

**LEEDS CITY COUNCIL** **Appendix 8a (ii)**  
**RESIDUAL WASTE MANAGEMENT PFI PROJECT**  
**TAX ADJUSTMENTS**

**Instructions**

Only add inputs to cells shaded yellow			
No.	Worksheet	Cell	Instruction
1	Guidance	N/a	Read Key Guidance Notes
2	Summary	A1	Insert name of Client
3	Summary	A2	Insert name of Project
4	Flowchart	E11	Use drop down box and the guidance in cell F11, to determine step 2 result
5	Flowchart	G11	Provide justification for choice made at step 2
6	Flowchart	E17	Use drop down box and the guidance in cell F17 to determine step 3a result
7	Flowchart	G17	Provide justification for choice made at step 3a
8	Flowchart	E18	Use drop down box and the guidance in cell F18 to determine tax treatment
9	Flowchart	G18	Provide justification for choice made at step 3b
<b>No.s 10 - 13 only apply where capital tax treatment is selected in no.8</b>			
10	Flowchart	E24 -> E29	Use drop down boxes to select tax relief for project. <b>Note:</b> only one box can contain "Yes" the others should be set to "No"
11	Flowchart	G24	Provide justification for choice made at step 3
12	Flowchart	E34	Use drop down boxes and the guidance in cell F34 to determine step 4 result
13	Flowchart	G34	Provide justification for choice made at step 4
14	Range	E13	If D13 = "ok" then proceed to instruction No.15. If D13 = "No" then provide justification why rate is outwith suggested range.
15	Range	D23	Insert NPV of PSC capital costs
16	Range	D24	Insert NPV of PSC operating cost
17	Range	D25	Insert NPV of lifecycle costs

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**Taxation Adjustment - Key Guidance Notes**

1	The objectives of the guidance are to 1) Estimate the difference in tax liabilities between the public (PSC) and the private (PFI) financing of the same and project; and therefore to 2) Provide a better estimate of the net present cost of the PSC.
2	These worksheets contain data as contained in the Supplementary Green Book Guidance - Adjusting For Taxation in PFI vs PSC Comparisons see HM Treasury web page at; <a href="#">Green Book Guidance HM Treasury Web Page</a>
3	The flowchart requires some judgements to be made. The main considerations are set out in the guidance (column F of the Flowchart ) and in the HM Treasury Guidance.
4	The flowchart produces a factor with an accuracy of +/- 3% in most cases, which should be used as upper and lower bounds for sensitivity analysis. The range of results gives a basis from which to appraise and evaluate the PFI option against the PSC.

# LEEDS CITY COUNCIL RESIDUAL WASTE MANAGEMENT PFI PROJECT TAX ADJUSTMENT

Leeds City Council  
Residual Waste Treatment Project

Calculation of Taxation Adjustment Factor

Summary

Table 1 - Summary of Taxation Adjustment

Rate	Calculated	Sensitivity Range	
		+3.0%	-3.0%
Adjustment Factor (%)	<b>10.0%</b>	13.0%	7.0%
Total Taxation Adjustment	<b>17,247</b>	22,421	12,073

# LEEDS CITY COUNCIL      Appendix 8a (ii)

## RESIDUAL WASTE MANAGEMENT PFI PROJECT TAX ADJUSTMENT

Leeds City Council  
Residual Waste Treatment Project

### Calculation of Taxation Adjustment Factor

Range

<b>Total Taxation Adjustment</b>	<b>10%</b>
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Suggested Range of Results	2% - 10%
Compliance with suggested range	ok

Sensitivity Range	
+3%	13%
-3%	7%

<b>PSC - NPV Data</b>	
Base Data	NPV (£'000)
Capital Costs	105,175
Operating Lifecycle	62,590
Total NPV	4,707
	172,472
<b>Quantum of Adjustment to PSC</b>	
<u>Range</u>	£'000
10%	17,247
13%	22,421
7%	12,073

# LEEDS CITY COUNCIL RESIDUAL WASTE MANAGEMENT PFI PROJECT TAX ADJUSTMENT

Leeds City Council  
Residual Waste Treatment Project

Calculation of Taxation Adjustment Factor  
ADJUSTMENT FLOW CHART

Step	Step Name	Step Description	Result	Guidance	Justification
1	Starting Factor		2%	Starting factor is always 2% - equivalent to bottom of range	Provided
2	Provision of Soft Services	Extent to which project requires provision of soft services. Dependant upon the relationship of the cost of the soft services and the capital value.	2%	Nominal cost for FM services is likely to be about the same as the project capital value	Operation of plant considered as hard services.
<b>Step 3 is split into categories a) - c). Final result depends upon more than one factor</b>					
3a	Lifecycle Maintenance	Extent to which the lifecycle maintenance in the PFI scenario relates to new buildings and improvements rather than repairs	<50%	Majority of Hard FM relates to routine repairs and ongoing upgrading	Majority of Hard FM is repairs
3b	Tax treatment of project expenditure	Will the private sector supplier have a capital account approach or revenue account i.e. contract debtor, approach to the project?	Capital	Asset is capitalised on balance sheet and the facility is hired to the procurer along with the provision of maintenance services	Fixed asset approach
<b>go to step 3c</b>					
3c	Tax Relief	Is it likely that the project will qualify for tax relief on <b>51% to 100%</b> of the initial project expenditure under the <b>Industrial Buildings Allowances</b> rules?	No	Industrial Buildings Allowance is available in respect of expenditure on certain types of building. The types of building are i) general industrial buildings ii) hotels and iii) buildings in enterprise zones. A hospital, school, road, accommodation project will not qualify.	No IBA's from 2010. P&M: Experience from other EfW technologies that this is appropriate level.
		Is it likely that the project will qualify for tax relief on <b>51% to 100%</b> of the initial project expenditure under the the <b>Plant and Machinery</b> rules?	No		
		Is it likely that the project will qualify for tax relief on <b>41% to 50%</b> of the initial project expenditure under the <b>Plant and Machinery</b> rules?	Yes		
		Is it likely that the project will qualify for tax relief on <b>26% to 40%</b> of the initial project expenditure under the <b>Plant and Machinery</b> rules?	No		
		Is it likely that the project will qualify for tax relief on <b>16% to 25%</b> of the initial project expenditure under the <b>Plant and Machinery</b> rules?	No		
		Is it likely that the project will qualify for tax relief on <b>0% to 15%</b> of the initial project expenditure under the <b>Plant and Machinery</b> rules?	No		
<b>Total for Step 3</b>			4%		
4	Maturity / Risk of project sector	How risky does the private sector view the project.	2%	The private sector consider the project sector risky eg innovative project/new sector for PFI	Waste Sector is an emerging technology based market and represents more risk than more established sectors.

Total Taxation Adjustment

10%