**CABINET – 28 APRIL 2015**

**PROCEDURAL MATTERS**

**Member's Question**

**Question from Mr Jonathan Essex (Redhill East) to ask:**

Could you please provide a breakdown of the Value for Money assessment summary included in Annex 1 of Agenda Item 6, as follows:

1. Details of the breakdown that leads to the summary presented in the report, to the level of detail able to be released into the public domain.

2. A breakdown of the Value for Money assessment based on the allocation of costs that relate to the three main elements of the Eco park: (i) the bulking waste facility, (ii) anaerobic digestion plant, and (iii) the gasification plant.

3. Details of the methodology employed for the Value for Money assessment. Please confirm what the difference in Value for Money for the 'terminate the waste contract and re-procure a contract to develop infrastructure' refers to and whether this was for waste disposal infrastructure or whether it could be for material recycling facilities in Surrey.

4. An explanation of each item in the 'total movement in Value for Money margin' that is included in the table under paragraph 9 of Annex 1.

5. A breakdown of the summary of the 'quantified risk adjustment' in the table in paragraph 19, including to the key areas of uncertainty identified in the report.

6. Confirm the extent to which the items listed in the sensitivity analysis have been included in either the quantified risk assessment or overall Value for Money assessment.

**Reply:**

The responses are in the same orders of the questions:

1. Officers are currently working with Deliotte to produce the information in a form that can be released into the public domain. I expect that to be available within days.

2. The structure of the contract payment mechanism means that the council pays one unitary charge for all the capital infrastructure. The contract with SITA is a fully integrated contract and Value for Money assessment is based on the total cost of managing waste over the 25 year evaluation period. However, Annex 1 identifies the overall capital cost of the Eco park.

3. The Value for Money analysis has been performed using an accounting model developed by our financial advisors Deloitte. This involves taking base assumptions on waste flows over a 25 year period and applying costs directly from SITA's contract financial model or as agreed with the council's technical advisors in order to generate a

25 year cost. Discounting has been applied to generate a Net Present Value cost. Risk adjustments have been made in accordance with Treasury Green Book Guidance.

The option to 'terminate the waste contract and re-procure a contract to develop infrastructure' which was considered in 2013, involved terminating the existing contract with SITA and re-procuring a new contract for delivery of an Eco Park at Charlton Lane. Given the historical difficulties of obtaining planning consent for Energy from Waste plants and the fact that planning consent had already been granted for an Eco Park in 2012, we considered this to be the most likely and viable option for the infrastructure element of any new contract.

4. See explanations below

*'Waste treatment site operating and capital costs'*

This item is the cost of capital repayment and the cost of operating all of the contract facilities including the Eco Park, waste transfer stations and community recycling centres.

*'SITA contract termination costs (allowing for capital development to date and other costs)'*

This item relates to contractor liabilities for capital expenditure for redevelopment of CRC's and waste transfer stations as well as capital expended to date under the first phase of the Eco Park development, agreed by Cabinet in October 2013. It also includes costs incurred by the delay in developing the Eco Park and the claw back of SITA discount which was predicated on the development of the Eco Park.

*'Other changes including updated assumptions'*

This item is the net effect of changes in assumptions since October 2013, for example as a result of updated tonnage projections, changes to landfill cost projections as a result of Government announcements on landfill tax since October 2013 and updated information on the costs of dealing with process residues.

*'Merchant EfW and AD site costs.*

This item is the net effect of changes to gate fee assumptions for merchant AD and energy from waste facilities. The gate fee information is based on updated market intelligence and advice from the council's technical advisors.

5. The main areas to which a risk adjustment was applied related to operating costs, landfill costs, including gate fee and tax, merchant energy from waste gate fee, merchant AD gate fees, termination costs and APCR disposal costs.

6. The quantitative Value for Money analysis includes the base case assumptions as stated in this section of the report. The sensitivity analysis has been included to provide the Cabinet with transparency in respect of areas of further specific areas of risk so that they can be taken into account in the decision making process.

**Mr Mike Goodman**
**Cabinet Member for Environment and Planning**
**28 April 2015**