

Not for publication by virtue of para 3 of schedule 12a of the Local Government Act 1972 and the public interest in withholding the information outweighs the public interest in disclosing the information to the public.

Annex 1

Purpose

1. This Annex accompanies the budget monitoring report and members need to consider its contents when deliberating on the recommendations regarding the residual waste project. The contents of this report are considered highly commercially confidential as there is reference to UBB's financial submission.

Resource Implications

2. The contract is forecast to show savings of £153 million over its life and is affordable within the first five years of operation. Officers will seek to improve this position further where possible before the Deed of Variation is signed.
3. Following the delays to the project the comparator against which the Value for Money (VfM) is assessed has been rebased to take account of the change in end date of the in service period to 2044. The VfM assessment has been undertaken in accordance with HM Treasury Green Book guidance¹
4. This delay has had an impact on cost, both indexation costs on the UBB capital and operating costs, and additional bank financing costs given 3 years worth of additional financing is now required.
5. Recognising that the project costs have increased and that the project is paid for through revenue over 25 years, officers have explored opportunities to make a further contribution to the £13 million agreed by cabinet in 2012. By introducing a further contribution of £17 million, funded from the capital fund reserve, the nominal costs improve by £31 million, reducing the cost of bank's financing costs and the overall cost of the project to the Council. A higher capital contribution would require Council borrowing, which would need to be part of the MTFS process, which does not conclude until February 2016. Any further delays beyond December 2015 will risk further increases to the project costs and impact on bank financing, as the banks have advised that they need to achieve financial close by the end of year. From a risk management perspective using revenue reserves to reduce the burden of delay costs on the revenue budget is a prudent and value for money option for the Council.
6. There is an additional benefit to the Council of using electricity generated by the facility to supply its own infrastructure, i.e. the Council supplying its own electricity at cost, rather than buying it at a discounted market price. A further £43 million saving in nominal terms is estimated resulting in a total cost variance between the alternative option and the project cost with contribution, of £153 million (£93 million if the termination costs in paragraph 7 are excluded). Whilst the Council itself would become self sufficient in terms of energy production and consumption there would also be an option to market this electricity to other public sector bodies in Gloucestershire.

¹https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220541/green_book_complete.pdf

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7. The termination costs are estimated at £59.8m if the RPP is rejected on grounds of price. Should it be rejected for grounds other than price then this has the potential to be an Authority Voluntary Termination. It is not possible to quantify this cost in detail as it is likely to be subject to considerable negotiation and any exact quantification may harm the Council's future negotiating position. It is however estimated to be in excess of £100m.
8. Table 1 below sets out the nominal cost of the project. It shows that the project will save £153m over its life (£93m when the termination costs are deducted).

Table 1: Comparison of Contract Cost

£'000	Continue to Landfill + project termination costs	Contract Cost	Contract cost with capital contribution
Disposal Costs (Nominal)	713,096	633,438	602,203
Electricity benefit (Nominal)		(43,031)	(43,031)
Forecast costs (Nominal)		590,407	559,172
Difference (nominal)		122,689	153,924

Notes to Table 1

- Continue to Landfill plus project termination costs – This is an estimate of the cost of reverting to a landfill alternative, recognising the termination costs (£59.8 million) that would be incurred by the Council in terminating the contract signed if the RPP is rejected.
- Contract Cost – This is the cost of continuing with the UBB contract as signed between the Council and UBB in February 2013 and which has been subject to delays and rebased costs resulting from the RPP process.
- Contract cost with contribution – Contract Cost adjusted for an additional capital contribution of £17m funded from reserves.

9. In accordance with Green Book guidance, a net present value (NPV) analysis has also been undertaken to convert all costs and benefits to 'present values', so that they can be compared on a like for like basis. This calculates the present value of the differences between the streams of costs and benefits and is a key criterion for deciding whether a public sector investment can be justified. The NPV of proceeding with the contract is £80m lower than the alternative option and supports the conclusion that the project remains value for money for GCC.

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Affordability

10. When considering the affordability of the project the Council compared the existing forecast budget position extrapolated for five years against the forecast cost of the new contract and associated disposal services, in particular looking at the transition from landfill. It should be noted that the existing landfill contract with Cory will expire in August 2018, so there remains an urgent need to find an alternate for the treatment/disposal of residual waste. The affordability of the project in the first five years from 1 April 2019 compared with the budget forecast is set out in table 2 below and evidences that the project is affordable over the five year period. The strategic waste reserve will be used to smooth any individual year fluctuations, in the same way the Fire PFI reserve works.

Table 2: 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	
Project cost	21,445	21,714	21,829	21,941	21,964	
Variance	(1,433)	(848)	(164)	565	1,961	81

11. The Council is also investigating the sales of heat from the facility. In the medium term the aim would be to establish a heat network which could provide heat to industrial and domestic users around the facility. The Council was recently the recipient of a DECC grant to fund this work of £50,000 and is now procuring the heat mapping and feasibility studies to support the first phase of this work. In the short term the Council is looking to work with a local company to produce additional electricity from this heat.
12. There is an opportunity within the contract to re-finance bank debt after construction, which may generate further savings for the project.

Conclusion

13. In summary the contract is forecast to show savings of £153m over its life and is affordable within the first five years of operation. The contract remains within the affordability limit originally set by the Cabinet on 23 April 2008, which has been adjusted to reflect the latest tonnage forecast and inflation. It provides a VfM solution to the Council with certainty over service costs in the long-term. It also provides the Council with opportunities for additional cost savings from self-supply of electricity.

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