

Council – 3 September 2019

Recommendation from Cabinet 27 August 2019

Coventry City Council

Minutes of the Meeting of Cabinet held at 2.00 pm on Tuesday, 27 August 2019

Present:

Members:

Councillor G Duggins (Chair)
Councillor A Khan (Deputy Chair)
Councillor P Hetherton
Councillor K Maton
Councillor J Mutton
Councillor M Mutton
Councillor J O'Boyle
Councillor P Seaman

Deputy Cabinet
Members

Councillor P Akhtar
Councillor G Lloyd
Councillor D Welsh

Non-Voting Opposition
Members:

Councillor G Ridley

Other Members:

Councillor R Lakha

Employees (by
Directorate):

People

G Quinton (Deputy Chief Executive (People)),
D O'Shaughnessy

Place

C Booth, S Elliott, L Gaulton, R Haigh, B Hastie,
A Hunt, P Jennings, R Moon, J Newman, M Salmon,
L Shannon, A Walster, S Weir

Apologies:

Councillor R Ali
Councillor A Andrews
Councillor K Caan
Councillor B Gittins
Councillor T Khan

RECOMMENDATION

23. **Proposed Development of a Regional Materials Recycling Facility with Partnering Authorities**

The Cabinet considered a report of the Deputy Chief Executive (Place), that would also be considered at the meeting of the City Council on 3rd September 2019, on the proposed development of a regional materials recycling facility with partnering authorities. A Site Location Plan was attached as an Appendix to the report.

A corresponding private report was also submitted to the meeting setting out the commercially confidential matters of the proposals. (Minute 28 below refers.)

Coventry City Council currently paid c.£1.6million per year to the private sector for the treatment of recyclable material collected in Coventry (including haulage to the treatment facility in London and any recycle value benefit). This cost had increased substantially over the last five years. Evidence from recent procurement exercises in both Coventry and neighbouring authorities showed that this upward trend of cost was likely to continue with substantial rises as the private sector continued to move the risk of end market prices and legislation more and more to local authorities.

In 2017/2018 a feasibility study was undertaken to consider the technical and economic viability of developing a Material Recycling Facility to serve Coventry City Council (CCC), neighbouring authorities, and commercial businesses across the region. This study indicated a positive business case, subject to more detailed information. During the last 12 months a detailed Business Case was developed to determine the viability of a Materials Recycling Facility, which concluded that a facility with a capacity of 120,000 – 175,000 tonnes would be commercially viable. CCC currently collected c.24,000 tonnes of recyclable waste per annum.

To make the construction of a Materials Recycling Facility financially viable and, in order to share the risks and benefits of this project, a formal agreement has been formed with five other local authorities: Nuneaton and Bedworth Borough Council; North Warwickshire Borough Council; Rugby Borough Council; Solihull Metropolitan Borough Council; and Walsall Council.

The Business Case considered in this report had therefore been developed assuming the recyclable materials from each of these authorities would be committed to the Project, thereby making the facility cost effective, whilst leaving some tonnage head room for commercial growth and the future needs of the Partner Councils, or the addition of more Partner Councils.

To date the costs of producing the business case had been shared by the partners based on the ratio of their likely tonnage inputs. Along with an investment proposal, this report sought authority to further strengthen these arrangements through a second Joint Working Agreement which would cover the work up to financial close, including but not limited to the costs of procurement, advisors, and the submission of a planning application for the construction of a new Material Recycling Facility.

At financial close, the Partner Councils would be required to establish jointly an arms-length company (AssetCo) to enter into contracts and to deliver the recycling solution, funded through loans from the partners councils.

The existing Local Plan had made provision for future waste management facilities in Coventry by allocating the site adjacent to the current Energy from Waste plant on Bar Road. The project described within this report proposed to use c.50% of this site to develop the Material Recycling Facility.

The Business Case considered a number of development and recycle throughput scenarios. The Basecase assumed: a 120,000 tonne per annum plant; only Partner Council recycle input of c.90,000 tonnes per annum, rising to c.120,000 tonnes per annum in year 20 through household growth; £34.45million total capital cost, including £2.85million development costs; Capital loan of c.£31.6million (i.e. £34.45million less £2.85million); non-capital loan of c.£3.369million representing rolled up interest and cash flow funding required by AssetCo; £1million total share acquisition in AssetCo; and of this total £35million, a capital contribution 'share' from CCC of c.£9.7million resulting in a 27.72% ownership of the facility (based on tonnage proportions)

The Basecase provided a treatment cost of c.£44.31 per tonne which equated to c.£1.06million per year (including haulage to the treatment facility in Coventry and any recycle value benefit), so a direct saving of c.£584,000 per year against Do-Nothing.

Further, the commercial loan provided a net income to treasury management of c.£156,000 per year. In addition, the lease of the land would deliver a further income of c.£100,000 per year to CCC. In total, the Basecase delivered a financial saving of c.£840,000 per year to CCC.

It was prudent to allow some headroom to account for project changes, so the recommendations in the report allowed for a capital contingency of £1m. Against the financial contribution of £10.7million (i.e. £9.7m plus £1m contingency), this still equated to an annual return on investment of 7.8% pa.

Sensitivities had 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.

RESOLVED that, subject to the consideration of the private report on this matter, the Cabinet:

- 1) Authorises entering into the Joint Working Agreement (2) between the Council and the Partner Councils in order to facilitate the delivery of the Materials Recycling Facility.**
- 2) Delegates authority to the Deputy Chief Executive (Place), following consultation with the Cabinet Member for City Services, to finalise the terms and make such variations as is deemed necessary to the terms of the Joint Working Agreement (2) with the Partner Councils.**

- 3) Approves the Council entering into a lease to AssetCo and to grant delegated authority to the Deputy Chief Executive (Place), in consultation with the City Solicitor, to negotiate and finalise the terms of the lease in order to facilitate the building and the operation of the Materials Recycling Facility Building.
- 4) Following the completion of the Business Case and Joint Working Agreement (2) by all the Partner Councils, approves the commencement of a competitive procurement process on behalf of the Partner Councils as Lead Authority.
- 5) Delegates authority to the Deputy Chief Executive (Place), following consultation with the Cabinet Member for City services and the Director of Finance and Corporate Services, to award the contract once the tender process is complete.
- 6) Approves the use of its powers under Section 12 of Local Government Act 2003 and Section 1 of the Localism Act 2011 to establish AssetCo between the Council and the Partner Councils and to acquire shares in the AssetCo, funded from corporate capital resources
- 7) Delegates authority to Approve the Council representation on the AssetCo Board be agreed by the Deputy Chief Executive (Place) and Director of Finance and Corporate Services, following consultation with the Cabinet Member for City services, once the format of the Board is established as part of the final terms of the agreement.
- 8) Delegates to the Deputy Chief Executive (Place) the submission a planning application for the development of the Materials Recycling Facility to the Local Planning Authority, subject to the conclusion of the necessary surveys.
- 9) Delegates authority to the Deputy Chief Executive (Place) to begin public engagement associated with the proposed submission of the planning application and to undertake all necessary work to prepare the site ready for the clearance and full site investigation.
- 10) Cabinet recommends that Council:
 - a) Approves the use of its powers under Section 12 of Local Government Act 2003 and Section 1 of the Localism Act 2011 to establish AssetCo between the Council and the Partner Councils and to acquire shares in the AssetCo.
 - b) Approves a loan facility to AssetCo on commercial market terms to facilitate the construction and operation of the Materials Recycling Facility.
 - c) Approves expenditure under Joint Working Arrangement (2) in respect of the Council's share of development costs up to the point of financial close, to be funded from earmarked reserves.

- d) Delegates authority to the Deputy Chief Executive Place and the Director of Finance and Corporate Services, in consultation with the City Solicitor and the Cabinet Member for City Services, to finalise and agree the detailed terms of the transaction with AssetCo. The authority under this delegation shall also include:**
- i. the power to enter into the relevant legal agreements and associated documents necessary to complete the transaction with AssetCo;**
 - ii. (in relation to the management of the loan facility) the power to negotiate and agree variations to the terms of the loan facility;**
 - iii. the power for the Council to provide such services as is deemed necessary (e.g. HR and/or Payroll) to AssetCo;**
 - iv. The power to enter into the Service Level Agreement with AssetCo committing the Councils waste tonnage for 20 years.**
- e) Approves the addition to the Councils approved capital programme for the purposes of delivering the Materials Recycling Facility.**