



Waste Solution for Leeds

Residual Waste Treatment Project

**Outline Business Case to DEFRA
for PFI Credits**

November 2007

EXECUTIVE SUMMARY

1. EXECUTIVE SUMMARY

1.1 Introduction and Overview of Key Issues

Public interest in waste and recycling has never been higher. People are becoming increasingly aware of the environmental threat posed by the vast quantities of waste that we produce each year, and climate change and global warming are at the top of the political agenda. Whilst the issue of how to deal with the problem of waste presents a huge challenge to our society, the current focus on these issues represents a unique opportunity to achieve a radical change in our attitudes and habits in relation to waste.

The arguments for moving forward are compelling from both an environmental and economic point of view. Disposal to landfill is the least favourable waste management option, due to the associated greenhouse gas emissions, and moving away from landfill is a fundamental principle of the Council's Integrated Waste Strategy for Leeds 2005-35.

Leeds City Council's strategy includes targets for achieving recycling levels in excess of 50% of household waste by 2020. However, achievement of this target will still leave an estimated 180,000 tonnes of non-recycled (or residual) waste requiring some form of treatment to reduce its volume and biodegradability, and to ensure recovery of value from this material.

It is, of course, conceivable that recycling performance will exceed these targets, and the procurement strategy proposed by Leeds allows sufficient flexibility to ensure that future contracts encourage reduction and recycling performance above targeted levels.

Following approval of its Expression of Interest for PFI credits, the Council has now developed its Outline Business Case (OBC), based on the assumption that DEFRA will reserve PFI Credits of a minimum of 50% of the relevant capital investment value of the residual waste treatment project (equivalent to approximately £63 million).

In accordance with Government guidelines, the OBC has been developed around a reference technology, to enable costs to be evaluated, and around a reference site within the Council's ownership or control. The Council has now completed a major appraisal of residual waste treatment technology options and a comprehensive district-wide site selection study to identify its reference technology and site.

The OBC sets out details of the proposed procurement strategy and objectives, and the anticipated timescales for project delivery. The proposed approach to procurement, consistent with DEFRA's advice, will be that the Council adopts the principle of a neutral stance on both technology and sites, in order to encourage competition and ensure that the most environmentally sustainable solution is identified. All bids received will be evaluated on the basis of environmental, technical and commercial considerations.

The OBC has been developed to address the Defra and PRG criteria checklists for PFI credits.

Selection of a Reference Technology

This Outline Business Case is predicated on reference Energy from Waste technical solution. To arrive at this reference technology, the City Council completed an appraisal of a broad, representative range of technology solutions during 2005. Energy from Waste (EfW) emerged as the best performing option, achieving the highest ranking of all the technological solutions in terms of risk. Based upon the outcome of the appraisal, and the limited operating experience of alternative technologies at the time of the completion of the appraisal, EfW has

been selected as the reference technology for this Outline Business Case. The reference project has taken around two years to develop, and there would be significant time and resource implications to undertake a fresh appraisal. Furthermore, waste treatment technologies are evolving and a further review is not guaranteed to provide any more certainty for the City Council.

With regard to other potential treatment technologies, Mechanical Biological Treatment (MBT) is generally viewed as the main credible alternative to EfW. Three MBT options were evaluated as part of the original technology options appraisal, but at the time of appraising MBT there was significant uncertainty around the marketing of its outputs, and this represented a major risk in terms of the cost of this technology. However this technology is gaining credibility and there are indications that the market for its outputs are developing.

Whilst the Council has used EfW as its reference technology for this OBC, it is keen to ensure that the procurement process encourages the submission of a full range of technological solutions, including MBT, to come forward and to be assessed against the range of technical, environmental and economic criteria.

Selection of a Reference Site

The Council has completed a comprehensive district-wide site selection study based on national, regional and local planning guidance and criteria to identify sites suitable for the treatment of significant volumes of residual waste. This study identified a short-list of four sites:

1. Operational land within the Knostrop sewage treatment works, not in the ownership of the City Council;
2. The site adjacent to the sewage treatment beds on Pontefract Lane, also not in the ownership of the City Council;
3. The site of the former wholesale market on Pontefract Lane, which is in the ownership of the City Council;
4. The site of the former Skelton Grange power station, also not in the ownership of the City Council.

These sites have now been identified as suitable for a major waste facility within the Preferred Options stage of the Aire Valley Area Action Plan, which was approved at the Council's Executive Board meeting on 11th September 2007.

In addition to being predicated of an EfW reference technology, this Outline Business Case is also predicated on a reference site in the Council's ownership. However, as the procurement moves forward, there will be full opportunity for other sites to come forward from, or in addition to, the four sites listed above.

Managing Treatment Capacity Risk

The reference project is based upon assessments by Council officers and external advisers of the most probable scenario for waste arisings, challenging targets for recycling, and the subsequent tonnage of residual waste to be treated, estimated at approximately 180,000 tonnes per annum. Recycling performance during the life of the contract may exceed these estimates and the Council's procurement strategy will be to ensure that the contract will contain provisions to accommodate reductions in throughput into the facilities and the

opportunity for the contractor to market any subsequent spare capacity, subject to sustainability considerations. This is to ensure that the Council's residual waste management choices do not place a ceiling on the level of recycling or deter initiatives to reduce waste arisings. It is anticipated that such a scenario may prove attractive to potential bidders because the anticipated increases in landfill tax will drive commercial waste away from landfill, thus creating a demand for this treatment capacity. The Waste Development Plan Document (DPD) forming part of Leeds Local Development Framework (LDF) which has just started development will need to make provision for dealing with all of the City's waste, and this issue will have to be addressed.

1.2 Background

Profile of Leeds and Strategic Context

Leeds is the regional capital of the Yorkshire and Humber region and the second largest metropolitan authority in the UK. Leeds has a population of over 750,000 people living in around 325,000 domestic properties. Current projections show that the number of domestic properties in Leeds is expected to increase by over 30,000 by 2015/16 alone, with increasing Government targets for new housing currently being consulted upon.

The Council delivers more than 500 different local authority services to the City of Leeds and to its residents. Its population is composed of more than 75 nationalities, with around 8% from a black or minority ethnic community background, although in certain communities this rises to as high as 40%.

Over the last ten years Leeds has become one of the most vibrant and successful cities in the UK, with £2.5 billion invested in commercial property development, resulting in an increase in the number of businesses, visitors and students attracted to the City. Leeds' economic performance stands out, with high economic growth and low unemployment.

However, the prosperity that Leeds has enjoyed is not equitably distributed, with high levels of deprivation in significant areas of the City.

Analysis of Waste Arisings

Historical trends in waste growth in Leeds have seen year on year increases in overall waste arisings. However, total MSW fell between 2004/5 and 2005/6, although a small increase was registered between 2005/6 and 2006/7. Total MSW arisings in 2006/7 was 367,000 tonnes, of which household waste (excluding re-use) accounted for 338,000 tonnes.

Table 1.1 Historical MSW arisings in Leeds

Year	Total MSW Arising Tonnes	Percentage change (from previous year) %
2003/4	367,892	-
2004/5	374,429	1.78
2005/6	366,112	(2.22)
2006/7	367,210	0.3

Current Waste Management Arrangements

Leeds is a unitary authority and has a statutory responsibility for the collection and disposal of waste, operating its own in-house collection services. At present every property in Leeds has a weekly residual waste collection. Around 92% of households in Leeds currently have access to a four weekly co-mingled kerbside collection of paper, cardboard, plastics and

cans. A pilot kerbside collection of garden waste has also been introduced to approximately 20,000 properties across five areas.

Leeds City Council operates eleven household waste sorting sites (or CA sites), eight of which have now undergone major redevelopment, transforming them into model recycling centres. The Council also manages around 435 bring bank sites for glass, plastic, paper, cans, textiles shoes and tetrapaks.

Recycling and composting levels have been rising steadily for a number of years. Leeds was consistently the top recycling Core City and metropolitan authority in the UK between 2003/04 and 2005/06 and had a combined recycling and composting rate of 22.3% in 2006/07. Leeds also won the 'Recycling Target Success' award at the National Recycling Awards in 2005.

A series of waste composition studies have been commissioned by the Council over the last two years, and this data has been used to inform both the waste modelling for the OBC and the Council's future recycling strategy.

However, Leeds City Council landfilled around 77% of the 338,000 tonnes of domestic waste that it collected in 2006/07, and is committed to fundamentally addressing this situation.

1.3 Strategic Waste Management Objectives

Integrated Waste Strategy for Leeds 2005-35

The Integrated Waste Strategy for Leeds 2005-2035 was adopted by the Council's Executive Board in October 2006. This sets out the long-term strategic vision and key objectives for waste management in Leeds. The Strategy has undergone a detailed sustainability appraisal and Strategic Environmental Assessment (SEA), with the Environmental Report subject to consultation alongside the Strategy itself. The Strategy was updated in 2007 to reflect the Council's commitment to achieving a combined recycling and composting rate in excess of 50% by 2020.

The vision set out in the Waste Strategy is of an aspiration to become a *zero waste* city, where we reduce, re-use, recycle and recover value from all waste, and where waste becomes a resource.

Waste Minimisation

Reducing the historically high growth in waste provides a primary focus for the Waste Strategy for Leeds. In conjunction with its technical advisers, Jacobs UK Ltd, the Council has undertaken a detailed analysis of the projected profile of municipal waste in Leeds. The scenario selected for the purposes of modelling, and the specific target set out within the Integrated Waste Strategy for Leeds, is to reduce annual growth in household waste in Leeds to 0.5% per household by 2010 and to 0% by 2020.

This reflects recent trends in waste growth, the growing emphasis both locally and nationally on waste prevention and a growing awareness of the need to change behaviour and attitudes to waste. It takes into account the increasing pressure through legislation to reduce packaging and the increasing number of companies committing to reduce waste and packaging.

However, the number of households in Leeds is set to rise significantly over the term of a potential contract, and household growth projections are therefore based on a high housing completion trajectory for planned and windfall development.

Table 1.2 Summary forecast of MSW arisings in Leeds

Year	Total MSW arising	Percentage Change (from previous year)
	Tonnes	%
2007/08	377,534	2.81%
2009/10	390,503	1.50%
2012/13	406,622	1.40%
2014/15	416,610	1.20%
2019/20	439,693	1.03%
2037/38	505,746	0.73%

Recycling Strategy

The Council has undertaken an appraisal of a wide range of different options for increasing the range of recyclable and compostable materials collected at the kerbside, and taking into account performance, cost, environmental impact and public acceptance issues. Based on this information, the following range of optimised collection and education initiatives is proposed for Leeds.

- Garden waste collection (fortnightly)
- Glass collection (fortnightly)
- Increased frequency of co-mingled recycling kerbside collections (fortnightly)
- Food waste collection (weekly)
- Reduced frequency of residual waste collection where weekly food waste collections introduced (fortnightly)
- Increased range of plastics collected in kerbside recycling bins
- Increased range of paper and card collected in kerbside recycling bins
- Increased roll-out of kerbside recycling collections
- Enhanced participation in recycling through increased education
- Introduction of compulsory recycling

The introduction of the optimised recycling initiatives set out above is expected to enable Leeds to reach the specific target set out in the Integrated Waste Strategy for Leeds to achieve a recycling rate of beyond 50% by 2020. These proposals were agreed by the Council's Executive Board on 11th September 2007. Table 1.3 below shows how the reference project performs against national recycling targets.

Table 1.3 National and Reference Project Recycling Targets

Year	Waste Strategy for England 2007	Reference Project
	%	%
2009/10	40	33.42
2014/15	45	49.35
2019/20	50	52.06

In terms of the Council's commitment to tackling its current reliance on landfill, the Waste Strategy sets a target to achieve the recovery of value from 90% of household waste by 2020.

1.4 Procurement Strategy and Reference Project

Development of Overall Waste Solution for Leeds

The delivery of the overall Waste Solution for Leeds comprises a number of separate procurements for recycling, composting, residual waste treatment and disposal, and the development of an interim solution for landfill diversion. The Council has developed a strategy for managing the options appraisal, market sounding and tendering exercises required to deliver this complex range of interrelated procurements. The range of facilities (or capacity) required in order to deliver the overall Waste Solution for Leeds is set out in Table 1.4 below.

Table 1.4 Indicative Range of Facilities Required for Waste Solution

Type of Facility	Number of Proposed Facilities	Capacity of Facility (tonnes at 2038)	Date Facility Required
Materials Recycling Facility (MRF)	1	131,000	Currently provided through merchant capacity
Green Windrow Composting Facility	1	55,000	
Food Waste Processing Facility	1	42,000	2010
Residual Waste Treatment Facility	1	182,000	2014
Waste Transfer Facility	1	80,000	2014
Household Waste Sorting Sites	2	107,000	2011

Selection of Reference Residual Waste Treatment Technology

The OBC, however, focuses on the delivery of the residual waste treatment infrastructure required to ensure the necessary level of diversion from landfill and achievement of targets for the recovery of value from waste. Whilst the Council has now adopted a challenging long-term recycling target, its waste flow modelling has shown that achievement of this target will still leave an estimated 180,000 tonnes of residual waste for processing.

In order to address this issue, the Council has undertaken an appraisal, in conjunction with its technical and financial advisers, of a broad, representative range of technology solutions. Based on the outcome of the appraisal and the operating experience of the technologies at the time of its completion, Energy from Waste (EfW) has been identified as the preferred option to take forward to the reference project. However, it is acknowledged that some alternative technologies have gained credibility since the completion of the options appraisal, and the Council is therefore committed to ensuring that there is full opportunity for a range of solutions to come forward during procurement.

Reference Project

With Leeds being the largest metropolitan district in England by area, and given the site locations being considered for the residual waste treatment facility, a single transfer station is required. The Council believes that value for money may be improved if this transfer station is operated by the PFI Contractor. The transfer station will effectively be a gateway for the residual treatment facility with the contractor having the same obligations for receiving and diverting waste from the gate of the Transfer Station as for the treatment facility. It is acknowledged that the Council will have to finance any new or improved transfer loading facilities from its own resources, as the level of PFI Credits is limited to the residual waste treatment facility only. Table 1.5 provides a summary of the facilities included within the reference project and the associated headline capital costs.

Table 1.5 Reference Project Facilities

Facility	Waste Stream	Estimated municipal throughput	Estimated Capital Cost
Energy from Waste Facility	Residual waste	182,000 tonnes	£126.1m
Waste Transfer Facility	Recyclables and residual waste	80,000 tonnes	£1.8m

Table 1.6 provides a summary of the performance of the EfW reference project.

Table 1.6 Summary Performance of Reference Project (EfW)

Year	National Recycling Targets	Reference Project Recycling Performance	Recycled tonnage + composted	LATS allowance	Reference Project –BMW Landfilled	LATS Surplus/ (Deficit)
	%	%		Tonnes	Tonnes	Tonnes
2009/10	40	33.42	120,807	151,189	174,756	(23,567)
2013/14	-	48.40	183,845	96,383	135,574	39,191
2014/15	45	49.35	189,703	92,063	16,704	75,359
2019/20	50	52.06	211,174	70,465	17,507	52,958
2037/38	-	57.62	268,765	70,465	20,011	50,453

Proposed Scope of the Project

The contract objectives are set out in Table 1.7 below. The output specification will be developed in accordance with the guidance issued by the 4ps for waste procurements. The contract will be open to any technology, provided that it can deliver to the output specification.

Table 1.7

Contract Criteria	Anticipated Scope and Performance Indicators
Contract Structure	The contract will be a PFI procurement on the basis of an output specification that will be in accordance with the 4ps guidance. The contract will cover design, build, finance and operation of the facility.
Contract Scope	The Council will procure a contract to provide treatment of 182,000 tonnes per annum of residual municipal waste from households, kerbside and household waste sorting sites in Leeds. Bidders will have the option of managing and operating a waste transfer station.
Contract Duration	Commercial close is programmed for April 2010. The period April 2010 to March 2011 is programmed to secure the final detailed Planning approvals with Financial Close in April 2011. It is anticipated that there will be a two year construction period, followed by a further year to enable successful commissioning of the facility. Operations are programmed to commence in April 2014. The operational phase of the contract will run for 24 years and the contract will terminate on 31 st March 2038.
Recycling Performance	The operation of the facilities will not prejudice the Council's continued efforts to maximise overall recycling rates in the City. The facility will include recovery operations that contribute to the Council's recycling performance.
Flexibility to adapt to changes in waste volumes, composition, collection arrangements, regulation and legislation	<ul style="list-style-type: none"> • Facility has sufficient flexibility to accommodate reasonable variations in the growth of waste volumes; • The contractor will be responsible for cost-effective utilisation of spare capacity through third party contracts; • The process is reasonably tolerant of long-term changes in waste composition including improving waste recycling

Contract Criteria	Anticipated Scope and Performance Indicators
	performance; <ul style="list-style-type: none"><li data-bbox="667 259 1410 367">• Both parties to the contract will be able to implement improvement and initiate change through agreed change mechanisms in accordance with recent amendments to SoPC4 and response times.

It is envisaged that the technology to ultimately be delivered under the contract will deal primarily with the disposal of municipal solid waste collected from Leeds households. However, it is not intended that this should restrict the facility's ability to take third party waste on the basis that this could deliver added value for money, that is, waste could be accepted on the basis that any savings realised would be expected to reduce the cost to the Council. The ability to generate third party revenues will be assessed against considerations of sustainability.

1.5 Risk Management, Risk Allocation and Contractual Structures

Risk Management – From OBC to Service Commencement

The Project Team has developed a Project risk assessment log setting out the risks during the procurement of the Project, commencing at the development of the Outline Business Case. This risk log incorporates risks relating to delivering the wider Waste Solution for Leeds in addition to risks related exclusively to the Residual Waste Treatment Project.

Risk Allocation in the Contract

The relative risks within the contract will be set out in the Project Agreement, which will be compliant with SoPC4 and any standard waste management contract that may be developed by DEFRA, Partnerships UK and the 4ps in due course.

A summary of the main risks that it is anticipated will be covered in the Project Agreement are listed below:

- Planning, covering delays in submission of detailed plans, delays in approvals, judicial review;
- Construction, including ground conditions, any latent defects;
- Commissioning/technology risk;
- Delays to service commencement;
- Demand risk – scarce/surplus capacity;
- Unavailability and risks of poor performance – diversion to landfill risk;
- Disposal of waste residues after treatment;
- Change in Law.

The contract is programmed to reach Commercial Close in April 2010. It is estimated that it will take one further year to achieve the necessary planning approvals and Financial Close is programmed for April 2011. It is estimated that the build period will take two years to April 2013 and a further year for commissioning and to commence operations in April 2014. The contract is programmed to operate for 24 years and to terminate on 31st March 2038.

1.6 Project Team and Governance

PFI Experience

Between June 1999 and April 2007, the Council has delivered or is procuring thirteen PFI projects with a combined capital investment value of over £1bn. These comprise:

- Seven PFI Schools projects, including Wave 1 of the Government's 'Building Schools for the Future' Programme;
- A Street Lighting Infrastructure PFI Contract, to replace 80,000 street lights and illuminated signs in Leeds over a five year period;
- A Social Housing PFI Contract in Swarcliffe, in East Leeds;
- The joint procurement of two housing projects at Little London and Beeston & Holbeck
- Four further projects currently at varying stages of procurement, two of which are programmed to reach Financial Close in February and March 2008.

Two recent projects, the Leeds Street Lighting PFI and the Leeds 'Building Schools for the Future' project, which is the largest national new schools scheme, went from the issue of the OJEU notice to reach Financial Close in a record time. As a consequence of this growing expertise the City Council has been awarded Beacon status by the IDeA and two further national awards, nominated by the Private Sector, for its abilities in the procurement of complex PFI Projects.

The Council has therefore developed considerable expertise in procuring PFI schemes. The Council's PFI/PPP Programme is led by the Deputy Chief Executive, as the 'Portfolio Owner'. He is supported in this role by the Head of the City Council's Public Private Partnerships Unit (PPPU).

The Environment and Neighbourhoods Directorate is the client department for the Residual Waste Treatment Project, providing and co-ordinating service user and related client input through an established team that ensures consistency and best practice in the requirements of the project. The Director of Environment and Neighbourhoods is the Project Sponsor, and the client team will be led by a Project Director who will have overall responsibility for the project.

The PPPU has established a team within the Unit, led by an experienced Project Manager to manage the procurement of the project on behalf of the Director of Environment and Neighbourhoods.

Corporate Governance of PFI / PPP Projects in Leeds City Council

In October 2005, the Council's Executive Board approved the corporate governance arrangements for its PFI and PPP programme to ensure the successful and efficient management and delivery of schemes by establishing clear roles, responsibilities and decision making processes. The corporate governance arrangements will be used for this project, under which the Council's Executive Board approves the submission of the Outline and Final Business Cases and the delegated approval to designated officers for the Council to enter into the contract.

The Residual Waste Treatment Project Board will be responsible for the delivery of the project, with authority delegated by the Council's Executive Board to take decisions on the following procurement matters:

- Criteria for the selection of bidders;
- Initial and further selection of bidders;
- Issue of the Invitation to Participate in Dialogue (ITPD);
- Matters relating to clarifications with bidders;
- Appointment of the Preferred Bidder.

External Advisors

Specialist staff within Leeds City Council will undertake the work on this project with the support of experienced external advisers appointed under framework agreements. The advisers currently engaged are as follows:

- Technical – Jacobs UK
- Financial – PwC
- Legal – DLA Piper Ruddick (DLA)

The Council is currently re-bidding its framework agreements for legal services and financial services, with the outcomes expected to be known in late November 2007 and early December 2007 respectively. The successful advisors following this process will be selected partially based upon their expertise in the waste sector.

1.7 Sites and Planning

Planning Policy Framework

The strategy for securing sites has been developed in conjunction with DEFRA's Planning Health Framework. In summary, the policy framework for dealing with a planning application will be PPS10, the Regional Spatial Strategy, UDP Review policies and the emerging Local Development Framework (LDF) documents, particularly new policies contained in Area Action Plans. Because of the advanced stage of work on the UDP Review and a number of major area-based regeneration projects that are a Council priority, the first LDF documents to get underway in Leeds are three Area Action Plans (AAPs). National planning guidance recognises Area Action Plans as one form of Development Plan Document suitable for advancing proposals for waste management facilities. The Local Development Scheme includes production of a Waste DPD which the Council has appointed consultants to undertake. However, adoption is unlikely before mid-2010.

Site Selection and Reference Site

As a development of the Integrated Waste Strategy for Leeds, the Council has commissioned a district-wide search for site suitable for major waste management facilities, including those with the potential to accommodate a Sustainable Energy and Resource Park or Residual Waste Treatment Facility. The site search has been undertaken in full recognition of the policy background described above and the guidance given in PPS10 and its companion guide, as well as regional and local planning guidance. The methodology and the factors taken into account are described in full in the site selection report in the appendices to the OBC. From this site search it became apparent that the most promising opportunities fell within the boundary of the Aire Valley AAP.

The site selection process involved a comprehensive search of a wide range of databases and data sources to identify an initial list of sites. This data initial interrogation produced in excess of 2000 sites. These were then subject to a broad sieve resulting in a long list of 42 sites.

The assessment of these 42 sites focused on compatibility with the criteria set out within paragraphs 17-21 of PPS10.

From this assessment, seven sites were graded for more detailed evaluation of their characteristics using the following criteria taken from PPS10 and Annex E:

- The likelihood of site owners wishing to sell sites and potential acquisition costs.
- Site accessibility in terms of the capacity of the highways network.
- The potential for alternative access (i.e. by rail, canal, river etc).
- A more detailed assessment on the impact on or of surrounding land uses using the detailed criteria provided in Annex E of PPS 10.
- The potential for negative impacts on regeneration objectives and economic investment.

The results of this assessment produced a short-list of four sites, summarised in Section 1.1 of this Executive Summary. The potential suitability of the short-listed sites emerging from the site selection study has been included within the Aire Valley Area Action Plan at the Preferred Options Stage, approved by the Council's Executive Board on 11th September 2007. The Aire Valley AAP Preferred Options stage provides opportunity for key stakeholders to formally register their views on the proposals. Widespread consultation will be undertaken consistent with the Council's adopted Statement of Community Involvement.

The reference site for the project has been identified from this list of preferred options, and is in Leeds City Council's ownership. This is a 9.5 hectare vacant site, immediately north of Pontefract Lane, currently being redeveloped as part of the East Leeds Link Road. It is the site of a former wholesale market and is a flat open site. The land is partly allocated for employment in the UDP.

The three other sites short-listed are in private ownership. Acquisition of one of these sites will be pursued if it is found to be preferable to a Council owned site and can be secured by the ISOP stage of the procurement. If a privately owned site is found to be the preferred location, the Council's intention is to enter into the procurement process on the basis of the Council's own reference site and one privately owned site.

The Council has been proactive in ensuring that it is able to secure the planning policy framework to provide a robust basis for securing planning permission within the procurement timetable. The emerging Aire Valley AAP, although unlikely to have progressed to adoption, will be at an advanced stage at the time an application is submitted. The AAP process will have provided an early opportunity for engagement with the general public and other stakeholders, including key consultees. These will include the Regional Assembly and Government Office.

1.8 Costs, Budget and Finance

Section 8 of this Outline Business Case seeks to demonstrate that this Project will offer good value for money to the Public Sector, will be affordable and bankable and will meet the accounting requirements to classify as a PFI transaction.

Value for Money

The City Council has utilised HM Treasury's "Value for Money Assessment Guidance". The Qualitative Evaluation assessment was undertaken to demonstrate that PFI is an appropriate procurement route for the Residual Waste Treatment Project.

The Council has also utilised HM Treasury's Guidelines (revised in November 2006) and VFM Spreadsheet to calculate the VFM margin to the Public Sector. After this data has been input into HM Treasury Model, the resultant output shows that at the Treasury Spreadsheets Pre-Tax Equity IRR of 15%, the project offers value for money through the PFI route with a margin of 3.22%. HM Treasury Guidance also recommends that VFM be tested against a range of sensitivities to understand the impact of variables in both the assumptions used, and the calculations performed by HM Treasury Model. A summary of the results from the key sensitivities analyses are set out in Section 8.

Affordability

The revenue and affordability implications of the project are the products of the Unitary Charge payable to the Special Purpose Vehicle (SPV), partially offset by the Revenue Support Grant received from Central Government.

The calculation of the Unitary Charge is underpinned by the development of a Whole Life Cost Model (WLCM) developed by the Council's financial adviser, PwC. The Council has also made a number of cost and financing assumptions. With the assistance of its external financial adviser, PwC, the Council has developed a Shadow Bid Financial Model and has calculated that the estimated Unitary Charge to be paid to the PFI contractor in the first full year of operations in 2014/15 will amount to £20.867m.

The level of PFI Credits for this reference project has been derived according to DEFRA funding 50% of the relevant capital cost of the project. Based upon the WLCM, with initial capital and lifecycle costs estimated to be £126.1m, this will generate a level of PFI Credits of £63.05m. The annual PFI Revenue Support Grant is based upon the Department for Communities and Local Government's PFI RSG Annuity Model, which calculates the annual PFI RSG to be £4.986m per annum over the life of the Contract.

The annual estimated Affordability cash flow statement shows the annual 'affordability gap' required to be financed by the Council. The Council has undertaken its affordability analysis for this project by first calculating the estimated annual Unitary Charge and the funding available from Central Government in the form of PFI Revenue Support Grant. For this project, procured through PFI, this will leave an affordability gap in the first full year of operations of £16.191m to be financed by the Council.

Members of the Council's Executive Board approved this Outline Business Case at their meeting on 14th November 2007. This included the Council's understanding and commitment to the revenue funding implications set out in the table below.

Table 1.8 PFI Project Cash Flows

PFI Project Cash Flows	£000
Headline Nominal Unitary Charge in the first full year of operations (2014/15)	20,867
Total Unitary Charge over the life of the Contract	579,853
Client Contract Management costs	3,235
Total Costs	583,088
PFI Revenue Support Grant at FBC (£63.05m PFI Credits)	(119,235)
Net cost to be Financed by the City Council	463,853

The period between the development of the Outline Business Case, from October 2007, through to Financial Close programmed for April 2012, is, in terms of conventional PFI procurements, a long period where changes in the macro-economic climate and design could impact on both the price and the affordability of the project. A number of scenarios have been modelled to illustrate the possible impact on the Unitary Charge and these are summarised in Table 1.9 below.

Table 1.9 Sensitivity Analysis

Sensitivity	First Year Unitary Charge £000
Base Case with 15% IRR	20,867
Base Case with 17% IRR	21,957
Capital cost sensitivities:	
Minus 5%	20,162
Plus 5%	21,572
Operating cost sensitivities:	
Minus 5%	20,644
Plus 5%	21,090
Combined capital and operating cost sensitivities:	
Minus 5%	19,940
Plus 5%	21,795
Interest SWAP rate sensitivities:	
Minus 50 basis points	20,325
Plus 50 basis points	21,420

Accounting Treatment

Current regulations under the Local Government Act 2003 require that, based on proper practice, if an authority determines that the liabilities arising from the PFI transaction do not require the authority to recognise a fixed asset in the Balance Sheet, then it is not a qualifying liability and is therefore excluded from the definition of a credit agreement. Currently, the Local Authority Code of Practice defines proper practice in Application Note F to Financial Reporting Standard 5 (FRS 5) – “Reporting the substance of transactions: Private Finance Initiative and Similar Contracts” (the “Application Note”), as interpreted by Treasury Taskforce Technical Note Number 1 (Revised) – “How to Account for PFI Transactions” (the “Technical Note”).

An initial review of the relative property risks associated with the proposed PFI contract for the proposed Residual Waste Treatment PFI Project has been undertaken, and advice has been received from the Council's external financial adviser, PwC. This is expected to lead to an assessment by the Director of Resources that, based on the information and advice provided to him, and in accordance with proper practices, no liabilities will arise which will result in the Council being required to recognise a fixed asset in any balance sheet required to be prepared by the Council in accordance with such practices for the financial year in which the agreement will be entered into for the purposes of Regulation 3 of the Local Authorities (Capital Finance and Accounting (England) Regulations 2003).

The advice received by the Council from PwC is currently being reviewed by the Council's external auditor, KPMG, and their view will be forwarded on at the earliest opportunity.

Bankability

When compared with the Education Sector, PFI in waste is relatively new and not yet widely tested. However, it is becoming generally widely known that the Government's objective of increased recycling, extracting value from waste and diversion of residual waste away from landfill are high policy priorities. The Government is backing these policy objectives by providing PFI Credits to Waste Disposal Authorities to plan and ultimately enable these objectives to be met. The certainty of a market will encourage not only existing but new entrants into the waste management market. It is also expected that established financial institutions will also wish to be equity shareholders as well as providing either Senior Debt or Bond Finance. Senior Lenders in other PFI sectors are now well familiar with the standard contract terms set out in the Standardisation of PFI Contracts, through their various iterative versions through to SoPC4.

1.9 Stakeholder Communications

Public and Elected Member Engagement

On 18th October 2006, the Council's cross-party Executive Board gave approval to the revised Integrated Waste Strategy for Leeds 2005-2035, following the completion of an extensive programme of consultation over a six month period. Consultation clearly indicated strong and widespread support from the people of Leeds for the long-term proposals being put forward for waste prevention, recycling, recovery and landfill diversion.

Further to this, the Council has commissioned a programme of independent consultation exercises during Summer 2007 to elicit feedback from residents specifically on the most recent proposals for kerbside recycling collections, and on the criteria to be considered in identifying a short-list of sites for a residual waste treatment facility.

Leeds City Council also commissioned a full Scrutiny Inquiry into the Waste Solution Project by its Environment and Community Safety Scrutiny Board, which has run in parallel with the development of the Integrated Waste Strategy for Leeds and the Residual Waste Treatment Project.

Market Interest

The City Council is aware that, at the present time, market capacity is constrained and that it will need to tailor its procurement requirements to maximise competition. Key waste management companies (including fully integrated and residual technology suppliers) and large scale infrastructure companies have been approached by the Council explaining its current waste strategy and details of the procurement, including proposed timescales and

progress on sites and planning matters. Interested companies were requested to provide their views on the proposed scope of the Waste Solution, its structure and key risks. Eight of the respondents favoured inclusion of the Waste Transfer Station within the contract to minimise interface risk and to provide better value for money for the City Council.

The most recent soft market testing exercise has indicated that there is significant interest in the Private Sector to bid for this procurement. These organisations include both waste management and large scale infrastructure companies. The Council will continue to engage with and inform the market prior to the issue of the OJEU notice and will hold an 'information day' for potential bidders after the Outline Business Case has been approved.

Leeds is a large city, with no treatment facilities currently located within its boundary to deal with residual municipal waste. Due to the relatively central location of the four short-listed sites within Leeds, and the experience of the Council, and reputation it has with the Private Sector for quick and efficient delivery of large PFI Projects, Leeds City Council is confident that when the OJEU is issued, there will be substantial interest from the Private Sector to work in partnership with the Council to deliver this Project.

Other Relevant Authorities

Leeds City Council is engaged in regular dialogue with the other local authorities within the region, and is a key participant in the Waste Regional Advisory Group (WRAG). The geographical area of Leeds and that of some of its neighbours means that the provision of regional solutions would create logistical difficulties and potentially cause greater environmental impacts. However, Leeds is committed to exploring the benefits of potential regional synergies and economies of scale.

1.10 Timetable

The procurement process shown is a competitive dialogue and is linked with the planning application process, with the submission of the planning application being made by the preferred bidder once the organisation has completed the outstanding areas of the EIA unique to its bid. A financial close to the project is anticipated to coincide with the granting of planning permission by the Council, with a commercial close taking place in 2010 when negotiations are complete. Should the application be called in for determination by the Secretary of State, then financial close is expected to be linked to the ultimate granting of planning permission by the Secretary of State. The main project stages have been considered by the Council and are shown in summary in Table 1.10 below.

Table 1.10 Summary Project Timetable

Project Stages	Date
Outline Business Case (OBC) approved by Council	Oct 2007
Submission of OBC	Nov 2007
Defra Approval of OBC	Jan 2008
PRG Approval of OBC	Jan 2008
OJEU Published	Jun 2008
Descriptive Document Issued	Jun 2008
ISOS Issued	Aug 2008
ISOS Returned	Oct 2008
ISDS Issued	Dec 2008
ISDS Returned	Mar 2009
ISRS Issued	May 2009
ISRS Returned	Jul 2009
Call For Final Tenders	Sep 2009
Preferred Bidder Selected	Oct 2009
Submission of FBC	Dec 2009
Defra Approval of FBC	Feb 2010
Contract Awarded	Apr 2010
Financial Close	Apr 2011
Planning Application Submitted	Mar 2010
Operational Commencement	Apr 2014