

Members Seminar 3 September 2014

Waste PPP Update

Ian Fielding, Gary Fielding and Barry Khan

The Decision

Whether to proceed with the Contract or
to start again

The Headline Recommendation

Proceed to Financial Close given the long term benefits (and within a given Value for Money Envelope)

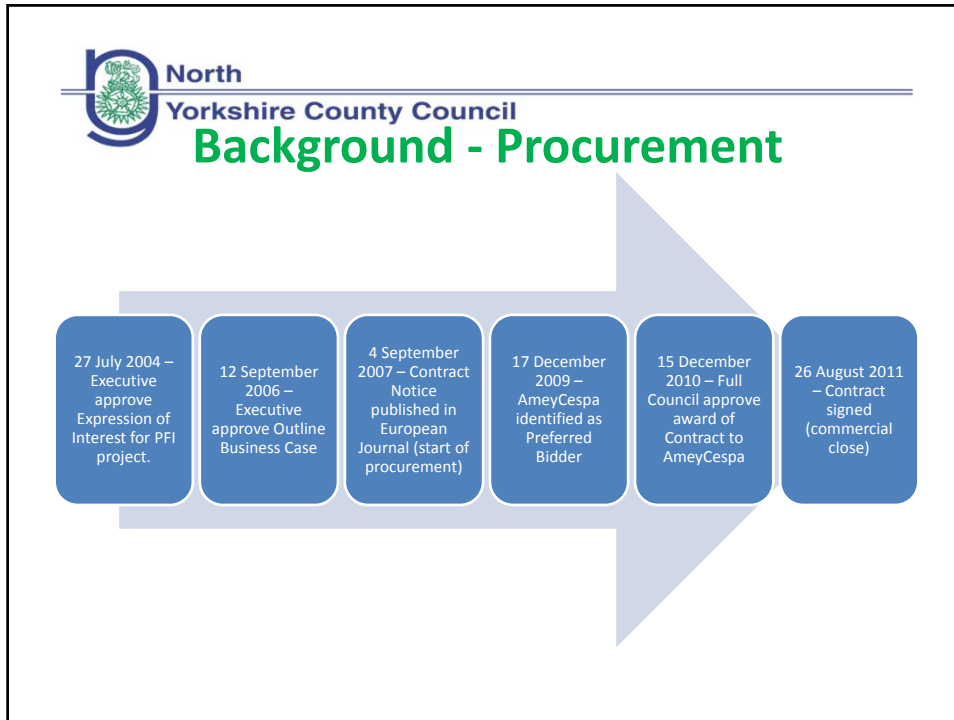
Contents

- A. Background and Timeline
- B. Outline of Proposal
- C. Market Assessment
- D. Financial Issues
- E. Legal & Risk Issues
- F. Forward Timeline
- G. Conclusion

A. Background and Timeline

Background – Objectives

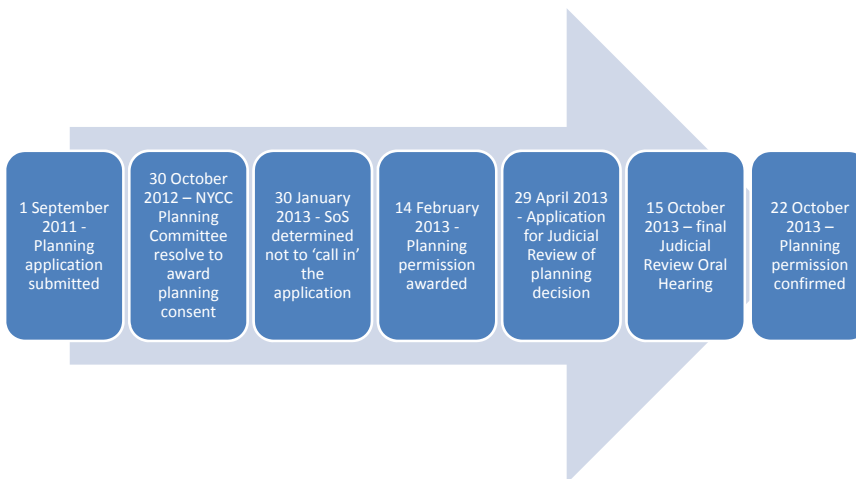




-
- The slide features the North Yorkshire County Council logo at the top left, with the text 'North Yorkshire County Council' and 'Specialist Advisors' in green. Below this is a bulleted list of three specialist advisors.
- Ernst and Young – Finance
 - Ashfords – Legal
 - Jacobs (SKM Enviros) - Technical



Background – Planning



B. Outline of Proposal

Outline of Proposal

- Procurement was technology neutral
- Requirements based on a 'black box' to deliver an output specification
 - minimum performance standards
 - 25 + 5 years operating requirement
- Evaluation criteria set in advance
 - 60% quality, sustainability and environment
 - 40 % cost and finance
- Contract awarded on basis of MEAT – most economically advantageous tender

Technology

'Advanced' Mechanical Treatment to separate:

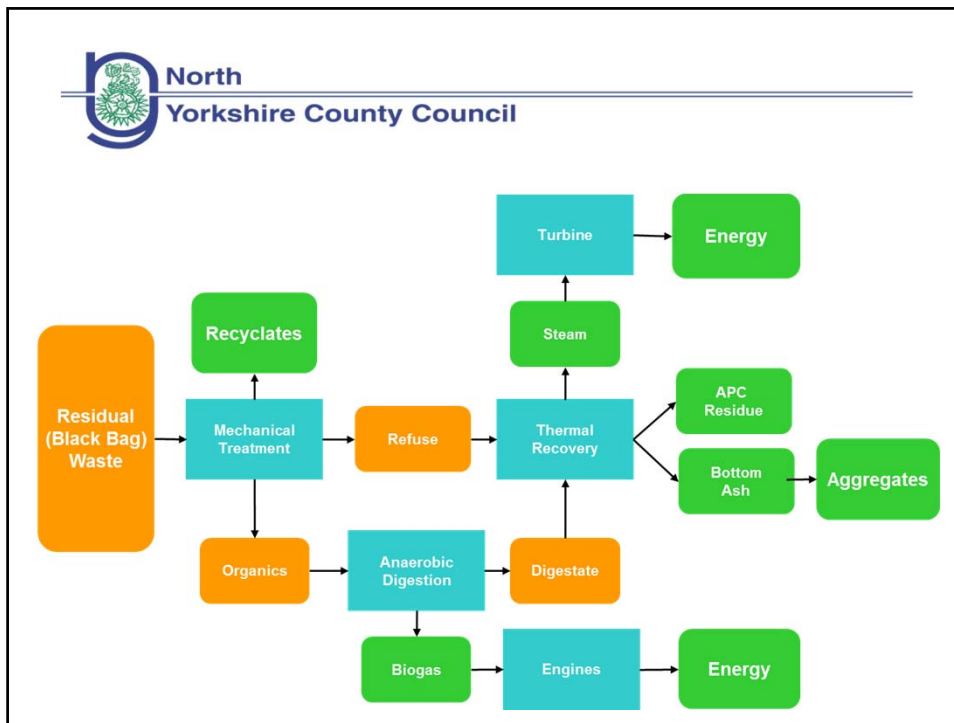
- Metals, plastics and card/paper – min 5% of Contract Waste
- Organic (kitchen) waste – approx. 40,000tpa

Anaerobic Digestion to produce:

- Syngas for combustion in engines to produce renewable energy
- 'digestate' for combustion in the EFW

Energy from Waste Incineration for combustion of remaining residual waste and digestate to produce:

- Electricity for export to National Grid
- Incinerator 'Bottom Ash' for recycling
- Air Pollution Control residues (fly ash) for disposal to landfill



North Yorkshire County Council

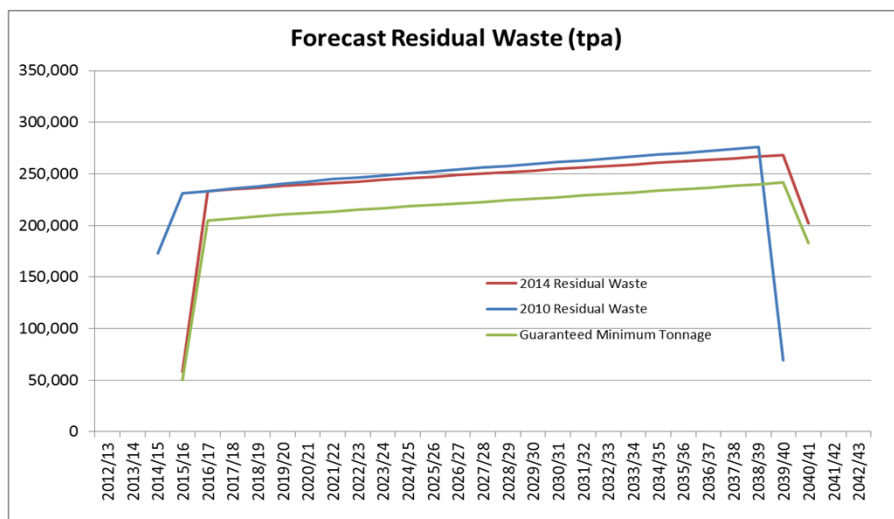
Summary of Non Financial Benefits

| | |
|----------------------------------|--|
| Diversion and recycling | <ul style="list-style-type: none"> • min. 90% Contract Waste diversion from landfill (likely to be 95%) • min. 95% of Biodegradable Contract Waste from landfill (likely to be 99%) • Min. 5% of Contract Waste recycled (likely to be 15%+ with IBA) |
| Carbon benefit | <ul style="list-style-type: none"> • equivalent to 12,000 cars |
| Electricity production | <ul style="list-style-type: none"> • equivalent to domestic needs of Harrogate |
| Jobs | <ul style="list-style-type: none"> • 400 construction, 70 permanent |
| Economic growth | <ul style="list-style-type: none"> • equivalent to £220m over life of Contract |
| Environmental enhancement | <ul style="list-style-type: none"> • £840k Landscape and Cultural Heritage Fund |


North
Yorkshire County Council
Key Changes Since 2010

- Repeal of LATS
- Withdrawal of Waste Infrastructure Credits (PFI) credits
- Revised statutory framework
- Revised projections of Landfill Tax
- Waste tonnages
- Market development
- Yorwaste arrangements


North
Yorkshire County Council
Residual Waste Forecasts



C. Market Assessment

Market Assessment and Benchmarking

- Significant recent additional treatment capacity in region (e.g. Ferrybridge and Teesside)
- Emergence of export market for RDF
- Conflicting views on future capacity gap
- Landfill Tax beginning to achieve its objective
- Export currently suppressing prices in UK
- WRAP Gate Fees Report

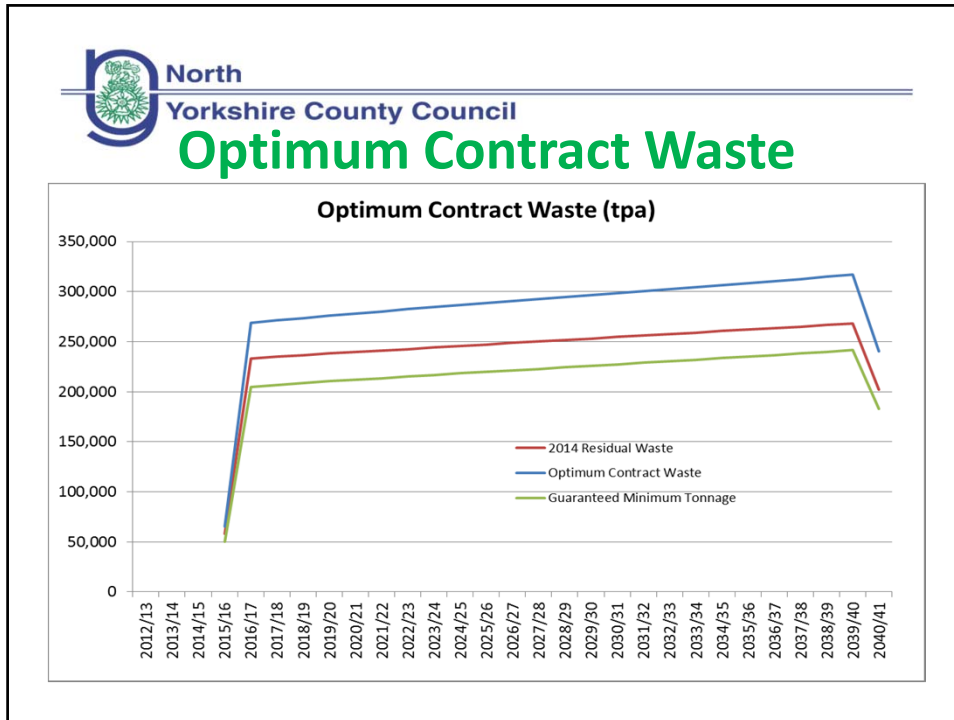
Conclusions of Market Testing

- Short to medium term needs can be met without AWRP
- Export uncertain beyond short term
- Medium to long term 'anchor' contracts needed before some larger scale plants will be developed
- Potential alternative contracts on different risk profile and cost basis
- Prices generally benchmarked against landfill

- Market Proxy based on landfill prices
- Waste PPP long term average price per tonne comparable with current market

Yorwaste Arrangements

- Yorwaste to operate under a 'teckal' exemption from 2015
 - Enables contracts to be awarded without competitive procurement
 - Will require Yorwaste's existing contracts to be novated to NYCC/CYC
 - Yorwaste to act as 'sub contractor'
 - Provides opportunities and benefits regardless of Waste PPP
 - Allows 'optimisation' of waste delivered to AWRP to utilise low marginal disposal costs
- NB – not 'new' waste, just waste being delivered under Council contract rather than direct.



North Yorkshire County Council

D. Financial Issues

Financial Issues

1. AmeyCespa Contract - Capital etc
2. Value for Money Assessment
3. Affordability Assessment
4. Sensitivity Analysis

Capital Expenditure

| Plant | £m | Capacity '000 tonnes |
|--|------------|-------------------------|
| MBT | 52 | 408 |
| AD | 12 | 40 |
| EFW | 170 | 320 |
| Ground works / project management | 17 | |
| Capitalised project costs | 10 | |
| Sub-total | 261 | |
| Financing costs incurred during construction | 59 | |
| TOTAL CAPITAL COSTS | 320 | |

Nature of Contract

- Unitary charge (fixed cost plus adjust)
- AmeyCespa guarantee levels of income
- Share mechanism for upside
- Marginal rates for extra tonnages
- Plant reverts to Councils at end of 25 yr (with 5 yrs operational life)

Financial Tests / Questions

- Does it represent value for money?
 - ↳ Over life of contract (nominal)
 - ↳ Time value of money (NPV)
- Can we afford it?
- What are some of things that may impact on decisions (sensitivities)



North
Yorkshire County Council

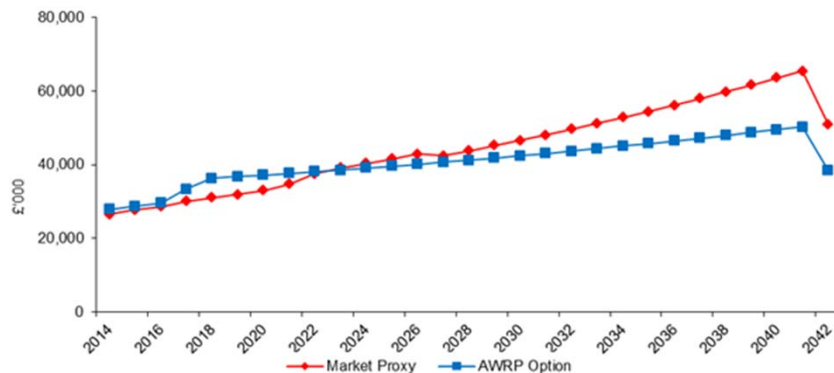
Nominal VfM Assessments

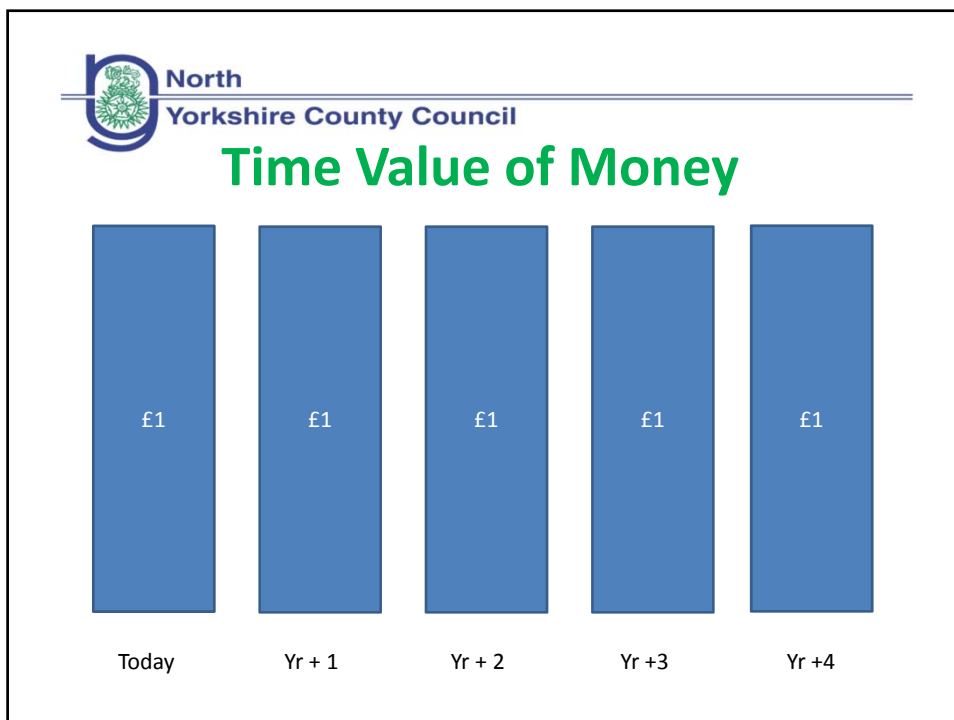
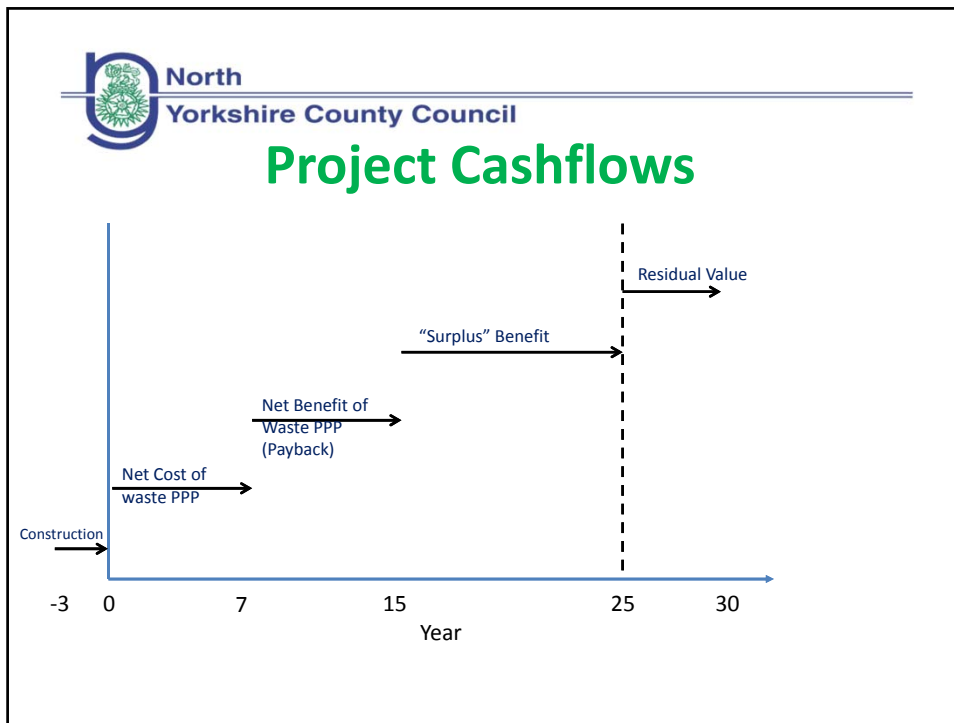
| Value for Money | NYCC £m | CYC £m | Total £m |
|---|------------|-----------|-------------|
| Cost of Waste Strategy inc AWRP | 1,180 | 254 | 1,434 |
| Cost of Market Proxy | 1,296 | 307 | 1,603 |
| Net benefit from AWRP | 116 | 53 | 169 |
| Split as:- | | | |
| AWRP benefit alone | 87 | 45 | 132 |
| Impact from additional commercial waste | 29 | 8 | 37 |
| Net benefit from AWRP | 116 | 53 | 169 |
| Residual Value (RV) of Plant | 69 | 18 | 87 |
| Net benefit from AWRP if RV included | 185 | 71 | 256 |

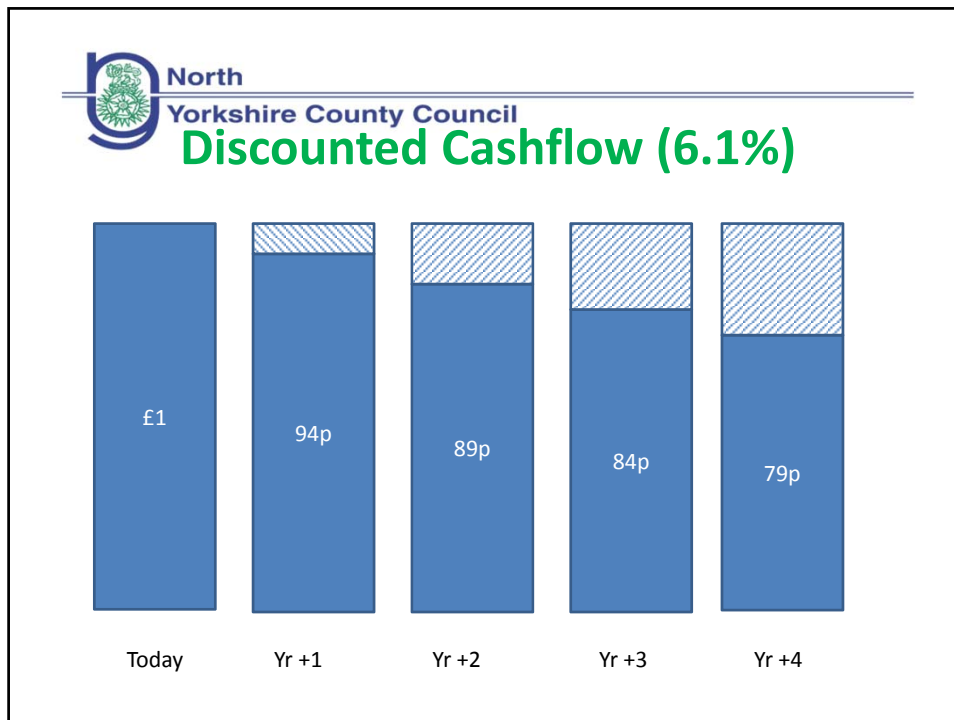



North
Yorkshire County Council

NYCC – Value for Money








North
Yorkshire County Council
NPV VfM Assessment

| Net Present Value | NYCC £m | CYC £m | Total £m | % |
|---|------------|------------|-------------|------------|
| Waste PPP benefit | +11 | +6 | +17 | |
| Impact from additional commercial waste | +9 | +5 | +14 | |
| Net benefit from Waste PPP | +20 | +11 | +31 | 4.5 |
| Residual Value of Plant | +12 | +4 | +16 | |
| | +32 | +15 | +47 | 6.8 |

Sensitivity Analysis – over life

| Assumption | Nominal | | | NPV | | |
|--|------------|-----------|-------------|------------|-----------|-------------|
| | NYCC £m | CYC £m | Total £m | NYCC £m | CYC £m | Total £m |
| <u>Factors over the life of contract</u> | | | | | | |
| Inflation +0.5% | +51 | +22 | +73 | +11 | +5 | +16 |
| Inflation -0.5% | -35 | -15 | -50 | -12 | -6 | -18 |
| Landfill Tax +8/t from 2021/22 | +47 | +20 | +67 | +16 | +7 | +23 |

Sensitivity Analysis – pre Fin. Close

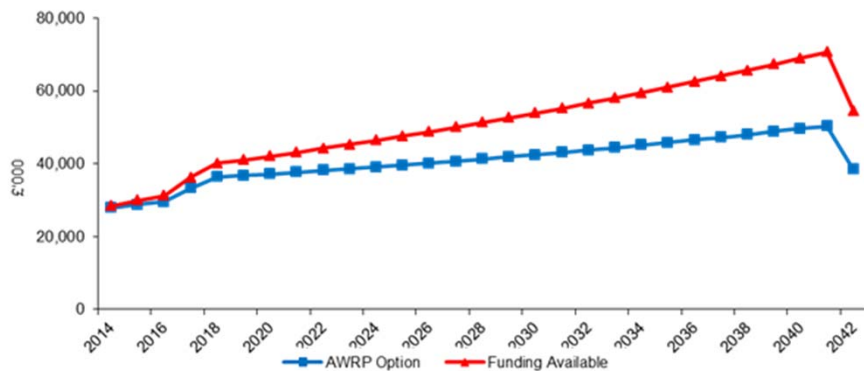
| Assumption | Nominal | | | NPV | | |
|--|------------|-----------|-------------|------------|-----------|-------------|
| | NYCC £m | CYC £m | Total £m | NYCC £m | CYC £m | Total £m |
| <u>Factors in run up to Financial Close only</u> | | | | | | |
| Interest Rate Swap Rate +0.10% | -5 | -1 | -6 | -3 | - | -3 |
| Forex Swap Rate £1:€1.22 | -5 | -1 | -6 | -2 | - | -2 |

Conclusion = £5m Value for Money Envelope

Affordability Assessment

| | NYCC £m | CYC £m | Total £m |
|---|--------------|------------|--------------|
| Waste PPP contact | 575 | 153 | 728 |
| Non PPP costs | 605 | 101 | 706 |
| Net cost of Overall Waste Strategy to Councils | 1,180 | 254 | 1,434 |
| Provision for Waste Strategy in Councils budgets | 1,476 | 333 | 1,809 |
| Headroom | 296 | 79 | 375 |

NYCC - Affordability



Pending Issues Provision (PIP)

- Created in 2008/09 – 2010/11 to provide for:-
 - Waste PPP **OR**
 - Alternative Strategy (which includes landfill in interim)
- Use to date for 3 principal purposes:-
 1. Fund increased costs of waste (Landfill Tax increases) = on-going
 2. Fund Waste PPP procurement = one-off
 3. Investments = one-off (Appendix K of Feb Budget report)
- Very difficult to create in current climate
- Surplus on-going in PIP towards Council savings (£3.4m pa)
- Position reviewed in every Quarterly Monitoring and Budget Report

PIP Funding Position

| Funding Available | 2014/15 £000 | 2015/16 £000 | 2016/17 £000 | 2017/18 £000 | 2018/19 £000 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| Initial budget allocations | 14,394 | 14,394 | 14,394 | 14,394 | 14,394 |
| Add subsequent inflationary increases | 6,856 | 8,356 | 9,856 | 11,356 | 11,356 |
| | 21,250 | 22,750 | 24,250 | 25,750 | 25,750 |
| Less allocations to Waste Strategy | -12,812 | -14,628 | -15,828 | -20,928 | -24,673 |
| Add funding c/f from 13/14 | 22,723 | | | | |
| Total Funding available | 31,161 | 8,122 | 8,422 | 4,822 | 1,077 |
| Allocations previously agreed by Executive | -13,804 | -4,043 | -2,860 | -1,250 | -1,750 |
| PIP Funding still available | 17,357 | 4,079 | 5,562 | 3,572 | -673 |
| Cumulative sum available | 17,357 | 21,436 | 26,998 | 36,570 | 29,897 |

PLUS Waste Mgt Budget in 2014/15 = £28,400k

Financial Conclusion

- Positive VfM position
 - ↳ £169m over life of contract; NYCC £116m (nominal)
 - ↳ Cross-over period = 2023/24 so need NPV
 - ↳ NPV falls within acceptable parameters (+£31m)
- We can afford it (c£3.4m per annum saving)
- Sensitivities check provides some comfort

E. Legal & Risk Issues

Legal Issues

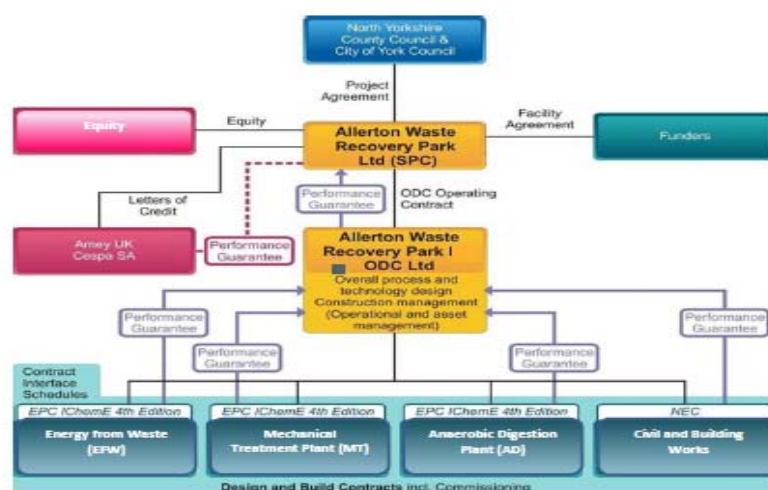
1. Status of Contract/Procurement
2. Protection Issues
3. State Aid
4. Property Related Issues
5. Teckal

Procurement

- Fully European Procurement Complaint
Competitive Dialogue to appoint Interim SPV
created by AmeyCespa.
- Split Close approach
 - Commercial Close : 26th August 2011
 - Financial Close : Potentially October/November 2014
- Contract incorporates change mechanism to allow
changes from Commercial Close to Financial Close.

Procurement Risk

- Where there is a **material** change in contract, need to consider whether a new procurement is required.
- Material Change:
 - Result in the award of the contract to another bidder
 - The scope of the contract is extended beyond the original contract
 - A financial shift in favour of the Contractor.
- External Legal Advice confirms no material change to contract



State Aid

- It is unlawful to give resources to provide assistance to distort competition
- European Commission’s view:
“In principle, the award of the contract brings no State Aid concerns provided the contract was awarded following an open and non-discriminatory public tender procedure”
- External legal advisors confirm no State Aid breach

Property

- A suite of property documents provide that upon Financial close a long lease will be granted to AmeyCespa SPV Ltd to secure the site of the duration of the contract.
- The cost of the rent is passed through to the Council and is included in the financial assessment.
- All property documents are “held to order” and only become operative on Financial Close

Teckal Exemption for Commercial Waste

- Executive previously agreed to restructure Yorwaste to take advantage of the Teckal Exemption
- Exemption states if Yorwaste is controlled by the Council in the same way as an internal Department then can award contracts without procurement
- Council will enter into direct contract with private sector to collect commercial waste. Council will subcontract services contract to Yorwaste to collect waste.

Key Risks

Macro economic factors

- SWAP rates (only a risk until FC)
- Inflation

Waste tonnages

- GMT

Market prices

- Price of the alternative
- Income from commercial waste

Landfill Tax

Change in Law

The Decision

Whether to proceed with
the Contract or to start
again

F. Forward Timeline

Forward Timeline

| | |
|--------------------|-------------------------|
| 3 September | Members Seminar |
| 9 September | Executive consideration |
| 24 September (2pm) | County Council |
| 25 September# | VEAT notice issued |
| End October# | Financial Close |
| 2018# | Plant Operational |

#assuming approvals to proceed

G. Conclusion

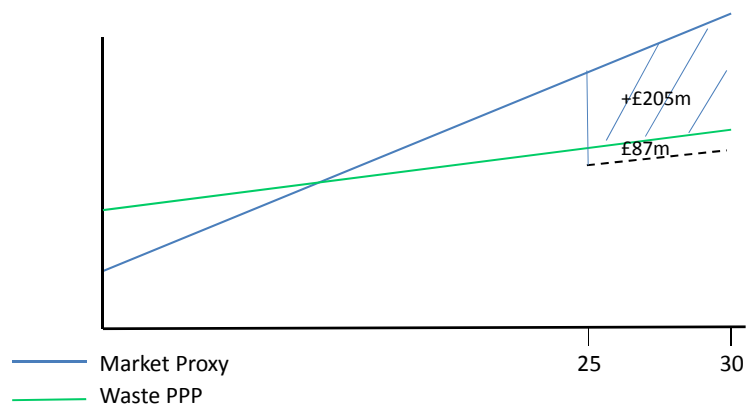
Conclusion

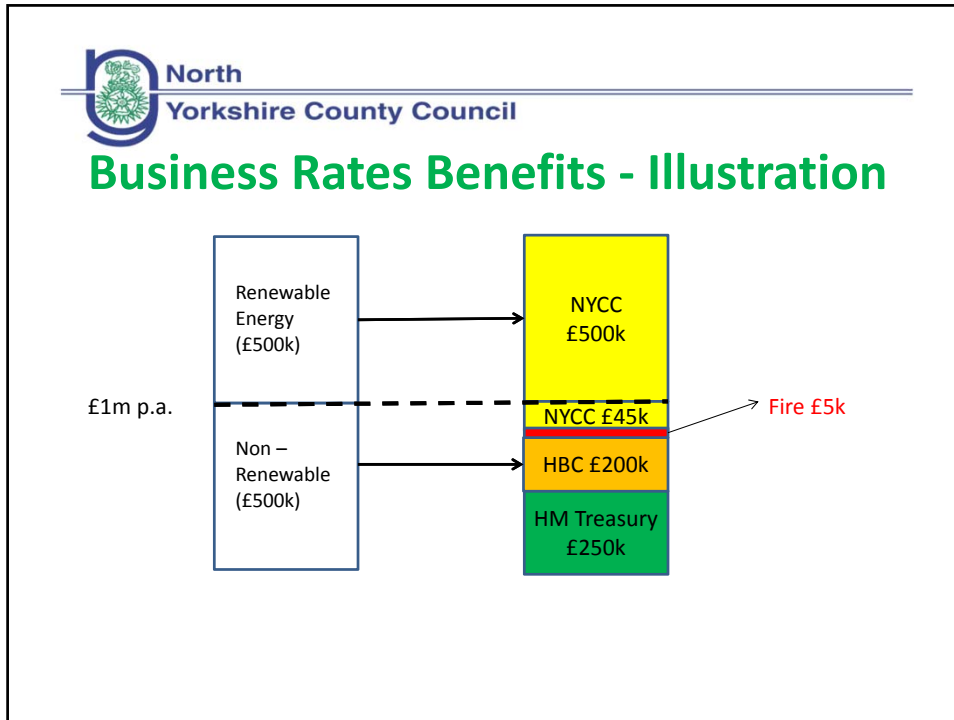
- Project delivers objectives as set out at start
- Significant non-financial benefits
- VfM calculations produce positive results over long term
- It is affordable

Questions

Supplementary Slides

Residual Value Calculation





Sensitivity – reduced Market Proxy costs

Assume 10% reduction in 10 years (2024/25):-

Nominal VFM = £103m

NPV VFM = +£10m

Cross-over = 2027/28