

DRAFT REPORT TO WASTE STRATEGY DEVELOPMENT GROUP

Meeting On 16TH July 2001

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SOURCES OF EXTERNAL FUNDING

1. PURPOSE OF REPORT

- 1.1 To advise WSDG, in general terms, of potential sources of external funding for the Municipal Waste Strategy for Hertfordshire.

2. BACKGROUND

- 2.1 A key issue, as recognised by all the partner authorities, will be the funding of the Municipal Waste Strategy for Hertfordshire.
- 2.2 There will be significant investment needed to deliver new waste management facilities required by the strategy and to collect the future increase in waste tonnages. It is unlikely that the Hertfordshire Authorities will have the financial capacity to meet these costs.
- 2.3 This report therefore briefly outlines the potential sources of external funding that can be investigated further by the relevant Officers and bodies.

3. SOURCES OF FUNDING - GENERAL

3.1 Recycling Credits

- 3.1.1 Recycling credits are payments made by Hertfordshire County Council to the District authorities for diverting waste away from disposal.
- 3.1.2 While these are not sources of external funding it is likely that they will form an important part of funding the strategy because, as practised in other counties, they could be pooled to support collaborative arrangements.
- 3.1.3 This subject is addressed elsewhere in the Waste Strategy workplan.

3.2 Landfill Tax Credits

- 3.2.1 Under the landfill tax regime, landfill operators donate up to 20% of their annual landfill tax liabilities to an approved environmental body. They can claim back 90% of the sums donated as tax credit as long as they contribute the other 10% themselves.
- 3.2.2 This therefore offers a potentially significant funding source for waste management projects but under current guidelines funds can only be used for educational purposes (e.g. WasteAware Project) or small scale pilot recycling schemes.

3.2.3 However it is worth noting that, following lobbying of Central Government by bodies such as the Local Government Association, the guidelines have now changed. This means that a greater proportion of tax credits will be directed towards sustainable waste management projects and in particular recycling projects.

3.3 Compliance Schemes

3.3.1 UK compliance schemes established under the Producer Responsibility Regulations are an additional potential source of finance. A number of large scale compliance schemes e.g. VALPAK have supported capital projects aimed at increasing reprocessing capacity to handle packaging materials.

3.4 Reprocessors

3.4.1 The major manufacturers of packaging materials e.g. British Steel may wish to support facilities as they have a commercial interest in securing waste volumes from the post consumer waste stream.

3.5 Waste Resources Action Programme (WRAP)

3.5.1 WRAP was introduced under Waste Strategy 2000 to develop markets for collected recyclables by securing new uses for collected material and increasing demand for recycled products.

3.5.2 It will initially concentrate on four materials, which are paper, glass, wood and plastic.

3.5.3 While WRAP will probably not provide direct funding, its success in market development will be critical in assisting authorities to reduce their revenue costs by securing outlets for their collected materials. This would be enhanced by the development of further consortia within Hertfordshire to increase commercial influence.

3.5.4 WRAP's business plan was published in June 2001.

3.6 Central Government Grants

3.6.1 The government has allocated an additional £140m for local authorities to boost recycling in England. The spending review allocated £50m for 2002/2003 and £90m for 2003/2004, split broadly between capital and revenue. The Department for Environment, Food and Rural Affairs (DEFRA) will be consulting later this summer on its proposals for distribution of this fund.

3.6.2 The government offers subsidies for rail development and the use of inland waterways that could be applicable to waste management projects.

3.7 European Sources

3.7.1 Funding from European sources is mainly for new and innovative technologies. For example the LIFE programme which supports the

development of EC environmental policy. This cannot be used for financing routine environmental activities or facilities that are currently operational.

3.8 Other Sources

3.8.1 Under section 6 of the New Opportunities Fund (Lotteries Money) there is £50m to expand community sector waste reuse, recycling and composting across the UK. England is to be allocated £38.75m. These funds are for community recycling schemes and cannot be accessed directly by Local Authorities.

3.8.2 Millennium Commission

3.8.3 SRB – We would have to have SRB status to be eligible for this, which only applies to small parts of Hertfordshire at the current time.

3.8.5 Modernisation Fund

3.8.6 Public Service Agreements – These only apply to County Councils and Unitary authorities at present.

3.8.7 Aggregates Levy Fund – An aggregates levy will be introduced from 1 April 2002 to address the environmental costs of aggregates extraction and encourage use of recycled materials. Some of the revenues generated will finance a new Aggregates Levy Sustainability Fund, set at £35m for the whole of the UK. Consultation is expected soon on eligible products.

4. PRIVATE SECTOR FINANCE

4.1 It is now common practice for the financing of large integrated waste management contracts to be undertaken by waste management contractors and charged to the authority on a gate fee basis (e.g. price per tonne of waste handled). This in effect means that the commercial organisation makes some capital investment to allow them to provide the service.

4.2 The main types of private sector finance are as follows.

4.3 Project Finance

4.3.1 There are many well capitalised operators capable of financing waste management investments in the UK and they mainly employ third party project finance, typically through commercial banks.

4.3.2 A key issue in financing large capital investments is the allocation of risk to the project participants, principally the project lenders, the operator and the client authority.

- 4.3.3 It is worth noting that banks and venture capitalists are reluctant to invest in projects such as innovative waste treatment technologies that are not commercially proven in the UK.
- 4.3.4 It is also worth noting that a large proportion of the risk allocation when the new facility is built is borne by the local authority as the supplier of the waste.
- 4.3.5 A typical arrangement for Hertfordshire under this method would be for example where land is given to a contractor who in turn designs, builds and operates a facility on that land.

4.4 Private Finance Initiative (PFI)

- 4.4.1 PFI was launched in 1992 with the aim of improving the quality and quantity of public sector capital projects by encouraging the involvement of the private sector in asset provision and operation.
- 4.4.2 PFI differs from project finance in that the government agrees to meet the capital servicing cost of the assets financed and it is typically for a longer term contract.
- 4.4.3 There are several key tests to meet to have a chance of securing PFI funding:
 - Genuine risk transfer to the private sector.
 - No payments can be made to the contractor until the assets are performing.
 - There must be a performance related reward structure.
 - Proposals must demonstrate clear links with the National Waste Strategy.
 - Must demonstrate that other relevant authorities and interested parties have been consulted.
 - Value for Money
 - Justification in terms of need.
- 4.4.4 Under this arrangement, payments would once again be made to the contractor for the services provided under the terms of the contract as a gate fee.
- 4.4.5 PFI budgets have only been allocated to next year and there is already a backlog of applications for waste management projects. Beyond 2002, there is uncertainty regarding the funds that may be available.
- 4.4.6 Examples of successful PFI applications for waste management contracts include the Isle of Wight, Kirklees, Hereford and Worcester, Surrey and more recently Leicester.

5. SUMMARY

- 5.1 From the contents of this report it can be seen that while there may be sources that will contribute to the funding of the Municipal Waste Strategy for Hertfordshire, it is likely that the capital and operating costs of new waste management facilities will have to be funded by the private sector. This will be in return for a long term contract to manage the County's municipal waste. The districts will pay for this service as a gate fee.
- 5.2 The PFI is the current vehicle, which will offset part of this gate fee, but the future of this option is currently unclear.
- 5.3 It is worth noting that much of the funding will involve challenge bidding against other authorities and partnership bids are more likely to be successful.
- 5.4 The contract terms are likely to be defined by the required long term capital and private sector funding will need to be sought once the assets or output specifications of the final strategy are ascertained.

6. RECOMMENDATIONS

- 6.1 That WSDG members note the contents of this report.
- 6.2 Officers carry out further investigation into sources of funding.