

Agenda Item 6

Brighton & Hove City Council

East Sussex County Council

Meeting: Joint Waste Committee
Date: 30 January 2004
Report of: Project Director
Subject: Integrated Waste Management Service Contract Financial Report
Wards affected: All

1. Purpose of the report

1.1 To update Committee on the financial progress with the Contract since its commencement on 1 April 2003.

2. Recommendations

2.1 That the contents of the Report be noted.

3. Information

3.1 The Waste PFI Contract was awarded jointly by East Sussex County Council (as Lead Authority) and Brighton and Hove City Council on 31 March 2003 and became operational on 1 April 2003. The Contract with South Downs Waste Services Limited (a subsidiary of the Onyx Environmental Group plc) is for a 25-year period and with a £1b cash value in real terms.

3.2 For a Contract covering this time span many assumptions were built into the financial models, most notably predictions of waste growth and recycling levels. The financial models and the assumptions upon which they were developed formed the basis of the financial evaluation of the Contract and the assessment of long-term affordability.

3.3 Both Councils used the models for medium term financial planning purposes and in particular to assess the budget steps or additional annual investment required to establish a fund sufficient to meet their long term financial liabilities arising from the Contract.

- 3.4 The financial models include Contract costs and the associated liabilities of both Councils not covered by the Contract, for example management arrangements and the cost of site acquisitions and development. They provide an essential evaluation tool and a benchmark against which to monitor performance and costs throughout the life of the Contract. The models are updated periodically with actual data and revised projections, to re-assess long-term affordability and check the adequacy of the budget steps.
- 3.5 After nine months of operation of the Councils' new joint management arrangements, there is more certainty in respect of the on-going cost of the staffing structure and in total the costs are lower than those modelled at Contract award. Models have now been updated.
- 3.6 Based on data from the first six months of operation, total Contract costs and waste tonnages are extremely close to the projections in the financial models. A full reconciliation has been undertaken between the forecast and actual data for the first six months, which has resulted in only very minor variations from the overall initial forecast for this period.

4. Further Information

- 4.1 **Dedicated Management Accountant** – The staffing structure includes a permanent Contract Management Accountant responsible for assessing the financial implications and risk associated with any proposed changes, financial modelling periodically to re-assess the overall affordability of the Contract and budget steps strategy of each Council as well as the day to day liaison with the Contractor regarding financial issues.
- 4.2 **Self Billing** - Arrangements between the County Council and the Contractor have been successfully implemented and each monthly Unitary Payment made to date has been on time and in line with the monthly forecast.
- 4.3 **Separate PFI Credits** - Agreement has been reached with Office of the Deputy Prime Minister (ODPM) to separate the PFI credits (grant income) for each Council at source rather than the proposed single payment to the County Council as Lead Authority. Payments for the first three quarters of this financial year have been received totalling £2.8m and £1.4m by East Sussex County Council and Brighton & Hove City Council respectively. Over the life of the Contract, the Councils have been jointly awarded £49m PFI credits (or grant) at net present values (NPV) in 2003. This is based on the value of capital expenditure in the Contract and equates to some 9% of the total Contract costs.

4.4 **Financial Training** - A considerable amount of financial training has been undertaken as part of the induction of new team members to reach an acceptable level of understanding of the financial aspects of the Contract.

4.5 With a Contract of this size it is usual to maintain checks on the overall financial performance of the Contractor. South Downs Waste Services Limited is a company ("special delivery vehicle") set up by Onyx Environmental Group plc specifically for the purpose of this Contract. A recent financial appraisal of the parent company shows that it continues to be financially stable with an annual turnover of some £80m and holding substantial assets.

5. **Legal Implications**

5.1 These are covered in a separate Report included on this agenda.

6. **Corporate/Citywide Implications**

6.1 None directly arising.

7. **Risk Assessment**

7.1 Financial risks are the subject of constant review.

8. **Sustainability Implications**

8.1 None directly arising.

9. **Equalities Implications**

9.1 None directly arising.

10. **Background Papers**

10.1 None.

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