

***The Residual Waste Procurement Plan for the diversion of residual municipal waste from landfill***

**AGENDA NO:**

<b>Cabinet Date</b>	28 November 2007
<b>Stan Waddington</b> <b>Julie Girling</b>	Cabinet Member- Environment Lead Cabinet Member-Environment and Community
<b>Key Decision</b>	No
<b>Background Documents</b>	<p>Cabinet Report (10.10.07) Options for the treatment of residual household waste</p> <p>Cabinet Report (18.07.07) Acquisition of Plot 1 Javelin Park, Haresfield, Gloucester including by Compulsory Purchase Order.</p> <p>Joint Municipal Waste Management Strategy (2007 – 2020)</p> <p>Communications and Engagement Strategy dated September 2007</p> <p>Cabinet Report (01.02.06) Meeting Landfill Diversion Targets - A Trading Strategy for Gloucestershire 2005 - 2010</p>
<b>Main Consultees</b>	Waste Programme Board, Waste Cabinet Panel, All Members, Gloucestershire Waste Partnership, Public
<b>Planned Dates</b>	Business Case approval April 2008
<b>Divisional Councillor</b>	
<b>Officer</b>	<p>Mike Williams, Head of Waste Management (01452 425835)</p> <p>Paul Galland, Environment Director (01452 425544)</p>

<b>Purpose of Report</b>	To seek approval for the Residual Waste Procurement Plan to deliver a long term residual waste contract. The aim is to provide the most environmentally sustainable and cost-effective residual waste solution.
<b>Recommendations</b>	To approve the Residual Waste Procurement Plan as detailed in this Report and specifically the preparation of a Business Case to determine the best procurement approach for the delivery of the residual waste contract.
<b>Resource Implications</b>	The resource implications of this Report focus on the preparation and delivery of the Business Case. However there are far wider cost implications in relation to waste management for the County Council which are discussed in the main Report.

## MAIN REPORT CONTENTS

### 1 Background

- 1.1 In October 2007, Cabinet approved Gloucestershire's Joint Municipal Waste Management Strategy (JMWMS). This includes the aim to push recycling and composting of household waste to 60% by 2020 (10% higher than the national target). This will result in the need to deal with approximately 150,000 tonnes of residual waste per year. (However, in the worse case scenario, the County Council would need to manage up to 270,000 tonnes per annum of residual waste by 2020).
- 1.2 Residual waste is currently landfilled and continuing to do so is not environmentally or financially sustainable. Landfill space is running out and the landfill tax escalator and fines for landfilling more biodegradable waste than allowed means the County Council faces huge financial risks. Landfill tax is currently £24 per tonne and increasing at a rate of £8 each year. Landfill allowances, allocated to the County Council under the Landfill Allowance Trading Scheme ("LATS"), are now trading at about £40 per tonne, but in the coming years are likely to soar above £100 per tonne.
- 1.3 Doing nothing is not an option and alternative solutions are required. Recognising this, Cabinet approved (October 2007) five short listed residual waste management options as the best for Gloucestershire at the present time. These options were to be taken forward for further detailed lifecycle cost modelling which will become part of a detailed Business Case.

### 2 What is the Residual Waste Procurement Plan ("the Plan")

- 2.1 The objective of this Plan is to procure a long term residual waste solution to flexibly manage Gloucestershire's residual municipal waste up to 2040. The procurement is expected to commence in 2008. The exact commencement date will depend on which funding route represents most Value for Money. Key considerations of the Plan are discussed in the following sections:

#### 2.2 Approach to the market

- 2.2.1 One of the most significant challenges of such a procurement project is to attract and retain sufficient competition in an environment where demand from local authorities exceeds the potential capacity of the market. Soft market testing indicates that sufficient interest and competition can be created if the following areas are addressed:
  - Good communications with the industry;
  - Clear technology specification (see 2.3);
  - A level playing field to ensure no contractor has a key advantage (achieved through procurement structure and an independently controlled waste site);
  - Project commitment (i.e. Cabinet approved project);
  - A well resourced project with professional project team and good project governance (see 2.7); and
  - Positive member support.

#### 2.3 A Clear Technology Specification

- 2.3.1 Best practice in this sector is to use an output specification which defines the desired outcomes of the process and the standards to be achieved, leaving the bidder to clearly state, through the tender process, how the outcomes will be achieved. The key outputs for the County Council are:

- A fully guaranteed and deliverable solution;
- Environmentally sustainable and contributes positively to the amelioration of climate change;
- Provides Value for Money; and
- Optimises material and/or energy recovery.

## 2.4 Preparing the Business Case

2.4.1 Investing in a detailed Business Case at this stage will give the County Council sufficient financial information on which to base sound decisions relating to the future costs of this high-risk project. There are two generic funding approaches to assist the finance of capital intensive waste infrastructure projects. These need to be tested through the development of a Business Case to see which would provide most Value for Money. These are privately funded (design, build, finance and operate (DBFO)) which includes the potential for government funding in the form of PFI credits; and publicly funded (via prudential borrowing whereby the Council lets a construction contract (owning the asset), followed by operation contract. There are no government grants available to assist with the costs of the project under this route).

2.4.2 The County Council has submitted an Expression of Interest to Defra for PFI funding so that time is not lost if this route is subsequently recommended and approved as the best way forward. Subject to Cabinet approval the Business Case will be developed and presented for consideration in Spring 2008.

## 2.5 Residual Waste Site

2.5.1 An integral part of the Plan is the acquisition of a suitable site for waste management purposes to reduce deliverability and procurement risks. Following Cabinet approval in July 2007, negotiations continue to purchase 12 acres of Javelin Park whilst exploring other potential sites.

## 2.6 Future Stakeholder Engagement

2.6.1 It is important to align stakeholders' objectives and contributions with those of the project. In order to effectively engage with key stakeholders, the County Council has developed a Communications and Engagement Strategy. The Strategy recognises that informing and getting the support of community and stakeholders for the County Council is vital to achieving the delivery of a residual waste solution for the County. Part of this work will involve setting up a stakeholder group to discuss the long term residual waste procurement project as part of a structured engagement process.

## 2.7 Project Management and Governance Arrangements

2.7.1 Sound project management and governance arrangements are essential to ensure the successful delivery of the Plan. The County Council will be working with a best practice project management (PRINCE2) approach. This will involve tightly controlled governance arrangements involving regular approvals of future stage plans and consultation with a Project Board on key products including risk management.

## 2.8 LATS implications

2.8.1 The County Council plans to minimise waste arisings, and improve source-segregation of waste at the kerbside to increase recycling and composting to 60% by 2020. However, modelling has determined that there will still be a LATS deficit in

2009/10 and thereafter until the successful commissioning of Gloucestershire's long term residual waste solution. The facility might not be operational until April 2015, causing over a 5 year period of LATS exposure.

2.8.2 The County Council has and may continue to purchase LATS permits to avoid penalties all the time they are available to buy. However, there may be other opportunities from landfill diversion including sending waste to existing facilities, procuring an interim technology and working with existing partners on innovative solutions. These options are being evaluated.

## 2.9 Resource Implications

2.9.1 The present resource implications of this Report relate to the internal and external costs of:

- **Preparation of the Business Case** – officer time and external specialist consultancy support up to the end of this financial year. These costs are fully budgeted. This could lead to the successful application of PFI Credits from DEFRA. The Business Case will recommend the preferred approach and quantify the likely benefits in more detail.
- **Acquisition of Javelin Park** – Capital has been approved in the capital budget as well as sufficient revenue in the MTFS to service the borrowing.
- **Residual Procurement Project** – Significant officer time will be required as well as input from external advisors. The in-house residual waste team has been developed to reduce reliance on external advisors. Approximately £500k per annum has been approved for the procurement process in the Medium Term Financial Strategy.

2.9.2 There are longer term implications and benefits to investing in the above work. It should be noted that despite the project costs and the significant costs expected for the residual waste contract, the "do-nothing" cost of waste treatment would be considerably higher. Waste costs are rising rapidly. The Waste Unit budget is £16.2m and it has been forecast that if the County Council carries on landfilling on current trends, this will escalate to over £80m by 2020. (This is based on in-house modelling and assumes that recycling and composting rates remain the same, waste growth continues to rise at 3% per annum, and the County Council must pay £150 per tonne of biodegradable waste going to landfill.).

2.9.3 In contrast, the County Council has modelled that with increased recycling and the residual waste contract in place by 2015, the budget in 2020 would be in the order of £40m. This assumes that recycling and composting schemes are implemented, waste growth reduces to 1.5% per annum and a residual facility comes on line in 2015/16. This clearly needs more work, as this work does not consider the different funding options. In addition, the value of LATS permits needs to be considered in more detail. The Business Case will provide more detailed financial and sensitivity analysis.

## 2.10 Risk Assessment

2.10.1 Waste management is a high-risk area. Given the large budget and the significant cost-implications and future uncertainty of LATS and landfill tax, the financial risk associated with procurement delays or technology failure could be very large. Experience in Gloucestershire and from elsewhere in the UK, show such projects to have a large number of associated high-risk elements.

2.10.2 The Plan carries a number of risks that need to be assessed and managed through appropriate mitigation at the appropriate time. The list of risks is found in Annex A. The main ones are market interest; affordability/Value for Money, land acquisition, planning, public opposition, technology and procurement delays.

### **3 Officer Advice**

3.1 It is officer's advice to approve the Residual Waste Procurement Plan as detailed in the recommendations to this Report and the preparation of a Business Case to determine the best procurement approach for the delivery of a residual waste contract for the County Council. This includes analysis of Value for Money and Affordability.

### **4 Consultation Feedback**

4.1 Extensive waste consultation has occurred over the last year on the whole JMWMS (including the Strategic Environmental Assessment). More recently member seminars have been held specifically focused on the Residual Waste Procurement Project to brief and engage all County Councillors. Individual member party briefings and site visits to residual waste treatment facilities continue as part of the communications and engagement plan. The Waste Programme Board has met monthly to provide project assurance and guidance during the development of the residual waste procurement plan. A Waste Cabinet Panel was also established to work along side the Project.

### **5 Performance Management/Follow-up**

5.1 Performance management arrangements will be established formally through the development of a Project Initiation Document for the procurement process and follow PRINCE2 guidance. Monitoring will follow good practice project management systems. A dedicated Project Board (of Members, Chief Officers & Directors) and residual waste procurement Overview and Scrutiny group will be established.

<b>Report Title</b>	The Residual Waste Procurement Plan for the diversion of residual municipal waste from landfill.
<b>Statutory Authority</b>	Section 51 Environmental Protection Act 1990
<b>Relevant County Council policy</b>	Business Plan Joint Municipal Waste Management Strategy 2007 – 2020
<b>Resource Implications</b>	Already allocated in MTFS (see resources section in main report)
<b>Sustainability checklist:</b>	<p><b>Partnerships</b> (Linked with JMWMS and these impacts on tonnage to treat). The County Council will seek to work in partnership with the contractors, Districts and the community where appropriate as the project develops.</p> <p><b>Decision Making and Involvement</b> Regular consultation and approval of actions/tasks through the Waste Programme/Project Board and Waste Cabinet Panel. The County Council will be using an Overview and Scrutiny Task Group during the project to scrutinise the process, as discussed in the main body of the report.</p> <p><b>Economy and Employment</b> There may be local employment and economic development opportunities created through the delivery of this strategy, specifically by treating waste as a potential resource.</p> <p><b>Caring for people</b> Not applicable at this stage</p> <p><b>Built Environment</b> Issues for built environment and landscape will emerge during the delivery of new residual waste treatment facilities - high emphasis placed on sustainable development issues.</p> <p><b>Landscape</b> See Built environment.</p> <p><b>Education and Information</b> This will be a key element to the success of the residual waste procurement plan. Communication and information on waste issues, particularly within the community where the facility will be located will be vital for the project to succeed.</p>
<b>Equal Opportunities in Service Delivery</b>	Will be considered throughout the procurement.
<b>Human rights Implications</b>	None
<b>Consultation Arrangements</b>	Further consultation on the project will be undertaken during procurement.

## Annex A: Risks

- **Market Interest:** if market is not interested in bidding for the contract, this could lead to increased contract costs due to lack of competition. This will be mitigated by putting together a good procurement package, “selling” the benefits of this project to prospective bidders and ensuring a level playing field (including securing an independent waste site).
- **Affordability/Value for Money:** if the bids are more expensive than originally modelled and appropriate risk is not transferred, this will impact on future waste budgets, and on other Council service provision, making the solution potentially unaffordable. To manage this, we will develop a robust Outline Business Case to ensure good project, risk and financial management and continually monitor and report on project progress.
- **Land acquisition:** if the County Council cannot secure a parcel of land for the delivery of a strategic waste facility, the County Council will reduce its chance of gaining PFI funding, reduce the attractiveness of the residual waste contract to the waste market and potentially fail to deliver the project. To mitigate this, we will continue to negotiate the acquisition of Javelin Park and evaluate other potential sites.
- **Planning:** if planning permission is not awarded, Gloucestershire County Council will fail to deliver a strategic waste facility within the required timescale which could result in LATS fines. The selected site has been independently assessed and has good planning prospects. Local communities will be continually engaged.
- **Public Opposition:** if the public do not support the solution selected during the procurement process (technology, site etc), this will create opposition and may lead to possibly delays or even halt the delivery of the solution. A communications and engagement strategy has been developed and the County Council plans to engage the community of Gloucestershire throughout the procurement process.
- **Technology:** if the technology provider cannot demonstrate that the technology and the outlets for materials are viable, the County Council would reject the solution. We aim to develop a clear technical specification that will deliver a guaranteed closed-loop solution for Gloucestershire.
- **Procurement Delays:** if Gloucestershire County Council cannot deliver the residual waste procurement plan in the required timescale this could lead to LATS fines and higher cost for treatment of waste in the interim. We will develop good governance arrangements and sound project management to ensure the project remains on-track.