

# Gloucestershire County Council

Residual Waste Public Private  
Partnership (PPP) Project –  
Explanatory note of financial  
information released under Freedom of  
Information (FOI)

19 December 2018



## Contents

<b>1. Purpose of this note .....</b>	<b>1</b>
<b>2. Summary of project outcomes .....</b>	<b>2</b>
<b>3. Value For money Analysis .....</b>	<b>3</b>
<b>4. Key Contract Data.....</b>	<b>5</b>
<b>5. Affordability Analysis .....</b>	<b>7</b>
<b>6. Gate Fee .....</b>	<b>8</b>



## 1. Purpose of this note

This report has been prepared to assist in the reading of the EY “Residual Waste PPP project – Value for Money and Affordability analysis” dated 5 November 2015. This report was provided to assist approval for the second contract signature.

This report also contains updates for the financial terms of the Second Contract Signature position.

It is divided into four sections:

- ▶ The Value for Money analysis based on forecast usage and the financial models provided by UBB.
- ▶ Summary of Key Contract Data including Capital Expenditure, Costs and Tonnage
- ▶ Affordability analysis
- ▶ The Costs per Tonne of processing waste (often referred to as the Gate Fee).

## 2. Summary of project outcomes

**Value for Money** - As at the 5 November 2015, the financial analysis indicated that the final proposal from UBB demonstrated a VFM position of 15.8% when compared to the Termination (Landfill Alternative) scenario.

This means it would be 15.8% cheaper to go with the EFW facility compared to Landfill scenario.

This increases to 19.9% when the Council injected a further £17m into the project. This is in addition to the contributions of £8m and £13m already committed.

**Affordability** - The Project while initially outside of base budget provision in the short term (years 1-3) moves to being affordable beyond this period. The Council has identified that it has sufficient dedicated reserves that it can manage this short term affordability issue to secure the long term Value for Money benefit.

**Real Average Gate Fee** - The Real Average Gate Fee of the project was calculated as £112.47 per tonne as at 2016. This is within the range of gate fees published by Waste & Resources Action Programme for 2016 of £65 to £144 per tonne for EFW plants.

### 3. Value for money analysis

The Council has followed HM Treasury Green Book Guidance in developing this section and tailored this to be consistent with the analysis undertaken in the September 2012 Cabinet Report and subsequent November 2015 VfM Report.

This requires that Value for Money is demonstrated using quantitative measures (i.e. the cost of the preferred solution compared to the Termination (Landfill Alternative) scenario) and qualitative measures (i.e. the benefits and risk of the preferred option which cannot be specifically quantified).

#### VFM position reported on the project

Table 1: Value for Money

Iteration	NPV Base Date	First Appraisal Period Start	Last Appraisal Period End	No. of Years	Nominal All in cost £'000	Nominal UC £'000	Nominal UC net Electricity £'000	Nominal UC net Electricity Auth. Contribution £'000	NPV £'000	% NPV vs Termination Scenario
Contract Signature 1 2013	Jun-12	Apr-16	May-40	24	450,070	466,511	399,389	409,583	202,495	
February 2013 restated for revised timeline	Jun-15	May-19	May-44	25	466,648	509,996	432,164	443,081	194,093	
Board report Dec 2015 no additional contribution	Jun-15	May-19	May-44	25	633,438	672,045	594,213	609,872	265,471	15.82%
Board Report Dec 2015	Jun-15	May 19	May 44	25	602,203	630,733	552,901	578,637	252,624	19.89%
Termination (Landfill Alternative)	Jun-15	May 19	May 44	25	713,096	n/a	n/a	n/a	315,351	n/a
Second Contract Signature Jan 2016	Jun-15	Jul 19	July 44	25	613,745	648,287	570,269	585,926	252,275	20.00%

Due to the length of delay it was not possible to easily compare the February 2013 Contract Signature Value for Money position on a like for like basis. Therefore the February 2013 Contract Signature position has been restated to provide a comparable baseline from which to understand the impact of cost movements on the project which give us the second row of data in the table above.

The adjustments required to rebase the Contract Signature position can be split into three main categories - timeline adjustments, updates to cost inputs and the cost of terminating the contract signed in February 2013 under a Force Majeure (no fault) termination scenario. This required the following:

- ▶ Extension of the appraisal period (including actual costs and revenue inputs) to cover a 25 year period of operations;
- ▶ Movement of the extended timelines to display analysis on a comparable concession period basis (i.e. as per the key dates noted above), including removal of assumptions regarding commissioning payments outside of this time period; and
- ▶ Uplifting the restated positions to adjust for the impact of indexation on Landfill payments (in relation to tonnages not taken through this Project) and National Non Domestic Rates Pass-through costs on each respective modelled period (i.e. apply model specific indexation factors based on an inflation rate of 2.0% p.a.). A consistent base date of 1 April 2019 was assumed for all iterations.

## **Conclusion**

As at the 5 November 2015 the financial analysis indicated that the final proposal from UBB demonstrated a VFM position of 15.8% when compared to the Termination (Landfill Alternative) scenario.

This means it would be 15.8% cheaper to go with the Energy from Waste facility compared to Landfill scenario.

This increases to 19.9% where the Council injected a further £17m into the project. This is in addition to the contributions of £8m and £13m already committed.



## 4. Key contract data

The following table was included in the EY report to GCC to support the preparation of the Value for Money analysis for the Board Paper to Cabinet Members in November 2015.

We have then updated this table to reflect the final position achieved at Second Contract Signature:

**Table 2: Key contract data**

Variable	Financial Close 1	V16 with Capital Contribution	Variance	Financial Close 2	Variance
Capex	£137.4m	£166.5m	£29.1m	£178.9m	£12.4m
SPC and Bid Costs	£5.2m	£20.4m	£15.2m	£19.9m	£(0.5)m
Operating Costs (unindexed per financial model)	£185.1m	£206.1m	£23.0m	£203.1m	£(3.0)m
Nominal Tonnage Payments (per financial model)	£454.6m	£584.3m	£129.7m	£601.5m	£17.2m
Contract Tonnage (Tonnes per annum)	3,431,683	3,498,453	66,770	3,503,229	4,776
Base Price per Tonne – Band 1	146.36	190.72	44.36	189.33	(1.39)
Base Price per Tonne – Band 2	15.00	16.54	1.54	16.54	0
Third Party Gate fee – 3a (£ per tonne)	43.17	80.00	36.83	62.92	(17.08)
Third Party Gate fee – 3b (£ per tonne)	43.17	46.70	3.53	62.92	16.22
Third Party Gate fee – 3c (£ per tonne)	43.17	20.00	(23.17)	62.92	42.92
Senior Debt Capital	£125.7m	£169.9m	£44.2m	£165.6m	£(4.3m)
Senior Debt Interest	£166.2m	232.3m	£66.1m	£181.0m	£(51.3m)
Gearing	77.22%	78.95%	1.73%	74.24%	(4.71%)
Libor	3.30%	3.52%	0.22%	3.42%	(0.10%)

The movements between the Cabinet paper and the Second Contract Signature positions were noted as follows:

- ▶ Construction costs increased by £12.4m. UBB included £7.4m of construction costs which were previously not included in the financial model, but funded these costs through a zero interest loan. The remaining cost increase relates to movements in the EUR:GBP exchange rate between the Cabinet submission and Second Contract Signature.
- ▶ Bid costs decreased by £0.5m on updating the RPP costs to the actual costs incurred.
- ▶ Operation costs reduced by £120k p.a. (real terms) in Operations and Maintenance expenditure (total impact over project life of £3m (nominal terms - c.£4.2m).
- ▶ The further 2 month period from the Board Paper to financial close resulted in an increase in contract tonnages assumed, which impacts the cost of treatment and electricity revenues generated from waste treatment.
- ▶ Optimisation of the financial structure to gain improved benefit from adjusting the timing of the Authority Contributions to the Project.
- ▶ UBB was unable to secure a customer for the third party waste proposal therefore reverted to the original structure of a single band 3 price.

## 5. Affordability analysis

### Affordability position reported

GCC has provided updated budgets for each year from 2020 to 2024 against which they have reviewed the Project costs to inform upon the affordability position.

The GCC budget is built up of the non-PPP costs which sit outside the Project as identified in the 2012 report and the current assumptions around the tonnage treatment costs.

The Project cost consists of the Tonnage Payment, Landfill pass through payment, NNDR payment and commissioning payments and added to these are the non-PPP costs.

Through injecting a further capital contribution of £17m funded through reserves the Project becomes affordable in 2022 and the budget headroom over the period to 2024 becomes £81k.

**Table 3: Affordability**

Nominal £'000s	19/20	20/21	21/22	22/23	23/24	5 Year Total
Forecast Budget	£20,012	£20,866	£21,665	£22,506	£23,925	108,974
Project cost	£21,445	£21,714	£21,829	£21,941	£21,964	108,893
Variance	(£1,433)	(£848)	(£164)	£565	£1,961	£81

### Conclusion

The Project while initially outside of base budget provision in the short term (years 1-3) moves to being affordable beyond this period. The Council has identified that it has sufficient dedicated reserves that it can manage this short term affordability issue to secure the long term Value for Money benefit.

## 6. Gate Fee

### The Gate Fee

The gate fee is not one figure as the tonnage (volume) has been divided into three bands, each with a different price (gate fee) (which is set by UBB). The Band 1 gate fee is the highest gate fee because it includes all the costs of building and operating the facility, including a minimum level of profit. This is sometimes called the Guaranteed Minimum Tonnage and the Council has to pay this cost even if it takes less than the Guaranteed Minimum Tonnage to the facility each year. That said with Household Waste at around 135,000 tonnes that is believed highly unlikely and in the remote event it did occur there are provisions in the contract to mitigate it.

The Contract Price was structured as follows (using 2016 Contract data): Bands 2 and 3 gate fees are lower as UBB have recovered all their fixed costs from the Band 1 gate fee. These Band 2 and 3 figures reflect UBB's commercial position.

**Table 4: Contract Signing 2 Gate fee structure**

Tonnage Band	Price per tonne £	Description
Price Band One	£189.33	Up to 108,000 tonnes
Price Band Two	£16.54	Up to the upper limit of the GCC forecast tonnage
Price Band Three	£62.92	Tonnage above GCC forecast to Maximum Capacity of the facility.

The Council has produced a waste forecast for the project (an estimate of the total tonnage of waste over the 25 year contract period). UBB has used this forecast to set its gate fees. The Council's forecast of waste, which was accepted at two planning enquiries then determines the amount of waste in the contract. This can be changed but is used as the basis upon which the long term price is calculated.

### Real Average Gate fee

These banded gate fees are misleading as they do not take account of the net income from electricity. To make this more understandable the project gate fee has been quoted as a single rate (called the real average gate fee or RAGF) as a simple way of understanding the service cost.

The real average gate fee is calculated by applying the appropriate gate fee band rate to each tonne of waste in the Council's tonnage forecast over the contract period (25 years). The calculation also includes any additional costs to UBB for managing the waste for example, landfill costs for any rejects from the facility; and subtracts the forecast net income the Council will receive from the sale of electricity.

The real average gate fee is calculated as follows:

$$\text{RAGF} = (\text{Authority Payments} - \text{Authority Income}) / \text{Contact Tonnage}$$

Note that this calculation strips out all inflation assumptions from these figures to quote the average price as per the NPV base date of June 2015

## 6.1 Comparison with other facilities

We are able to compare the cost of this facility to the wider UK waste market by using the Waste and Resource Action Programme ("WRAP") report. This report summarises a survey which covers gate fees charged to local authorities in the UK for a range of municipal waste recycling, recovery, treatment and disposal. Some commercial gate fees are also reported, which have been provided by organic waste treatment facilities. The aim of the report is to increase price transparency and, by improving the flow of information, improve efficiency in the waste management market.

The WRAP Report provides the data for EfW plants built post 2000. However it must be highlighted that these reports are good as an indicator only. The RAGF fee we have calculated is comparable with the figures in the WRAP and, whilst there are differences between individual plants, they can be attributed to issues such as the size of the facility and how risks are allocated in the contract report.

We have calculated the RAGF of £112.47 per tonne as at 2016. This is within the range of gate fees published by Waste & Resources Action Programme for 2016 of £65 to £144 per tonne for energy from waste plants.

We show below the timetable of movements in the RAGF from the signature of the first contract in 2013 to the signature of the second contract in 2016.

**Table 5: Timeline of net real average gate fees (RAGF)**

Event	Date	RAGF	Description
Financial Close 1	Feb 2013	£83.81	This was the theoretical rate based on construction starting in 2013 and the facility being operational in 2016. This included a contribution of £13m from reserves.
Contract Delay uplifted price	Jan 2015	£102.13	The Secretary of State gave Planning Approval in January 2015 at which point GCC requested a revised financial model as envisaged in the contract allowing for specific indexation rates.
Revised Project Plan	Sep 2015	£132.80	A further delay was triggered due to Stroud District Council's challenge to the Secretary of State, meaning that the contracts longstop date elapsed and the Revised Project Plan ("RPP") was triggered. resulting in UBB reviewing costs with subcontractors.
Revised Project Plan – Negotiated	Oct 2015	£123.58	3 month period of challenge and negotiations around indexation rates and reductions of preliminaries, fees, construction costs and risk. This included a contributions of £8m from reserves.
Revised Project Plan plus Contribution	Oct 2015	£110.63	Some further cost refinement and an additional £17m contribution from reserves helped to reduce the real average gate fee down to £110.63.
Financial Close 2	Jan 2016	£112.47	The increase in net real average gate fee is down to the actual funding structure, currency and interest rates at contract signature.

### **Conclusion**

The Real Average Gate Fee of the project was calculated as £112.47 per tonne as at 2016. This is within the range of gate fees published by Waste & Resources Action Programme for 2016 of £65 to £144 per tonne for energy from waste plants.