Coventry City Council

Public report
Cabinet Report

A separate report is submitted in the private part of the agenda in respect of this item, as it contains details of financial information required to be kept private in accordance with Schedule 12A of the Local Government Act 1972. The grounds for privacy are that it contains information relating to the financial and business affairs of any particular person (including the authority holding that information). The public interest in maintaining the exemption under Schedule 12A outweighs the public interest in disclosing the information.

Cabinet	9th March 2021
Council	16th March 2021

Name of Cabinet Member:
Cabinet Member for City Services - Councillor P Hetherton

Director Approving Submission of the report:
Director of Streetscene and Regulatory Services

Ward(s) affected:
Cheylesmore

Title:
Investment in Material Recycling Facility – Update

Is this a key decision?

Yes - the proposals involve financial implications in excess of £1m per annum.

Executive Summary:

In September 2019 the Council approved a report to support the procurement, financing, construction and operation of a material recycling facility (MRF) to be based in Coventry. The facility at the time was in partnership with 7 other surrounding authorities (Solihull MBC, Walsall Council, Nuneaton and Bedworth Borough Council, Rugby Borough Council, North Warwickshire Borough Council), together the Partner Councils and at such time, Stratford-on Avon District Council as a feedstock supplier council only. The respective shareholding for each Partner Council is based on the total (2018/19) tonnage of recyclable material provided by each authority – for Coventry this was 27.72% in September 2019.

This paper describes the evolution of the Project over the course of the last 18 months, including the addition of 2 further Partner Councils (with Stratford-on-Avon District Council converting its status from a feedstock supplier council into a Partner Council and the addition of Warwick District Council as a Partner Council), associated increase in facility capacity and building footprint to accommodate a technologically advanced intelligent facility. This solution will mean

the Coventry MRF will be able to deliver higher purity levels of recyclate, as well as the flexibility to ensure it can react to legislation and consumer habits and the introduction of new and changing material streams. The revised annualised net savings to the Council are c£1.4m per year, which is £0.52m pa greater than contemplated within the September 2019 business case albeit with a higher capital investment requirement.

As the procurement exercise is nearing conclusion, this paper seeks approval for the additional capital financing required, by way of a commercial loan to the special purpose company to be incorporated to operate the facility (AssetCo) which will be incorporated as Sherbourne Recycling Limited). Additional funding is required to meet the requirements detailed within the paper and summarised in the paragraph above.

Recommendations:

Cabinet is requested to recommend that Council:

1) Approve the sum as detailed in the private report for a loan facility from the City Council for the purposes of delivering the Materials Recycling Facility.

2) Delegate authority to the Director of Streetscene and Regulatory Services and the Director of Finance, in consultation with the Director of Law and Governance and the Cabinet Member for City Services and the Cabinet Member for Strategic Finance and Resources, to finalise and agree the detailed terms of the transaction with AssetCo. The authority under this delegation shall also include:
    - the authority to enter into two payment guarantees on behalf of AssetCo with the Civils Contractor and the Process Contractor;
    - the authority to incorporate AssetCo and to enter into a shareholders' agreement with AssetCo and the other Partner Councils in respect of the governance arrangements of AssetCo;
    - the authority to enter into the Service Level Agreement with AssetCo committing the Councils' waste tonnage for 25 years; and the authority to enter into the Loan Agreement and ancillary security documents with AssetCo for a loan over a repayment period of 25 years.

Council is recommended to:

1) Approve the sum as detailed in the private report for a loan facility from the City Council for the purposes of delivering the Materials Recycling Facility.

2) Delegate authority to the Director of Streetscene and Regulatory Services and the Director of Finance, in consultation with the Director of Law and Governance and the Cabinet Member for City Services and the Cabinet Member for Strategic Finance and Resources, to finalise and agree the detailed terms of the transaction with AssetCo. The authority under this delegation shall also include:
    - the authority to enter into two payment guarantees on behalf of AssetCo with the Civils Contractor and the Process Contractor;
    - the authority to incorporate AssetCo and to enter into a shareholders' agreement with AssetCo and the other Partner Councils in respect of the governance arrangements of AssetCo;
    - the authority to enter into the Service Level Agreement with AssetCo committing the Councils' waste tonnage for 25 years; and the authority to enter into the Loan Agreement and ancillary security documents with AssetCo for a loan over a repayment period of 25 years.

List of Appendices included:

Appendix 1 - Market Paper - Frith

Background papers:

None

Other useful documents

Proposed Development of a Regional Materials Recycling Facility (MRF) with Partnering Authorities

Has it been or will it be considered by Scrutiny?

No, however the matter was considered by the Communities and Neighbourhoods Scrutiny Board (4) on 04 February 2021. The Board recommended support to the delivery of the Materials Recycling Facility.

Has it been or will it be considered by any other Council Committee, Advisory Panel or other body?

No

Will this report go to Council?

Yes **–** 16th March 2021

Report title: Investment in Material Recycling Facility – Update

1. Context (or background)

1.1 Local authorities have a duty under the Waste Regulations 2011 to separately collect four types of recyclable material (glass, metal, paper and plastic) and to ensure that collection methods pass the national legislative requirements that they are Technically, Environmental and Economically Practical (TEEP).

1.2 CCC currently contracts the treatment of recyclate collected at the kerbside to Tom Whites Waste (bulking and haulage) and Biffa (Materials Recycling Facility). The volatility of global markets for processed recyclate has led the private sector to pass the risk of price fluctuations onto the local authorities. As a result, CCC has seen a significant rise in the cost of treatment during the life of the current contract (see Table 1).

Table 1: Bulking, haulage and MRF Costs 2014-2019

		Year				
		2014/15	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Tonnage		20,162	19,989	19,793	20,955	21,910
Total Spend	Bulking and Haulage	£ 457,400	£ 463,735	£ 469,260	£ 520,022	£ 597,641
	MRF (Nett rebate)	£ -	£ 266,502	£ 412,701	£ 483,033	£ 1,054,973
	Total	**£ 457,400**	**£ 730,237**	**£ 881,961**	**£ 1,003,055**	**£ 1,652,614**

1.3 The total cost to Coventry in 2018/19 for the bulking, haulage and treatment of kerbside collected dry mixed recyclate (dry mixed recyclate) was in excess of £1.6million.

1.4 Current Materials Recycling Facility arrangements (including processing gate fees and rebate share mechanisms) are reflective of the private sector's reluctance to absorb the risk of current market price fluctuations.

1.5 The development of an 'in-house' Materials Recycling Facility will allow the Partner Councils to take control of processing dry mixed recyclate collected through kerbside collections and via Household Waste and Recycling Centres (HWRC). This will allow each Partner Council to benefit more fully from any 'upside' of the price of processed recyclate in the commodity market in consideration for the risks they are required to assume in any event.

1.6 The Business Case in August 2019 set out the Projects aspirations, namely, to allow Partner Councils to;

- Take control of regional recyclate management;
- Benefit from any upside of the price of processed recyclate and off-set costs and risks against income generated from the Materials Recycling Facility;
- Avoid paying risk premiums to the private sector to offset market fluctuations;
- Future proof the Materials Recycling Facility so that it is flexible and adaptable;
- Enhance recyclate quality;
- Benefit from economies of scale;
- Benefit from any future expansion and commercialisation of the plant to satisfy any private sector demand; and
- To have greater control on the end uses of the recyclate produced

1.7 In September 2019 the Council approved a report to support the procurement, financing, construction and operation of a material recycling facility (MRF) to be based in Coventry. The facility at the time was in partnership with 6 other surrounding authorities (Solihull

MBC, Walsall Council, Nuneaton and Bedworth Borough Council, Rugby Borough Council, North Warwickshire Borough Council), together the Partner Councils and, at such time, Stratford-on-Avon District Council as a feedstock supplier council only. The respective shareholding for each Partner Council is based on the total (2018/19) tonnage of recyclable material provided by each authority – for Coventry this was 27.72% in September 2019.

1.8 The business case for the MRF, as developed in May 2019, was initially based on a 120,000 tonne per annum plant with Partner Councils utilising 90,000 tonnes per annum rising to full capacity over the 20 years due to growth in household waste with no capacity available for recyclable materials from other (non-Partner) parties. A semi-automated process was assumed for the specification of facility within this business case, with a strong reliance on human pickers to achieve good purity levels. This information was presented to Members in the previous Cabinet paper (September 2019).

1.9 Through the course of dialogue with Bidders, engagement with recyclate markets and discussion with neighbouring authorities the Project has evolved to increase in size and sophistication to meet current and anticipated future market demands.

1.10 The final design for the facility is that of a technologically advanced solution with absolute minimum human intervention to achieve high quality standards. This change reflects change in consumer habits and anticipated legislative change as a result of the Waste and Resource Strategy, impacts of Brexit on trade and workforce's engagement, and opportunity for additional Partners and capacity for input from commercial sources.

1.11 Following approval by Members in September 2019, a procurement exercise for a contractor for the process equipment commenced in 2019 and resulted in the selection of GMI Europe Limited (Machinex Ltd) as the Preferred Bidder for the process equipment in January 2021. The project team commenced a separate procurement exercise for a contractor for the civils works in May 2020 and are at an advanced stage with a single civils contractor (final tender submission due in mid-March).

1.12 Since May 2019 (the initial business case) there have been a number of changes to the project to accommodate additional partners, changes in the UK waste market, and new recycling market demands to make the project significantly more viable in the longer term, all of which have been presented to Project Board and agreed for inclusion within the procurement following proposal and challenge within the Project Team.

1.13 Below is a list of the range of adaptations considered, reviewed and their net impact to the Project and overall cost assumptions;

- **Additional Partners** – the number of Partner Councils has increased from 6 to 8 with Stratford-on-Avon District Council converting its status from a feedstock supplier council only to a Partner Council and Warwick District Council joining the project as a Partner Council, creating a larger base across which to share the project liabilities (and benefits). Coventry's share of these liabilities has reduced from 27.27% to 21.50% as a result of the increase in Partners.

- **Facility Capacity** – with the inclusion of the additional Partner Councils, a review of necessary capacity and the market opportunity for third party material (and income) concluded a new optimum throughput capacity equivalent to 175,000 tonnes per annum

– this is c.45% larger than that contemplated within the business case presented in September 2019.

- **Equipment and Building Size** – to deliver capacity of 175,000 tonnes per annum additional equipment and a greater building size was required.

- **Plastics** – at the end of 2019 and into 2020 there has been a market movement on plastics with the emerging government legislation on collecting low grade plastics from consumers and the introduction of the Plastics Tax, incentivising recycled plastic content in new packaging. The plant design evolved to include low grade plastics separation to accommodate both drivers – a first in the UK.

- **Advanced Technology –** the procurement exercise encouraged bidders to respond with robust, technologically advanced solutions for maximising recycling rates and, importantly, recyclate quality. GMI (Machinex) Ltd offered the most advanced solution available in the waste market, with high levels of automation (very few people), Artificial Intelligence, robotics, excellent lifecycle plan, and great levels of flexibility; all of these attributes offered a lower operating cost than anticipated for the facility, however they also contributed to a higher capital cost for the purchase of the equipment solution.

- **Photo-voltaic –** a climate emergency was declared in June 2019 in Coventry, and similarly across the Partner Councils. In response to this, together with improving efficiency (and business case) for PV installations, a significant PV array was included within the project requirements with improved revenue benefits.

- **Insurance** – In addition to these project developments, some cost parameters have changed over the past 18 months, influenced not least by the global pandemic COVID-19. Insurance costs have been materially impacted, with changes to the costs originally included in the May 2019 business case.

1.14 The project changes together with formal, contracted bids back from the bidding Process Contractors have led to an increase in the capital funding requirement for the project.

1.15 Although the capital requirement has increased the savings are expected to be at least equivalent to the level proposed when original approvals were granted, following the outcome of value engineering and cost mitigations, and extending the term for financing for the facility to 25years, which is not unreasonable for a facility which is expected to remain operational for 30+ years.

2. Options considered and recommended proposal

2.1 **Option 1: Do nothing** – If no further action is taken the project will not be able to proceed as the capital funding currently approved is insufficient to meet the required costs for the project. Each respective authority would have to seek alternative contracts to dispose of their waste. Based on the current markets, it is likely these contracts would exceed the current costs for waste disposal so additional revenue funding would be required.

2.2 To complete the work to date and undertake the procurement exercise there have been developments costs which have been incurred. These costs will be sunk costs and not possible to recover from savings that were expected had the project proceeded.

2.3 This is not the recommended option.

2.4 **Option 2: Retain the original smaller facility** – The addition of 2 further Partner Councils since the original business case has increased the baseline tonnage from 90,000 to 112,000 tonnes per annum, rising to 143,000 tonnes per annum over the 25 year period, based on current estimates and rates of growth.

2.5 Partner tonnage would fill the original planned smaller facility (taking into account outage and maintenance) immediately, meaning some of the recyclate would need to be diverted to other facilities which would attribute higher rates, and remove the opportunity for revenue from sale of capacity to third parties.

2.6 Savings attributed from a smaller facility would not be proportionate to the reduction in size as a large proportion of the civils capex costs are associated with ground works which would be required to make use of the site regardless of the building size.

2.7 Flexibility and future proofing of the Materials Recycling Facility would be compromised by the reduction in facility size, leaving Partners exposed to future changes in legislation and consumer habits.

2.8 In order to achieve a smaller facility, the existing procurement exercise would need to be revisited and extended by at least 6 months, increasing development costs.

2.9 The existing programme for works allows Partners to exit from existing arrangements at no additional cost. An extension to programme would require Partners to extend/enter into new waste supply arrangements on short term contracts at premium rates.

2.10 This is not the recommended option.

2.11 **Option 3: Proceed with the proposed larger facility and approve additional capital funding required** - The final design of the Preferred Bidder (GMI) process solution contractor is a highly automated and innovative state-of-the-art facility that will be the most advanced of its kind in the UK, and potentially one of the most advanced MRF's around the world. It will also be one of the first facilities in the world that integrate artificial intelligence at the core of its system allowing real-time interconnectivity between the main sorting equipment. This technologically advanced solution will mean the Coventry MRF will be able to deliver higher purity levels of recyclate, as well as the flexibility to ensure it can react to legislation and consumer habits and the introduction of new and changing material steams.

2.12 The original business case was costed on the basis of existing infrastructure within the UK, which is less sophisticated, and more heavily reliant on primarily manual labour to separate recyclates and remove contamination. The use of robotics and optical sorters require a higher initial investment, but in turn deliver lower operating and lifecycle costs, reducing the whole project life cost, in addition to providing a higher degree of future proofing, and savings when Partners secure a more competitive gate fee than they currently have under their existing contractual arrangements.

2.13 The replacement of manual sorting and quality control by robotics means a more efficient facility able to deliver higher purity levels of recyclate, in turn resulting in higher associated revenue and a lower proportion of waste rejected and sent to landfill.

2.14 The use of artificial intelligence (AI) technologies also allows the facility to be re-programmed as required to manage changes within minutes, without any further mechanical modification. Allowing the facility to react to compositional variations as a result of changes in legislation and consumer habit, the introduction of new material streams in the marketplace, and seasonal peaks.

2.15 The technologies suggested and design philosophy behind GMI's solution will make it stand out from anything currently in the marketplace, in addition to built-in redundancy for future enhancements to meet market demands, an intelligence led solution will increase efficiency in daily operations reducing cost to Partner Councils in the longer-term.

2.16 The use of technology also addresses an increasing problem in the waste industry, as a result in part of Brexit, of labour shortages, with lower skilled manual sorter roles typically filled by an Eastern European workforce.

2.17 Key themes addressed at the MRF Conference in September 2020 centred on the need for greater levels of automation within the sector to manage a depleting workforce, additional reporting and measuring regimes anticipated associated with Deposit Return Schemes and End Producer Responsibilities (targeting plastics) as a result of the changes in UK legislation slated to come into force from 2023 onwards, and higher demands on purity levels.

2.18 In support of these challenges and the inclusion of low-grade flexible plastics (i.e. plastic film) at the kerbside the market was very encouraging of enlarged buildings to provide additional resilience and adaptability of future facilities.

2.19 The Project Team also commissioned an independent report by Frith Resource Limited (attached as an Appendix) on the current state of the market and developments in the MRF industry at the end of the Summer 2020 which further strengthened the case for moving from the original design premise in the business case to a more advance and larger facility.

2.20 For the purpose of providing a fair playing field the outline building design, as submitted for planning, represented an oversized building able to accommodate all process contractors involved in the procurement process, including 20% redundancy to accommodate any future further changes in operational needs not already envisaged. Following selection of the GMI, work is currently being undertaken with all parties to refine the final building design to envelop the winning process solution.

2.21 The Project Team have reached an advanced stage of negotiation with a single civils contractor, who provided an outline of anticipated costs associated with developing the site and construction of site buildings, based on the design submitted for planning permission, at the end of December 2020.

2.22 The civils contractor is due to submit their final tender return and price min-March 2021 based on the outcome of value engineering.

2.23 Coventry's shareholding and funding liability is lower than the original report brought before Members (September 2019) as a result the number of Partner Councils increasing from 6 to 8. As a result, Coventry's shareholding and funding liability is now 21.50%.

2.24 Although the capital requirement has increased the savings are expected to be at least equivalent to the level proposed when original approvals were granted, following the outcome of the value engineering and cost mitigations as outlined above, including the extended term for financing for the facility to 25years, which is not unreasonable for a facility which is expected to remain operational for 30+ years.

2.25 The Project Team will continue to work with GMI as the Preferred Bidder and the single civils contractor to improve the capital investment position to better the position for all Partners ahead of Financial Close, targeting 01 April 2021.

3. Results of consultation undertaken

3.1 No consultation undertaken.

4. Timetable for implementing this decision

4.1 The Project Team will continue to work with contractors to refine the final contractor costs and business case improvements in the early part of 2021, targeting final business case and Financial Close on 01 April 2021, with construction completion mid-2023.

5. Comments from the Director of Finance and the Director of Law and Governance

5.1 Financial implications

5.2 Capital investment and shareholding - Coventry City Council will have a 21.50% shareholding in AssetCo (Sherbourne Recycling Limited) and as such will make an equity investment into the company, reflecting their share of the total equity in the business. The shareholding is based on the proportion of waste (tonnage) collected by each council in 2018/19.

5.3 Coventry City Council will use prudential borrowing for the equity and loan financing into this facility designed to process the dry mixed recyclate waste for Coventry and each Partner Council. The project will deliver waste service improvements and result in savings in waste service budgets over the life of the project.

5.4 The additional capital costs result in savings over the operational phase resulting a more cost-effective solution when compared to lower capital-intensive solutions submitted during the procurement. This is due to the solution being highly automated so requiring less manual intervention in terms of staff and the ongoing lifecycle costs are lower than other solutions, which the technical evaluation team reviewed and were comfortable with the robustness of the lifecycle investment.

5.5 Capital financing

5.6 The Council will provide loan and equity financing to Sherbourne Recycling Limited to meet the capital costs required for the construction of the facility which will be shared across the Partner Councils based on their shareholding

5.7 The capital loan will be provided to Sherbourne Recycling Limited over a 25-year term at a commercial rate generating a return back to the Council.

5.8 Revenue implications

5.9 The proportion of waste recovered from the waste stream will be higher and of better quality based on the high-tech facility, with a lower proportion of dry mixed recyclate waste being rejected and having to be sent to landfill. This will in turn results in a higher recyclate revenue being achievable from the waste commodity market which has been reflected in financial modelling at a rate of 15% more than the average market price.

5.10 The table below summarises the benefits that are expected to be delivered from this facility by way of savings in waste budgets (gate fee less recyclate revenue), the treasury benefit from the loan financing and rental income. The treasury benefit modelled has been based on the maximum value of the loan and included on an annuity basis, which will not reflect the actual repayment profile. These figures provide an indication of the quantum of savings that the Council may receive from the loan financing. The savings will vary depending on the final value of the civils works, which in turn will affect the gate fee/ disposal savings and treasury benefit. The disposal budget savings have been based on a comparison of the current costs incurred for waste disposal against the expected costs with the MRF in operation. The disposal savings take into account the net benefit received as recyclate rebate (from selling waste in the commodities market).

5.11 **Legal implications**

5.12 Under Section 12 of the Local Government Act 2003 the Council has a specific power to invest. The power states "a local authority may invest for any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs". This provides the Council with a power to invest in AssetCo, for any purpose relevant to its functions (this function would have to be identified) or if the Council can show it is for the prudent management of its financial affairs. Under section 1 of the Localism Act 2011, the Council also has a power "to do anything that individuals generally may do" (the "General Power of Competence"). "Individual" means an individual with full capacity. The General Power of Competence gives the Council the:

i. power to do anything conferred under section 1 anywhere in the United Kingdom or elsewhere,
ii. power to do it for a commercial purpose or otherwise for a charge, or without charge, and
iii. power to do it for, or otherwise than for, the benefit of the authority, its area or persons resident or present in its area.

5.13 Where the Council uses the General Power of Competence to do something for a commercial purpose, section 4 of the Localism Act 2011 requires that the Council must do so through a company (which has a wider definition than for the purposes of section 95 Local Government Act 2003).

5.14 The requirement under section 4 of the Localism Act 2011 is very similar to the requirements of section 95 of the Local Government Act 2003 (the "trading power"). The Council will be compliant with the requirements of both the General Power of Competence and the trading power as any commercial purpose activity or trading will be done through AssetCo, a private company limited by shares which will be incorporated prior to Financial Close.

5.15 The above are the powers to be relied upon when entering into the Shareholders' Agreement, Service Level Agreement, Loan Agreement, Security Documents and the Payment Guarantee documents.

5.16 In respect of the Payment Guarantee to be entered into by the Council with each of the civils contractor and the process contractor, it is worth noting that such guarantee is in respect of AssetCo's payment obligations only for the works. As the civils and process contract are both fixed price contracts, any liability under the Payment Guarantee is limited by AssetCo's limit on liability under the underlying contract to which the guarantee relates.

5.17 Under the shareholders' agreement with the other Partner Councils, the Council has the benefit of an indemnity in favour of it from each of the Partner Councils (in proportion to their relevant proportion) in respect of any liabilities arising under the Payment Guarantee (i.e. in the event the Payment Guarantee is called upon by the civils contractor and/or process contractor). This means that Coventry City Council will be indemnified by all other Partner Councils as per their relevant proportion shareholdings for any liabilities arising under such payment guarantee, therefore mitigating the Council's exposure to its relevant proportion shareholding (21.50%). This cabinet report considers further mitigating factors which reduces the Council's exposure under the Payment Guarantees in section 5 below.

5.18 The loan agreement, security documents and payment guarantee will be drafted on arm's length terms. It will be compliant with the new Subsidy Control Commitment rules and legislation (replacing State Aid legislation). The Council has sought advice from external advisors Pinsent Masons and KPMG that the documents and the overall structure will be structured to be compliant with the Subsidy Control Commitment rules.

6. Other implications

6.1 **How will this contribute to the Council Plan (www.coventry.gov.uk/councilplan/)?**

6.2 In accordance with the Environmental Protection Act 1990 the Council has a legal obligation to undertake waste collections of household waste, including the separate collection of wate paper, metal, plastic and glass (The Waste (England and Wales) (Amended) Regulations 2012). It also ensures that collection methods pass the national legislative requirements that they are Technically, Environmental, Economically and Practicable (TEEP).

6.3 The Waste Regulations transpose the European Union Waste Framework Directive into UK law and are enforced in England by the Environment Agency. It gives top priority to preventing waste in the first place. When waste is created, it gives priority to preparing it for re-use, then recycling, then recovery, and last of all disposal (e.g. landfill).

6.4 The Councils Municipal Waste Strategy 2008-2020 outlines the Councils approach to meeting legal obligations and recycling targets set out in the Waste Strategy for England 207. Namely, 45% of household waste arising to be recycled by 2020.

6.5 In addition, Members will be aware from media coverage of the Government's Resource and Waste Strategy review, that this includes the potential for greater producer responsibility and the introduction of deposit scheme materials, e.g. plastic bottles.

6.6 **How is risk being managed?**

6.7 The premise of the Project is to better manage the risks as of costs associated with the treatment of dry mixed recyclate arising in the region and particularly in Coventry.

6.8 This notwithstanding, 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 Loan Agreement.

- A Competitive Dialogue procurement procedure has been 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

6.9 Moreover, the exclusive commitment by each Partner Council to direct all its recyclable materials to the Facility over a 25 year term (to align with the term of the loan) underpins the economics of the Projects and ensures that sufficient revenue shall be generated by AssetCo via its gate fee to service the loans. In addition, there is scope for additional commercial third-party waste revenue to be generated by AssetCo.

6.10 In the very 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.

6.11 It should be noted that suitable provisions have been included within the shareholders' agreement to deter any Partner Council from breaching the terms of the Service Level Agreement or Loan Agreement which will, in turn, terminate the shareholders' agreement and result in a significant deduction to such defaulting Partner Council's principal loan value to compensate the other Partner Councils for any direct losses caused by such defaulting Partner Council's withdrawal from the Project as well as a further percentage deduction on top of the direct losses.

6.12 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. The loan proposed in this report is within the headroom currently afforded in the strategy.

6.13 **What is the impact on the organisation?**

6.14 None, there will be no direct impact as the facility will be operated by AssetCo.

6.15 **Equality Impact Assessment (EIA)**

6.16 No formal equalities impact assessment has been carried out. However, it is not expected that there will not be any disadvantage to any group if the recommendation is approved.

6.17 **Implications for (or impact on) climate change and the environment**

6.18 The Waste Strategy for England 2007 outlines the Governments ambition to work towards a zero-waste economy, in which material resources are reused, recycled or recovered wherever possible and only disposed of as the option of last resort. This means reducing the amount of waste produced and ensuring all material are pushed up the waste hierarchy. The benefits will be realised in a healthier natural environment and reduce the impacts on climate change.

6.19 The proposed location will eliminate the current need to bulk and haul dry mixed recyclate collected in Coventry. A reduction in CO2 emissions will be achieved through reducing vehicle movements by collection crews, and articulated lorry movements (c.25 per week, c.1,300 per year) associated with transporting materials to the current Material Recycling Facility, in London.

6.20 **Implications for partner organisations?**

6.21 Benefits to all Partner Council will achieved through greater levels of control over the sorting, marketing and sale of dry mixed recyclate collected at the kerbside, increase flexibility and management of risks associated with market fluctuations directly.

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Julie Fairbrother	Communications Officer	Communications	03/02/2021	04/02/2021
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Barry Hastie	Director of Finance	-	03/02/2021	12/02/2021
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Andrew Walster	Director of Streetscene and Regulatory Services	-	03/02/2021	17/02/2021
Councillor P Hetherton	Cabinet Member for City Services	-	16/02/2021	17/02/2021

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