

**REPORT OF THE SERVICE DIRECTOR FOR TRANSPORT, PROPERTY AND
ENVIRONMENT****WASTE PFI CONTRACT – PRE PAYMENT OF UNITARY CHARGE****Purpose of the Report**

To approve a pre-payment of the Waste PFI Contract unitary charge to Veolia in respect of the capital expenditure and associated financing costs for the Newark and Worksop Waste Transfer Stations (WTS) in accordance with the terms of the Waste PFI Contract.

Information and AdviceBackground

1. The County Council through its statutory role as Waste Disposal Authority (WDA) controls the recycling, reprocessing, treatment and disposal of around 400,000 tonnes of waste per annum. The majority of this waste is managed through a PFI contract with Veolia as amended by Veolia's Revised Project Plan (RPP) approved by Environment and Sustainability Committee on 4th September 2014.
2. As part of the RPP, the County Council negotiated a right to make a one-off payment to Veolia as a pre-payment of part of the unitary charge, at its discretion, in respect of the unamortised capital expenditure and Veolia's associated financing costs for the Newark and Worksop WTS (essentially this is an early repayment of the capital expenditure rather than continuing to pay for it through the monthly unitary charge payments over the remaining life of the PFI Contract (18 years)). This one off payment would result in a reduction to the current Contract rate for each tonne of residual waste transferred. The Council has until 1st July 2015 to exercise this right.

Financial Implications

3. In the Waste PFI Contract, the County Council pays for each tonne of residual waste transferred. This rate applies to residual waste that is collected by the district councils and transferred through a WTS (rather than being directly delivered to landfill/incineration by the district) and residual waste that is collected by Veolia from the Recycling Centres.

4. The pre-payment of the unitary charge referred to in paragraph 2 would be reflected on the balance sheet and amortised through the Waste Management (PFI) budget in equal instalments over the remaining life of the Contract and the Council would pay the pre-agreed lower transfer rates¹ to Veolia for the remaining term of the Contract until 31st March 2033. Details of the pre-payment amount, calculated pay-back period and overall financial benefit are included in the Appendix (exempt), although the anticipated saving is in the order of £8 per tonne.
5. There are inflation and volume risks associated with the calculation of the overall saving, making exact calculations uncertain. However, existing residual waste tonnages (which have recently been increasing at around 2.5% per annum), would need to decrease by over 50% for there to be no overall financial benefit to the County Council associated with exercising the right to pre-pay this element of the unitary charge. This decrease in tonnage seems unlikely.
6. It may also be necessary to re-calculate the transfer rate if the Contract market testing mechanism for residual waste treatment and/or landfill services results in significant changes to disposal points, however any revised rates will still be discounted to allow for the pre-payment amount. The market test is conducted on a five year basis (unless otherwise agreed).

Other Options Considered

7. The County Council can make this payment at their discretion, and therefore could continue to pay the existing Contract rate for each tonne of residual waste transferred and make no change to the payment structure; however, this would not deliver a financial saving to the County Council.

Reasons for Recommendations

8. Making a payment to Veolia to repay the unamortised capital expenditure and associated financing costs for the Newark and Worksop WTS, delivers a significant saving to the County Council based on existing residual waste tonnages and modelled inflation rates.

Statutory and Policy Implications

9. This report has been compiled after consideration of implications in respect of finance, equal opportunities, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

¹ The pre-agreed transfer rates apply under Schedule 40 of the Waste PFI Contract as amended by the RPP and are to reflect the early repayment to Veolia of Veolia's capital costs and associated financing costs for the Newark and Worksop WTS.

Financial Implications

10. See paragraphs 3 to 6.

Legal Implications

11. The mechanism to allow the County Council to make this payment is under Schedule 40 (Unitary Charge Adjustment Protocol) of the PFI Contract as varied on 24th February 2015.
12. Defra have given approval to this pre-payment in their Waste Infrastructure Credit letter dated 24th February 2015.

Implications for Service Users

13. This report does not have direct implications on service users.

Recommendation

14. That Committee:

Approve a pre-payment of the Waste PFI Contract unitary charge to Veolia in respect of the capital expenditure and associated financing costs for the Newark and Worksop Waste Transfer Stations in accordance with the terms of the Waste PFI Contract and as detailed in the exempt appendix to this report.

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Constitutional Comments (HD 12/5/2015)

The recommendation falls within the delegation to Finance and Property Committee.

Financial Comments (TMR 12/5/2015)

The financial implications are set out in the report.

Background Papers

None.

Electoral Divisions

All