

Appendix 1 – Affordability Report

1. Introduction

1.1. The purpose of this Appendix is to:

- Describe the original affordability position used as a target in the procurement process;
- Outline the BEaR Project's affordability position following the final tender submissions in order to demonstrate that the Project is unaffordable in the short term (to be read in conjunction with exempt Appendix 2);
- Outline the other pressures on the Authority's budgets contributing to the affordability issues (to be read in conjunction with exempt Appendix 2);
- Describe recent changes to Government funding that lead to supplementary concerns over the long term nature of the contract; and
- Detail the creation of the updated MTFP in order to allow the comparison of the Bids and to provide an up to date affordability position should the Executive approve the recommendation to abandon the Project and develop an alternative solution.

2. Background to Affordability Position

2.1. In April 2010 the Executive approved the initiation of the BEaR Project procurement process. In doing so the Executive also approved the upper affordability threshold for the Project at £328m (Residual Waste Treatment only).

2.2. In August 2010 the Project returned to the Executive with a detailed Business Case seeking approval of the inclusion of a number of other elements in to the scope of the Procurement including:

- Organics Waste Treatment solution;
- HWRC redevelopment and operation;
- The provision of two Salt Barns; and
- The provision of a Waste Transfer Station (WTS).

2.3. The inclusion of these additional elements saw the upper affordability threshold of the Project increase from £328m to £452m which was approved by the Executive.

2.4. Subsequent to this meeting, the need for the WTS element was reviewed and removed from the specification as it was considered that this element may not be required as part of a Bidder's solution and could impact affordability. The value of

the WTS element was therefore removed from the affordability threshold in order to drive value for money. This saw the affordability position issued to Bidders under the procurement set at £397.4m. This upper threshold was set as a pass / fail criteria under the procurement, if any Bidder was unable to deliver the suite of services defined in the specification for the full duration of the Contract within this limit they would be excluded from the procurement.

- 2.5. The number of Salt Barns required was reduced to one during the ISDS stage of the procurement as a suitable site for a second Salt Barn could not be found within an acceptable timescale which would have led to delay in the procurement.
- 2.6. Bidders were required to deliver the following elements within the affordability threshold:
 - Residual Treatment Solution – 25 year term
 - Organic Waste Treatment Solution – 15 year term
 - HWRC operation – 15 year term
 - Redevelopment of 3 existing HWRC sites & Relocation of 1 HWRC site
 - Development of one Salt Barn
- 2.7. Both of the Bidders that submitted final tenders did so with a total cost that fell well within the affordability threshold set by the Authority, therefore demonstrating savings against the original affordability position over the full term of the contract.

3. Short Term Affordability

- 3.1. When considering the short term affordability of the Project, the annual costs of the contract proposed by both Bidders that were received as part of the Final tender submissions were compared against the latest MTFP position (see section 5 for detail of the development of the updated MTFP). The comparison was based on the total costs of the services that would be delivered under the BEaR Project with the costs of the same services as projected in the MTFP.
- 3.2. The results of the comparison work undertaken have shown that in the short to medium term, the costs of the Bidders' solutions are in excess of those projected in the MTFP (Appendix 2 – Table 1), meaning that if the Authority were to award the contract to either bidder it would be subject to additional costs, above those currently budgeted in the updated MTFP during the term of the plan. These additional costs, coupled with significant pressures on the wider Authority budget as set out in Appendix 2 and described in paragraphs 3.4 and 3.5 below lead to the conclusion that the solutions are unaffordable.
- 3.3. Central Bedfordshire Council will have delivered nearly £70m of efficiencies by the end of this year in response to the current and continuing financial situation. However a headline cut of 10% to the DCLG "Departmental Expenditure Limit" (DEL) was announced in June this year and it remains to be seen how this will be shared amongst Local Authorities. The impact is likely to lead to further budget

cuts that will impact on core activities as the Council seeks to maintain services in the face of significantly reduced funding.

- 3.4. Over the term of the MTFP the Authority is subject to significant additional financial pressures in a number of areas other than Waste Services. There is also a significant loss of funding expected in 2016/17 when the Council Tax Freeze Grants are withdrawn and further financial pressures as a result of New Homes Bonus being top sliced and passported to SEMLEP. Both of these points have a significant impact on the Authority's budget.
- 3.5. Appendix 2 Table 1 clearly demonstrates that the Bidders solutions add significant additional financial pressure in the early years of the contract compared to the updated MTFP. When considered against the other pressures on the Authority during the same period that have been identified (as set out in Appendix 2 – Table 2), the additional pressures contribute to the solutions being unaffordable in the short term. The Authority cannot fund the additional costs that would be incurred.

4. Long Term Affordability

- 4.1. As stated in paragraph 2.6 above, the costs of the Project over its full term provided by Bidders demonstrate significant savings compared to the affordability threshold set for the Procurement. However, recent Government cuts and the potential impact of the Government's continued austerity programme lead to concerns over the actual long term affordability of the Project. There is currently no indication of any easing of this approach and along with DCLG having moved to an annual financial settlement, this has created uncertainty about the level of change to future Council funding. For all local authorities there is now significantly greater volatility in funding than was the case a few years ago.
- 4.2. The long term nature of the contract means that in order to protect each party, both the Council and the selected contractor are bound by certain legal obligations for the term of the contract. The longest term element of the contract, Residual Waste Treatment for 25 years, is also the most valuable and has significant penalties in place should either party fail to meet its obligations. The Authority could exit the contract through an Authority Voluntary Termination or an Authority Default Termination, both of which would lead to the Authority compensating the Contractor for its losses. Conversely if the Contractor was to Default of the contract or voluntarily terminate it too would be liable to the Authority for its losses.
- 4.3. The future uncertainty over the Authority's budget and the fact that additional austerity measures could be put in place leading to a requirement to make further cuts to services in future years is a concern. By locking in to a long term contract in its present form, the Authority would be unable to reduce services or withdraw from the contract completely without suffering significant penalty which limits its flexibility and places a risk on the Authority for this type of long term contracting.
- 4.4. As stated above the Authority has delivered efficiency savings over recent years totalling nearly £70m and is unlikely to be able to sustain further budgetary cuts without impacting core services.

5. MTFP Development

- 5.1. The MTFP has been updated in line with the budget setting process and subsequently ensures that an up to date, deliverable and realistic comparator can be used to make a fair and deliverable comparison between the Authority's future budget and the costs received from Bidders under the procurement. The updated MTFP, which is currently in the process of being approved, has been developed based on existing contract pricing for waste treatment and estimated future costs using the best knowledge available. It is considered to represent a realistic assessment of the costs of waste treatment / disposal during the term of the plan.
- 5.2. The actual costs incurred by the Authority over the term of the MTFP can only be forecast at this time, as current contracts will expire and require replacement at an unknown cost. The costs of the service are dependant on both the contract prices achieved (for any new contracts required) and the actual tonnage of waste produced by residents requiring disposal. The forecast is therefore an estimate and will be updated annually in line with the budget setting process.
- 5.3. Tonnage projections, which play an important part in determining the future costs of the service, are based on the housing growth planned for the area (as included within the Authority's published development plans) being delivered approximately to schedule.
- 5.4. The updated MTFP identifies additional pressures compared to the previous MTFP and is considered to adequately reflect the increasing costs of waste disposal being seen. As stated above, the updated MTFP has been used as the comparator to the BEaR Project bid costs and demonstrates that if the future costs of waste disposal are as forecast, lower costs could be achieved in the short to medium term than those proposed by Bidders.
- 5.5. In light of this comparison and the identification of potential savings in the early stages of the contract compared to the costs provided by Bidders, it is considered that an alternative solution could be delivered, the costs of which align more closely with the updated MTFP position, placing less pressure on Authority budgets during this difficult time.