

Residual Waste Project – Strategic Re-appraisal

Cabinet Date	16 th March 2011
Highways and Waste	Councillor Stan Waddington
Key Decision	Yes
Background Documents	To approve the business case for Residual Waste Procurement, 23 rd April 2008. Residual Waste Contract – Competitive Dialogue Evaluation Framework, 19 th November 2008. Residual Waste Project – Selection of Bidders to be Invited to submit Detailed Solutions, 12 th December 2009.
Main Consultees	Waste Project Board, Environment Scrutiny Committee, Gloucestershire Waste Partnership and stakeholders including Gloucestershire residents through the consultation exercise in summer 2008.
Planned Dates	Contract award in winter 2011.
Divisional Councillor	All
Officer	Jo Walker, Director: Environment (01452 425544; joanna.walker@gloucestershire.gov.uk)

Purpose of Report	To agree the way forward with the Residual Waste Project, following a strategic re-appraisal.
Key Recommendations	That Cabinet: 1) Approves the continuation of the current procurement following the strategic re-appraisal. 2) Approves the shortlist of two bidders to be Invited to Submit Refined Solutions (ISRS) as set out in Annex E.
Resource Implications	Resource implications remain within the resources and affordability approved by Cabinet on the 23 rd April 2008. There is an increased risk of cost in the event the project does not proceed.

Exempt Information

1. Please note that this report contains exempt information (which is printed on pink paper – Annex E – To Follow) and non-exempt information. If Cabinet wish to discuss exempt information, consideration should first be given to whether the public should be excluded from the meeting by passing the following resolution:

That in accordance with Section 100 A (4) of the Local Government Act 1972 the public be excluded from the meeting for the business specified in item no. 9 because it is likely that if members of the public were present there would be disclosure to them of exempt information as defined in paragraph 3 of Part 1 of Schedule 12 A to the Act and the public interest in withholding the information outweighs the public interest in disclosing the information to the public.

Background

2. Continuing to landfill is not environmentally or financially sustainable. Diversion of waste from landfill is essential to meet the targets for limiting the amount of biodegradable municipal waste that is landfilled. It is also essential to reduce the amount of methane gas produced. Methane is a greenhouse gas over 20 times more powerful than carbon dioxide in terms of global warming potential and landfill contributes 27% of the UK's total. In addition landfill tax, a tax imposed on any municipal waste that is landfilled, continues to rise and will reach £80/tonne by 2014.
3. In autumn 2008, the council was provisionally awarded £92m in Private Finance Initiative (PFI) credits by Defra, following the endorsement of the proposed outline business case to develop a new facility(ies) to divert residual waste from landfill. On 20th October 2010 Defra announced the withdrawal of PFI credits from seven waste projects including Gloucestershire. The reason given for the withdrawal is that Defra believes that the UK is likely to meet its EU targets for reducing the amount of biodegradable municipal waste going to landfill by 2020. Defra have subsequently confirmed in writing that at a local level the council still needs to find a sustainable solution for managing residual waste and continue to divert waste from landfill. Defra's reason for the specific withdrawal of Gloucestershire's credits relates solely to the maturity of the project (others were further advanced) and this has been confirmed in the Defra report and was not a criticism of the project.¹
4. Given the loss of PFI credits, a strategic re-appraisal has been carried out to assess whether there is still a valid need for the project and whether in the light of the withdrawal of the PFI credits the project is affordable. The detailed terms of reference for the strategic re-appraisal are attached in Annex A.

¹ Defra's report *Spending Review 2010 - Changes to Waste PFI Programme*.

Outcome of the Strategic Re-appraisal

Re-validation of the need for a residual waste treatment capacity

5. As part of the strategic re-appraisal, the forecasts of Gloucestershire's waste arisings were remodelled using Defra's growth assumptions². These were applied to the projected growth of Gloucestershire's Municipal Solid Waste³ (MSW).
6. The detailed results, based on 60% recycling by 2020 and 70% recycling by 2030, shows an annual forecast of approximately 155,000 tonnes of residual waste by 2040 (Annex B). A number of scenarios combining varying growth and recycling rates were also modelled. The various scenarios show the projected levels of residual waste in 2040 to be between 110,000 and 220,000 tonnes. On this basis the previous forecast tonnage of a nominal 150,000 tonnes by 2040 for the project was robust. We have also reviewed the Swedish Sustainable Waste Management Programme, which predicts that waste will grow at 2.2% per annum over the next 25 years. This aligns very closely with the Defra scenarios and our own modelling. We have also had discussions with Defra on the latest national waste growth trends. We are content that, in terms of waste modelling, our projections for Gloucestershire remain valid.
7. Flexibility is regarded as key in any arrangement as the council needs to be responsive to changing circumstances which could affect the predicted volume of waste. It should be noted that risk of sizing the facility(ies) lies with any contractor, with the shortfall being made up with commercial waste, including small business waste, sourced from within the county.

Stakeholder engagement and alternative solutions

8. As part of the strategic re-appraisal the council asked for the views of interest groups regarding the treatment of residual waste. In addition, the invitation to engage in this process was published on our Recycle for Gloucestershire website. A summary of the responses received is in Annex C.
9. A number of the concerns that were raised are already being addressed or are included within Gloucestershire's Joint Municipal Waste Management Strategy.
10. The Waste Core Strategy estimates that landfill has a capacity of at least 10 to 13 years based on current throughputs, however many stakeholders recognised that landfill was neither environmentally nor financially sustainable.
11. A number of stakeholders called for the council to increase recycling. Gloucestershire has increased its recycling from 24% in 2004/5 to 49% in the year to date. This represents a tremendous achievement by the people of Gloucestershire and the staff and contractors responsible for collection services and household recycling centres. The current recycling target is 60% by 2020. Gloucestershire County Council's aspiration is to achieve 70% recycling by 2030. Annex D shows an overview of how we might achieve this. We believe that this represents one of the highest targets aspired to by any council in England.

² *Ibid.*

³ *Predominantly household waste and some commercial waste that is collected by, or on behalf of, the WCAs. It also includes other wastes such as construction and demolition waste received at the Household Recycling Centres and street sweepings.*

12. Whilst some stakeholders quoted high recycling rates in other countries, unfortunately, most of these were based on a different methodology than that used in the UK. The top five highest performing European countries are averaging 60% recycling and composting when measured on a like for like basis with the UK. The council acknowledges the need for all councils to work towards the highest levels of recycling possible whilst ensuring that a quality service is provided to customers. The delivery of these services also needs to recognise the financial constraints that the public sector has to work under.
13. Concerns were also expressed about the varied collection systems across the county. These are run by local district councils. The county council, and some of the district councils, are working together to form a joint waste partnership, which will allow the councils to look at efficiency savings including assets and, ultimately, collection systems. This could include reviewing the co-mingled collection of recyclables that would require segregation within a Materials Recycling Facility and joint collection contracts, all with the aim of improving customer service, increasing recycling rates and reducing costs.
14. Some stakeholders called for the county council to take advantage of emerging technologies. A review has been carried out to ascertain if there are any new technologies which had not previously been considered. Regrettably no evidence of this was found. This conclusion is supported by the fact that 95% of the waste treatment facilities planned or under construction in the UK are either Mechanical and Biological Treatment (MBT) or Energy from Waste (EfW). It should also be noted that in advertising this contract the council was technology neutral and bidders were free to propose any viable solutions.
15. A number of responses called for the use of Anaerobic Digestion (AD), a technology that manages organic waste and recovers energy. This can only be used for the organic fraction of the waste, and preferably when it is collected separately. By April 2011 the council will be making incentive payments to four district councils to collect organic waste. Currently this waste is treated using In Vessel Composting in Gloucestershire. The council is due to renew its current organic waste contract in 2013 and is intending to work with the university sector to evaluate the potential of AD. Options being evaluated include both dispersed solutions and the potential use of biogas as a fuel.
16. There was also a call for the use of MBT using AD technology with landfill. This leaves a residue of up to 75% of the original tonnage being sent to landfill. Some stakeholders correctly recognised that this was financially unsustainable because the amount landfilled is taxed at the full landfill tax rate. Only a few stakeholders favoured an out of county solution. There is no existing available capacity in neighbouring counties and the only significant planned capacity has been the subject of a bid under the current procurement (see Annex E).
17. Health was recognised as a potential issue and the county council has appointed Professor Roy Harrison as an independent adviser to provide advice on the health issues of any type of waste treatment.
18. The council's overall objective is to push waste as far as possible up the waste management hierarchy of Reduce, Reuse, Recycle and Recover (the 4 Rs). The council has invested, and will continue to invest, in all of these areas. Whilst 'recycling' often gets the highest attention the council also recognises that the 'reduce' needs to be addressed and we welcome such initiatives as 'lightweighting' whereby the weight of containers is reduced and other initiatives to reduce packaging. The council notes that the top five European countries have an average of 60% recycling but recover 37% of their waste through thermal

treatment⁴. Like them we accept that there is a percentage of MSW, eventually around 30%, that cannot be dealt with through 'reduction, reuse and recycling' and that the most environmentally and financially responsible way of dealing with this is to 'recover' (using either MBT or EfW) with landfill only being used as a last resort.

Affordability of current bids

19. Following the withdrawal of the PFI credits the council has worked hard with the project's bidders to look at ways of reducing costs without either reducing the quality of service provided or significantly increasing the amount of risk borne by the council. The council appreciates all the bidders' efforts in rising to the challenge.
20. The council has compared the costs of continuing the current residual waste procurement with continuing to landfill. This shows that continuing to landfill, compared to options proposed by bidders in the current procurement, would cost the council around an additional £150 million over 25 years.
21. For commercial reasons we cannot disclose individual bidders' positions against the affordability as this would damage the council's competitive advantage. We can however confirm that three out of the four bidders are within the affordability envelope approved by cabinet in April 2008 and this has been verified by both Ernst and Young, the project's financial advisers.
22. The council is considering third party financing, corporate and prudential borrowing. Alternative funding options will be explored in more detail with short listed bidders if the council proceeds to the next stage. The council's aim will be to secure the best value for money whilst taking into account the level of risk and liability.

Conclusion — outcome of the strategic re-appraisal

23. The strategic re-appraisal has demonstrated that there is valid need for a residual waste treatment Facility(ies) within an overall waste strategy for Gloucestershire. It showed a broad acceptance by stakeholders that landfill is neither financially nor environmentally acceptable. Ultimately, the question is one of sustainability, deliverability and affordability. The bids demonstrate that the chosen procurement route has the potential to offer a proven, affordable and safe long term solution to the people of Gloucestershire. The following section of the report summarises the outcome of the current procurement process and the recommendation to move forward.

⁴ Eurostat 2008

Procurement

24. The council is procuring a solution to the residual waste problem using a procurement process which is specified under UK procurement law and known as competitive dialogue. This is used where the requirement is known but the solution has not been specified.
25. The county council received submissions from the Invitation to Submit Outline Solutions (ISOS) stage of the competitive dialogue process. After thorough evaluation of the ISOS solutions, four participants were invited to submit detailed solutions. These were:
 - Complete Circle (John Laing, Shanks, Keppel Seghers)
 - Cory Environmental Ltd
 - Urbaser (in association with Balfour Beatty)
 - Viridor Waste Management Ltd
26. The core technologies proposed by the shortlisted bidders were Mechanical Biological Treatment/Mechanical Treatment and Energy from Waste (incineration). All the bidders proposed Javelin Park for parts of their process, in some cases final processing would take place outside Gloucestershire.
27. Detailed solutions were submitted on 4th June 2010 and have been subject to a detailed evaluation against financial, technical (including environmental) and legal criteria. This demonstrated that overall there are robust and deliverable solutions available and that competition remains strong. Detailed dialogue with all bidders commenced in July 2010 with the objective of developing the best solution from each participant from the options proposed. Following the withdrawal of the PFI credits dialogue was re-opened and a limited re-tendering exercise carried out. The results of this exercise were re-evaluated and used to propose a short list of two bidders. The bidders and their scores are shown in Annex E.
28. Subject to Cabinet's approval of the recommendation, the solutions of the two shortlisted bidders would then be refined further and a call for final tenders would be issued by the end of July 2011. A preferred bidder would then be selected with the aim of awarding a contract in winter 2011, subject to Member approval.

Planning and permitting

29. Planning consent and Environment Agency permits would be required before any facility(ies) could be built. The council as the waste planning authority would determine the planning application unless it is called in by the Secretary of State or subject to appeal. The planning and procurement processes are kept entirely separate, with the Cabinet taking decisions on the procurement process and the Planning Committee determining the planning application. Planning decisions are made on planning grounds. They are guided by local, regional (if appropriate) and national planning policy and other material planning considerations.

Performance management

30. The key risks identified by the project are planning and affordability. Planning approval is a key risk as it could delay the introduction of any facilities at a considerable cost to the council.

Consultation

31. The process and the results of the evaluation were discussed in detail with the Waste Project Board. They supported the recommendations within this report. The recommendations will also be discussed with both the Gloucestershire Waste Partnership and Environment Scrutiny Committee.

Officers' recommendation

32. That Cabinet:

- 1) Approves the continuation of the current procurement following the strategic re-appraisal.
- 2) Approves the shortlist of two bidders to be Invited to Submit Refined Solutions (ISRS), as set out in Annex E.

Next steps

33. The selected bidders would go forward to refine their detailed solutions. Dialogue would continue until the Waste Project Board is satisfied that the detailed solutions meet the requirement and all substantive issues between the council and bidders have been resolved. The dialogue would then be closed and bidders would be called to submit final tenders. This would be evaluated using the Evaluation Framework as approved by Cabinet in November 2008 and a contract is expected to be awarded in winter 2011, subject to Member approval.

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