Nuneaton & Bedworth
United to Achieve

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Date: 5th September, 2019

Dear Sir/Madam,

Council – 11th September, 2019

I refer to item no. 11 on the Agenda for the meeting of Council on Wednesday 11th September, 2019 and attach the Sub-Regional Materials Recycling Facility report which was marked ‘to follow’ on the agenda.

Yours faithfully,

BRENT DAVIS

Executive Director

To: Members of the Council

AGENDA ITEM NO 11.

NUNEATON AND BEDWORTH BOROUGH COUNCIL

Report to: Council – 11th September 2019

From: Executive Director– Operations and Executive Director - Resources

Subject: Sub-Regional Materials Recycling Facility

Portfolio: Finance and Civic Affairs [Councillor J. A Jackson] and Central Services and Refuse [Councillor J Sheppard]

Delivering our Future Theme: 1, 2 and 3

Delivering our Future Priority: 1.4, 2.2, 3.2, 3.3 and 3.4

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1. Purpose of Report

1.1 This report seeks Council's approval for Nuneaton and Bedworth Borough Council to invest revenue and capital monies in a project to build and operate a local authority owned and operated Materials Recycling Facility [MRF] located in Coventry and designed to process recyclable material collected from across the sub-region and beyond.

2. Recommendations

2.1 That the Borough Council's capital programme and treasury management strategy be appropriately amended, as set out in Appendices 1a and 1b, to allow a capital loan of up to £3.3m to be made and up to £96,000 of shares in the Local Authority owned MRF operating company to be purchased to allow the new MRF to be built and become operational.

3. Background

3.1 The collection of dry recycling materials at the kerbside is a statutory service. In order to actually get the materials it collects at the kerbside recycled, the Borough Council [along with other collection authorities in Warwickshire, the wider sub region and indeed the West Midlands as a whole] currently has to pass the materials on to a third party for reprocessing at a "Materials Recycling Facility" [MRF].

3.2 Following a procurement exercise that took place in 2018, Nuneaton and Bedworth’s recyclable materials are currently reprocessed by a company called H W Martin. As part of these arrangements, the collected materials are delivered to a waste transfer facility on the A5 and from there they are “bulked up” and transported to H W Martin’s plant in Yorkshire.

3.3 Our contract with HW Martin commenced in the middle of October 2018 and runs for a period of 3 years with an option to extend it for a further 2 years [1 year + 1 year]

3.4 In recent years there has been significant volatility in the recycling markets as a result of changes to the ways in which MRFs operate; increasingly stringent quality requirements; macro economic factors and China’s decision last year to severely restrict imported waste for recycling. This has led to the value of recyclable materials falling across the board, albeit with up and downs in that overall downward direction. This in turn has led to an increase in the “gate fee” per tonne that councils, including ourselves, have to pay to get the materials we collect processed.

3.5 In order to try to address the uncertainty and increasingly high costs which local authorities face when contracting with MRF operators, councils across the Coventry, Solihull and Warwickshire sub-region have been exploring the possibility of establishing their own “public sector owned and operated” MRF next to the Waste to Energy Plant at Whitley in Coventry. This work has been, and continues to be, led by Coventry on behalf of the local Councils.

3.6 Cabinet considered confidential reports on the project to deliver a local authority owned and operated MRF within the Coventry, Solihull & Warwickshire area at their meetings of 10th April, 2019 and 4th September 2019.

3.7 Arising from consideration of the report at their 10th April 2019 meeting Cabinet resolved:

- That the Borough Council commits to becoming a Partner Council in the proposed new local authority owned and operated Sub Regional MRF on the terms outlined in Section 4 and set out in more detail in Appendix 1 of this report.

- That a virement of £100,000 be approved in the Central Services and Refuse Portfolio to contribute to the MRF Feasibility Fund to secure Partner Council status, funded from the Council’s Invest to Save earmarked reserve. .

- That due to the need to be able to formally confirm as quickly as possible to Coventry City Council and other Partner Councils the

Borough Council’s decision to become a Partner Council in the in the new Sub Regional MRF this matter be marked “not for call in”.

3.8 Arising from consideration of the report at their 4th September 2019 meeting Cabinet resolved:

- That the Borough Council continues to be a Partner Council in the new local authority owned and operated Sub Regional Materials Recycling Facility [MRF] as outlined in this report and set out in more detail in the final draft version of “Joint Working Agreement 2” attached at Appendix 1 of this report.

- That a total revenue contribution of £275,000 be approved for feasibility works, of which approximately £138,000 is anticipated to be required in 2019/20 and will be funded from earmarked reserves.

- A capital loan of up to £3.3m and the purchase of up to £96,000 of shares in the Local Authority owned MRF operating company be approved to allow the new MRF to be built and become operational.

- That it be recommend to Council that the Borough Council’s capital programme and treasury management strategy be appropriately amended, as set out in Appendices 4a and 4b, to allow a capital loan of up to £3.3m to be made and up to £96,000 of shares in the Local Authority owned MRF operating company to be purchased to allow the new MRF to be built and become operational.

- That in order to allow the formal joint procurement process for the construction and operation of the Sub Regional MRF to commence as soon as possible this report be marked “not for call in”.

4. Current Position

4.1 The outcome of the various work that has been taking place is that the business case for building and a running a MRF in Coventry has become stronger and more compelling.

4.2 At the moment there are six Stage 1 Partner Councils [listed below], including the Borough Council, that have indicated that they wish to become Stage 2 Partner Councils.

- Coventry City Council
- Solihull MBC
- Walsall MBC
- Nuneaton and Bedworth BC
- North Warwickshire BC
- Rugby BC

4.3 Two other councils are considering whether they wish to become Stage 2 Partner Councils. It is the view of officers from the six current Partner Councils that on balance it would be beneficial for one or both of these councils to become Partner Councils as the increased feedstock that they would put through the MRF would bring even more certainty of operational costs being consistently met, while still allowing for some capacity to be available to try and attract commercial recycling customers to generate additional income. Having said this, it is recognised that there are also some downsides to either or both becoming Partner Councils since increasing the number of Partner Councils will reduce the relative size of the voting rights and investment opportunities for the current Partner Councils compared to the situation that the status quo will offer going forward.

5. Stage 2 Partnership Arrangements

5.1 The proposed arrangements to allow the Stage 2 Partner Councils to be able to work together to procure and build the MRF were set out in the final draft version of "Joint Working Agreement 2" that formed part of the confidential report to be considered by Cabinet at their meeting of 4th September 2019. JWA2 covers, among other things, the following key areas:

- Roles of the Partner Councils
- Decision making processes
- The composition and roles of the Project Board and the Project Management Team
- The processing capacity of the MRF to be constructed
- Development costs allocation
- Arrangements for withdrawing from the Project [gate fee becoming too expensive]
- Recyclate supply agreement
- Terms to be incorporated into the Shareholders' Agreement
- Dispute resolution mechanisms

6. Financial Issues

6.1 The key financial issues for NBBC are:

- The revenue costs per tonne that the Council will incur to have its kerbside recycling processed at the facility.
- The amount of share capital in "Asset Co" that the Council, will need to / can buy.
- The amount of revenue contribution to the "procurement activities and Asset Co. set up" project costs that the Council will need to make.
- The amount of money the Council will be required to loan / can loan to "Asset Co" to allow the facility to be built and fitted out.

6.2 Revenue Cost of Materials Reprocessing

6.2.1 The most up to date version of the MRF business case sets an indicative gross gate fee [before any rebates arising from the sale of the processed materials to commodity markets] at £66 - £68 per tonne, slightly better than the original business case and around £25 per tonne less than we are currently paying. Based on our current recycling tonnage, this would save the Council around £200,000 per annum in gate fees. With increased housing forecast in the Borough, total tonnage collected is expected to increase to around 9,500 by 22/23 (increasing the saving to around £230k) and 11,000 by 42/43 which will clearly increase the saving to the Council over the longer term.

6.3 Capital Cost

6.3.1 The latest version of the business case has a total project cost of just under £38m to be financed by:

- A total of £1m of share capital being purchased by the Partner Councils proportionate to the percentage of the total tonnage of recyclate that they will supply.

- A combined revenue contribution of £2.85m to pay for procurement activities and Asset Co. set up with each Partner Council's share of this being proportionate to the percentage of the total tonnage of recyclate that each Partner Council will supply; and

- A combined total of £34m of long-term interest earning loans from the Partner Councils to actually build and equip the facility, with each Partner Council's share of this again being proportionate to the percentage of the total tonnage of recyclate that each Partner Council will supply.

6.3.2 In terms of the loans identified above, the revised business case sets out that Asset Co. will pay a commercial return on the £34m of loans made to it by the Partner Councils. The Partner Councils, including NBBC, will be able to borrow money with an interest rate cost of around 2% giving an enhanced return compared to the current rates the Council is receiving on its investments. Asset Co will pay back the loans over the life of the project [20 years].

6.3.3 The financing proposals, added to the operational savings, make the project very financially attractive to NBBC, and other Partner Councils, although consideration has still been given to balancing security of the investment with maximising return.

6.3.4 At the present time [i.e. with the current 6 Partner Councils] NBBC will provide 9.6% of the total Partner Council feedstock tonnage. Hence we would be able to / need to:

- Purchase up to 9.6% [£96,000] of the £1m total share capital and receive dividend payments based on this 9.6% share holding.

- Make a revenue payment of up to £275,000 towards the overall £2.85m revenue contribution needed, This includes the £100,000 revenue contribution already approved by Cabinet in April.

- Make a loan of £3.27m towards the overall £34m loan requirement.

6.3.5 An increase in the number of Partner Councils would see our proportion of the overall tonnage of recyclate processed by the MRF reduce and hence the see the amounts set out reduce. However, given the uncertainty over the two other council becoming Partner Councils, the capital programme and treasury management recommendations in this report seek authority to provide financing to the MRF Project up to the amounts as set out above to avoid a need for any additional decision to approve smaller financing amounts.

6.3.6 The revenue payment of up to £275,000 towards the overall £2.85m revenue contribution to the project can be financed from reserves - the Invest to Save and Financial Planning reserves being the most appropriate earmarked reserves, although the Council does also have an unallocated general balance of approx. £600k. The purchase of up to £96,000 of shares and the loan of up to £3.27m will need to be financed through borrowing.

6.3.7 The revenue implications of the capital investment and loan would be shown outside of service costs and income and reflected “below the line” within investment income (for returns on the loan granted to Asset Co) and debt interest (for the prudential borrowing that NBBC will take on).

6.3.8 A summary of the annual financial implications are shown in the table below, :

Saving/income	**Once operational**
Ongoing operational savings:	
Gate fee saving	(£237k)
Treasury Management implications: (ref note *)	
Return on investment	(£196k)
Annual borrowing costs	£65k
Net annual position	(£368k)

* The Treasury Management costs and income from the borrowing and subsequent loan to AssetCo are maximum values based on current interest rates per the business case and interest rate forecasts. The loan to AssetCo would be repayable in instalments over the life of the project and cash-flow forecasts. Therefore the annual return on investment would reduce as the loans are repaid, as would the interest on borrowing by NBBC as our debt is also reducing.

6.3.9 It is difficult to predict the annual net income to NBBC during the construction phase of the project and before the site is fully operational. This is due to the loans to AssetCo being taken in phases as required per construction cashflows and the full £3.27m will not be required in one transaction. However, it is estimated that for every £1m loaned to AssetCo, NBBC would generate a net £40k return (i.e. return on investment net of our cost of borrowing).

6.3.10 There is also the potential for additional income based on profits of AssetCo through an annual dividend. This is difficult to forecast and is subject to agreement by all AssetCo shareholders so this has not been included in the table above at this stage.

6.3.11 The gate fee saving is based on current tonnage and is likely to increase if tonnage increases per the forecast in section 6.2.1 above.

6.3.12 The £275k revenue contribution is ‘at risk’ if the project does not proceed, although given the strong business case this is an unlikely outcome.

7. Future Governance

7.1 In addition to the governance aspects currently set out in JWA2, further work on the ongoing governance arrangements for the MRF once it is built and is operational , including board level composition at both an operational [officer] level and strategic [Elected Member] level are being developed. However, every Partner Council will have one seat at the ultimate controlling board of “Asset Co.” and have voting rights based on the proportion of total shares that each Partner Council has. So as it stands at the moment NBBC would have 9.6% of voting rights.

8. **Risk and sensitivity**

8.1 Assumptions within the models have been robustly tested throughout the development of the business case and market tested, where appropriate. Sensitivities have been run against the base case financial implications in relation to the following project changes:

- variants in Commercial and Industrial (C&I) (third party) feedstock supply achieved

- the volatility of market values of recyclate
- increases in capital and operational costs
- the addition of other Partnership Councils.

8.2 As with any construction project there are risks that are required to be managed effectively for the project to remain deliverable.

- A competent, professional and well-resourced project team has been established to deliver the project, which includes external advisors, and a Project Manager and Project Director committed to the Project

- A comprehensive risk register is maintained and reported on to Project Board to ensure risks are continually being monitored and managed

- The greatest risk to project viability, tonnage input risk, has been effectively mitigated through the engagement of Partner Councils committing their recyclate for the duration of the Project

- A Competitive Dialogue procurement procedure is being adopted to ensure that robust, deliverable proposals are received from bidders, which offer value for money and provide the quality outcomes necessary

- Sensitivities on the potential costs and income have been considered, so that the affordability of the Project is fully understood, and with exit clauses from the Joint Working Agreement (2) agreement if the Project is subsequently deemed unaffordable

- Planning risk is being managed, with early planning being sought to prevent cost impacts post-Financial Close

8.3 The scheme involves giving a loan to the delivery company. As with all loans, there is a risk of default however, the shares of the company will be exclusively owned by Coventry City Council and its Local Authority partners, and its customers will be the same authorities (in the base case) plus potentially others committing its recyclate feedstock to the plant on a long-term basis which reverses this risk. In the unlikely event that there was a reduction in demand with a resultant potential impairment of the loan, this would be a cost to the local authority partners. Feedstock/demand is however as described in the report, expected to increase over time rather than reduce which reduces this risk.

8.4 The loan/investment has been considered within the context of the Council's commercial investment strategy which takes account of both the risk of each investment made and the limits set for loans of this nature in totality.

APPENDIX 1a

Updated General Fund Capital Programme:

General Fund Capital Programme	Current 2019/20 Programme £	Additions £	Updated 2019/20 Programme £
Arts, Leisure & Economic Development			
Miners Welfare Park Environment Improvements & Green Gym	12,300		12,300
Haunchwood Pavilion	5,000		5,000
Pingles Electronic Timing Equipment	50,000		50,000
Pauls Land Pavilion	10,500		10,500
Sandon Park/ Jack Whetstone Pavilion	5,000		5,000
Cycle Storage - Miners Welfare Park	10,000		10,000
Target Hardening	100,000		100,000
Keresley Community Centre Car Park Improvements	18,000		18,000
Central Services & Refuse			
ICT Strategy Programme	100,000		100,000
Major Repairs	250,000		250,000
Vehicle & Plant Replacement	598,900		598,900
Council Chamber - Audio/ Visual System	11,000		11,000
Waste Management - In Cab Technology	5,100		5,100
Sub-Regional Materials Recycling Facility	0	3,396,000	3,396,000
Finance & Civic Affairs			
Camp Hill - Early Final Phase	3,569,235		3,569,235
Purchase of Investment Properties (incl properties to lease)	3,460,000		3,460,000
Revenue & Benefits - System Enhancement & Rationalisation	84,200		84,200
Adjustment to Council's Property Portfolio	167,500		167,500
Bedworth Market Improvements	27,720		27,720
Valley Farm Refurbishments	150,000		150,000
Chilvers Coton Craft Centre	5,500		5,500
Housing, Health & Communities			
HEART	7,634,300		7,634,300
Empty Homes & Works in Default	40,000		40,000

General Fund Capital Programme	Current 2019/20 Programme £	Additions £	Updated 2019/20 Programme £
Empty Property Loans	100,000		100,000
Mobile Homes Sites	300,000		300,000
Conversion of the Council House	2,100,000		2,100,000
Planning & Development			
Replacement CCTV Cameras	9,700		9,700
Jodrell Street - Unadopted Road	17,100		17,100
Bermuda Connectivity Programme	413,390		413,390
CCTV Wireless Technology	120,000		120,000
Miscellaneous Schemes	60,400		60,400
Total Capital Programme	**19,434,845**	**3,396,000**	**22,830,845**
Financed by:			
Capital Receipts	4,929,235		4,929,235
Earmarked Reserves	2,968,477		2,968,477
Grants & External Contributions	8,353,383		8,353,383
Prudential Borrowing	3,183,750		6,579,750
Total	**19,434,845**		**22,830,845**

APPENDIX 1b

Revised Treasury and Prudential Indicators

	2019/20 Treasury & Prudential Indicators	
	Current Indicators	Amendments required per this report
Capital Expenditure		
Non - HRA	£15.80m	£19.20m
Non - HRA (commercial activities)	£3.63m	£3.63m
HRA	£26.06m	£26.06m
TOTAL	**£45.49m**	**£48.89m**
Prudential Borrowing Requirement		
Non - HRA	£2.18m	£5.58m
Non - HRA (commercial activities)	£1.00m	£1.00m
HRA	£4.50m	£4.50m
TOTAL	**£7.68m**	**£11.08m**
Capital Financing Requirement as at 31 March		
Non - HRA	£13.33m	£16.73m
Non - HRA (commercial activities)	£3.04m	£3.04m
HRA	£81.16m	£81.16m
TOTAL	**£97.53m**	**£100.93m**
Authorised Limit for external debt -		
borrowing	£107.53m	£110.93m
other long term liabilities	£4.00m	£4.00m
TOTAL	**£111.53m**	**£114.93m**
Operational Boundary for external debt -		
borrowing	£97.53m	£100.93m
other long term liabilities	£0.00m	£0.00m
TOTAL	**£97.53m**	**£100.93m**
Gross External Debt at 31 March	£86.13m	£89.53m