Gloucestershire County Council

Residual Waste PPP Project – Value for Money and Affordability Analysis

5 November 2015

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5 November 2015

Ian Mawsdley
Project Director
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Dear Ian

Residual Waste PPP Project ("the Project") – Value for Money and Affordability Analysis

In accordance with recent discussions between the EY team and yourself we have prepared our report to set out the Value for Money (using the quantitative aspects of the Treasury Green Book methodology and the approach taken in the September 2012 Cabinet Report) and Affordability of the proposed waste PPP contract that Gloucestershire County Council ("GCC" or "the Council") plans to enter into with Urbaser Balfour Beatty ("UBB").

Purpose of our report and restrictions on its use

This report was prepared on your instructions solely for the purpose of determining the Value for Money of the proposed contract with UBB. It should not be relied upon for any other purpose.

Our report assumes a high degree of familiarity with the Council's Waste PPP contract with UBB and was not written with the intention that it be disclosed to third parties. Because others may seek to use it for different purposes, this report should not be quoted, referred to or shown to any other parties unless so required by court order or a regulatory authority, without our prior consent in writing. In carrying out our work and preparing our report, we have worked solely on the instructions of the Council and for the Council's purposes.

Our report may not have considered issues relevant to any third parties. Any use such third parties may choose to make of our report is entirely at their own risk and we shall have no responsibility whatsoever in relation to any such use. This paper should not be provided to any third parties without our prior approval and without them recognising in writing that we assume no responsibility or liability whatsoever to them.

Our work has been limited in scope and time and we stress that a more detailed review may reveal material issues that this review has not.

Scope of our work

You required us to provide you with financial advisory services in respect of the Value for Money of the Revised Project Plan proposed by UBB. As such we have:

- Summarised and reviewed in detail 'Annex 4' - September 2012 Cabinet Report and the detailed working papers

- Reviewed the UBB financial models developed by Grant Thornton ("GT") and submitted on 16 October 2015;
- Undertaken a quantitative assessment of the Net Present Cost and Affordability of the scenarios set out in the GT models and compared to the Council internal 'Landfill Alternative' comparator in line with methodology undertaken for the September 2012 Cabinet Report. This has included restating the comparatives to reflect the revised timelines associated with this Project.
- Compared the cost of the Project with the Affordability envelope provided by the Council.

In undertaking our work, we have held discussions with the Council and UBB. In particular we have jointly considered the expected timeline and the contract mechanisms for calculating the impact of delay events on the uplift of the Project costs and the methodology to be applied in the UBB models prepared by GT to reflect such costs in the unitary charge. These discussions are reflected in the analysis below.

In respect of any Capital Contributions provided by the Council, we understand that the Council's legal advisor, Eversheds, has separately provided advice on the following legal issues:

- Vires
- State Aid
- Documentation changes
- Procurement risks including risk of challenge

We understand that Eversheds has reported on these matters separately therefore the final decisions on Value for Money should be considered based on the advice provided from both reports.

If you receive any request under the Freedom of Information Act 2000 for disclosure of any information which includes information provided by us to you, please notify us upon receipt of such request and prior to any such disclosure.

If you would like to clarify any aspect of this review or discuss other related matters then please do not hesitate to contact us.

Yours sincerely

Ernst & Young LLP

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1. Executive Summary

1.1 Value for Money

On 22 February 2013, Gloucestershire County Council achieved financial and commercial close with its waste PPP contractor, UBB. However, the planning permission application associated with the Project was rejected by the Council's planning committee and was then subsequently called in by the Secretary of State for Communities and Local Government ("the SoS")

The Project subsequently received planning approval from the SoS in January 2015 which became a Satisfactory Planning Permission in June 2015 when the Judicial Review challenge by Stroud District Council was thrown out. The extensive delays in achieving the required planning permissions meant that the parties to the Project needed to enter into a Revised Project Plan ("RPP"), including a re-pricing exercise for both the capex and the operating costs.

The purpose of this report is to consider the Value for Money and Affordability of the latest offer from UBB. Given the length of time since the initial financial close and the associated delays to the Project there has been the need to rebase a number of the comparators against which the Value for Money is assessed.

The table below sets out the nominal costs and NPVs of the current Project options which are being considered. The options are described as follows:

Table 1:Nominal Costs and NPVs of the current Project options

Iteration	NPV Base Date	First Appraisal Period Start	Last Appraisal Period End	No. of Years	Nominal All in cost	NPV	% NPV vs Termination Scenario
Base Case	June 15	May 19	May 44	25	633,438	265,471	15.8%
Base Case with capital cont	June 15	May 19	May 44	25	602,203	252,624	19.8%
Termination (Landfill Alternative)	June 15	May 19	May 44	25	713,096	315,351	n/a

- Base Case – UBB base case model, this is the cost of continuing with the UBB contract which was signed between the Council and UBB in February 2013 and which has been subject to delays and rebased costs resulting from the RPP process. This case is inclusive of the £8m of revenue funding which has been approved to cover costs incurred during the delay period which are currently being carried by UBB.
- Base Case with capital cont – UBB Base Case adjusted for an additional Council capital contribution of £17m funded from reserves.
- Termination (Landfill Alternative) – This is an estimate of the cost of reverting to a landfill alternative, recognising the termination costs that would be incurred by the Council in terminating the contract signed in February for a Force Majeure Planning Failure event.

Termination costs are estimated at £59.8m for a Force Majeure Planning Failure Termination. Should the facts of the termination fail to meet the definition of Force Majeure Planning Failure then the other option for the Council would be an Authority Voluntary Termination. We have not calculated the cost of this in detail but would anticipate a sum in excess of £100m.

The most recent proposal from UBB demonstrates a VFM position of 15.8% when compared to the Termination (Landfill Alternative) scenario. This increases to 19.8% where the Council inject a further £17m into the Project above the contributions of £8m and £13m currently committed.

1.2 Affordability

The following table sets out the affordability position of the UBB Project options.

Table 2: Affordability of the UBB Project options

	2020	2021	2022	2023	2024	total
Council Budget (£'000)	20,011	20,866	21,665	22,506	23,925	
Base Case (£'000)	23,053	23,010	22,678	22,473	22,437	
Under / (Overspend)	(3,041)	(2,144)	(1,013)	33	1,488	(4,678)
Base Case with Capital Cont (£'000)	21,659	21,426	21,089	20,880	20,838	
Under / (Overspend)	(1,647)	(560)	576	1,626	3,087	3,081

The analysis identifies that without the additional capital contribution the Project is in breach of the Council's affordability limit until 2023 but thereafter falls inside the affordability limit as a result of the lower exposure of the gatefee to indexation than landfill. The total variance in excess of the budget over this period is £4,678k.

Through injecting a further capital contribution of £17m funded through reserves the Project becomes affordable in 2022 and the budget headroom over the period to 2024 becomes £3,081k.