointing external advisors is detailed in Financial Implications paragraph 4.4. of this report.

3.3 Agree that any surplus Pfl funding in the early years of the contract be held in reserve to support future payments, as detailed in paragraph 4.3. of this report.

#### **4. Financial and legal Implications**

4.1 The Waste Management budget is currently £6.45 million for 2000/2001, comprising of £2.7 million for collection and £3.75 million for disposal. Whilst the collection element of the budget is forecast to remain at a fairly constant level, disposal costs are forecast to rise because of the increase in Landfill Tax, increased waste tonnage, and most significantly because of the loss of local landfill sites. It has been forecast that the waste management costs for 2004/05, the first year the Council will have to use distant landfill sites, could increase by £2.9 million on the previous year.

4.3 Approval of the scheme would mean that additional revenue support would be provided on the capital element of the project, through the provision of PFI credits. It is estimated that this additional revenue support would be in the order of £3.2 million at the start of the scheme and reducing to £1.2 million by the end. It is a feature of the funding of such schemes that government support is higher in the early years and declines over the period of the contract. Support would not mirror payments made to the contractor, which would (by and large) be equal instalments. To assist in the smoothing of payments over the period of the contract, it is recommended that any such surplus funding in the early part of the contract be held in reserve to support future payments.

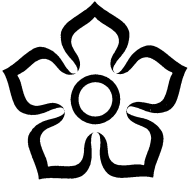
4.4 To assist in the delivery of this project it is anticipated that use would be made of external advisors to provide specialist skills to the project team during the procurement process. It has been estimated that the potential cost of using external advisors could be between £0.3m and £0.5m. The authority would seek to have these costs reimbursed by the successful bidder as part of the procurement process and the estimated level of government support reflects a provision for external advisors. However, pending this reimbursement these costs would require to be funded by reserves.

4.5 To facilitate the realisation of the project a site for the new development will be made available to potential contractors, with recoupment of this cost being sought through the procurement process. It must be noted however that a potential contractor may have their own site and not wish to make use of the Council's sites, and therefore any cost the Council incurs in securing a site is at risk. Officers are working to secure possession of sites at minimum financial cost to the Council. Members are asked to note that, if the Council decided not to offer a site and contractors are asked to supply their own site, it will introduce a major uncertainty in contractors' minds when they tender, which will of course increase the price.

4.6 The PFI contract will require complex legal arrangements involving the Council and the contractor. The exact contractual structure will not be clearer until later in the procurement process and therefore will be reported to Members in due course.

#### **5. Report Author/Officer to contact:**

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### PFI AND WASTE MANAGEMENT

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#### 1. Purpose of the Report

- 1.1 The report provides background and supporting information on the PFI Waste Management bid and the process and timescale for the realisation of the project

#### 2. Background to PFI bid

- 2.1 The Council has an EMAS target of recovering 40% of municipal waste by 2004. Whilst the target set by the Council is seen as challenging it is also seen as necessary in light of the economic and environmental pressures on continuing with landfill disposal. The landfill sites currently used by the Council are projected to be full by 2003/4, pressures on landfill disposal will be further intensified with the introduction of the Landfill Directive and the increasing cost of Landfill Tax.
- 2.2 In responding positively and proactively to the challenges ahead the Council undertook a comprehensive strategic review of current waste management arrangements and appraisal of alternative options to establish an economic and environmental strategy to address the expected increases in waste management costs. The new waste strategy focuses on establishing a fully integrated waste management service with the potential to improve the Council's landfill disposal rate from currently 90% to 59%, providing a recycling/recovery rate of over 40%. The development of a new integrated waste management service will meet Government and Council's recycling and recovery targets and provides the City with a sustainable, innovative and affordable way of dealing with household waste for the next 25 years.
- 2.3 Having consulted with the industry about what is deliverable in a Leicester City context, given projections about future waste levels, land use constraints and public support for particular waste treatment options, it is likely that the future service may include a combination of recycling and "mixed" waste composting. This will bring new innovative technology (currently utilised in Europe) into the U.K. with the potential to meet all the Council's service, sustainability, environmental and financial objectives.
- 2.4 It was recognised that significant capital investment is required in order to establish a new infrastructure to treat the City's municipal waste. Therefore a bid under the Government's Private Finance Initiative was submitted in September 1999.
- 2.5 PFI was launched in 1992 and re-launched in 1997 by the Labour administration with the focus on supporting capital intensive services. The key principals of PFI relate to sufficient risk being assumed by the private sector for the performance of an

asset/service over an extended period. Also that contracts will generally be excess of 15 years and more usually 25 years to cover the considerable capital costs that are likely to be involved, and that procurement is “output” based giving the private sector the maximum opportunity to manage the risk involved. In practice, however, constraints on local authority capital expenditure have meant that PFI is often the only available option for new major investment schemes.

### **3. Site for new recycling and Composting Facility**

- 3.1 To facilitate the realisation of the project a site for the new development will be made available to potential contractors on a leasehold basis lasting the length of the contract. The success and deliverability of the PFI project relies on the Council being able to offer potential contractors a site on which to build the new facility. If the Council decided not to offer a site and contractors are asked to supply their own site, it will introduce a major uncertainty in contractors’ minds when they tender, which will of course increase the price. Recoupment of the cost to the Council in providing a site will be sought through the procurement process.
- 3.3 Officers over the last year have looked at a number of potential sites across the city for the proposed new facility. The general requirement against which sites were considered suitable related to: size, proximity to residential areas, road access, environmental impact, planning policy, availability within project timetable. It is important to note that the new facility will utilise the newest technologies of waste treatment and resource recovery, meeting both sustainability and environmental standards.
- 3.4 Officers will be report to Members in due course which sites have been identified as being suitable for the new facility and which could to be offered to contractors as part of the procurement process.

### **4 Project Timetable**

- 4.1 The following indicative timetable details the key stages of the procurement process up to contract award. The need for the procurement process to begin as soon as possible is essential if the successful contractor is to have sufficient time to develop new waste treatment facilities before local landfill sites are due to become full.
- 4.2 It is intended that the contract tender notice would be issued in the Official Journal of the European Community (OJEC) in January. It is important that any issues surrounding the identified sites are resolved by this date and so the Council is able to include details of the site to potential contractors.
- 4.3 The target date for contract award is September 2002, from which date the PFI service provider will take over the operation of the current Materials Recycling facility (Planet Works) and the contract for disposal. The contractor will take over the remaining obligations, e.g. refuse collection, as current contracts expire.

**Indicative PFI procurement timetable**

<b>Key Dates</b>	<b>Start Date</b>	<b>End Date</b>
Submit OBC to DETR	10 September 1999	
Receive approval from DETR/PRG	September 2000	
Appoint external advisors	September 2000	October 2000
Prepare Memorandum of Information, Output Specification, Pre-qualifying Questionnaire, Evaluation Criteria	August 2000	December 2000
Issue OJEC notice / responses received	January 2001	March 2001
Pre-qualification	March 2001	April 2001
Prepare draft Invitation to Negotiate (ITN) documentation,	August 2000	April 2001
Issue draft ITN to shortlisted companies for comment	May 2001	August 2001
Consider responses received/Bidder interviews	September 2001	December 2001
Issue finalised ITN/ Invite best and final offers	January 2002	
Tender period	January 2002	February 2002
Evaluation of bids	March 2002	April 2002
Select Preferred bidder	May 2002	
Negotiations to contract award with preferred bidder	June 2002	September 2002

**5. APPOINTMENT OF ADVISORS**

- 5.1 To assist in the delivery of this project it is anticipated that use will be made of external advisors to provide specialist skills to the project team during the procurement process. It is intended to maximise value for money by making the most use of the use of internal resources where possible. Where there is a need to draw upon additional specialist support this will be done in such a way as to provide opportunities for the transfer of skills so that in subsequent procurements there is less dependence on external advisers.
- 5.2 It is envisaged that specialist support will be sought in areas of legal advice, corporate finance, and project management. It has been estimated that the potential cost of using external advisors could be between £0.3m and £0.5m.

**6. PROJECT MANAGEMENT ARRANGEMENTS**

- 6.1 A Project Board will be established which will have overall responsibility for the strategic management, development and delivery of the project. Project Board members will include the Director of Environment and Development, the Chief Financial Officer, and the Head of Legal Services. The Project Board will be responsible for reporting on progress to Members.

**7. Other Implications**

<b>OTHER IMPLICATIONS</b>	<b>YES/NO</b>	<b>Paragraph within Report</b>	<b>References</b>
Equal Opportunities	No		
Policy	Yes	2.1	

Sustainable and Environmental	Yes	2.2
Crime and Disorder	No	
Human Rights Act	No	

8. **Details of Consultations**

Financial Strategy  
Legal Services  
Property Services  
Development Plans