



Haringey Council

1.0 Introduction

- 1.1 A report on NLWA procurement process was presented to Cabinet on 14th October 2008. The information contained within the report was deemed to *relate to the financial or business affairs of any person* and therefore considered to be exempt and not for publication. However, this briefing note has been produced using information that can be used within the public domain. The briefing note will allow the public and press to have an understanding of the main points which enabled Cabinet Members to agree to the recommendations and will permit Overview & Scrutiny Members to debate the matters covered by this note in open session. Overview & Scrutiny Members will have access to the full exempt report and papers for debate in closed session (Part 2).
- 1.2 The structure of this briefing note will follow, where possible, the same format of the Cabinet report. The briefing note will address:
- the purpose of the Cabinet Report;
 - the introduction to the Cabinet Report by the Executive Member for the Environment & Conservation;
 - the recommendations as agreed by Cabinet; and
 - relevant background information on how the affordability envelope was determined and details on the second draft Statement of Principles.

2.0 Purpose

- 2.1 The main aims of the Cabinet report were:
- To highlight to date the work undertaken by NLWA in procuring a waste treatment/disposal contract. This has led to the development of an Outline Business Case (OBC), which will need to be submitted to Defra as part of a PFI procurement process by 31st October 2008.
 - by using the analysis completed by NLWA and their external technical and financial consultants to estimate each constituent boroughs contribution to the overall base cost of the project. In order to help manage the risk of modelling cost over such a long period (30 years) sensitivity analysis has been undertaken to produce an upper threshold cost. The range of increased cost between the base and upper threshold represents the Council's affordability envelope.
 - To seek agreement from the Cabinet to send a letter (attached as Appendix A) to Defra which will set out the Council's commitment to finance the project within the estimated affordability envelope.
 - To report the potential impact of these costs and the modelled scenarios should it be fully financed by council tax.
 - To note and seek agreement to the proposed draft Statement of Principles (2) as attached as Appendix B as a basis for further discussions with the NLWA.

3.0 Introduction of Cabinet Member for Environment & Conservation

- 3.1 The Cabinet Report highlighted the scale of the waste treatment/disposal contract procurement and the impact that it will have in revenue terms on the Council in the next seven years.
- 3.2 The PFI procurement process as preferred by NLWA is prescriptive in its approach with the first stage being the submission of the Outline Business Case (OBC). The selection of the PFI process is premised on its ability to deliver value for money. It is expected that NLWA and the constituent boroughs will receive an estimated £500 million in PFI revenue support over the 30 year contract period.
- 3.3 A key requirement of the OBC is for each constituent borough to send an 'affordability letter' to Defra. Whilst this letter is not legally binding it does indicate to Government that this Council is willing to make local financial decisions that are consistent with the scope and scale of this project. In order to meet the deadline for this round (4) of PFI credits the OBC must be submitted to Defra by 31st October. The Comprehensive Spending Review 2007 identified that the waste PFI 'Round 4' would be the last available round for the allocation of PFI credits of this type.
- 3.4 The urgency in agreeing to the affordability letter is self evident, however this does not mean that NLWA and the constituent boroughs are wedded to the OBC reference project solution, rather the signing of the affordability letter allows NLWA and the constituent boroughs the opportunity to fully understand the scale of PFI credits the Government is willing to award to support this project. Ultimately, it will be the private sector that will be providing outline technical solutions to meet NLWA's output specification requirements. It is envisaged that the evaluation of these outline solutions will be conducted in the summer of 2009. It is at this point that NLWA and the constituent boroughs will have better understanding of the proposed waste facilities that will actually meet the objectives of North London Joint Waste Strategy (NLJWS).
- 3.5 The Cabinet Report also sets out the details of the second draft Statement of Principles, which includes considering the pooling of recycling targets, the delivery of all recycle materials to NLWA, transferring the responsibility for the provision of Household Waste Recycling Centres to NLWA and the development of a menu pricing mechanism. These outline principals provide a platform from which NLWA and constituent boroughs can work together in a fair and equitable manner to ensure that the overall procurement project delivers value for money and achieves the objectives set out in the NLJWS. All the Statement of Principles will ultimately form the basis from which a detailed Inter Authority Agreement will be produced in December 2010/January 2011.

4.0 Recommendations

4.1 It was recommended that the Cabinet:

- note the base and upper threshold modelled whole life net nominal cost of waste treatment/disposal and waste collection for Haringey over the proposed 30 year contract period;
- agree to the draft affordability letter (attached as Appendix A);
- agree that delegated authority be given to the Leader, Chief Financial Officer and Chief Executive to finalise and sign the affordability letter on behalf of the London Borough of Haringey;
- note and agree to the second Statement of Principles (2) (attached as Appendix B); and
- agree that delegated authority be given to Leader of the Council to finalise and sign the Statement of Principles (2) on behalf of the London Borough of Haringey.

5.0 Background

5.1 Affordability Envelope

- 5.2 At its meeting on 15th July 2008 the Cabinet agreed the adoption of the North London Joint Waste Strategy (NLJWS). The strategy which is in the process of being adopted by NLWA and the seven constituent boroughs sets out a framework of how collectively these authorities will meet European and National statutory performance standards. In order to achieve these standards the constituent authorities have within the NLJWS committed themselves to meet the following recycling targets: 35% by 2010; 45% by 2015; 50% by 2020. At present the 7 North London Boroughs achieve between 25% and 30% recycling, with an average of 27% across the sub-region.
- 5.3 In order to provide a technical solution to meet these new recycling targets and reduce the amount of waste that is sent to landfill, NLWA initially completed, within the development of the NLJWS, a Strategic Environmental Assessment (SEA) of five possible technical solutions. Based on the results of this assessment further detailed in depth analysis was undertaken by technical advisors to identify a complete treatment and disposal solution that would act as a reference project.
- 5.4 NLWA's current waste disposal contract will end in 2014; therefore the procurement of the new 30 year (2012 – 2042) waste treatment and disposal contract will be key in order to deliver NLJWS objectives. NLWA has examined the possible ways forward and concluded that it should procure a contract solution involving new build and risk transfer to the private sector on key Design, Build, Finance and Operate issues. On value for money and affordability grounds the NLWA is currently anticipating pursuing the long term contract utilising the Private Finance Initiative (PFI).
- 5.5 It is estimated that pursuing a Private Finance Initiative (PFI) approach will result in a 9% reduction in risk adjusted Net Present Cost when compared to a traditional public sector procurement. However, in coming to this decision NLWA did analyse the potential benefits of financing the project through the prudential borrowing route.

NLWA' external financial advisors concluded that the potential saving on interest rates that might be made from prudential borrowing would be more than offset by the likely additional revenue support that would flow to the Authority from a PFI credit award. If NLWA is successful the award is likely to be worth between £500 million and £600 million in nominal terms over the life of the contract.

5.6 However, if the market response does not match the value for money analysis that has been modelled, other options including the use of prudential borrowing would inevitably need to be considered.

5.7 Within the PFI process one of the first key tasks is the submission of an Outline Business Case (OBC) to Defra. In order to potentially benefit from £500 million - £600 million PFI credits NLWA will need to submit its OBC by 31st October 2008. As part of the OBC submission NLWA is required to:

- compare the costs of the 'do minimum' scenario with the 'reference project' solution;
- calculate the affordability gap for both waste treatment/disposal and collection costs for NLWA and the constituent boroughs;
- complete cost sensitivity analysis on the reference project which will provide an upper limit project cost; and
- present an affordability letter from NLWA and the seven constituent authorities which sets out the base and upper limit costs (affordability envelope). This letter will give reassurance to the Government that NLWA and the constituent boroughs are prepared to make local financing decisions that are consistent with the scope and scale of the project.

5.8 NLWA formally agreed, at its meeting on 26th September 2008, for their Chair, Clerk and Finance Advisor to sign their affordability letter, which encompasses the total affordability gap for both waste treatment/disposal and waste collection costs across the seven constituent boroughs.

5.9 Draft Statement of Principles (2)

5.10 At its meeting of meeting of 17th June 2008, the Cabinet agreed to delegate authority to the Leader of the Council to sign a Memorandum of Understanding (MOU) on behalf of the London Borough of Haringey. This was duly signed by the Leader on 30th July 2008 and sent to the North London Waste Authority (NLWA). As required all seven constituent boroughs and the NLWA agreed and signed the MOU and the first statement of principle the intention to enter a Deed of Confidentiality. For information the MOU is attached to this report as Appendix C.

5.11 The purpose of the MOU is to set a framework of high level principles (not legally binding) to provide a strategic platform on how the seven constituent boroughs and NLWA will work together to procure a future waste treatment and disposal contract that will achieve the common goals as set out in North London Joint Waste Strategy. The MOU and the subsequent draft Statements of Principle will lead to the development of an Inter Authority Agreement (IAA) which will be legally binding. It is expected that the IAA will be presented to the Cabinet in December 2010/January 2011 for consideration, following NLWA finalising contract documents and completing financial closure.

5.12 The MOU will evolve over time as it leads to the development of an IAA and such changes will be recorded as a Statement of Principle. The process is set out in section 5 of the MOU. The Cabinet Report considers the adoption of the second draft Statement of Principle whereby 19 overarching principles are specified. The majority of draft Statements refer to the boroughs and NLWA working together in a fair, equitable and transparent manner; however Cabinet Members were directed to the following four areas of principle that may result, if agreed at a later date via the IAA, to changes in how the Council currently operates. The proposed principles are:

- to transfer the duty to provide Household Reuse and Recycling Centres from the Council to NLWA;
- to consider the potential impact of pooling recycling targets;
- to consider providing to NLWA all recyclate materials collected and for NLWA to arrange for the sale of these materials; and
- to review how the Council operates its waste collection services. This review waste collection services will be undertaken as part of the development and procurement of the new integrated waste management contract, which is due to commence in April 2011.

Appendices

Appendix A - Affordability Letter

Appendix B – Statement of Principles (2)

Appendix C – Memorandum of Understanding

Stephen McDonnell, Head of Environmental Resources