

RENEGOTIATION OF THE WASTE PFI CONTRACT

To: **General Purposes Committee**

Meeting Date: **20 September 2016**

From: **Executive Director: Economy, Transport and Environment**

Electoral division(s): **All**

Forward Plan ref: **2016/047** *Key decision:* **Yes**

Purpose: **To consider proposals for renegotiating the Council's waste disposal contract.**

Recommendation: **To approve the outline business case and savings proposals from renegotiation of the Council's waste disposal contract.**

<i>Officer contact:</i>	
Name:	Graham Hughes
Post:	Executive Director: Economy, Transport and Environment
Email:	Graham.hughes@cambridgeshire.gov.uk
Tel:	01223 715660

1. BACKGROUND

- 1.1 The Waste PFI contract is costing the Council a significant amount of money and this is increasing so the intention is to renegotiate this to remove some of this cost. As this is the largest contract within Economy, Transport and Environment (ETE), it is potentially the area which can generate the most savings. The current contract is working and does mean that Cambridgeshire is recycling waste, but there are areas where the contract can be improved.

2. OPTIONS

- 2.1 This contract is on a 27-year PFI so there are limited options:
 - 2.1.1 Option 1: Do nothing. This would result in continually escalating costs, due to changes in waste legislation, the continual increase of landfill tax as well as population growth and economic growth increasing the quantity of waste collected.
 - 2.1.2 Option 2: Seek minor changes to the methods of process in the contract to increase the diversion of waste from landfill. This is already done through routine contract management but the financial rewards are minimal.
 - 2.1.3 Option 3: As a minimum from year 1, Cambridgeshire County Council (CCC) can reduce the cost of disposing the products of the Mechanical Biological Treatment (MBT). This option can be carried out without a major re-negotiation of the contract and is already being explored.
 - 2.1.4 Option 4: Fundamental change to the contract. This would include reducing the operating cost or removal of the MBT and refinancing and is the option that is likely to deliver the greatest savings.
 - 2.1.5 Option 5: Major change option - withdrawing from the contract completely and procuring alternative arrangements for treating waste and operating Household Recycling Centres (HRCs). There would be huge financial repercussions and minimal advantages to this.

3. SCOPE

- 3.1 Everything in terms of the contract is in scope, including re-financing, changes to processing methods, all types of waste, reducing the services provided under the contract and the nature of the relationship with Amey. A high-level negotiating group has been set up with senior representatives from both organisations, including the Cambridgeshire County Council (CCC) Chief Finance Officer. The negotiating group will be responsible for identifying the changes required to deliver the savings required and confirming the scope in future.

4. APPROACH

- 4.1 The Chief Executives of both Amey and CCC are both committed to making savings from the contract. Terms of Reference have already been agreed for the negotiating group to freely share information, to be open minded and investigate all options, to work in partnership to fairly evaluate all options available in a timely manner, to be mindful of the

original commitments to investors and Department for Environment, Food and Rural Affairs (DEFRA) and seek their approval for the changes proposed. The negotiating group will meet periodically to identify changes that will deliver the savings required and report back to the Chief Executives of each organisation. Key decisions required by CCC, will be taken by the General Purposes Committee (GPC).

- 4.2 In parallel to this, technical trials are also taking place to identify the level of savings achievable in year one through reducing the cost of dealing with the MBT products, as well as technical work to improve the performance of the In Vessel Composting (IVC) operation and increase the quantity of compost and mulch material for beneficial use.

5. KEY MILESTONES

1	By end of 16/17- arrangements concluded for new working procedures for IVC.
2	By end of 16/17- conclusion of negotiations on the Refuse Derived Fuel (RDF) contract although there will be a run-in time.
3	Start of 17/18- commence sale of RDF product
4	16/17 to 17/18 negotiation of new working practices.
5	18/19 – expected changes to the operation of the Waterbeach processing plant as necessary

6. LINKS AND DEPENDENCIES

- 6.1 CCC receives financial support from DEFRA in the form of a PFI credits. Any changes to the contract will require the submission of a business case to DEFRA to seek their approval. If DEFRA's approval is not obtained for a change, the PFI credit could be reduced or withdrawn completely.
- 6.2 Amey will need to seek the consent of their senior lenders for any changes to the contract.
- 6.3 There are links to District and City Council partners as the Waste Collection Authorities that deliver waste to the contracted facilities and through the RECAP partnership that delivers recycling, education and promotions regarding waste reduction and recycling. When district and city councils change their collection arrangements this can impact on CCC. All district and city councils are looking at ways to reduce their costs and increase income that are likely to result in changes to the way they collect waste and recyclables.
- 6.4 There is also a financial balance between the benefits of refinancing and the cost of borrowing at today's rates when compared to the borrowing cost when the contract was signed.

7 ASSUMPTIONS AND RISKS

- 7.1 Assumptions:
- Amey are willing to consider and negotiate, and look at everything in the contract.
 - That there is a market for the waste products.
 - That the current regulatory environment will stay the same for the remaining term of the contract.

7.2 Risks:

- Changes in regulatory environment.
- Financing risk.
- Inertia risk- for example if Amey are not co-operative.
- There are a number of parties behind the PFI, such as lenders and DEFRA, so there is a risk that they will not agree.
- Reputational risk.
- Changes in the exchange rate, following the EU referendum.

8. PROPOSAL APPRAISAL

- 8.1 There is a good degree of confidence that we can make significant savings, particularly the £1m in year one. CCC have a strong and positive relationship with Amey.

9. CONSULTATION

- 9.1 A formal consultation may not be necessary unless significant changes are proposed to the HRC service or council policy. We will need to work with district partners through the Recap partnership to assess and quantify any impacts of contract changes on their services and costs.

10. FINANCE – SAVINGS AND INVESTMENT

FINANCE		£'000					
(Year 0 is the current financial year)		Year 1	Year 2	Year 3	Year 4	Year 5	Year 0
Investment	Staff	0	0	0	0	0	0
	Non-staff	80	240	80	0	0	0
	Resources	0	0	0	0	0	0
	IT/Digital	0	0	0	0	0	0
	Assets/Property	0	0	0	0	0	0
	Other	80	240	80	0	0	0
	Revenue impact of capital	0	0	0	0	0	0
	TOTAL	80	240	80	0	0	0
Saving / income total		-1000	-3000	-1000	0	0	
Net saving / income		-920	-2,760	-920	0	0	

11. ALIGNMENT WITH CORPORATE PRIORITIES

11.1 Developing the local economy for the benefit of all

There are no significant implications under this heading although it is the case that an effective and efficient waste collection and disposal system is vital if the economy is to function well.

11.2 Helping people live healthy and independent lives

There are no significant implications under this heading.

11.3 Supporting and protecting vulnerable people

There are no significant implications under this heading.

12. SIGNIFICANT IMPLICATIONS

12.1 Resource Implications

Defra advisers to allow this renegotiation are being funded partly through reserves and partly through a top slice of savings made. Although unlikely, if no savings are eventually made, then there will have been a net cost to the authority to undertake this work. The top slice from Defra will also be on an ongoing basis and taken from the PFI credits.

12.2 Statutory, Risk and Legal Implications

A revised form of contract will be required to deliver the larger elements of these savings proposals and an agreement with Amey will need to be drawn up to deliver the year one savings. There is a risk that these contract amendments will not be agreed and the savings will therefore not be unlocked, although at this stage this is considered unlikely given the commitment given by Amey to work with the Council to secure savings.

12.3 Equality and Diversity Implications

There are no significant implications within this category.

12.4 Engagement and Consultation Implications

There are no significant implications within this category at this stage, although it should be noted that extra communications and engagement may be needed to ensure that residents keep recycling. Formal consultation may not be needed but it will be important to work with district partners through the RECAP partnership.

12.5 Localism and Local Member Involvement

There are no significant implications within this category at this stage although as the negotiations develop and clear changes are proposed, local member involvement and briefing will be required.

12.6 Public Health Implications

There are no significant implications within this category.

Implications	Officer Clearance
Have the resource implications been cleared by Finance?	Yes Name of Officer: Chris Malyon
Has the impact on Statutory, Legal and Risk implications been cleared by LGSS Law?	Yes Name of Legal Officer: Marcus Tapley-Peabody
Are there any Equality and Diversity implications?	No issues Name of Officer: Dan Thorp
Have any engagement and communication implications been cleared by Communications?	Yes Name of Officer: Mark Miller
Are there any Localism and Local Member involvement issues?	No issues Name of Officer: Paul Tadd
Have any Public Health implications been cleared by Public Health	Yes Name of Officer: Iain Green

Source Documents	Location
General Purposes Committee – 24 November 2016 (confidential item)	https://cmis.cambridgeshire.gov.uk/ccclive/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/43/Committee/2/Default.aspx