WEST LONDON WASTE AUTHORITY PPP

West London Waste Authority’s £1.4 billion waste PPP achieved financial close at the end of 2013, just 30 months after the OJEU advertisement. A complex project in a challenging funding market, it was procured efficiently and effectively with real innovation from the public sector.

West London Waste Authority expects to achieve significant environmental benefits and savings, through the innovative finance structure.

Background of rising waste costs

In 2011, six boroughs in West London (Brent, Ealing, Harrow, Hillingdon, Hounslow and Richmond) were achieving an average 40 per cent recycling and composting of the household waste stream. However, the vast majority of the remaining waste was still being sent to landfill.

This presented an on-going financial burden arising from landfill tax, uncertainty over the level of escalation of this tax and the impact of the Landfill Allowance Trading Scheme. Combined with the unacceptable environmental impacts, it meant that a new solution had to be found by West London Waste Authority (WLWA), the statutory waste disposal authority for the West London area.

The PPP solution

Although WLWA is a separate authority from its constituent boroughs, it works in close partnership with them. A joint waste management strategy was in place and this was used to develop a bespoke procurement approach. Following soft market testing WLWA decided to seek tenders for the provision of residual waste services through a competitive dialogue process.

The procurement strategy was simple: requiring that the solution diverted as much residual waste from landfill as possible, but at a price that the boroughs could afford to pay. Whilst sites were offered to the bidders, a treatment process was not prescribed. Additional recycling was a desirable feature, but only if cost effective.

To understand the possible costs of the procurement, the project team (including Sharpe Pritchard) took the innovative approach to benchmark some of the recent procurements both WLWA and other waste disposal authorities had undertaken and approximate an efficiency saving to apply to the WLWA spend then. This resulted in an affordability limit which was set as a key evaluation threshold for bidders to meet or exceed through their proposed solutions.

At the start of the procurement process in May 2011, waste infrastructure (PFI) credits were no longer available and neither WLWA nor the boroughs had sufficient capital reserves or access to borrowings to finance the solution. Consequently the bidders were required to develop their own funding solutions.

However, WLWA had the foresight to construct a sufficiently flexible procurement process and reserved its position to introduce alternative funding solutions, including prudential borrowing or capital contributions, at later stages of the procurement.

The scale of the problem demanded an urgent response. This led to a challenging timetable and a procurement and governance strategy to ensure an economic and efficient process.

Following one of the quickest ever competitive dialogue processes for a contract of this scale and complexity, a consortium led by SITA UK Limited was appointed as preferred bidder in June 2013.

The SITA solution comprised taking over the operation of two of WLWA’s waste transfer stations and transporting the residual waste by rail to a new energy recovery facility to be built in Avonmouth.
Funding innovation via a capital contribution option

The SITA consortium proposed to fund the solution by a combination of equity from the three consortium partners and debt secured from lenders including the Green Investment Bank.

During the competition, WLWA recognised that the boroughs could provide funding into the project at a lower cost than the private sector. This lower cost of capital would reduce the on-going cost of the service accordingly. This reduction in cost could be passed back to the boroughs as a return on their investments. At preferred bidder stage, the investment was explored in more detail and proved to offer a double benefit; as well as a replacement of third party capital, it acted to enable SITA to run a further funding competition.

WLWA’s financial advisors, PwC were commissioned to review the proposal and with WLWA’s legal advisors, Sharpe Pritchard, designed a suitable vehicle to enable the boroughs to make a capital contribution.

The structure adopted for was for WLWA to commit to a £60 million capital contribution payable against milestones alongside the remaining funding club. This reduced the overall funding required and meant that the financial model was recalibrated to offer a reduced price for WLWA.

Innovation to avoid pitfalls encountered elsewhere in waste sector

The project stands out amongst others with its innovative approach to procurement. Despite being one of the biggest, most complex projects to come to market, it achieved an efficient financial close following an extremely effective competition and a price well below WLWA’s affordability limit.

Through application of its procurement strategy and effective competition, WLWA achieved more advantageous commercial positions than many other similar projects. Two key examples are WLWA’s approach to sites and consents:

- Site risk – a key risk and reason for delay in infrastructure projects is site delivery. WLWA effectively managed this risk by offering bidders use of three sites that were in its control. WLWA also facilitated due diligence on those sites during dialogue to minimise duplication of work, bidder costs and procurement delays (key private sector complaints about competitive dialogue). Through tactical structuring of dialogue and evaluation methodology, WLWA also ensured that bidders who wanted to offer other sites were motivated to offer alternatives that were secured or demonstrably deliverable.

- Consent risk – another common pitfall in waste. Significant work was undertaken during procurement with planning authorities and stakeholders to mitigate consents risk. Through effective dialogue and carefully structured evaluation methodology, WLWA incentivised bidders to offer solutions that were either already consented or that involved minimal risk. Further, through close working at preferred bidder stage, SITA and WLWA effectively removed consent risk which is extremely uncommon in this sector.

Many waste procurements have been protracted, challenged, abandoned or have failed as a result of funding and planning difficulties. The project achieved all WLWA’s aims and:

- the project achieved close less than six months from preferred bidder appointment. For a complex bidder like waste and for a bank financed project, this is one of the fastest close periods achieved and demonstrates the extremely effective and efficient procurement undertaken. By way of comparison, other waste projects closed in 2013 took an average of six years in procurement;
- construction commenced in December 2013, less than a month from close so full services will commence in 2016 in line with the original procurement strategy and OJEU time frame;
- SITA commenced interim services in January 2014 enabling early savings to be achieved for the public sector, another key aim and milestone; and
- WLWA will deliver savings of 25 per cent (approximately £133 million) and at least 96 per cent of waste will be diverted from landfill.

View from London Borough of Ealing

“Ealing council is delighted with the outcome of the procurement. It meets the brief extremely well and has been implemented at below budget. The savings have started flowing already. Ealing is also delighted to have been given the opportunity to participate in the highly innovative capital contribution scheme, which has earned us an additional substantial saving.”

Ian O’Donnell, Treasurer WLWA and Executive Director, Corporate Resources, London Borough of Ealing.

Nicola Sumner
Partner and head of waste and energy
T: 020 7405 4600
nsumner@sharpepritchard.co.uk