

## **WIDP - Investment Pipeline Management Strategy**

### **Recent developments in Waste PFI**

Major changes took place in early 2007 that modified the way Defra managed the allocation of PFI Credits to Local Authorities undertaking eligible waste procurements of waste management infrastructure.

Prior to the changes, Defra invited each Local Authority to submit an Outline Business Case (OBC) to its Waste Implementation Programme (WIP) at a time of the Authority's choosing. This system worked satisfactorily until the expected increase in the number of applications over the next two to three years meant that the system clearly demanded a more structured approach in order to ensure all applications were dealt with promptly and on a consistent basis. Therefore, following the practice adopted by other Government departments managing a programme of PFI schemes Defra decided to adopt a system of PFI credit award rounds. Further explanation of this move to proactive pipeline management is provided in Appendix 1.

The new system requires Authorities seeking PFI credits to submit initial Expressions of Interest (EoIs) and subsequently Outline Business Cases (OBCs) in accordance with timetables established by the Waste Infrastructure Delivery Programme (WIDP) within WIP. There is an award round starting every six months and Authorities are free to choose which award round they wish to apply to join.

### **PROCESS**

Under the new arrangements there is a two step process for applying for PFI Credits.

Authorities are initially required to submit an EoI. WIDP will evaluate EoI submissions to assess the degree to which projects are:

- structured in a manner consistent with Defra's PFI Credit criteria
- expected to contribute to the overall programme
- sufficiently well prepared to be likely to finalise an OBC in accordance with the timetable for the award round.

To facilitate the evaluation process, EoIs are required to follow a standard format (See Appendix 2).

Following the approval of the EoI, Authorities will be invited to submit an OBC. The only significant change to the OBC requirement relative to earlier practice is the introduction of a requirement for the completion of a Planning Health checklist. WIDP intends to issue further guidance on the contents and structure of the OBC by the end of 2007.

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All applications will be expected to be consistent with Defra's Waste PFI credit criteria<sup>1</sup>. Hence compliance with the published PFI Criteria will establish eligibility for making an application but will not guarantee that the project will be funded within the award round for which it applied.

### **TIMETABLE**

As indicated above there are award rounds starting every six months as follows:

Round 1 – there were transitional arrangements for the group of 5 Authorities which had already been provisionally allocated PFI Credits but had yet to have an OBC approved by PRG.

Round 2 – Eols were required by end of March 2007

Round 3 – Eols will be required by end of September 2007

Round 4 - Eols will be required by end of March 2008

Further award rounds may be arranged for Authorities that do not fall into the first four rounds to the extent that further PFI funding is available.

The current expectation is that Authorities will receive notification of the result of WIDP's evaluation of the Eol within two months of the submission date. For those successful in the process there will then be a period of five further months for completion of an OBC.

For example, for Round 2 Defra notified Authorities of the outcome of its evaluation by the end of May 2007 and full OBCs have to be submitted to Defra by the end of October 2007. The timing of Defra's final approval may be contingent on the timing of CSR07 but it is hoped that full approval, including confirmation of the PFI Credits available, should be achievable by the end of 2007.

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<sup>1</sup> <http://www.defra.gov.uk/environment/waste/localauth/funding/pfi/criteria.htm>

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### **TRANSITIONAL ARRANGEMENTS**

Individual Authorities or groups of Authorities undertaking joint procurement which had already received PRG approval for an OBC were not affected by these changes.

### **TOTAL PFI FUNDING AVAILABLE - CSR 2007**

The quantum of PFI credits available to Defra to distribute to Authorities is contingent on the outcome of the Comprehensive Spending Review 2007 (CSR 07). At this stage in the Review all we can say is that the baseline position is £280m per annum and that Defra has submitted an application for a substantial increase in the level of PFI credits to support WIDP.

### **NON-PFI PROJECTS**

There will be some Authorities that will undertake eligible procurements of waste management infrastructure but will not wish to apply for PFI credits. It is encouraged that such Authorities should contact WIDP to discuss their procurement plans. The objectives of such a discussion would be to identify any opportunities for exploiting economies of scale and operational synergies that may arise as a result of simultaneous procurements by neighbouring Authorities.

### **FURTHER INFORMATION**

Requests for further information in relation to the award round process should be directed to Ben Pryn who is contactable on 020 7238 4318.

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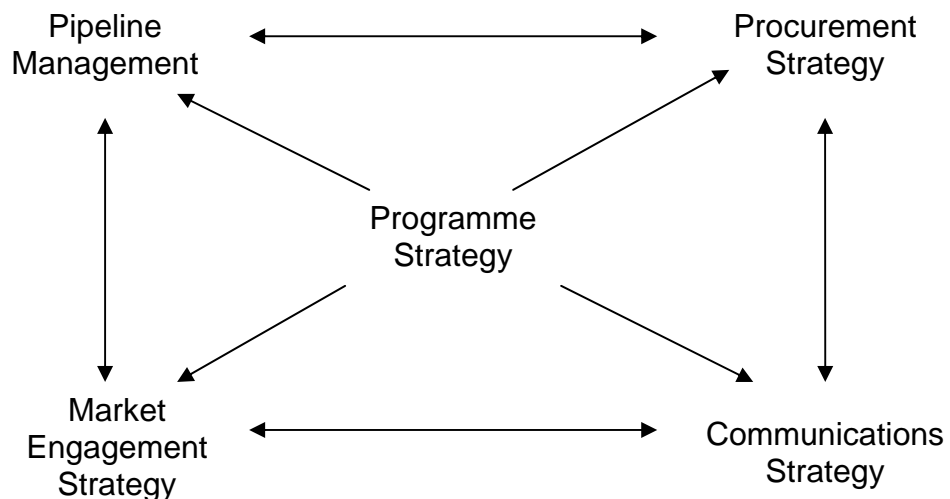
## 1. Introduction

Defra is overseeing a major programme of investment by Local Authorities (LAs) in new waste management infrastructure. Defra's strategic policy objectives for the programme are to:

- achieve compliance with the EU Landfill Directive
- do so in accordance with the Directive's deadlines
- advance the Waste Strategy for England 2007<sup>2</sup>; and
- utilise a cost-effective mix of public and private financing to meet the funding requirement of the investment programme.

The overall programme strategy will be supported by:

- a) a procurement strategy (addressing progress from OJEU to close)
- b) a pipeline management strategy (incorporating project development)
- c) a market engagement strategy; and
- d) a communications strategy



This paper focuses on the contribution that will be made by effective investment pipeline management.

## 2. What Is Pipeline Management?

Pipeline management is the process by which WIDP :

- supports the development of projects - both PFI and non PFI – encouraging multi-authority arrangements
- controls the flow of PFI projects on to the market;
- influences the timing of non-PFI procurements, as far as possible; and

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

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- supports the timely completion of both PFI and non-PFI projects.

The projects will deliver new waste management and treatment capacity in England.

Pipeline management functions will include:

- communicating the timing and rules of PFI award rounds to LAs
- working closely with LAs on project development through the early allocation of a WIDP Transactor to the project
- managing the allocation of PFI funds to particular projects
- supporting the development of non-PFI Projects managing communications with the bidding, funding, LA and advisory communities; and
- monitoring the progress of projects once in the procurement phase.

Pipeline management will be affected by the outcome of the CSR07 but is a distinct process.

### **3. Why Manage the Pipeline?**

The overall aim of pipeline management is to accelerate the rate of delivery of new waste management facilities in England. Acceleration is required if England is to play its part in the UK's effort to meet EU Landfill Directive targets.

The specific principal benefits of managing the pipeline more proactively are:

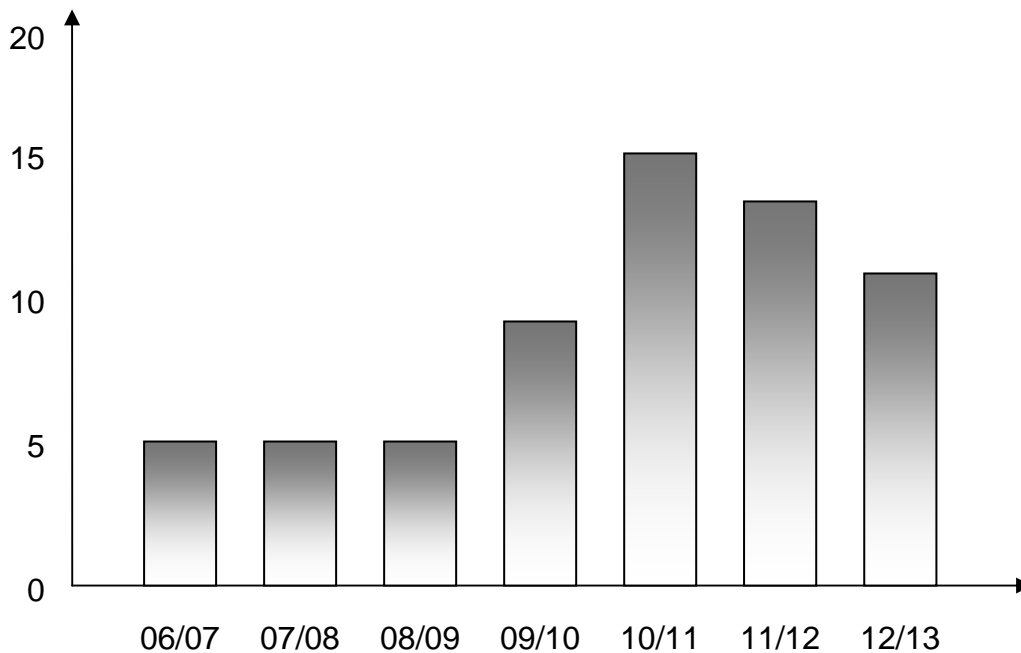
- it will facilitate the management of a limited pool of PFI credits allowing Defra to move away from a "first come first served" approach to one based on to the contribution which projects make to the overall investment programme. The prioritisation process will focus on a number of criteria including scale, deliverability, readiness and environmental objectives
- it will give Waste Disposal Authorities (WDAs) greater clarity about the process by which they may apply for and receive the benefit of PFI credits
- it will establish an orderly process for identifying learning points from early projects and applying them to subsequent waves.
- it will allow Defra to match the deal-flow to the capacity of the market as it expands. It is expected that deal-flow will progressively ramp up to a peak in 2010/11 before declining (see below). It is currently expected that in 2006/7 five projects will close (i.e. Nottinghamshire, Cornwall,

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Central Berkshire, Northumberland and Lancashire). In 2007/8 a similar number is anticipated (Cambridgeshire, Cumbria, West Berkshire, Greater Manchester, Wakefield). The peak deal-flow is likely to be three times the current rate.

- it will give confidence to the supply side of the market that there will be sufficient projects coming forward in an orderly process to justify investment in bidding and supply capacity. It should also encourage new entrants to the market and alleviate current constraints on bid-side capacity which will improve the competitiveness of procurement processes and build momentum for the programme.

Projects closing (pa)



### 4. PFI Credit Award Rounds

The number of projects approved in each round will not be pre-determined. The determinants will include:

- the size of the schemes applying for PFI credits
- the total PFI Credits available in the relevant financial year
- the quality of the OBCs (see below)

A WDA applying for PFI credits will not be guaranteed an allocation. Projects which do not receive funding in one bidding round will receive

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feedback on why they were not awarded PFI credits. The Authority will be allowed to apply again in subsequent rounds.

In some cases it is possible that an OBC will be approved subject to resolution of certain issues. It is possible that Defra will require that such issues are resolved before certain points in the process e.g. before the project is advertised in OJEU. OBCs will be approved by the WIDP Board before being submitted to the Project Review Group (PRG).

### **5. Expressions of Interest**

Authorities will initially be invited to submit Expressions of Interest (Eols) to WIDP if they wish participate in an award round. Expressions of Interest are required to provide a demonstration of a state of readiness for Business Case preparation and will be evaluated by Defra in relation to the following criteria:

- structured in a manner consistent with Defra's PFI Credit criteria
- expected to contribute to the overall programme
- sufficiently well prepared to be likely to finalise an OBC in accordance with the timetable for the award round.

It will not be necessary for an Authority to have completed an OBC to be able to submit a satisfactory Eol. A pro forma Eol will be made available to all Authorities.

### **6. Outline Business Cases**

Authorities which have Eols approved by WIDP will continue to receive Transactor support from WIDP and will be invited to move onto the preparation of an OBC. A period of at least 5 months will be allowed for OBC preparation.

WIDP's evaluation of OBCs will include an assessment of how the project contributes to Defra's overall programme objectives. This will focus on a number of criteria including :

- scale
- deliverability
- readiness
- environmental objectives

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These programme criteria will be additional to the criteria applying to all PFI projects set out in CLG's Local Government PFI Project Support Guide<sup>3</sup> and Defra 's own departmental PFI credit criteria

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<sup>3</sup> <http://www.local.odpm.gov.uk/pfi/sg0708.pdf>

## Pro Forma Expression of Interest

### 1. Executive Summary

[User Guidance – a summary highlighting the main points in the document should be included]

### 2. Background

- Details of the key characteristics of the WDA
- Analysis of waste arising (MSW and other), composition and expected growth rates.
- High-level analysis of existing waste flows including current performance levels in relation to recycling, composting and landfill
- Details of current arrangements for disposal including names of contractors, length of contracts, break clauses, ability to extend and, facilities used

[User Guidance - where applicable cross references to a waste management strategy are acceptable]

### 3. Strategic Waste Management Objectives

- Status of the WDA's Waste Management Strategy
- Details of any ongoing consultation process
- Measures being taken to address waste minimisation objectives
- Context for project as set by waste management improvement programme and any formal Council resolutions
- The Authority's LATS strategy

[User Guidance - applicants should enclose a copy of the latest version or relevant strategy document]

### 4. Procurement Strategy

- Description of full range of planned procurement activity (recycling, composting, landfill, as well as residual waste treatment) including any interim arrangements that may be required to address the Authority's needs until the infrastructure to be provided through the PFI project is completed

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- Rationale for any preliminary decisions taken regarding planned procurement strategy including details of any feasibility studies, options appraisal exercises etc and any advice provided by external advisers
- An analysis of the impact of the waste management strategies and procurement plans of neighbouring waste disposal authorities on the procurement. Consideration given to joint procurement with neighbouring Authorities

[User Guidance - where partnerships have already been established with other Authorities please submit a copy of the partnership agreement]

**5. Risk Management**

- Details of initial risk analysis
- Approach to be adopted in relation to identifying, recording and managing risk throughout the project

[User Guidance - it is expected that detailed risk analysis will be undertaken after submission of the EoI (and will be fully documented in the OBC). However for the EoI an initial evaluation of major strategic risk is required covering areas such as political risk, sites and planning, technology risk]

**6. Project Team and Governance**

- Description of project team including details of individuals involved and the process for filling any posts not filled at the time of submission of the EoI.
- Plans for procuring external specialist advice in relation to legal, technical, financial, insurance, planning and PR issues
- Details of arrangements for securing appropriate input and support for collaborative working from District Councils in their capacity as Waste Collection Authorities (relevant for two tier Authorities only)
- Details of the joint working/partnerships arrangements put in place for the project (only relevant for projects involving two or more Waste Disposal Authorities)
- Project governance arrangements including details of the membership of and responsibilities of any Project Board or any other body with a duty to oversee the project.
- Plans for securing member approval at key stages member and corporate management interfaces.

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- Evidence of appropriate level of corporate priority for the project, including details of any nominated Project Sponsor

[User Guidance - it is not essential that all advisers have been appointed before the submission of the EoI. However Authorities should note that there is an expectation that financial, legal and technical advisers will be used in the preparation of the OBC. Given the deadline for OBC completion it is sensible for Authorities to have commenced the process for appointing advisers prior to the submission of the EoI. Applicants are therefore required to include details of the steps taken in the EoI. Authorities are reminded that Defra's review and feedback on the EOI could impact on the timing and nature of the advisers' scope of work]

**7. Sites and Planning**

- Current status of Development Plan Documents (DPDs) including the Waste Local Plan
- Evidence of engagement with the process for the development of Regional Spatial Strategies
- Timetable for adoption of development plans
- Outline planning and site strategy, including consideration of the interface between the procurement process and the development of the DPDs
- Details of work undertaken to identify and secure suitable sites
- A plan for engagement with planning officers of the Planning Authority (agreed by the planning officers)

[User Guidance - WIDP is producing a Planning Health Framework as well as WIDP Planning Systems Guidance that will assist local authorities with the OBC in relation to these issues].

**8. Costs and Budgets**

- An indicative estimate of the capital expenditure (to the nearest £10m) anticipated under the PFI contract.
- Approved budget for procurement process, covering internal resources, external advisory support, land acquisition costs and other additional costs associated with the procurement
- Medium term budget for waste management costs.

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- Members' awareness of the budgetary implications of the increasing cost of waste management
- Where two or more Authorities are working together.
  - the approach to sharing the cost of project development; and
  - the process for agreeing the respective financial contributions to the project in relation to asset contribution, cost allocation and risk sharing.

[User Guidance - it is not expected that applicants will have produced a detailed costing of the waste management services to be procured at the EoI stage. However experience suggests that projects proceed more predictably when members are aware from the start of the process that the cost of discharging the WDA's statutory duty in relation to waste management will increase significantly. It is expected that the WDA's Department of Finance will play a leading role in preparing this section of the EoI.]

**9. Stakeholder Communications**

- Analysis and identification of major stakeholders in the process
- Evidence of stakeholder buy-in to the project
- Details of any market soundings conducted or planned.
- Communications strategy including plans for managing consultation and engagement with major stakeholders

[User Guidance – each Applicant must consider the identity of stakeholders carefully. However in most cases it is expected that the stakeholders will include the potential bidders, the Community Sector, regional bodies with waste responsibilities, Local Planning Authorities and, in two tier Authorities, the District Councils responsible for waste collection.]

**10. Timetables**

- A provisional plan for completion of the OBC.
- A high level timetable for the procurement taking into account the interaction with the timetable for the adoption of the Waste Development Planning Documents. This high level timetable should include (but should not be limited to) the following milestones:
  - OBC Approved by Council
  - Submission of OBC to Defra

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- Defra Approval of OBC
- PRG Approval of OBC
- OJEU Publication Date
- Issue of Descriptive Document
- Issue of Invitation to Submit Outline Solutions
- Return date for Outline Solutions
- Issue of Invitation to Submit Detailed Solutions
- Return date for Detailed Solutions
- Issue of Revised Solutions
- Return date for Revised Solutions
- Calls for Final Tenders
- Preferred Bidder Selected
- Submission of Full Business Case
- Defra/ PRG Approval of Full Business Case
- Contract Award
- Financial Close

[User Guidance – it is acknowledged that the plan for completing the OBC may be subject to further refinement if the appointment of advisers has not been completed when the EoI is finalised. When developing procurement timetables applicants are advised to consider recent outturns on similar projects taking into account any potential benefit of learning from those experiences. WIDP Transactors will be able to advise on the realism of project timetables].