
Meeting: Sustainable Communities Overview and Scrutiny Committee

Date: 25 March 2010

Subject: Central Bedfordshire Energy and Recycling (BEaR) Project – Business Case Approval

Report of: Cllr Budge Wells, Assistant to the Portfolio Holder, Safer & Stronger Communities

Summary: This report asks the Overview and Scrutiny Committee to consider the revised scope of the BEaR Project and subsequently make a recommendation to the Executive meeting on 6 April to support the recommendations included within the attached report relating to the Business Case.

The report includes detail of the revised project scope, funding options, and affordability envelope for the BEaR Project. It also seeks to refresh the project as a bespoke project for Central Bedfordshire.

Contact Officer: Ben Finlayson, BEaR Project Manager

Public/Exempt: Part Exempt (Appendix A)

Wards Affected: All

Function of: Executive

RECOMMENDATION(S):

1. that the Sustainable Communities Overview and Scrutiny Committee:

- (a) Considers the recommendations to the Executive contained in the body of the report and comments as necessary.**
- (b) Reviews the scope of the Project and recommends to the Executive which elements should be included.**

Reason for Recommendation(s): To provide the Sustainable Communities Overview and Scrutiny Committee with an opportunity to inform the decision to be taken by the Executive and provide any comments necessary.

Meeting: Executive
Date: 6th April 2010
Subject: Central Bedfordshire Energy and Recycling (BEaR) Project – Business Case Approval
Report of: Cllr Budge Wells, Assistant to the Portfolio Holder, Safer & Stronger Communities
Summary: This report, through approval of the recommendations seeks the endorsement by the Executive of the BEaR Project Business Case.

The report includes detail of the revised project scope, funding options, and affordability envelope for the BEaR Project. It also seeks to refresh the project as a bespoke project for Central Bedfordshire.

Advising Officer: Gary Alderson, Director of Sustainable Communities
Contact Officer: Ben Finlayson, BEaR Project Manager
Public/Exempt: Part Exempt (Appendix A)
Wards Affected: All
Function of: Executive
Key Decision Yes
Reason for urgency/ exemption from call-in (if appropriate) Not Applicable

CORPORATE IMPLICATIONS

Council Priorities:

The recommendations of this report contribute to Central Bedfordshire Council (CBC) meeting National and European targets for landfill diversion, reducing the increasing impact of landfill tax and waste disposal costs and helping to achieve long lasting environmental benefits. This will assist with the delivery of the Council's priority of managing growth effectively as increased population will lead to additional waste being produced in the area and therefore increased costs. The projected treatment requirement of the authority is approximately 60,000t of waste per annum.

Financial:

The BEaR project is a financially critical scheme with the potential to realise long term savings and reduce the risk of waste management to the authority. Due to the commercial nature of the costs identified within the Business Case and the financial section of this report they have been removed and are instead included in Appendix A (not for publication by virtue of paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972).

The cost of the “**Do-minimum**” option (increasing recycling and composting to 60% by 2020 but land filling remaining waste) is estimated over the 25 year assessment period

to be **£(COST A)**. Alongside this cost, the risks associated with this option, such as the lack of local landfill sites and potential further increases in landfill taxation must be considered.

The cost of delivering the “**Reference Solution**” (increasing recycling and composting to 60% by 2020 and treating remaining waste using a bespoke CBC facility) is estimated to be **£(COST B)**.

Based on prudent assumptions, as outlined in the Business Case (Appendix B), the Reference Solution offers a break even position when compared to the ‘Do-minimum’ option, with the costs of the two options being approximately the same over the projected contract life.

Alongside the financial analysis, a detailed review of the impact of risk on the cost of each option has been undertaken. The Do-minimum option is at significant risk from future increases in the cost of landfill or transportation through legislative change or other factors which are outside the control of the authority, for example, a modest increase in the landfill tax escalator could see the cost of the Do-minimum option increase to **£(COST C)**.

The primary risks that could affect the costs of the Reference Solution are increases in the costs of borrowing funds to deliver infrastructure and any reduction in income streams that offset costs to the authority such as electricity. Both of these risks can be addressed through the procurement and are either shared with or sit entirely with the selected contractor.

In order to provide a robust affordability position, the most likely cost increases to the Reference Solution have been assessed. As a contingency, the affordability position has been increased to **£(COST D)**, equal to a 10% increase in capital costs of the Reference solution.

The intention of the Project, as well as reducing risk to the authority and delivering an environmentally sustainable solution is to save money in the long term. Members should be aware of the following factors which could influence the financial assessment:

1. Financial modelling is only able to provide a snapshot and is based on a large number of assumptions. The true costs of any solution will not be known until the procurement takes place.
2. In order to provide a prudent affordability position, the technology selected for the Reference Solution was one with a high capital cost, leading to a significant borrowing requirement and subsequent debt profile. The current cost of borrowing for such facilities is high but could reduce ahead of the contract being let. Other available technologies have reduced capital requirements but perhaps greater associated revenue costs. These alternative solutions could offer better value for money during the procurement.
3. The Reference Solution assumes a bespoke facility is built to the authority’s requirements, however, other contracting structures as outlined in the Business Case could deliver better value for money to the authority.
4. Prudent assumptions have been made regarding the level of income generated by the Reference facility which subsequently offsets the costs to the authority. Bidders may offer greater guarantees on electricity income for example, which could further reduce the costs of the solution.

5. Standard Project financing is assumed for the Reference Solution option with no finance required for the Do-minimum option due to the lack of infrastructure. During the procurement process, the Project Team will ensure that the financing options are left open to the authority. If at the point of contract close the authority is able to inject capital to offset the debt requirement, the costs of the Project could significantly reduce.
6. The Do-minimum option has been assessed using modest annual increases in landfill tax and assumes full ability to trade under the Landfill Allowance Trading Scheme (LATS). Should recent Government policy to significantly escalate rates continue or if CBC could not trade successfully, the benefits of BEaR over the Do-minimum option would increase further.

The costs identified do not include the additional infrastructure elements detailed within this report. The cost of these elements will be assessed as part of the evaluation of the bids to ensure that they offer value for money to the authority.

Legal:

CBC is a Waste Disposal Authority (WDA) under Sections 51 and 55 of the Environmental Protection Act 1990 and is under a duty to dispose of controlled waste collected within its administrative area. The BEaR Project is aiming to deliver a sustainable waste treatment solution to enable CBC to meet its legislative requirements. Financial penalties of up to £150 per tonne may be imposed upon the authority should it fail to meet diversion targets.

The authority must act in accordance with the EU Procurement Directives and ensure all procurement activity is conducted in compliance with the Public Contracts Regulations 2006. In undertaking an open, competitive procurement process utilising the Competitive Dialogue procedure, the authority is meeting all EU procurement requirements.

Risk Management:

There are a number of risks that need to be considered when reviewing the recommendations outlined in this report. The BEaR Project has a robust risk management process in place to ensure that these risks are monitored and mitigated where possible. A key objective of delivering a solution for the authority is to transfer as much risk as is sensible to the contractor.

Risks arising from not progressing with the project include:

- Continued risk of exposure to price increases and availability issues through the use of short term landfill contracts.
- The authority being subject to LATS fines
- Additional costs of any solution through inflation if delayed
- Continuation of landfill could see increased taxation above that included in the model due to legislative changes.
- Delays to delivering CBC corporate objectives – managing growth effectively

Staffing (including Trades Unions):

There may be a requirement to TUPE staff if some of the additional elements outlined in the report are delivered (Non CBC existing contractor staff). Full TUPE regulations will be observed.

Equalities/Human Rights:

Access will be a key consideration in the design of any public facing facilities.

Community Safety:

N/A

Sustainability:

Land filling waste leads to the release of substantial amounts of methane, a potent greenhouse gas with over twenty times the global warming potential of carbon dioxide. The BEaR Project aims to significantly reduce the amount of waste going to landfill thereby reducing the impact of waste disposal on the environment.

The full environmental impact of the final solution will not be known until a technology is selected during the procurement. During evaluation, all environmental implications, including emissions will be assessed to ensure that the chosen solution reduces the environmental burden of waste disposal, thus meeting the council's objectives of reducing the carbon footprint of its services (NI186).

This proposal meets: The requirements of Waste Strategy 2007, The Corporate policies and priorities of the Council, The Bedfordshire Authorities Municipal Waste Management Strategy 2006, The Bedfordshire and Luton Minerals and Waste Local Plan, adopted 2005, and the Waste Core Strategy Preferred Options Consultation (April 2010)

RECOMMENDATION(S):**1. that the Executive:**

- (a) Notes the detail of the Business Case as outlined in this report.**
- (b) Approves the Project Governance Structure outlined in the report and detailed in the Business Case.**
- (c) Commits to funding the modelled affordability position of the residual treatment element over the period 2016 to 2041 (cost D).**
- (d) Approves the inclusion of the additional infrastructure elements as outlined in this report within the procurement subject to an affordability review and further report to Executive.**
- (e) Gives approval for the Project to move into procurement at the earliest possible date.**
- (f) Re-affirms its commitment to achieving 60% recycling/composting by 2020.**

Reason for Recommendation(s): Approval of the above recommendations will allow Central Bedfordshire to commence the procurement of the waste treatment contract at the earliest possible date.

Background

1. The BEaR Project's primary aim is to achieve landfill diversion through the delivery of a long-term waste treatment solution. As well as achieving environmental benefits this also allows CBC to achieve its future Landfill Allowance Trading Scheme (LATS) targets and minimises the impact of future increases in waste disposal costs on council budgets. In addition to this, as a secondary target, the Project Team are investigating any additional infrastructure requirements that would assist the authority in delivering its forthcoming waste strategy.
2. CBC is a high performing authority in terms of existing landfill diversion practices with over 50% of waste being diverted from landfill in 2008/09. However, modelling shows that existing schemes are insufficient to meet national targets, leaving the authority open to Landfill Allowance Trading Scheme (LATS) fines of up to £150/t in future years if a treatment solution is not delivered. A lack of locally available void space to continue land filling is also a key risk.
3. This report, along with the Business Case (Appendix B), provides a clear rationale for undertaking the Project and outlines the method of project delivery. Also included is a modelled cost of delivering a bespoke solution, thereby allowing the Executive to approve an affordability position for the Project. Approval of this position will give confidence to the market that the authority is financially committed to Project delivery.

Business Case

4. For the residual element of its waste arisings (i.e. that waste that is not segregated at the kerbside for recycling or composting), modelling has demonstrated that the authority requires a solution capable of treating approximately 60,000t of residual waste per annum. The authority will enter procurement on a "technology neutral" basis, meaning that any technology can be proposed by bidders.
5. Due to the nature of the waste treatment market and the current procurement activity in the local area, a number of contracting solutions may present themselves during the procurement. The Project Team plans to keep the procurement as open as possible to allow innovative and value for money solutions to present themselves.
6. The Project Team plan to offer a site to bidders during the procurement process. This will ensure a level playing field and encourage competition. Bidders can elect to utilise the site or propose their own alternative. The site and planning strategy are currently under review and will be finalised during the early stages of the procurement taking the emerging Waste Core Strategy in to account.
7. In addition to the residual waste treatment element, there is an option to include additional infrastructure items in to the procurement if the authority chooses to do so. The following elements have been identified for the delivery of the future CBC Waste Strategy:
 - Kitchen Waste Treatment Solution – Capable of treating up to 15,000t of locally produced and collected organic kitchen waste.
 - Household Waste Recycling Centres (HWRCs) – The Redevelopment and possible relocation of the authorities HWRC's to bring them up to date and improve performance.
 - Waste Transfer Station – To bulk and transport various waste streams to processing facilities outside the authority area (e.g. recyclable materials).
 - Highways Depot – To serve the CBC area including parking, maintenance and salt storage facilities.

8. The modelled costs of the “Reference Solution” option (as included in Exempt Appendix A) are equivalent to the costs modelled for continuing to landfill waste. It must be noted however that the transfer of risk to the contractor will be substantial and the authority will have a guaranteed waste disposal cost for the life of the contract. Real prices will not be known until the procurement is undertaken, and a key focus of the process will be the reduction in price of proposed solutions.
9. The delivery of the additional elements as part of the procurement will rely upon them offering value for money to the authority. As well as the savings delivered by running a single procurement process, additional savings could be delivered through co-locating facilities and reducing interface risk between services. The savings that could be made will be a key aspect of the procurement process. A report will be presented to Executive seeking approval of an affordability position for the additional elements ahead of the detailed stage of the procurement.
11. The Project is being delivered using the PRINCE2 methodology and has a clear defined governance structure as detailed in the Business Case. An Officer Project Board is in place, attended by Directors and Heads of Service from key areas, ensuring buy in and internal review. A Members Reference Group has also been formed, attended by the Portfolio Holder and Assistant Portfolio Holder for Safer & Stronger Communities and the Portfolio Holder for Corporate Resources.

Next Steps

13. Following approval of the revised Business Case by Central Bedfordshire Councils Executive Committee, the Project Team plans to issue a contract notice in early April. The following approximate timetable for delivery of the Project is proposed.

Timetable:

Work Stage	Target Date	
	Start	End
Sustainable Communities O&S Meeting (All Members invited)	26/03/2010	
Executive Approval of Business Case	07/04/2010	
Contract Notice Issued (OJEU)	01/05/2010	
Pre-Qualification Stage*	01/05/2010	31/07/2010
Outline Solutions Stage*	01/08/2010	28/02/2011
Detailed Solutions Stage*	01/03/2011	31/07/2011
Final Tenders Stage*	01/08/2011	31/12/2011
Preferred Bidder Stage*	01/01/2012	31/03/2012
Contract Award	01/04/2012	
Planning Application*	01/01/2012	31/03/2013
Construction	01/04/2013	30/09/2015
Commissioning	01/10/2015	31/03/2016
Operation	01/04/2016	

* Includes submission & evaluation periods

Appendices:

Appendix A – Financial Appraisal (Exempt Item)

Appendix B – Business Case

Appendix C – Glossary

Background Papers:

None

Location of Papers:

Priory House, Chicksands