
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 identity, 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.

Council

14 January 2025

Name of Cabinet Member:

Cabinet Member for City Services – Councillor P Hetherton

Cabinet Member for Strategic Finance and Resources – Councillor R Brown

Director approving submission of the report:

Director of Property Services and Development and Director of Finance and Resources

Ward(s) affected:

Foleshill

Title: Strategic Acquisition of a Waste Management Asset

Is this a key decision?

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

Executive summary:

In March 2020, the Council completed the acquisition of Tom White Waste Limited (TW). The company's EBITDA (cash generation through operating activities) has moved from £2m per annum on acquisition to c£1.5m in 2022/23. TW now wishes to restructure its balance sheet to reflect the current trading and market conditions.

This report seeks the approval from Council to purchase the freehold property assets from TW and for the company to enter into a 25 year lease for these assets on market terms. This was explored as a tax efficient mechanism of returning funds to the Council when the company was acquired in 2020 but due to the pandemic and other company priorities it was never implemented at that time.

The Council has sought independent advice on the options considered in this report.

Recommendations:

Council is recommended, subject to the consideration of the additional confidential information contained in the corresponding private report, to:-

- 1) Approve the acquisition of the strategic waste land and buildings detailed in the report.
- 2) Approve the addition of funds to the Councils approved capital programme for the purposes of acquiring the asset as detailed in the corresponding private report.
- 3) Delegate authority to the Director of Finance and Resources, the Director of Property & Development and the Director of Law and Governance, following consultation with the Cabinet Member for Strategic Finance and Resources, to finalise and agree the detailed terms of the transaction with Tom White Waste. The authority under this delegation shall also include the power to enter into the necessary legal agreements and subsequently the power to negotiate and agree any such variations as is deemed necessary to the terms of the sale and leaseback arrangement and ancillary documents.

List of Appendices included:

None

Background papers:

None

Other useful documents

None

Has it or will it be considered by Scrutiny?

No

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

No

Will this report go to Council?

Yes - 14th January 2025

Report title: Strategic Acquisition of a Waste Asset

1. Context (or background)

- 1.1. The City Council has statutory legal requirement to arrange for the collection, treatment and disposal of waste arising within its municipal boundaries regardless of its source, e.g. domestic or commercial waste. In addition, the City Council has a statutory and legal responsibility to ensure that the streets are cleaned to keep them safe to use, and that the roads are maintained to a usable standard. Both of these functions generate their own waste arisings, some of which are not always straight forward to deal with, e.g. fly tipped fridges and mattresses, or tarmac containing asbestos.
- 1.2. There remains a limited number of permitted sites with the relevant planning permissions for waste treatment within the Coventry, Solihull and Warwickshire sub-region. With no new allocated waste treatment sites in the current or emerging local plans for all the relevant planning authorities. Therefore, the loss of anyone of these existing sites to an alternative use such as housing or general employment would have a significant detrimental effect on the waste management market locally. In addition, any onward transport to alternative sites is costly from both a financial and environmental point of view.
- 1.3. By having either direct ownership or a controlling interest in key waste management assets the Council is able mitigate against the loss of capacity locally and the significant financial and environmental detriment that this bring. In 2020 the Council had the opportunity to acquire Tom White Waste (TW) on market terms.
- 1.4. Independent valuations by KPMG and BDO acting on behalf of the Council, confirmed an on-market acquisition price of c.£21m on a cash free / debt free basis. When the cash in the business and the debt associated with the asset finance arrangements and, importantly, the mortgage on the site were considered, this reduced the sum to an equity value (cash sale price) of c.£14m, some £7m below the acquisition value.
- 1.5. In addition to the service and financial implications of acquiring TW, the Council also contemplated TWs ownership and long lease terms across its site base and asset mix (vehicles and plant). TW has freehold ownership of its Blackburn Road Trading Estate sites, and a long lease on its Rowleys Green site.
- 1.6. The company acquisition was completed on 5th March 2020. Subsequent performance of TW on the back of Covid and the uncertainties associated with the economy at that time meant that the separate site acquisition transaction was not concluded.
- 1.7. The company has experienced growth in the top line revenue from the £14.5m on acquisition to c£20m today. The company's EBITDA (a measure of cash generation by the business) has moved from £2m on acquisition to c£1.5m in 2022/23.

1.8. TW now wishes to restructure its balance sheet to reflect the current trading and market conditions. This report seeks the approval from Council to purchase the freehold property assets TW and for the company to enter into a 25 year leases for these assets on market terms.

2. Options considered and recommended proposal

2.1. **Option 1 – Do nothing** – Although the company is currently meeting its liabilities, the Board of Directors at TW have asked to restructure the company's balance sheet through the purchase by the Council and lease back of the company's freehold assets on market terms. To do nothing would put the future successful operation of TW at risk.

2.2. This is not the recommended option.

2.3. **Option 2 – Placing the company into administration** – Although the company is currently meeting its liabilities, without the balance sheet restructure this will become more difficult in the short term. At that point, the Board of Directors would need to consider whether the company should be placed the company into administration, which is a managed insolvency procedure; to see if there are any actions that can be implemented to strengthen and rescue the business. Most likely this would involve a sale of assets and seeking a third party to acquire the business, most likely at below market value as the business will be distressed.

2.4. This is not the recommended option

2.5. **Option 3 – Sale and leaseback of the site** - an independent valuation was completed by Bromwich Hardy who valued the Blackburn Road site owned and occupied by TW, based on a sale and lease back with a market rental of based on a 25 year term. This is higher than the valuation that Savills completed prior to the acquisition in 2020.

2.6. It should be noted that the TW business plan along with the sale and lease back proposal has been critically reviewed and endorsed as being reasonable and credible by independent management consultant KPMG.

2.7. This is the recommended option, as it retains the ownership of the asset within the group and provide a solution to allow the business to restructure its balance sheet.

3. Results of consultation undertaken

3.1. No formal consultation has been or is planned to be undertaken in respect of this paper.

4. Timetable for implementing this decision

4.1. It is proposed that the transaction will take place within a week of approval from the Council on the 14th January 2025.

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

5.1. Financial Implications

The option presented within this report to purchase the land and buildings at Blackburn Road, secures an operational asset for the City Council with strategic importance for our Commercial Waste provision, as delivered by TW. This enables us to retain the asset within the group, opposed to the alternative of selling this asset to an 3rd party and losing control of the site. The purchase and use of this operational asset, contributes to our strategic service delivery and is within PWLB rules on borrowing as defined in the Treasury Management Strategy 2024-25.

The cost of borrowing attributed to this purchase will need to be neutralised by the income received from TW via the leaseback of the asset over the 25 years to make the business case viable and provide financial sustainability for the Local Authority.

The Capital Finance guidance on minimum revenue provision (MRP), requires the Council to provide for the full cost of the asset purchase over the life of the asset. This will be fully covered, along with projected interest incurred on borrowing, by the proposed rental income from the lease.

The cashflow demonstrated in the Private report assumes interest rates remain in line with current actuarial assumptions. There is a small residual balance each year which assumes lease payments are received from TW on time and serves as a contingency for changes in borrowing conditions over the 25-year period. Payback on the full cost of borrowing will be achieved in 2048/49.

The value of this asset has been independently assessed by KPMG acting on behalf of the Council.

5.2. Legal Implications

The Council has the power to purchase the sites under section 1 of the Localism Act 2011 ("**LA 2011**"), which broadly gives the Council the power to do: -

- (a) anything that an individual may do;
- (b) for a commercial purpose or otherwise for a charge; and
- (c) for the benefit of other areas than the Council's administrative areas,

such power generally being known as the "**General Power of Competence**" or "GPC" for the purpose of this report.

Best Consideration

The Council has the general power under section 123(1) of the Local Government Act 1972 to dispose of land and property in any manner it wishes. The Secretary of State's consent is not required provided the disposal is for the best consideration that can reasonably be obtained. The leases entered into will discharge this obligation following

the valuation from Bromwich and Hardy. The purchase price and rental is reflective of the independent valuation which has been undertaken.

The Council are working with Eversheds its external solicitors. The terms of sale and leaseback will be reflective of the terms set out in the independent valuation.

6. Other implications

6.1. How will this contribute to the One Coventry Plan?

The proposal supports the continued financial stability of the Council through its company investments.

6.2. How is risk being managed?

When the Council acquired the company in March 2020 the environmental survey at the time highlighted there may be possible inherent soil and groundwater contamination associated with the landfilled waste sites, plus the former garage on site and possibly tank leakage associated with the current operations at the time. The operations on adjacent sites may also contribute towards this. So long as the site continues to be operated as a waste site this risk is no greater than other operational sites that the Council owns. No intrusive investigations have been conducted to understand the extent of the contamination, due to the continued use of the site. The Council is not taking on any additional contamination liability as, due to its position as 100% shareholder in TW, it already has this liability and this was reflected and accepted as part of the original purchase of TW.

6.3. What is the impact on the organisation?

The proposed transaction will safeguard the 150 jobs at TW as a result of the continued operation of the company. Waste management resilience is retained within the city in the case of future disruptions to Council services. There are perceived to be no other additional impacts on the organisation other than those addressed in this report.

6.4. Equalities / EIA?

No equality impact assessment has been carried out as the recommendations do not constitute a change in service or policy.

6.5. Implications for (or impact on) climate change and the environment?

The proposed transaction will not have a direct impact on climate change. However the decision will allow TW to continue to process trade waste, to extract waste for fuel production and reduce the proportion of waste sent to landfill.

As Simpler Recycling (new recycling legislation) comes into effect from April 2025, retaining the TW business provides the city with a local solution to improved commercial recycling performance.

6.6. Implications for partner organisations?

The report has implications for TW in which the Council has a shareholder interest through Coventry Municipal Holdings Limited, who have 100% of shares in TW. The proposed transaction will protect this investment and allow the company to return to strong financial trading position to deliver dividends to the Council in future years.

Report author(s):

Name Richard Moon, Director of Property Services and Development

Tel and email contact:

Tel: 02476 832350 **Email:** richard.moon@coventry.gov.uk

Enquiries should be directed to the above person

Contributor/approver name	Title	Service Area	Date doc sent out	Date response received or approved
Contributors:				
Suzanne Bennett	Governance Services Co-ordinator	Law and Governance	06/01/25	06/01/25
Lindsey Hughes	Lead Accountant	Financial Management	18/12/24	19/12/24
Mike Phillips	Lead Accountant	Financial Management	18/12/24	19/12/24
Names of approvers for submission: (officers and members)				
Finance: Tina Pinks	Finance Manager	Finance	20/12/24	06/01/25
Legal: Julie Newman	Director of Law and Governance	Law and Governance	20/12/24	06/01/25
Director: Barry Hastie	Director of Finance and Resources	-	20/12/24	06/01/25
Members: Councillor Richard Brown	Cabinet Member for Strategic	-	06/01/25	06/01/25

Contributor/approver name	Title	Service Area	Date doc sent out	Date response received or approved
	Finance and Resources			
Members: Councillor Patricia Hetherton	Cabinet Member for City Services	-	06/01/25	06/01/25

This report is published on the council's website: www.coventry.gov.uk/meetings