

Executive
17 November 2020

Title: Sherbourne Resource Park – Proposal to become a Partner Council
Lead Officer: Bill Hunt, Deputy Chief Executive; Julie Lewis, Head of Neighbourhood Services
Portfolio Holder: Cllr. Grainger, Neighbourhood Services Portfolio Holder
Public report: Yes with confidential appendices
Wards of the District directly affected: All

Contrary to the policy framework: No

Contrary to the budgetary framework: Yes – hence recommendations to Council

Key Decision: Yes

Included within the Forward Plan: Yes, ref no 1151

Equality Impact Assessment Undertaken: N/a

Consultation & Community Engagement: No

Final Decision: Yes

Accessibility checked: Yes

Officer/Councillor Approval

Officer Approval	Date	Name
Chief Executive/Deputy Chief Executive	Joint author	Bill Hunt, Deputy Chief Executive
Head of Service	Joint author	Julie Lewis
CMT	22/10/20	
Section 151 Officer	22/10/20	Mike Snow
Monitoring Officer	22/10/20	Andrew Jones
Finance	23/10/20	Dilip Dabasia
Portfolio Holder(s)	23/10/20	Cllr. Grainger

1. Summary

- 1.1 This report proposes that the Council invest in the opportunities presented by the development of a regional Materials Recycling Facility (MRF) and formally join the following local authorities as a Partner Council in the project:
- Coventry City Council (CCC)
 - Stratford District Council (SDC)
 - Rugby Borough Council (RBC)
 - Nuneaton & Bedworth Borough Council (NBBC)
 - North Warwickshire Borough Council (NWBC)
 - Solihull Metropolitan Borough Council (SMBC)
 - Walsall Council (WC)
- 1.2 Warwick District Council (WDC) currently collects c10,000 tonnes of dry mixed recyclate (DMR) materials under its waste collection contract. This is currently sorted, processed and taken to market by its contractor with their costs and with a risk premium, reflecting the risk of fluctuations in the value of the processed materials, reflected in the contract price. Under the proposals in this report the Council would in future send all of its DMR to the MRF.
- 1.3 Evidence from recent procurement exercises in Coventry and in neighbouring Warwickshire authorities has demonstrated an upward trend in the contract costs associated with material recycling. Within the current group of Partner Councils the gate fees for disposal of recyclates are above £65p/t and these costs plus the additional haulage costs of transporting waste to recycling facilities are reflected back in contract prices. Market intelligence indicates that further substantial rises are likely as the private sector continues to move the risk of reducing end market prices and the likelihood of future additional costs arising from new legislation on recycling to local authorities. It is anticipated that the removal of risk from, and the reduction of cost for the contractor resulting from the use of the MRF will reduce the future costs of the proposed new waste collection contract, which is the subject of a separate report elsewhere on the agenda.

2. Recommendations

- 2.1 That the Executive:
- 2.1.1 support the proposal to become a full Partner Council in the Sherbourne Resource Park, Materials Recycling Facility (MRF) project
 - 2.1.2 note the implications of joining the project, as set out at paragraphs 3.1.5 and 3.1.6;
 - 2.1.3 note the financial appraisal of the project proposals and the implications for this Council as set out in confidential Appendices One and Two;
 - 2.1.4 note that this Council will be required to confirm to the current Partner Councils whether or not it wishes to become a full investing partner in the project no later than 26 November 2020 and;
 - 2.1.5 note the indicative programme for the financial close of the project, contract award and the subsequent construction and fit-out periods, as set out at confidential Appendix Three.
- 2.2 That the Executive recommend to full Council that:

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- 2.2.1 budget approval be given to add the project to the Council's approved capital programme;
 - 2.2.2 a loan facility be approved of up to a maximum of £6m to be made available to Sherbourne Recycling Limited (AssetCo), that will own and operate the MRF, on appropriate commercial market terms funded from Public Works Loan Board (PWLB) borrowing;
 - 2.2.3 a one-off payment be made of up to £300,000 to the Procuring Authority during financial year 2020/21, funded from PWLB borrowing, as this Council's contribution to the development costs of the project up to financial close-down, in accordance with the terms of the Joint Working Agreement;
 - 2.2.4 a one-off payment be made of up to £100,000 during financial year 2020/21, funded from PWLB borrowing, to subscribe for ordinary shares in AssetCo and contribute cash to AssetCo in accordance with the Joint Working Agreement; and
 - 2.2.5 authority to appoint an officer as representative of the Council as a director of AssetCo be delegated from the Council to the Chief Executive, in consultation with the Leader of the Council.
- 2.3 That, subject to Council approving recommendation 2.2, the Executive approves the use of the Council's powers under Section 12 of Local Government Act 2003 and Section 1 of the Localism Act 2011 to (but not limited to):
- 2.3.1 authorise the Deputy Chief Executive (BH), in consultation with the Neighbourhood Portfolio Holder and the Leader of the Council, to negotiate, agree and enter into all relevant legal agreements and associated documents necessary to give effect to the proposal;
 - 2.3.2 acquire shares in AssetCo, (Sherbourne Recycling Limited, the wholly owned company to be established by the Partner Councils) funded by Public Works Loan Board (PWLB) loan finance as set out in Section 5 and confidential appendix Two;
 - 2.3.3 negotiate and agree a loan facility of up to a maximum of £6m to be made available to AssetCo on appropriate commercial market terms;
 - 2.3.4 negotiate and agree variations to the terms of the loan facility;
 - 2.3.5 enter into the relevant legal agreements and associated documents necessary to manage and operate AssetCo (the Shareholders Agreement);
 - 2.3.6 enter into a Waste Supply Agreement with AssetCo, committing the Council's dry material recycle tonnage for 40 years;
 - 2.3.7 agree to provide upfront funding for the project of up to £400k, as set out in confidential Appendix Two, including the one-off payment to the Procuring Authority as set out in paragraph 2.2.3 and the cash contribution to AssetCo as set out in paragraph 2.2.4, and this be included in the Capital Programme and funded from PWLB borrowing, or other appropriate funding as determined by the Head of Finance in accordance with the Council's Code of Financial Practice.
- 2.4 That, subject to Council approving recommendation 2.2, the Executive approve the signature of the Deed of Adherence to commit the Council to the Joint Working Agreement with the other Partner Councils, as set out at confidential Appendices Four and Five respectively, noting the legal advice from Warwickshire Legal Services set out at confidential Appendix Six.

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- 2.5 That, subject to full Council approving recommendation 2.2, the Executive delegate authority to the Deputy Chief Executive (BH) and Head of Finance, in consultation with the Finance Portfolio Holder to determine the level of loan to be provided to AssetCo, up to the maximum threshold of £6m.
- 2.6 That, subject to full Council approving recommendation 2.2, the Executive note the current draft of the Shareholders Agreement, set out at confidential Appendix Seven, and delegate authority to the Deputy Chief Executive (BH) and Head of Neighbourhood Services, in consultation with the Neighbourhood Portfolio Holder and Leader of the Council to finalise the Agreement prior to Contract Award.
- 2.7 That, subject to full Council approving recommendation 2.2, the Executive note the current draft of the Waste Supply Agreement, as set out at confidential Appendix Eight and delegate authority to the Deputy Chief Executive (BH) and Head of Neighbourhood Services, in consultation with the Neighbourhood Portfolio Holder and Leader of the Council to finalise the Agreement.
- 2.8 That, subject the Council approving recommendation 2.2, the Executive note that the Board of the future AssetCo will be comprised of one appropriately trained senior officer from each Partner Council and that Council has delegated authority to the Chief Executive, in consultation with the Leader of the Council to appoint this Council's representative as a Director and Board representative.
- 2.9 That the Executive agree that the Leader of the Council and the Finance and Neighbourhood Portfolio Holders will receive feedback from and provide guidance to the officer representative on the AssetCo Board, noting that where a formal Board decision is required that would impact on the partners an appropriate Executive report would be brought forward.
- 2.10 That the Executive note that oversight of, and guidance on the future operation of the MRF will also be available through the Neighbourhood Programme Advisory Board (PAB).
- 2.11 That the Executive note the potential beneficial impact of the approach proposed in recommendations 2.1 and 2.2 on the proposed joint waste contract that is the subject of a report elsewhere on this agenda, but also note that the overall financial position will not be known until the proposed waste collection tenders have been analysed in summer/autumn 2021, at which point the Council's Medium Term Financial Projections can be updated.

3. Reasons for the Recommendations

- 3.1 Recommendation 2.1
 - 3.1.1 In 2017/18 an initial feasibility study was undertaken, led by Coventry City Council (CCC), to consider the technical and economic viability of developing a MRF to serve CCC, neighbouring local authorities and commercial businesses across the region. This study indicated a positive business case, subject to more detailed information. That Business Case has subsequently been developed further and has concluded that a MRF with a capacity of processing between 120,000 and 175,000 k/tonnes per annum, with c90,000 k/t, rising to c120,000 k/t from local authorities would be commercially

viable. This base case was prepared on conservative assumptions and sensitivities have been run through the financial modelling to measure the economic and commercial considerations of additional Partner Councils and 3rd party commercial dry mixed recycle, and the benefit to each Partner Council.

- 3.1.2 In order to make the construction of the MRF financially viable and allow both risk and reward to be shared across the local government sector a formal agreement (the Joint Working Agreement) was put in place between CCC, NBBC, NWBC, RBC, SMBC and WC, who would become Partner Councils in the project, based on the principle of joint decision making, with any formal voting decision weighted on each partner's proportionate stake in the project. Each Partner Council would become a shareholder in a wholly owned arms-length company that would construct and operate the MRF, with their stake based on the principle of proportionality, represented as a percentage stakeholding equivalent to their proportion of the total tonnage of DMR to be provided to the MRF by all the partners. SDC were subsequently offered the opportunity to become a Partner Council and chose to do so in October 2019.
- 3.1.3 WDC have been offered the same opportunity to join the project as a full Partner Council but would be doing so at an advanced stage. A planning application has been submitted for the MRF on a site allocated for such a facility within the CCC Local Plan, adjacent to the existing Waste to Energy Plant at Bar Road, Coventry, and will be considered by the CCC Planning Committee on 12 November 2020. An OJEU compliant procurement exercise has been undertaken by CCC (the Procuring Authority) on behalf of the other Partner Councils, as provided by the Joint Working Agreement. To minimise risk separate packages have been procured for a Design and Build civil engineering contract and the fit-out contract and are currently subject to a competitive dialogue phase of negotiations prior to final bid submissions being made. The securing of planning consent and the final tender submission prices will allow the project to be brought to 'financial close' on 1 March 2021.
- 3.1.4 The existing partners have made it clear to WDC that a formal decision on whether the Council wishes to join the project is required by the end of November 2020 so that the necessary arrangements can be made without compromising the indicative timetable of works. The timetable has been designed to allow contract awards to be made on 1 March 2021, development to then commence, commissioning of the completed facility to begin in late 2022 and the facility to become fully operational in summer 2023. The key milestone dates in the indicative programme are set out at confidential Appendix Three.
- 3.1.5 This deadline is driven by the need for all the Partner Councils to understand and budget for their financial contribution to the project. At the financial close of the current phase of the project, the Partner Councils would be required to establish jointly an arms-length company (AssetCo) which will enter into the contracts to deliver the recycling solution, funded through loans from the partners.
- 3.1.6 In agreeing the recommendation to join the project the Council would be:

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- Committing to its share of the costs of the construction, development and operation of the MRF;
- Committing the recycling tonnage of dry material recycle (DMR) collected within its District for the next 20 years; and
- Committing to establishing, being represented on and being bound by the decisions of Assetco, who would control operation of the MRF for 40 years

3.1.7 In so doing the Council is, along with the other Partner Councils potentially committing to remain a project partner for 40 years. Once the Joint Working Agreement has been signed this Council, or any successor body, can only leave the project if:

- the gate fee for use of the MRF is calculated to exceed the agreed maximum gate fee, as specified in the Joint Working Agreement at confidential Appendix Five when the final Business Case is assessed at financial close; or
- All partners agree not to proceed with the project, prior to financial close; or
- All partners agree to dissolve AssetCo; or
- AssetCo is formally wound-up; or
- WDC's shareholding is transferred to another public sector body who takes on WDC's responsibilities under the agreements (for example, were changes to be made to the current local government structure within Warwickshire).

3.1.8 The financial business case for WDC to join the project is based on the detailed cashflow modelling set out in confidential Appendix One and the overall conclusion on project viability set out in confidential Appendix Two. This modelling is underpinned by the assumption that all DMRs from each of the Partner Councils will be committed to the Project. This guaranteed supply of materials makes the MRF cost effective, whilst leaving tonnage headroom within its handling capacity for either growth in the future needs of the Partner Councils, as recycling rates increase, or commercial growth and/or the addition of more Partner Councils.

3.1.9 This business case modelling was undertaken on our behalf by KPMG and then analysed thoroughly by our Finance team. It demonstrates that joining the project should deliver significant financial benefits to the Council.

3.1.10 Members should note that whilst the commitment to the project is potentially for 40 years (the lifespan of the MRF), the loan facility is for 20 years, mirroring the length of the Waste Supply Agreement and the contracts that Partner Councils will be entering into with AssetCo. The financing of the second 20 year period will, therefore, be a decision for the Partner Councils (or their successor bodies) to make.

3.1.11 In addition, the use of the MRF allows the Council to mitigate the known risk of the costs of recycle processing continuing to rise and this being passed on to the Council through increased waste collection contract prices were other options to be pursued. The MRF has been designed to provide a flexible solution, capable of producing high quality recycle, with built-in redundancy to evolve with future changes in waste legislation and targeted material streams. On completion it will be the most advanced facility of its type in the

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UK, placing WDC and the other Partner Councils in the advantageous position of being at the forefront of change.

3.1.12 The project also offers an opportunity to use WDC's investment power to reduce the long term cost of a key statutory service whilst potentially improving the quality of the recycling service we offer and reducing the impact of climate change.

3.2 Recommendation 2.2

3.2.1 In joining the project a decision from full Council is needed to provide the authority to add the project to the Council's capital programme and make provision to subscribe for ordinary shares in AssetCo and contribute cash to AssetCo in accordance with the Joint Working Agreement and make provision to fund the loan facility that this Council would be required to make available to the AssetCo. The provisions within this recommendation provide the necessary legal and financial approvals for this.

3.2.2 In making the decision to join the project the Council will need to make provision for payment of a share of the costs of developing the project to financial close. These costs are being shared by the existing partners, with their respective cost shares determined by the ratio of their 2018/19 DMR tonnages. In joining the project WDC would be required to pay a proportion of the 'sunk' costs of developing the project up to financial close, with the other Partner Councils share reducing proportionately. This payment would be made to the Procuring Partner, CCC, that has borne the costs of the project work to date.

3.2.3 The cost to WDC, not exceeding £300,000 is set out in confidential Appendix Two. It is proposed that this is funded through a PWLB loan.

3.2.4 The Council will also need to make provision for a one-off payment to subscribe for ordinary shares in AssetCo at the point of financial closure of the project.

3.2.5 The cost to WDC, not exceeding £100,000 is set out in confidential Appendix Two. It is proposed that this is funded through a PWLB loan

3.2.6 The appointment of representatives to outside bodies is a decision for full Council so this recommendation is to seek a delegation from full Council to the Chief Executive in consultation with the Leader.

3.3 Recommendation 2.3

3.3.1 If the Council approves recommendation 2.2, the Executive will need to exercise its powers under Section 12 of Local Government Act 2003 and Section 1 of the Localism Act 2011 to establish the AssetCo, the 'arms-length' trading company, that would be structured to accommodate both local authority and, through a Teckal compliant subsidiary company, private sector trading. The Chief Executive will need delegated authority to enter into the relevant legal agreements and associated documents.

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- 3.3.2 Additionally, as set out in paragraph 5.2 and confidential Appendix Two, the Council would need to make provision within its Capital programme for up to a maximum of £400,000 of up-front funding for the delivery of the project.
- 3.4 Recommendation 2.4
 - 3.4.1 Prior to the establishment of the AssetCo and the final decision to proceed with the project, the Partner Councils are bound by the terms of the Joint Working Agreement.
 - 3.4.2 To join the project the Council would be required to sign the Deed of Adherence set out at confidential Appendix Four which provides for WDC to be added as a signatory to the Joint Working Agreement set out at confidential Appendix Five.
 - 3.4.3 In making their decision on this recommendation Members will wish to consider the contents of the Warwickshire Legal Services advice note set out at confidential Appendix Six.
- 3.5 Recommendation 2.5
 - 3.5.1 The business case for the project, referred to in section 3.1, requires each Partner Council to make available a minimum loan provision to the AssetCo. The level of the provision required to be made by each Partner Council is based on its future shareholding stake in the AssetCo. The level of that stake is in turn derived from its proportion of the total tonnage of DMR to be provided by all the Partner Councils, based on 2018/19 actual tonnages. For WDC the percentage stake of its future proposed shareholding in the AssetCo is set out in confidential Appendix Nine and the minimum loan provision in confidential Appendix Two.
 - 3.5.2. However, Council is recommended to make a larger loan provision, of up to a maximum of £6m, available to AssetCo. This higher level of loan facility protects the Council against the impact of any price fluctuations generated by the appraisal of the final contract bid submissions on the final Business Case prior to sign off at financial close.
 - 3.5.3 It is, therefore, proposed that the final level of loan is determined under delegated authority and reported to Council as part of the February 2021 Budget Setting report
- 3.6 Recommendation 2.6
 - 3.6.1 The future governance of the AssetCo will be as set out in a future Shareholders Agreement that will be signed by all the Partner Councils prior to contract award.
 - 3.6.2 The current draft of this Agreement is attached at confidential Appendix Seven. It is proposed that the final version will be agreed under the delegated authority set out in this recommendation, with further detailed advice sought from Warwickshire Legal Services allowing comments to be fed into the drafting process as appropriate.

3.7 Recommendation 2.7

3.7.1 The Council will also need to commit to the future supply of its DMR to be directed to the MRF for the 20 year period, as set out in the Waste Supply Agreement, that will be signed by all the Partner Councils prior to contract award.

3.7.2 The current draft of this Agreement is attached at confidential Appendix Eight. It is proposed that the final version will be agreed under the delegated authority set out in this recommendation, with further detailed advice sought from Warwickshire Legal Services allowing comments to be fed into the drafting process as appropriate.

3.8 Recommendation 2.8

3.8.1 The project is being currently being managed by a Project Team, comprising officers seconded from Coventry City Council. External, independent advice on legal, financial and the technical aspects of the project has been procured from Pinsett Mason LLP, KPMG, and Wardle Armstrong respectively. The Project Team report to a Project Board, comprised of senior officer representatives from each of the Partner Councils. Since the Leadership Coordination Group indicated in-principle support for WDC to become a Partner Council, officers have been afforded observer status on the Project Board and the Finance and Legal sub-groups which are developing the Waste Supply and Partnership Agreements respectively. These governance arrangements will remain in place until financial close and the formal establishment of Sherbourne Recycling Limited, the AssetCo.

3.8.2 However, when AssetCo is established it will require new governance arrangements as explained in the section below.

3.9 Recommendation 2.9

3.9.1 The members of the AssetCo Board will be the managing directors of Sherbourne Recycling Limited and will have legal responsibilities to the Company rather than directly to their respective Councils. It will, therefore, be critical, that the WDC Board Member is aware of the political priorities of the Council so they can ensure that these are properly reflected in Board discussions.

3.9.2 Given the prominence and financial importance of the MRF to the Council and in recognition that this is first time the Council has participated in a jointly managed but wholly local government owned arms-length company, it is proposed that regular briefings are provided to the named Members by the Board Member so they can receive appropriate guidance on what outcomes this Council would seek to achieve through the operation of the AssetCo. How this is done is a member decision and alternative options to the arrangement proposed in recommendation 2.9 are considered in section 7.

3.9.3 Members should note that where a decision of the Board cannot be made under the reserved matter arrangements set out in the Shareholders Agreement a report would be presented to Executive or Council, as appropriate (and mirror reports would be taken through the governance

structures of the other Partner Councils) so the Council's views would be determined in advance of any Board decision and the Board Member requested to have regard to the decision when voting.

3.10 Recommendation 2.10

3.10.1 In addition to the proposal in the recommendation above, it is proposed that the Neighbourhood PAB would receive regular reports on both the operation of the MRF and the implementation and performance of the proposed new joint waste contract with Stratford District Council, that is the subject of a report elsewhere on the agenda, to which it is fundamentally linked.

3.10.2 The proposed reporting to the PAB should ensure backbench Members are engaged in the Council's decision-making processes and are able to see when and where their views and suggestions have shaped or influenced outcomes.

3.11 Recommendation 2.11

3.11.1 Soft market testing of the proposed joint waste contract, provides strong evidence that the removal of kerbside sorting of recyclates and the guarantee that the DMR materials will be purchased by the MRF for a set gate fee, increases the likelihood of competing and competitive bids being received through an external procurement exercise.

4. Policy Framework

4.1. Fit for the Future (FFF)

4.1.1. The Council's FFF Strategy is designed to deliver the Vision for the District of making it a Great Place to Live, Work and Visit. To that end amongst other things the FFF Strategy contains several Key projects. This report shows the way forward for implementing a significant part of one of the Council's Key projects, namely the procurement of a new Waste Collection Contract.

4.1.2. The FFF Strategy has 3 strands, People, Services and Money, and each has an external and internal element to it, the details of which can be found [on the Council's website](#). The section below illustrates the impact of this proposal if any in relation to the Council's FFF Strategy.

4.2. FFF Strands

4.2.1 External impacts of proposal(s)

People - Health, Homes, Communities – minimal/no impact

Services - Green, Clean, Safe – Collecting and processing recyclate is one of the key contributions that the Council makes towards the environmental agenda. This project will ensure there is a secure and sustainable outlet for all the current and future DMR collected under the Council's statutory waste collection responsibilities, providing better control of the materials we are able to process and the final destination of the processed material. The MRF

will be one of, if not the most technologically advanced in the UK providing for the recycling of materials not currently processed by other facilities, e.g. low-grade plastics. This provides the Council with a unique situation to promote recycling within the district, reducing carbon emissions and directly contributing to the Council's Climate Emergency Action Plan.

Money- Infrastructure, Enterprise, Employment – The project will deliver major capital infrastructure investment in the sub-region to the benefit of the local economy.

4.2.2. **Internal impacts of the proposal(s)**

People - Effective Staff – The operation of the AssetCo will provide the Council with first-hand knowledge of the operation and management of an arms-length company, allowing transferrable skills to be embedded within the organisation.

Services - Maintain or Improve Services – The MRF is a cornerstone of the proposed revised waste collection arrangements that will underpin the specification to allow a joint waste contract to be procured with SDC. The benefits of such a contract are explored in detail in a separate report elsewhere on the agenda.

Money - Firm Financial Footing over the Longer Term – Committing to the project allows the Council to drive a commercial return from its investment. The commitment to the MRF also removes a significant element of price risk from the procurement of a new waste collection contract.

4.3 **Supporting Strategies**

4.3.1. Each strand of the FFF Strategy has several supporting strategies. The proposals in this report are consistent with the principles of the Council's Capital Strategy.

4.3.2. All data handled by the project will be managed in accordance with the Council's established data management procedures.

4.3. **Changes to Existing Policies**

4.4.1. The proposals in this report do not require any changes to the Council's existing policies.

4.4. **Impact Assessments**

- 4.5.1 An Equality Impact Assessment (EIA) has not been undertaken as the proposals in this report do not impact on any service provided to residents. However, any changes to the waste collection service which may be considered in the future, for example collection of additional materials that would be supplied to the MRF, would be subject to an EIA if appropriate.

5. **Budgetary Framework**

- 5.1. The figures stated in this section are extracted from the modelling provided by KPMG, and evaluated by Council officers, as set out in confidential Appendices One and Two.
- 5.2. The Council would be required to provide two elements of upfront funding, both classed as capital expenditure and financed through a PWLB loan, estimated as not exceeding £400,000. A breakdown of these costs is shown in confidential Appendix Two.
- 5.3. The Council would also be required to pay a share of the development costs of the MRF, requiring the proposed loan facility of up to a maximum amount of £6m, also to be funded through PWLB borrowing. Details of the loan facility requirement and the Council's return on the loan made to the AssetCo are set out within confidential Appendix Two.
- 5.4. In addition to the capital funding requirements the Council will be required to pay the following revenue funded operational costs for the use of the facility, as shown in confidential Appendix One:
- Gate fees
 - Recyclate Revenue Rebate (RRR)
 - Variable Costs PassThrough
- 5.5. These costs are reflected in the MRF operating costs and would be charged to the General Fund. It is anticipated these costs should be compensated by savings on the cost of the proposed new waste collections contract that is the subject of a separate, linked report elsewhere on this agenda. As explained in paragraph 1.3, the contractor currently pays the Gate fees and the removal of this direct cost, the cost savings resulting from the cessation of kerb side DMR sorting and the removal of risk around DMR processing, is anticipated to provide significant savings in the overall contract costs.
- 5.6. In addition to the costs associated with the MRF the Council will need to purchase new recycling bins and food caddies as a consequence of changing the current waste collection arrangements, as detailed in the separate report elsewhere on the agenda. The capital cost of supplying these (including delivery) is estimated to be £1.45m which will also require funding via PWLB loan. These costs are not, of themselves, a requirement of the proposals to become a Partner Council in the MRF project but for completeness are detailed within confidential Appendix Two.
- 5.7. Taking into account all of the above, the projected net revenue costs to 2043/44 (the 20 year span of the project) is summarised in the table in

confidential Appendix Two, with further detail shown in confidential Appendix One.

- 5.8 Members should note that, as also stated in the Waste Contract Update Report elsewhere on the agenda, ahead of the recent tender process for the waste, street cleansing and grounds maintenance contracts, an additional £2m was included in the Council's Medium Term Financial Strategy (MTFS) from 2021/22 to accommodate the anticipated increased costs from these contracts. In addition, as reported to members at August 2020 Executive, a further recurring £1.863m was added to the MTFS as an allocation for an anticipated future increase in costs of waste collection as a result of the outcome of the procurement exercise and contract extension negotiations.
- 5.9 This sum, adjusted for an estimated income of £315k per annum from the sale of recyclable materials, means that the MTFS currently budgets for a net cost of £5.507m for the Council's waste collection contract.
- 5.10 The proposals within this report and the separate report on the Waste Contract are believed to present outcomes that will deliver the best net financial position to the Council when the new contract is let. However, the current revenue budget provision of £5.507m will need to accommodate the following revenue costs of both sets of recommendations in the two linked reports.
- 5.11 The following summary, included in both reports, demonstrates that the £5.707m will need to cover the following requirements:
- WDC's share of the annual cost of the new joint waste collection contract, as determined from the tender process;
 - Debt charges from the PWLB borrowing requirement for new recycling bins and food caddies;
 - Debt charges from the PWLB borrowing to cover the MRF advance costs;
 - Debt charges from the PWLB borrowing to cover the Council's loan advance, less the value of the interest received from the AssetCo;
 - MRF costs charged to the Council, notably gate fees; and
 - Subject to any use of the delegation set out in recommendation 2.7 of this report, debt charges from PWLB borrowing for vehicles and plant to be supplied to the new contractor, if this is the most financially beneficial option available to the Council.
- 5.12 Subject to the proposals in the two linked reports being approved there will be more certainty over these figures over the course of next year, as the MRF project reaches financial close in March 2021 and the outcomes of the tender returns from the waste contract procurement process are evaluated in late summer/early autumn 2021. Consequently, it is not proposed to amend the MTFS at this stage.
- 5.13 However, the feasibility work jointly commissioned by WDC and SDC to review waste collection options as set out in the separate Waste Contract Update Report and the financial modelling set out in confidential Appendices One and Two in relation to the recommendations in this report, taken

together, have concluded that the recommendations in both reports present the most financially advantageous options for the Council and provide the potential for substantial savings to be achieved against the allocated budget in due course.

6. Risks

- 6.1 The project that WDC would be joining has a well-developed Risk Register, managed and updated by the Project Team. A copy is attached at confidential Appendix Ten.
- 6.2 There are risks associated with all infrastructure projects but these have been mitigated as far as possible by prudent project planning, sensitivity analysis and conservative assumptions to test realistic worst case scenarios.
- 6.3 The long term future of the recycling market and changes in Central Government requirements relating to things such as the proposed deposit return scheme remain as risks but these cannot be avoided and are not affected by whether or not WDC chooses to proceed with this project.
- 6.4 Officers from the Project Team recently attended the annual national conference of MRF operators and their feedback as to how the industry level risks are mitigated through this project is summarised below:

Key industry level theme/risk	How the MRF mitigates risk
Introduction of industry wide legislation on Deposit Return Scheme (DRS) and Extended Producer Responsibility (EPR) in a new Environment Bill: <ul style="list-style-type: none"> • Anticipation of additional reporting and measuring, likely to be placed with MRF operators • Participation challenge 	<ul style="list-style-type: none"> • Oversized building for maximum flexibility to future the MRF and allow operations to evolve over time/meet demand needs • Ability to accept and process single stream material to accommodate DRS • Automated solutions being presented by bidders, with less reliance within all bids on manual pickers to achieve high quality standards, including automated sampling solutions • Robotics a common theme across all the bids • Bid solutions demonstrate capacity of MRF to process more, future proofing the site, with adaptability to slow down processes to improve quality • Ability to further separate out material streams to target new and emerging markets • Fit out specification already includes plastic film (not currently recyclable within the region)
Automation: <ul style="list-style-type: none"> • Higher levels required to solve risk of work force (pickers) availability, already decreasing but expected to get worse as a result of Brexit • Increased demand for reporting associated with DRS and EPR • Increasing demand for robotics and AI 	
Size: <ul style="list-style-type: none"> • Bigger is better • Resilience and adaptability to changing markets and introduction of new material streams 	
Renewed focus on recycling of low grade flexible plastics: <ul style="list-style-type: none"> • 2023 likely target for inclusion in collection targets 	

- 6.5 Whilst this feedback has provided significant reassurance to the Partner Councils, the Project Board approved the commissioning of third party advice

on a position statement for the MRF development against current market intelligence to inform the development of the final Business Case.

- 6.6 It is also worth highlighting that the Council is required to assess any long-term liabilities arising from loans, such as that proposed in recommendation 2.2, for Expected Credit Loss (ECL), i.e. the likelihood that some or all of the funds may not be repaid in full or when expected. It has been assumed in the modelling undertaken that AssetCo will have a secure and steady stream of income from the constituent partner local authorities and would generate sufficient income to be able to repay all future liabilities to this Council and, therefore no ECL provision has been included on the basis of the risk level being so low.

7. Alternative Options considered

- 7.1 The option of not becoming a Partner Council in the MRF project is not recommended as it would deliver none of the benefits set out in this report, expose the Council to the financial risks arising from either placing the responsibility for making suitable alternative arrangements for DMR processing on the waste collection contractor or taking on that direct responsibility and would effectively mean that the proposed joint waste contract with SDC could not be progressed without the risk of higher prices being loaded into tender returns and/or no contractors submitting a tender as there was not unanimity of recycle processing arrangements over the whole geography covered by the contract.
- 7.2 The option of deferring a decision to allow the Council to request further information is not recommended given the time constraints for decision making as set out in paragraphs 3.1.4 and 3.1.5. However, the Council would be joining a well-established project, nearing financial close so the range of information available to allow the evaluations underpinning the recommendations is considerable and sufficient to allow an informed decision to be made.
- 7.3 As highlighted in section 3.9, alternative options are available to provide guidance to the Council's Board representative on AssetCo, for example, replacing the recommended three named members with a group of alternative membership or dispensing with the arrangement entirely and leaving this function to the Neighbourhood PAB. These are not recommended because of the prominence and financial importance of the MRF to the Council.

List of Confidential Appendices

- Appendix One – Capital Financing and Cash flow modelling
- Appendix Two – Financial Summary
- Appendix Three – indicative project delivery timetable
- Appendix Four – Deed of Adherence
- Appendix Five – Joint Working Agreement
- Appendix Six – Warwickshire Legal Services Advice Note
- Appendix Seven - Draft Shareholders Agreement
- Appendix Eight – Draft Waste Supply Agreement
- Appendix Nine – proposed Partner Council shareholdings
- Appendix Ten – current Project Board Risk Register