

## **Criteria for Securing Waste PFI Credits**

**These criteria, which waste projects must meet to be considered for PFI credits, are in addition to the general criteria set out in the Green Book<sup>1</sup> which must be met by all PFI projects. Authorities should also be aware of the Waste Strategy for England 2007<sup>2</sup>.**

1. Schemes (which may involve more than one Authority) must demonstrate how they will contribute to delivery of their authorities' adopted Municipal Waste Management Strategies (regardless of whether they are Unitary or Two-tier Authorities).

Local Authorities are strongly encouraged to have explored with neighbouring authorities the opportunities for joint working when considering a major procurement<sup>3</sup>. Scale and strategic impact are two important aspects to consider when proposing a scheme. In line with Government policy, PFI projects with a capital value below £20 million will not be supported. However, Defra's upper threshold of £40m for the availability of PFI credits for individual projects no longer applies.

In two-tier areas, proposals should demonstrate how the two tiers of local government will work together to deliver their targets under legally binding agreements or constitutions, which should be in place by the start of procurement. By Outline Business Case (OBC) stage we would expect a minimum of a detailed Memorandum of Understanding (covering major points of principle), or establishment of joint waste management structures or formal contractual arrangements.

In two-tier areas, a Joint Municipal Waste Management Strategy will be a requirement towards this and should include clear, long-term targets for Biodegradable Municipal Waste diversion; recycling; etc. which have been adopted or are close to adoption by all stakeholders.

In other types of partnership, such as regional or multi-area partnerships, plans should demonstrate evidence of strong joint working and the intention to have legally binding agreements or arrangements (e.g. joint waste management boards) in place by the start of the dialogue process.

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<sup>1</sup> <http://greenbook.treasury.gov.uk/>

<sup>2</sup> <http://www.defra.gov.uk/environment/waste/strategy/strategy07/pdf/waste07-strategy.pdf>

<sup>3</sup> There are at least five reasons why co-operation with neighbouring Authorities is desirable: first, the role of *scale* in a project which may be particularly relevant in attracting strong market interest – an important driver of value-for-money (see section 7); second, the availability of suitable sites is not evenly distributed across the territories of all Authorities; third, transport links and logistics may dictate co-operation across Authority boundaries; fourth, failure by Authorities to co-operate may hand a significant negotiating advantage to a supplier who is sizing a facility to cater for more than one Authority's needs; and fifth, economies of scale, which are another important driver of value-for-money.

2. PFI credits are awarded to authorities primarily to deliver increased diversion of biodegradable municipal waste from landfill. Proposals should demonstrate how the schemes:-

- contribute to or complement longer-term national targets for recycling and composting as well as diversion of biodegradable and other municipal waste from landfill, indicating the amount of biodegradable and other municipal waste expected to be diverted from landfill over the whole life of the project;
- support or complement the authorities' plans for recycling set out in their Municipal Waste Management Strategies.

3. Proposals should show how schemes will provide additional contribution to national landfill diversion during the contract period and up to 2020 as required under the Landfill Directive, where appropriate.

4. Waste minimisation is at the top of the waste hierarchy. While PFI is frequently not an appropriate mechanism for addressing waste reduction, proposals should make clear what other action the authority is taking to reduce generation of MSW.

5. The use of residual waste treatment options involving recovery, including energy from waste solutions, will have an integral role in treating the waste we cannot 'design out', re-use or recycle. Such options should be considered while also demonstrating that there is no future barrier to meeting reduction, reuse and recycling targets.

The Authority should have done sufficient analysis of the technical, environmental and economic options to have identified a preferred solution within the OBC, so that bidders will not be expected or required to carry-out their own repetitious options appraisals.

6. Proposals should demonstrate that other relevant authorities, the public, and interested parties have been consulted and that there is a broad consensus supporting a recognised long term waste management strategy which is reflected in the proposed solution.

7. Proposals should follow HMT value for money guidance and clearly demonstrate that the proposed project offers a value for money solution when compared with other procurement options. Evidence is required to demonstrate that the authorities have considered and approved all on-going funding requirements necessary to make the project affordable over its whole life. This evidence should include signed commitments from members, or minutes of members meetings clearly demonstrating that they have committed to the ongoing affordability of the project<sup>4</sup>.

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<sup>4</sup> The approval should be on the basis of members having a clear understanding of the range of possible costs based on a sensitivity analysis giving best and worst case scenarios.

8. Proposals must follow the extant guidance for PFI procurement; i.e. Defra-issued specific guidance, the 4Ps Waste Management Procurement Pack<sup>5</sup>, SoPC4 and other HMT guidance on PFI procurement<sup>6</sup>. Authorities should also be aware that even if a proposal receives PFI credits support from Defra all OBCs will have to gain final approval from the inter-departmental Project Review Group (PRG) that they are ready to proceed to procurement. The criteria for the PRG assessment of business cases is available on the HM Treasury website.

9. Residual disposal solutions (e.g. refuse derived fuel, fibre, soil improvers) must demonstrate the destination of any residual output and the existing or intended commitments for and cost of effecting such disposal. Proposals should include findings from soft market testing indicating a market appetite for the proposed residual product, so as to secure value for money.

Where there is a potential for third-party income (e.g. from sale of recyclates, electricity, heat, etc.), this should be considered as part of the value for money analysis. Where new or alternative technologies are proposed in the reference project, they should be shown to be bankable and deliverable.

10. Preferential consideration will be given to capital projects which focus on residual treatment plant only, including, but not limited to, Energy from Waste, Mechanical Biological Treatments and Anaerobic Digestion<sup>7</sup>.

11. Proposals should demonstrate how the potential for community sector involvement in service delivery through the project has been assessed. Where, as a result of such work, a decision is made to exclude or displace such services, a value for money case must be put to support such an approach.

12. Projects should consider the potential for including other waste streams such as commercial or industrial waste, on the basis of securing a value for money solution. However, projects must demonstrate that:

- the project continues to deliver value for money in relation to the biodegradable municipal waste being managed through it;
- any cross subsidisation of the costs of disposing of non-municipal waste streams is transparent and acceptable to all stakeholders.

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<sup>5</sup> The Procurement Pack is currently being reviewed, with the second edition due for release in late 2007.

<sup>6</sup> [http://www.hm-treasury.gov.uk/documents/public\\_private\\_partnerships/ppp\\_index.cfm](http://www.hm-treasury.gov.uk/documents/public_private_partnerships/ppp_index.cfm)

<sup>7</sup> This does not necessarily preclude projects comprising combined or integrated facilities or a wider scope of services, where such projects offer clear benefits such as improved value-for-money, deliverability and affordability and that substantive market interest exists through soft market testing. If there is not sufficient evidence for a real market for such projects, they are unlikely to be approved.

13. Projects should have potential sites under consideration which accord with the relevant waste planning authority's statutory development plan. Where this is being updated to reflect Planning Policy Statement 10 (PPS10) projects should align with the policies in PPS10. Authorities should be cognisant of the WIDP Planning Systems Guidance and the WIDP Planning Health Framework.

14. Authorities responsible for projects will be expected to engage in the preparation of the relevant regional spatial strategy and local development plan documents so as to help secure an up-to-date and supportive planning context in line with PPS10, including appropriate land allocations.

15. Authorities should take proactive action to acquire sites in line with the development plan, or which they are confident will accord with the development plan if components of the development plan are under review or in preparation.<sup>8</sup>

Consideration will be given on a case by case basis to the status and substance of those planning policies and plans currently in place at authorities.

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<sup>8</sup> Availability of necessary site(s) identified and secured by the Authority does not preclude bidders offering alternative sites, but does provide a secure reserve position which increases competition, reduces bid costs (both thereby enhancing value-for-money) and improves deliverability of the project.